CHAPTER 1

INTRODUCTION AND AN OVERVIEW OF INDIAN URBAN SECTOR
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INTRODUCTION

The present study, ‘Private Sector Participation in the Management and Delivery of Municipal Services’ is about finding how best the private sector could be inducted for providing municipal services in the Indian context. It is the general impression that the municipal services currently provided as a governmental function are below the standard requirements, and unsatisfactory to the public who pay taxes to meet the expenses of the services. Further, though not well publicized, the municipal system is also collapsing due to staff indiscipline, lack of motivation, and highly bureaucratized set up. This could lead to a catastrophic situation in the Indian context considering the anticipated acceleration in urbanization. Therefore, the immediate need is to augment the management capacity in Indian urban towns and agglomerations and thus preparing them for the urban growth. On the other hand, there is a general apprehension that private sector’s involvement would not be sustainable as its participation will escalate costs due to profit maximization and monopolistic motives, and due to the fears of failures. In the absence of an appropriate model, notable full fledged experiments have not been carried out in the past except for minor contractual arrangements and community participation which have not been found as sustainable. This study makes an effort to design an appropriate model for the induction of private sector in the management and delivery of municipal services. The model is expected to protect the interests of all participants, the municipal system, the private sector participant, and the general public as it proposes a practical, gradual, and properly sequenced implementation process. It avoids any sudden and radical changes in the present municipal system.
Significance and Relevance of the Study

Provision of municipal services is a vast and voluminous task involving huge amount of public finances. At the same time there is a high degree of public dissatisfaction towards the delivery and quality of the services provided through the municipal system. All the same very little attention has been given to this issue for improving the condition. The dilapidated state of management of municipalities and the near total collapse of municipal capacity have led many policy makers and managers to propose improvements. As a consequence, some experiments have been initiated in a few cities to improve the system through contracting out certain municipal services to private parties and through community participation. But an all out effort has not been made to develop a sustainable model for improving management in the municipal system as was done in the private sector townships. The main cause for this is the urban local bodies (ULBs) in India lack the required skills to manage massive urban growth, provide services at appropriate levels due to lack of institutional capacity, training, and the capacity to make appropriate management changes. It is generally observed that the deployment of staff in the ULBs is on an ad-hoc basis and in many cases; most of the ULBs are either overstaffed or understaffed, leading to inefficiencies. It is not enough to advise municipal systems to change from their inherited old and outdated system. There is a need for induction of outside skills into the municipal system to bring about changes. In the changing context, the municipalities need to transform from being providers of services to regulators and monitors of the services. Private sector needs to step in as the provider of urban services where desirable and feasible.

How to bring about this change is the challenge of this study. Private sector participation is a relatively new concept in the Indian municipal systems. It is important that lessons are learnt from the experiences of the privatization models practiced both outside and inside India. The contribution of this study for improving the management of municipal system is to provide a method and a model for the municipal system to adopt for inducting outside management capabilities. The model needs to be simple to implement and meets the conditions of the existing municipal functioning. The implementation should not cause undue labor concerns and should be cautious in complicated and difficult matters like cost recovery, pricing of services,
etc. The system should be designed to be cost effective and at the same time improves operational efficiencies. Above all, the model needs to be collaborative with the existence of both private system and the municipal system working together guaranteeing sustainable improved services to the consumer.

Objectives and Limitation of the Study

The study focuses on the major issue of the private sector management and delivery of some of the municipal services currently provided through the public system. It is usually at the consumer end of the provision of services that things go wrong and the efficiency of the system is judged by the effectiveness of delivery. Therefore the delivery of municipal services is the subject of the study. It suggests a 'bottom-up' approach to the delivery of services. The main purpose of this study is to identify management techniques for improving quality of services provided by municipal systems in the Indian context. This study is based on a framework that private sector should be the executor and the municipal system should be supervisor and regulator. The following are the specific objectives of the study:

- Evaluate the status of provision of various urban services in India and assess the magnitude of issues affecting the management efficiency of urban services.
- Take stock of privatization process carried out in various places and evaluate the efficacy and sustainability of these in formulating the management model for municipal systems.
- Assess the functioning of a purely privately operated system and examine the scope for its replication in municipal systems.
- Assess the functioning of municipal services in a municipal colony and formulate solutions.
- Validate the solutions in another municipal colony of different population density and socio economic setting and record new findings.
- Based on the above develop a sustainable model of management, which is acceptable to citizens, attractive to the municipal system and staff, that ensures better financial and operational efficiency.
It is hoped that the study will not lose its relevance in the future, as there will be a need for constant review and improvement in the services provided to people by the public systems. It could include functions where direct contact with the general public takes place in areas such as infrastructure services, social sector programs, city management, rural development, delivery of services through panchayats (village councils) and municipalities, enforcement of law and order, collection of government revenues, monitoring of the corporate sector, etc. Changes in emphasis and procedures may be required in future to make this relevant to a particular service and needs of consumers and social values.

The study is exploratory in nature; the private sector case it examined is also new in the area of provision of municipal services. In the absence of earlier experiments and limited knowledge in the area in India context, this study has the following major limitations:

(i) A survey was done in two different colonies under Municipal Corporation of Delhi (MCD). Although general conditions of municipal services are similar under MCD there could be variations in other municipal systems in matters related to work culture, efficiency levels of services, and cost factors. Therefore the applicability of the implementation model needs to be modified to meet the local conditions of the particular municipality.

(ii) The number of private service providers is very small especially in large comparative colonies. The selected private sector service provider is functioning for over ten years. The assessments are based on the current level of operations. The operational parameters could change with congestion.

(iii) There are no reported cases of private sector looking after colonies under the supervision of municipal systems as suggested in the study except for contractual arrangements, which are for specific isolated services only. These too are recent arrangements and there have been cases of success as well as failures. Regulation is essential but no models are available for examination by this study. Regulation of private utilities is a recent phenomenon in India. This began to happen in the
electricity and telecommunications sectors. Effective privatization of municipal services depends very much on supervision and regulation.

Chapter Plan

This chapter sets out the objectives and limitations of the study and provides a comprehensive view on overall environment that affects the topic of this study. It gives an account of the status of provision of various municipal services and the issues related to their management and delivery in the Indian urban sector. An assessment of the growing trend of urbanization in India and the need to accelerate investment in urban infrastructure facilities to meet the demands has also been made. The section on Urban Governance and Management reviews the management of urban services at present, the plans and visions of policy makers for opening up of the urban sector management to Local Self Governments (LSG) and to private sector participation. The section on An Evaluation of the Urban Conditions makes an assessment of the need to make improvements in the light of the Five Year Plans and other policies of the Indian Government. It concludes by pointing out the urgent need for improvement of management capacities of the cities to save them from deterioration and the impending collapse of the systems. Chapter 2 – “Design of the Study”, provides details on how the research was conducted to arrive at the conclusions. The findings were based on empirical studies from the municipal areas, and non-municipal townships under private operation. Chapter 3 - “Privatization of Public Services – Existing Models and Methods” analyzes the commercial principles that provide sustainability to private sectors functioning in public services compared to the social principles that guide the public sector management. It reviews the various models of privatization processes. Case studies on privatization of municipal services are reviewed in the Section on Privatization of Municipal Services. The cases include both Indian and foreign experiences. The section concludes that the cases reviewed pertain to specific service based arrangements and therefore do not provide an overall approach to privatization of municipal services. There is a need for a model to gradually replace the existing municipal bureaucratic system with a sustainable system guaranteeing efficiency in the municipal service delivery. Chapter 4 – “The Functioning of Municipal Corporation of Delhi (MCD) for Delivery of Services” provides an overview of the functioning of MCD. This provides the understanding of the magnitude of implications when changes
are planned. Chapter 5 - “Comparative Study of Management of Urban Services by Municipal Corporation of Delhi and Star Estates Management Limited” provides an empirical and comparative study of three localities, two under MCD and one under private operation at Sushant Lok, Gurgaon. Based on the various parameters of private sectors operations, estimates are made for operational requirements in the two localities of MCD. It also analyzes the quantitative and qualitative changes that would take place in MCD if they were run as Sushant Lok. Chapter 6 - “Major Issues Relating to Private Sector Assistance in Municipal Services” suggests a method and sequencing of privatization taking into account all relevant factors. These factors relate to economic, social, political, and regulation. Chapter 7 - “Private Sector Participation in the Management and Delivery of Municipal Services – A Model” comes out with a model of inducting private sector gradually in the delivery of municipal services. The model includes all eventualities and problems and comes out with a new breed of enterprise system to provide municipal services under the supervision of present municipal system. Chapter 8 - Conclusions and Recommendations provide possible avenues based on the study to induct private sector in the municipal systems in India to improve provision of services. It provides, from a micro view, how the study can be implemented in various other fields replacing the bureaucratic system through arrangements with private sector.

URBANIZATION AND STATUS OF URBAN SERVICES

The objective of this section is to document the current urbanization process and the situation in the provision of critical urban services like land, housing, and environment protection, transport, sanitation and poverty alleviation. The subsequent sections review urban management, and provide an evaluation of the policy framework and institutional arrangements with a view to gauging the enabling environment for private sector participation in the provision of municipal services. This section largely relied on the documents of the Ministry of Urban Development and Poverty Alleviation and the Planning Commission. The review indicates the need for urgent reforms in planning and governance functions presently performed by local governments.
Urbanization Trends

Urbanization is a natural consequence of the shift of population from agricultural to industrial and other non-agricultural activities. Major components of urban growth are natural increase, net migration, and reclassification. The economic policy of India promotes migration of surplus rural agricultural labor to urban areas.

The census 2001 reveals that about 285 million or 27.8 per cent of the total Indian population of 1.02 billion live in urban areas. The proportion of urban population in India has increased from 11 percent in 1901, to 18 percent in 1951, and to 28 percent in 2001 (Annexure 1). The number of urban areas has more than doubled during the century. Three factors considered responsible for urban growth in India include: a) reclassification (formation of new towns and expansion of existing urban areas to overwhelm surrounding rural areas), b) natural growth, and c) rural-urban migration (as there are no restrictions, whether intra state or inter state - an average rural-urban migration is estimated at about 23 percent during the last decade).

According to the 2001 census, there are 4,378 urban agglomerations/towns across the country. Of these, 35 metro cities with populations of approximately 28 million make up about 37.8 percent of urban India. Presently, there are six mega cities with populations of more than five million (Annexure 2). The urbanization pattern of the country is skewed with the larger cities growing at a much faster rate, accounting for over two-third of the total population. The inhabitants of 35 metropolitan cities, having population of over one million (Annexure 3) comprise of 37.8 percent of total urban population of India. The variation across states (provinces) of extent of urbanization is also significant in the country. The National Capital Territory of Delhi has about 93 percent of its population living in urban areas, whereas Himachal Pradesh is the least urbanized state with only 9.8 percent of its population in urban areas.

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1 The Census of India defines settlements as 'urban' if: a) the population is more than 5000; b) the population density is higher than 400 persons per sq. km; c) more than 75 percent of its working population is engaged in non-primary sectors; and d) it has an administrative setup like a municipality, corporation, cantonment board, or a notified area committee.

2 The following are the categorization of urban agglomerations and towns by size of population:

- **Mega city:** 5 million and above
- **Metro:** 1-5 million
- **Class I:** 100,000 - 1 million
- **Class II:** 50,000 - 100,000
- **Class III:** 20,000 - 50,000
- **Class IV:** 10,000 - 20,000
- **Class V:** 5,000 - 10,000
- **Class VI:** less than 5,000
areas. Some of the most urbanized states in the country include Tamil Nadu (43.9 percent), Maharashtra (42.4 percent) and Gujarat (37.4 percent) and the least urbanized ones include Bihar (10.5 percent), Assam (12.7 percent) and Orissa (14.9 percent).

It has been observed that the degree of urbanization in India is among the lowest in the world. Some of the fast growing Asian countries like China and Indonesia have overtaken India with urbanization of 32.1 and 40.9 percent respectively, though they started from lower levels of urbanization in 1950. This is partly explained by one demographic fact that the decadal growth of urban population in India has been declining, from 46.1 percent in 1971-81 to 36.4 percent in 1981-91 to 31.2 percent in 1991-2001. Correspondingly, the average annual exponential growth in urban areas has also dropped from 3.8 percent to 3.1 percent and 2.7 percent respectively. While this, to some extent, reflects a declining trend in total population growth, the fact still remains that urbanization in India is proceeding at a fairly modest pace, though some states and cities are reporting exponential growth.

The Government of India (GOI) estimates the urban population in India to cross 450 million, which will be 33.67 percent of the total population of the country by 2015 whereas the United Nations estimates that urban inhabitants at significantly higher level, i.e. 41.3 percent of the total population of India. One of the most striking features of the urbanization trends in India is that the growth has not wholly occurred within the legal jurisdiction of the cities but along the major transport corridors,
which are increasingly attracting a significant proportion of investments in industry. Population projections for settlements along these stretches indicate increase of 5-10 percent in the growth rate over the next two decades.

**Figure 2: Size of Urban Population and Contribution to National Income**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of Urban Population</th>
<th>Percentage Contribution to National Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>17.3%</td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>29.3%</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>47.7%</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>55.5%</td>
<td></td>
</tr>
</tbody>
</table>

Urban Housing

The 1991 data on room pattern of the housing stock in relation to the household size indicate a high degree of congestion in the housing units; 40% of households in the urban areas are living in single-room dwelling units, and 30% are in two-room units (Annexure 4). It is estimated that urban housing shortage is 7.6 million units as compared to the nation wide shortage of 21.2 million units in 1997. Urban housing shortage is 7.57 million (houseless households 0.20 million, relieving congestion 1.77 million, up-gradation of kutcha houses 4.09 million and replacement of old houses 1.51 million).

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1 Residential housing stock in India is classified as pucca (permanent), semi-pucca, serviceable kutcha (temporary) and non-serviceable kutcha. Distribution of urban households by typology of houses occupied is pucca 73.1%, semi-pucca 17.7%, serviceable kutcha 6.7% and non-serviceable kutcha 2.5%.

2 The officially accepted method of estimation of housing shortage in urban areas is the one adopted by National Building Organization: (i) every household should have a house and (ii) pucca and semipucca houses are considered as acceptable. Furthermore, adjustments are made for congestion (to account for the number of married couples who require a separate room) and obsolescence, measured as the number of very old houses (more than 80 years) that are not safe and need replacement.
A major reason for the urban housing congestion is the policy on floor space index or the floor area ratio. In India it varies between 1 and 1.5 whereas in most cities of the world this is between 5 and 20. A high ratio permits construction of high-rise, low cost apartment buildings. This will have impact on urban sprawl, transportation costs, and shifts in centers of activity, infrastructure costs, etc. Other major issues affecting urban housing are shortage of land, restricted finance, cost effective designs, construction cost, illegal and unauthorized constructions, poor maintenance systems, etc. The strategies on housing are aimed at meeting the needs of different socio-economic sections of society. There would be increased emphasis on greater participation of residents to incorporate their socio-cultural, heritage and traditional living styles.

Land management and providing housing has been the priority area of both central and state governments since the inception of planning era in India. There have been programs for rehabilitation of refugees, development of slums, housing for economically weaker sections and low-income groups, provision and making the land available for the poor. The Eighth Plan had two main focuses, namely: (i) thrust towards social housing to reach out housing solutions to priority groups, and (ii) providing policy framework and legislative, fiscal and financial system that would put into effect the enabling role of the Government in stimulating, supporting and promoting other actors to play direct roles in the housing delivery system. To enable this the government adopted the new Housing and Habitat Policy. The priority groups identified for support are people below poverty line, SC/ST, disabled, freed bonded laborers, slum dwellers and women headed households.

According to the Urban Plan, Central Government will take actions relating to bringing reforms for techno-legal and techno-financial regimes, devise financial policies, and encourage environment friendly technology. The Government will also provide model laws and guidelines to the state governments for optimizing land use, promoting high density and provide support to land assembly, pooling and sharing arrangements. It will set up a National Shelter Fund to meet the requirements of low cost funds for housing for the poor. Simplify registration procedures and modernize land records. Encourage foreign investment in the housing sector. The State governments are required to liberalize their legal and regulatory regimes to promote
the role of the private sector and cooperatives. This would establish chartered
registered architects to speed up building sanctioning procedures. Ensure easy
financing facilities though facilitating mortgage insurance, channeling funds from
insurance and provident funds. To facilitate land transfer and land assembly stamp
duty rates will be reduced and rationalized.

Municipal governments are required to provide infrastructure services for housing
plans augment the supply of land, and prepare housing action plans. Plan industrial
estates having housing facilities for work force. Stop unauthorized constructions and
illegal occupations. It is expected that public and private housing finance companies
will play a major role in providing easy credit facilities with a system of collateral and
innovative financing techniques. Cost effective and disaster resistant technologies
will be promoted and existing settlements will be retrofitted with these technologies in
the critical disaster zones.

With decentralization, the responsibility of provision and delivery of services are now
vested with the ULBs. However, lack of resources and inability of the ULBs (both
technical and financial) to provide the required level of services is resulting in overall
deterioration of quality of housing. In many cases, services are provided on priority
basis. But the informal settlements and slums, where urban poor finds place to live,
often do not get priority. There exist large regional disparities in terms of pucca
houses, access to water supply and sanitation and use of electricity. This regional
disparity has been a major concern for the policy makers to strategize sustainable
housing for all. Thus, there is a need for the concentrated efforts by the State
Governments to minimize this regional disparity in housing.

Water Supply and Sanitation

The urban water supply, sewerage and drainage sector in India is suffering from
inadequate levels of services, increasing gap of demand-supply, poor sanitary
services, especially in small and medium urban settlements and low income
settlements in larger cities, coupled with deteriorating financial and technical
performance. Only about 85 percent of households (65 percent in slums) have access
to piped water supply, about 70 percent of the population have access to excreta
disposal, 48 percent for sewerage system and only about 26 percent of wastewater is treated before disposal. Investment requirement to improve the situation in terms of provision, operation, and maintenance to reach desired levels is estimated at about INR 3,055 billion.

There is a big mismatch between the source augmentation and development/transmission/distribution facilities. In most cases, the former has surpassed the latter due to the fact that the transmission and distribution networks are generally old and are poorly maintained, resulting in poor quality assets. The non-revenue water \(^1\) (NRW) is above 30-50 percent. Low pressures and intermittent supplies allow backlash resulting in contamination of water in the distribution network.

This sector is facing severe financial constraints due to heavy investment needs. Only a few select large cities are able to generate funds to contribute to the investment requirements made by the separate autonomous boards constituted to take care of the service provision as well as delivery. In case of small and medium urban centers, the State water boards generally provide the services, leaving the O&M to the ULBs. Poor revenue collection, coupled with dependency of the ULBs on the grants from the state and central government budgets along with other crosscutting issues like low cost recovery, huge cross-subsidization and poor financial management are making the service delivery levels below expectations.

Sanitation is also a major problem. In a serious effort tackled this problem the Eight Plan envisaged conversion of 5 million dry latrines to low cost pour-flush sanitary latrines and 100 per cent liberation of scavengers on “whole town” coverage basis. The actual achievement was only 695,000 units. To ensure this municipal bylaws would need to be modified to ban construction of dry latrines to prohibit employment of manual scavengers. There is an emphasis on technological innovations to improve the re-usability of the recycled wastes and to privatize solid waste disposal.

There are a few major issues, which still need to be addressed in spite of the considerable progress achieved in the past 50 years. Most states are yet to fully

\(^1\) Non-revenue water is the difference between treated water production and authorized water consumption, expressed as a percentage of treated water production.
comply with the National Water Policy, as there is no clarity in policy with regard to allocation of water for various uses within its framework. Generally the state governments do not have master plans for water resource management on the basis of different river basins. Pricing of water tariff is not rational to make the systems viable and sustainable without grants and subsidies from the government. There are substantial physical and commercial losses in the supply system. The operation and maintenance systems are either under utilized or in adequate and defunct. Present process of sewerage treatments is conventional and capital and energy intensive. Reuse and recycling have not been introduced. Above all there are inadequate learning and training facilities either at Central, State or local levels.

The main thrust of the strategies in this area is to promote and strengthen decentralization of production and distribution, participation of private sector and local community in the management and maintenance of the system. Special attention will be placed on the centrally sponsored Accelerated Urban Water Supply Program (AUWSP) to cover the small towns with population less than 20,000. Appropriate legislation is required for the state governments estimate needs and to prepare long-term River Basin Master Plans. Also coordination mechanism need to be established for canal based water supply systems for urban water needs. Drinking water and sanitation need to be integrated as otherwise the latter tend to get overlooked. The operation and maintenance costs need to be recovered in the initial stages and the capital cost later although the weaker sections need to be subsidized. Investments need to be made for recycle of used water for non-potable requirements. There is requirement for decentralization of responsibility of distribution to local bodies and private sector. Another important direction of policies is elimination of manual handling of night soil through conversion of dry latrines to low cost sanitary latrines. The need for finance is met through investments from institutions, external assistance, and private sector and community sources.

The teething problems faced by the Eighth Plan for urban water supply through Accelerated Urban Water Supply Program (AUWSP) are expected to be resolved in the Ninth Plan and beyond. The strategies to promote and strengthen decentralization of production and distribution systems, privatization and participation of the community in management and maintenance are expected to not only induct higher
efficiency levels and effective reach out but also contain line leakages and wastage's. Special attention will be given to strengthen the on going AUWSP to saturate the small town with population less than 20,000 during the Plan period. It is expected that with an investment of about Rs.207 billion the objective of 100 percent population coverage in urban area with safe drinking water supply could be achieved.

The Central Government is expected to play the role of facilitator providing guidance, coordination and monitoring for the state governments. It will facilitate policy framework, assist private participation, build institutional capacity, and initiate financial reforms. It will provide technical guidance for the sanitation schemes. Formulate financial policies for subsidies and concessions and mobilize external assistance and private sector investments. An important role of the Central Government would be to intervene for evolving quick and amicable solutions between states for sharing of water resources. It would play a major role in monitoring of urban water supply and sanitation projects.

The role of the state governments will be to encourage autonomy and free the sector from excessive controls. The water sector agencies will be provided with greater autonomy for financial management and operational issues. Create Urban Development Fund for providing water and sanitation facilities in urban areas. Encourage private participation through service and management contracts and entrust the responsibility for operation and maintenance of urban water supply and sanitation systems to local bodies. Create a state regulatory authority for the infrastructure sector. Bring about regulatory mechanism for controlling ground water exploitation and to monitor ground water pollution.

The municipal governments will revise water and sewerage tariff to meet the full cost of operation and maintenance. Encourage conservation of water through reduction in leakage and pilferage and recycling of treated wastewater for non-domestic and industrial uses. Adopt technologies for treatment of wastewater before disposal. Ensure universal sanitation by providing support to individuals for sanitary latrines and water taps.
Pricing of water and sanitation services has been a key political concern in India, which has lead to high level of subsidy and poorly targeted as the benefits largely go to better-off households. The current cross-subsidy regime from commercial and industrial users to domestic users is leading to wastage of scarce water resources and distorted consumption pattern. According to studies conducted by Department for International Development (1999) the consumers in urban India are willing to pay more than the existing tariffs for improved service levels whereas the administrators and politicians are unwilling to charge as found in case of Hyderabad. The surveys indicated a scope to hike the tariff by 200-250 percent for domestic consumption, retaining the affordability. The Water Boards at the State level set the norms for the provision and delivery of water. Due to the unreliable and variable quality service levels a high proportion of the population resort to buy potable water from vendors or find other sources of water. The water boards focus on large-scale infrastructure projects but do not resort to appropriate pricing policies and lack of full cost recovery mechanism\(^1\) although there is willingness to pay. This willingness to pay for quality, reliable, and adequate water supply indicates that there is considerable scope for private sector participation in this activity, at least in larger cities.

**Land Assembly**

Land supply in urban India is inadequate to meet the growth of population. Government intervention has lagged behind. Also prevention of private sector participation led to the obstructions in the operation of land markets. This has resulted in price rise in urban centers.

Different models of assemblage of land are in force. Acquisition of land under the Land Acquisition Act, 1894 is the most common mode followed in the country. The following are other modes of large-scale acquisition, development and disposal:

- Acquisition of land by Delhi Development Authority and its disposal on leasehold basis,
- Negotiated land purchase under the Haryana Development and Regulation of Urban Areas Act, 1975,

\(^1\) Full cost recovery means the recovery of all financial costs associated with the provision of water, including direct and indirect O&M costs, depreciation, taxes, interest on debt and a reasonable return on equity.
• Joint sector approach of Uttar Pradesh Government empowering development authorities to provide land to private developers on license basis,
• Town planning schemes for pooling of land of identified owners for development as practiced in Maharashtra and Gujarat, and
• Land adjustment and sharing methods where landowners become partners in the city planning process.

As part of development control regulations in Greater Mumbai, the concepts of Accommodation, Reservation and Transfer of Development Rights are being used to resolve the problems of land acquisition and land assembly.

Land Acquisition Act of 1894 was amended in 1984. The amendment aimed at balancing public interest, individual rights, importance to public purpose, adequate powers to Land Acquisition Collector (LAC), etc. Despite this litigation and unauthorized development have persisted. LACs fix compensation in land acquisition cases on the basis of land registered in the sale deeds, which usually indicate under reported prices.

The Haryana Model of private sector involvement helped in partially addressing the housing problems of Delhi. This has provided housing only to the higher and middle-income groups ignoring the lower income groups. In this model private developers carry out the development works in the area. They also pay proportionate development charges for the work done by government for roads, sewerage, water supply, electricity, etc.

The urban land use regulations in India aim to maintain a uniform population density. So the regulation leads to low density where there is higher demand for land and higher density in places with lower demand. A low uniform floor-space index does not generate uniform population densities. People settle close to the city centers and work place and the poor do so by illegal squatting. For others it means densification through splitting up of the existing floor space. Urban land utilization pattern depicts a mixture of extreme congestion in some areas, and abnormally low density in other parts. Agricultural prime lands are converted to accommodate physical expansion of
Urban areas. Highly priced urban land leads to holding of land only by large-scale players as it marginalizes most of the population. This leads to encroachments on public land and mushrooming of unauthorized colonies.

Some of the issues required to be addressed are:

(i) Access to land and finance are major challenges as poor are often forced to resort to illegal and unhealthy alternatives resulting in informal settlements with insecure land tenure.

(ii) With the decentralization, the responsibility of provision and delivery of services are now vested with the ULBs. However, lack of resources and inability of the ULBs (both technical and financial) to provide required level of services is resulting in overall deterioration of quality of housing. In many cases, services are provided on priority basis and informal settlements and slums, where urban poor finds place to live, often do not get priority.

(iii) There exist large regional disparities in terms of pucca houses, access to water supply and sanitation and use of electricity. This regional disparity has been a major concern for the policy makers to strategize sustainable housing for all. Thus, there is a need for the concentrated efforts by the State Governments to minimize this regional disparity in housing.

(iv) There is need for focused efforts both by the central and state governments to provide policy framework and facilitation support for providing adequate and affordable housing. The facilitation is required in terms of legal reforms, transfer of technology and fiscal incentives and enlarging the resource base.

The following are the major issues to be considered under the National Urban Plan:

(i) Taking a comprehensive approach to the policies, strategies and legislation governing land assembly, land transfer, land taxation and planning and development,

(ii) Meet the land demand, to meet the urban development requirements,

(iii) Effective mechanism to control land price increase and speculation

(iv) Developing accurate information systems regarding inventory of urban land records.
The strategies to be followed will include the following:

(i) A system for speedy acquisition of land,
(ii) Limit the role of Government and development agencies to be enabler and facilitator,
(iii) Security of tenure of land to weaker sections,
(iv) Differential pricing policy, rationalization of government levies and control measures.

The Central Government would review the Land Acquisition Act, enact a separate Act for specifically for acquisition of land in urban areas, develop information systems for inventory of land in urban areas and document and disseminate methods of land assembly, development and disposal. The State Governments would make necessary legislation for streamlining land acquisition and recycling. Substantial (10-15%) of the land will be for exclusive use of weaker sections. Encourage involvement of private and cooperative sectors in land assembly, development and disposal. The municipal governments would revise land use situation for developing database for regulation of land price and to supply land to meet requirements.

**Urban Environment and Municipal Solid Waste Management**

The major causes of urban environmental degradation are (i) inadequacies in the management of solid wastes, (i) poverty leading to inability to use efficient resources and (ii) negative effects of development process. Due to poverty and under development people are forced to live in squalor that further degrades the environment. Environmental pollution takes place through contamination by chemicals, metals, toxic substances, etc. Poor management of development process is the main cause of pollution. The volume of solid waste generated in the urban centers of India is over 48 million metric tones, which are over 100,000 metric tones per day. The per capita waste generation ranges from 200 to 600 grams per day. Collection level of less than 50 percent and transportation of less than 35 percent pose challenge to the health and quality of life of the urban population. According to a World Bank study (1999) the estimated urban population growth of 3.5 percent per annum will result in a yearly increase of about 5 percent of urban solid waste. Further
it is estimated that the per capita waste generation will be 700 grams per day by 2025 with an estimated urban population of about 45 percent of total population of India. According to the study Indonesia, Philippines, and parts of China and India will face the greatest challenge of waste management.

Municipal solid waste management is one of the obligatory services of the ULBs in India. Since there is no commercial orientation in providing this service, the expenditure is met through budgetary allocations and/or through utilizing part of internal revenues. Moreover, the estimated expenditure incurred by the ULBs for collection, transportation, treatment and disposal ranges from Rs. 500 to Rs. 1500 per metric ton, comprising 60-70 percent for collection, 20-30 percent towards transportation and less than 5 percent on treatment and disposal according to Government of India, CPHEEO Manual (2000). Another study indicates the average per capita expenditure on the service per annum was Rs. 114 and Rs. 62 for Class I and Class II Cities/Towns respectively and the average respective expenditure on staff salaries constituted about 75 and 85 percent of the total expenditure. Collection efficiency (proportion of collection to generation) is low due to budgetary constraints, inadequate equipment and poor planning, house-to-house collection is very rare in India. The collection process is generally manual and labor intensive with 6-8 workers deployed with each vehicle for transportation. The efficiency of transportation also is poor. Open transportation, frequent breakdown, poor fleet management and lack of synchronization are some of the prime issues. Another problem is the non-scientific and improper treatment and disposal of wastes. Ninety-four percent of the urban centers in India resort to indiscriminate dumping of different types of wastes including industrial and biomedical in low-lying areas, resulting in contamination of ground and surface water. Further, air pollution due to open burning, flooding due to clogged drains are some other common environmental problems. The ongoing initiatives towards resource recovery in the form of composting, waste-to-energy and recycling should be encouraged towards sustainable waste management.

The Institutional and operational deficiencies are acute in the ULBs. About 30-50 percent of total staff of ULBs in India engaged in this service and most of them are unskilled and old without proper training and technical know-how. The supervisory staff is generally of lower standards and is more often promoted from sanitary
workers due to seniority and union pressure. As a result, the system is inefficient. Further, modernization of collection and transportation is expected to improve at least 30-35 percent of efficiency. Waste reduction at the source of generation and source segregation is one of the most effective ways of municipal solid waste management and this may be affected if there is community involvement.

The major issues and strategies relating to solid waste management are related to technologies, policies and management. Solid wastes need to be segregated into organic, inorganic and recyclable wastes. This has also to be done in environmentally acceptable manner. Community awareness has to be created to reduce generation of solid waste. Adequate attention needs to be given to potentially hazardous garbage such as night soil, bio-medical and industrial waste. Facilities should be provided in an equitable manner to all poor communities and under-serviced areas. For greater efficiency all aspects relating to solid waste management such as collection, transportation, segregation, disposal, recycle, etc. need to be below one umbrella. There is ample scope for private participation in solid waste management especially in collection and transportation. Some of the major issues and concerns relating to urban delivery system is included in Annexure 5.

The National Urban Policy aims at the following actions by the governments:

- The Central Government will bring out a technical manual on solid waste management for use by urban local bodies and agencies. Fiscal support would be provided to upgrade the technology for waste disposal. The Central Government actions will be directed to provide guidelines for urban planning as a developmental process, increase the scope of legal support to environment, and understand environmental and economic interdependence. The State Governments will prepare guidelines environmental improvement programs, assist local bodies to prepare environment status report, and promote use of renewable and recyclable materials. The Municipal Governments will initiate to control further growth of settlements by taking advance action plans, develop environmental parameters, and create environmental awareness.
The State Governments will arrange vacant land for setting up waste processing units, extend technical assistance to plan, design and implement the operation and maintenance of solid waste management and provide adequate funds for implementation.

The Municipal Corporations would mobilize funds for urban local bodies for waste management. Encourage private participation, provide vacant land on reasonable terms, create public awareness and prohibit defecation in slums and squatter settlements and provide sanitary facilities. It will create solid waste management wing with defined responsibilities.

The strategies are aimed at improving the environmental conditions in the cities. Each city will develop an environment status report and an environmental action plan. Environmental impact assessment will be made mandatory for all projects. There will be at least 10-15 percent open space in urban areas for parks, playgrounds, green belts, urban forestry, etc. Polluting industries will be located away from major urban concentrations.

**Urban Transport**

Urban transport policy has intrinsic linkages to urban development, transportation, usage of energy, impacts on environment, and in general the quality of urban life. Large-scale growth has taken place in the motor vehicle population in the eighties and nineties. The growth of vehicles during the period of 1951-1998 has been 11 percent per annum and 9 percent of the total population of India, living in million-plus cities, owns 33 percent of total vehicular population of the country and the two wheelers account for about 60-80 percent of total number of motor vehicles in the urban centers according to Housing and Urban Development Corporation (2001). A good proportion of urban traffic in India is slow moving and coping with peak hour traffic (factors are about 10-12 percent) is a major challenge in urban centers. The road network in the metropolitan cities is characterized by narrow carriageways, presence of competition for space by all kinds of motorized and non-motorized vehicles. High proportion of the traffic is slow moving leading to high volume/capacity ratios. The two-wheelers and cars contribute 78 percent and 12 percent of the total pollution caused by the motor vehicles in Indian metro cities.
Public transport facilities are least expensive to the users as they are shared facilities and they occupy much less space per person on roads as compared to other roads. The principal public transport in the urban centers is bus and to some extent, the minibus is also available except metro cities like Mumbai, Kolkata, Chennai and recently Delhi, where suburban railway system operates in parallel. As a whole, the poor status of public transport in urban areas is leading to all major problems in the sub-sector. One of the major problems of the urban transport system is matching the demand with supply\(^1\), while looking at the importance of walk trips and non-motorized modes. There is a need to strengthen low-cost transport system management like improved signaling, parking regulations, road widening, lane discipline, decongestion measures, etc. However, enhancing the supply through public transport is vital to provide an alternate to personalized vehicle users. The concept of linear corridor development with five basic infrastructure namely railway, highway, pipeline, power and communication to guide future development along such corridors to ease congestion and provide good linkage facility is talked about as these corridors look into the aspects of safety, economy, efficiency and environment improvements. The urban areas in India are highly dependent on the road transport and this increasing reliance has been a major reason for increasing energy consumption and air pollution. Thus, there is an immediate need to look into the issues of capacity, quality, technological obsolescence and management to effectively utilize the resources in terms of land, capital, time, human energy and environment to meet the rapidly increasing travel demand. Thus, the future urban transport system should focus on enhancing economic productivity, increasing personal mobility and addressing urban environmental issues pertaining to vehicle emissions. It is also estimated that augmentation of mass transport system, adoption of Traffic System Management (TSM) and measures to discourage use of personalized vehicles would reduce vehicular congestion and pollution.

The Central Government has set up an urban transport division and a directorate of urban transport in the Ministry of Urban Development so as to allocate to it all aspects of technical planning, safety, etc. Create a Unified Metropolitan Transport Authority

\(^1\) Demand factors are function of population and land use planning whereas the supply depends on land-use-transport integration, investment in public transport, intermediary public transport and other modes.
for construction, maintenance and operation of urban mass transit systems. Constitute a National Urban Transport Development Fund to be funded through budgetary allocations and dedicated levies. Declare urban transport as infrastructure to avail fiscal concessions. The State Governments would set up an urban transport division and an urban transport directorate in the department of urban development. Also there will be a Unified Metropolitan Transportation Authorities in the million-plus cities and a state level Urban Transport Development Fund. It would implement Transport System Management measures in cities with population more than 500,000. The Municipal Governments would implement urban transport facilities prior to development of new colonies and settlements. Devise ways to segregate slow-moving and fast-moving modes of transport. Make transportation planning an integral part of urban development planning. Given the nature of this sector, private sector participation in urban transportation is prevalent in a number of cities and there is considerable scope for enhancing its role in the future.

**URBAN GOVERNANCE AND MANAGEMENT**

Urban governance and policy is a state subject under the Constitution of India. But the central Government provides overall guidance to the states on policy matters, designing institutional structures, and providing financial and institutional support. Ministry of Urban Development and Poverty Alleviation (MoUD&PA) of the central Government has two departments, viz. Department of Urban Development and Department of Urban Employment and Poverty Alleviation. The former is responsible for broad policy formulation and monitoring of the programs in the areas of urban development, urban water supply and sanitation while the latter is responsible for broad policy formulation and monitoring of the programs in the areas of housing and urban poverty alleviation. Since both are essentially state subjects, these departments play a coordinating and monitoring role and also support these programs through centrally sponsored schemes.

The MoUD&PA prepares the budget of the GOI for the urban sector and provides policy guidelines to the states. As the subject of urban development is a state matter, the states are supposed to set up the policies and legal framework for empowering
urban local bodied (ULBs) for developing and financing urban development projects. But, this doesn’t always happen this way as the State Governments have formed boards, authorities, and other agencies to implement urban activities financed by the government as well as other institutions, leaving little scope for the ULBs except in operation and maintenance (O&M) of these services. Own resources generated by the ULBs through taxes and user charges at current rates are insufficient even for O&M. Often the state governments interfere even in these matters and politicize utility pricing. As a result, urban services are treated as public services without the concept of cost recovery or commercial viability. Repayment of loans taken by ULBs for building facilities are treated as book adjustments or paid out of state grants as the user charges seldom cover even the variable cost of services.

Though, urban governance and management is a state subject under the Constitution, local governments did not have a Constitutional status/mandate till recently. This lacuna was corrected after the Constitution 73rd and 74th Amendments Act devolved powers to local bodies in rural and urban areas respectively. These amendments make elections to local bodies mandatory. Notwithstanding this, the Municipal Governments continue to be the creatures of the State Governments as they delegate authority, powers and functions through state legislation. Local institutions of urban government are weak due to encroachment on traditional and legitimate municipal functions by other agencies like urban development authorities, and inadequate staffing and expertise in municipal management. The constitutional amendment gives directive to the State Government to endow the Municipal Governments “with such powers and authority as may be necessary to enable them to function as institutions of self-government”. Nevertheless, there is inadequate empowerment and strengthening of Municipal Governments. Municipal functions are still not comprehensive, executive functions are still with the appointed functionary. ULBs in many states cannot set their own rates and user charges. Municipal Governments in many states do not have the institutional capability to plan, finance, implement and monitor the delivery of municipal services and to perform the devolved functions.
73\textsuperscript{rd} and 74\textsuperscript{th} Constitution Amendment Acts (CAA)

The local governments in India did not enjoy constitutional status until 1 June 1993 when the above Acts came into force. All state governments passed the conformity legislation by 31 May 1994 to ensure that the provisions of the existing municipal Acts were not repugnant to the constitutional provisions. Some states also initiated the process of enacting new panchayat (village council) and municipal laws with view to introduce reforms in the areas of local governance and management. The following are some of the significant features of the above Acts:

- They established a three-tier system of management. In rural areas they are village panchayats, intermediate and district level panchayats and in urban areas they are at nagar panchayats for areas in transition from rural to urban, municipalities or municipal councils in smaller urban settlements and municipal corporations in larger urban areas. 11\textsuperscript{th} and 12\textsuperscript{th} Schedules of the constitution provide lists of functions assigned to rural and urban local bodies respectively.

- The State Election Commissions will conduct elections once in five years for the panchayats and municipalities. One third of the seats are reserved for women and further reservation will be provided for scheduled castes and tribes in proportion to their population. Super cession of the elected bodies is allowed only in exceptional cases and that should not to exceed six months.

- The state governments will constitute state Finance Commissions once in five years. These will review municipal finances and make recommendations regarding distribution of the proceeds of state-level taxes between the state governments and the ULBs, criteria for grant-in-aid, measures needed to improve the financial position of the municipal bodies, etc.

- Wards Committees provide space for meaningful interaction and dialogue between citizens, civil society and elected members at the ward level in cities with 300,000 populations or more.
• District Planning Committees and Metropolitan Planning Committees provide forum for planning by elected representatives.

• Municipalities have to perform five functions as mentioned in the Twelfth Schedule to the Constitution (Annexure 6). They are: (i) essential functions; (ii) environment management functions; (iii) planning functions; (iv) agency type functions entrusted to municipalities as under principal-agent contracts which need to be financed by inter-governmental revenues and (v) functions relating to governance.

With the passage of 74th CAA, in a few states, the ULBs were transferred with many administrative and financial powers, making them most important functionary in the provision, operation and maintenance of urban and civic services. However, it was noted that these ULBs (barring a few large Municipal Corporations) were found unable to cope with the changing scenario due to a widening gap between their resources and their functional domain. Since the provision of urban civic services were considered as a primary role of the governments, public expect such services as social goods and to be provided to them at free or nominal cost. Such attitude of public has made it politically very difficult to exclude any group/person from using services and forcing the decision-makers (elected representatives) to switch over to subsidy regime in the provision and delivery of civic services, making it difficult for the ULBs to meet the growing demand for investment. Further, the lack of sufficient resources and access to capital markets, in addition to the huge capital investment requirements, long gestation periods, lack of confidence among the private sector to actively participate and limited financial domain and tax base have made it difficult for the ULBs to meet the growing demands and citizen requirements.

The lack of financial discipline, and resources for O&M among the ULBs, coupled with above identified constraints have worsened the financial position of most ULBs and at the same time, there was an emerging need to access commercial funding for long-term investments. However, the commercial capital funding required ULBs to achieve a greatly improved financial and management performance. Even though there has been some improvement in making specific urban infrastructure projects
commercially attractive, as in the water supply and sewerage, solid waste management sub-sectors, the private sector has taken a limited interest or opportunities have been limited because of the otherwise poor financial position of the ULBs.

Some of the domestic public sectors financing agencies like the Life Insurance Corporation (LIC) of India, and the Housing and Urban Development Corporation (HUDCO) provided loan assistance for urban infrastructure to some of the ULBs, but this assistance were usually within the national budget or through government programs. After the 1996 India Infrastructure Report by the Expert Group on Commercialization of Infrastructure Project, the GOI set up the Infrastructure Development and Finance Corporation (IDFC) to lead private capital into infrastructure. IDFC has made significant progress, but mainly in non-urban infrastructure investments.

Based on the findings of various Study Groups, Task Forces, Committees and Commissions, the following are the key issues pertaining to the municipal finances: (a) absence of rationalization of functional responsibilities and assignment of revenue instruments to the ULBs, (b) lack of assignment of revenue sources among the state and municipal functions, (c) lack of autonomy and accountability in devolution of functional responsibilities, (d) increasing revenue gaps in the ULBs and resource gaps in meeting the O&M requirements, (e) lack of professionally qualified municipal functionaries, (f) ad hoc fiscal inter-relationships between the state governments and ULBs, (g) inequitable rate structures for various taxes levied by the ULBs, (h) difficulties in the exploitation of user charges and lack of effective pricing policy, and (i) overstaffing and disproportionately large administrative and collection costs.

Municipal Administrative Systems and Procedures

Municipal bodies are organs of the state Governments that have enacted different laws for the municipal bodies in the smaller towns and for setting up municipal corporations in larger cities. The laws provide for the internal organizational structure and division of the executive authority, functions, regulatory powers, tax and non-tax sources of revenue, staff and penal provisions.
Typically, authorities in Municipal Corporations consist of the Corporation, The Standing committee and the Municipal Commissioner. The post of the Mayor is largely ceremonial. The elected councilors deliberate on policies and approve the annual budget, and the creation of posts. The Standing Committee exercises control over expenditure sanctions and contracts beyond a specified limit, and also some control over punishments to defaulting staff. The Municipal Commissioner is appointed by the State Government, and exercises day-to-day executive powers and control over staff. An exception to this common model is found in West Bengal state, where the executive and policy making authority is vested in a cabinet type Mayor-in-Council. In Kerala, the Mayor exercises considerable executive authority and supervises the Commissioner who is designated the Secretary of the Corporation. The Mayor-in Council performs the three roles of a political executive, decision-making authority and a participant in management function.

The executive power is fragmented among a number of authorities with overlapping jurisdictions. This fragmentation is partly a matter a political intent in order to prevent politicization of civic administration but has led to considerable tension between the political and appointive elements in Municipal Corporations. Over the years, the roles of the local politicians and the bureaucrats in urban governance has been reversed in that the local politicians and councilors are seen to be interested more in such functions as tenders, contracts, recruitment, transfers, etc while the bureaucracy plays a critical role in policy matters affecting urban government and also planning and development of urban areas. This is also because of the network of officials in municipal corporations and state agencies, often belonging to the integrated state services.

Under the Constitution, the central Government is not directly responsible for urban development and housing. But the centrally controlled institutions have significant influence the quantum and content of urban investment; indirectly by financial assistance to local agencies, and directly by the activities and investments of central departments and authorities. The central departments and agencies (defense agencies, cantonment boards, railways, airports, ports, tourism, telecommunications, etc.) stay outside the mainstream of state level urban development and do not contribute to the financing of city services. The investment plans of central agencies are not made
known to the local planning authority which results in unanticipated demands for road space, civic services, power supply, etc. As the municipal bodies and various functional agencies are creations of state statutes, the task of interagency coordination falls primarily on the state government through legal provisions and coordinating mechanisms devised by them.

Time taken for minor or major works is usually much more than normally taken for private works. Qualified suppliers and contractors usually stay away from municipal contracts due to delays in provision of materials and equipment, approvals and payments and political interference. Audit reports point out to contractual problems relating to delays, default in performance, litigation over payment, cost and time overrun in projects, poor work quality, etc. Some of the noted problems and causes in municipal services are provided in Annexure 7.

The efficiency of urban institutions is also affected by the internal management structure, delegation of powers, functional and geographic decentralization, lines of control and supervision and system of punishment and incentives. Functions are under different departments and sections under different chief and additional chief engineers. The inter-linkages of functions between different departments is not recognized or built into the reporting system of employees. There is little interaction with the public for needs assessment, and attendance to complaints through the inquiry system at the wards is weak.

In the municipal remuneration system there is no way of ensuring due output from staff. Neither incentives nor penalties for performance are structured into the system. Salary scales are compressed; movement up the scale is in small steps and is practically automatic; promotion is scarce and the appraisal systems do not count much; employment is secure. The officials from the integrated state services look out for promotion opportunities within their respective cadre, while the corporation employees belonging to different cadres complain of limited promotion prospects and stagnation at current pay scales.
Corruption in the municipal institutions has organization-wide and city level consequences. It affects citizens directly through the low quality of services and materials. The web of rules and regulations creates opportunity for corruption.

The general characteristic of local government is difficult due to bureaucratic nature of its procedures and systems. These make municipalities inaccessible to people and restrict the degree of reforms. Procedures are generally formulated at higher levels of government and municipalities need to apply for waivers and approvals to bring about even a temporary procedural change. This process can prove extremely difficult without the support of higher-level political and administrative management.

Attitudes within municipalities stem from either a political, or administrative or a technical base. Different actors within the municipality may oppose reforms for entirely different reasons. The administrative official is concerned with maintaining the status quo, with minimizing change as it can lead to disruption to the functioning of normal procedures, structures and hierarchies and creation of additional work. The political representative will like to retain power and assume greater control. The political viewpoint is to preserve the status quo of social and political institutions and facilitate power.

The National Urban Policy envisages the following action plan for municipal reforms:

- The Central Government will review the Constitution 74th Amendment Act to improve its efficacy, make it citizen friendly and advise State Governments for effective implementation of the provisions. It will also promote research and development for better dissemination of transfer of technology for urban development and management.
- The State Governments will empower the municipal governments through devolution of powers. This will lead to devolving the functions provided in the Twelfth Schedule of the Constitution. An essential part of this process is to give autonomy to the Municipal Governments for collection of revenues. Decentralization of governance will be attained through zonal committees, ward committees and by representation of NGOs and residents’ representatives.
Establish management teams in municipalities consisting of professionals from various fields like engineering, finance, urban planning, public health, etc. for greater efficiency. Strengthen the Directorates of Municipal Administration and decentralize their operations at the regional level to take care of the management needs of Municipal Governments in the small and medium towns. Form a coordination committee with representation of Mayor/Chairperson of Municipal Governments for coordinating the functions presently being performed by parallel state agencies to avoid fragmentation of urban functions.

- The Municipal Governments will put into form the decentralization initiatives to the zonal and wards committees. This will initiate privatization of municipal services, devise responsive mechanisms like Citizen’s Charter, interaction with community organizations, etc.

**Municipal Finance**

The financial decentralization is envisaged based on the mechanism of the Finance Commission at the state and central levels, wherein the State Finance Commission (SFC) is expected to suggest state fiscal devolution to the ULBs and the Central Finance Commission would top-up such devolution by assisting the states. As a follow-up measure, the 10th Central Finance Commission recommended devolution of INR 10 billion to the ULBs for its award period, to be distributed among the States on the basis of inter-state ratio of slum population derived from the population figures of the 1971 Census and the GOI has accepted this recommendation. Further, the 11th Finance Commission was set up with mandates to augment the consolidated funds of the state in order to supplement the resources of the ULBs in terms of the 74th CAA for the period 2000-2005.

The recommendations of the 11th Finance Commission include (i) measures to augment the consolidated funds of the States (like land taxes, surcharge / cess on the State taxes, professional tax), (ii) reforms in local taxes (property/house tax, octroi/entry tax, user charges), (iii) maintenance of civic services, and (iv) accounts and audit. Keeping in view the availability of resources and the overall limits set for the flow of resources from the Center to the States, the 11th Finance Commission
recommended a grant of INR 40 million for each of the five years starting from the financial year 2000-01.

All India annual municipal income is about Rs.1,634 billion as per the report of the National Institute of Public Finance and Policy (NIPFP) (2000). This consists of tax revenues (property tax, tax on vehicles, animals, trade, callings, professions, shows, advertisement, etc.), non-tax revenues (rent from assets, income from municipal undertakings, user charges, fees and fines, income from investments, etc.), grants-in-aid given by the State Governments and shared taxes (entertainment tax, motor vehicle tax, land revenues, stamp duties, profession tax, etc.). Composition of revenues consists of taxes (56%) non-tax (27%) and external sources (17%) (Annexure 9). Among various taxes property tax is the most common and stable source of income. The Eleventh Finance Commission has evolved criteria as the basis for distribution of grants to the States, to meet the requirements of the local bodies, which is at Annexure 10.

Municipal governments are legally required to have a balanced budget as expenses are conditioned by the level of resources available. Present levels of municipal expenditure are below the norms suggested by the Zakaria Committee. Municipal expenditure is categorized into three main components: wages and salaries, operations and maintenance, and interest payments. Of the total expenses wages and salaries constitute 60 percent, operations and maintenance 20 percent and interest payments 7 percent and others 13 percent. All India average per capita expenditure in 1997-98 was about Rs. 747 per annum on various municipal activities and functions consisting of water supply, sewerage and drainage, conservancy and sanitation, municipal roads and street lighting (Annexure 11).

Municipal budgets are prepared and operated on cash basis and not on accrual basis. There is excessive reliance on incremental approach. Previous year’s level of expenditure is considered as the base and predetermined incremental rates are applied to arrive at current year’s expenses and receipts. This system does not take note of dynamic elements like inflation, financial and developmental priorities. Budgets are usually prepared on deficit financing basis. Estimates are prepared for inflating revenue projections makes funding requirements and shortfalls and the expected
resource mobilization. Generally, there is no accounting distinction between revenue and capital items. This comes in the way of providing economic and accounting basis for the levy of user charges and also to improve the financial discipline of local bodies.

Provision and management of urban services is characterized by inadequacies, ineffectiveness, and unresponsiveness. The services systems and conditions are deteriorating and overstressed. The financial system is under strain due to poor tax administration, low cost recovery, and inadequate controls. City administration has lack of accountability and transparency and the frustration of citizens, especially the poor regarding deprivation of services.

**Urban Reforms and the Role of Private Sector**

GOI initiated various urban reforms towards enhancing the productivity of urban areas. The key objective of these reforms is to improve the quality of life of the urban population through improved access to basic services to be delivered through private public partnerships. Involvement of private sector requires major reassignment of responsibilities to different stakeholders - public, private, and the community, wherein public bodies would act as policy makers and regulators, private firms would bring new management systems and additional financial resources; private firms would also to provide capital and local knowledge; and Community Based Organizations (CBOs) would assist in community education and extending services to the poor. Significant reform initiatives for augmenting revenues of the ULBs were envisaged in the Report of the 11th Finance Commission. GOI started various programs to support reforms and critical needs - the Mega City and Integrated Development of Small and Medium Towns (IDSMT) Scheme emphasizing the provision of services and economic opportunities to the poor and intergovernmental partnerships to leverage funds from various sources. Other GOI programs are the recently started Good Urban Governance Campaign, the National Slum Development Policy, and the Ambedkar Housing Plan.

Some of the First Generation Urban Reforms planned for implementation include: (i) compliance with the 74th CAA, empowering the local governments to regulate and
manage major urban affairs with financial resources in line with the State and Central Finance Commissions, (ii) formulation of guidelines entitled 1996 Urban Development Plans Formulation and Implementation (UDPFI) Guidelines including innovative fiscal mobilization approaches, (iii) attraction of public/private investment for commercially viable urban infrastructure and development projects (capital investment and O&M of water supply, sanitation, and sewerage projects), through tax-free (five years tax holiday for all the income) municipal bonds, made available for the local bodies and development authorities, and (iii) facilitation of foreign direct investment (FDI) for providing urban services on a case-by-case basis. However, the FDI requires prior government approval and achievement of necessary guidelines/norms related to minimum capitalization, minimum land area, etc.

In 1996, additional reforms were initiated aiming at improving the financial autonomy and flexibility of the ULBs with focus on the rationalization of grants and subsidies, and encouraging a commercial approach to urban infrastructure development. Significant progress was made at the central Government level in encouraging more efficient urban service delivery. Some of the Second Generation Urban Reforms, which are under implementation included: (i) development of a regulatory framework to protect consumers, apply environmental standards and support the delivery to the poor through private sector participation in financing and the delivery of infrastructure at the municipal level; (ii) preparation of a model legislation for facilitating private sector participation in the development and maintenance of urban infrastructure; (iii) municipal accounting reforms through the conversion of existing single entry cash-based system into a double entry accrual based system; (iv) preparation of public-private participation guidelines at the national level for involvement of the private sector in the development of urban infrastructure; (v) removal of restrictions on the Foreign Direct Investment (FDI) in providing urban infrastructure facilities; (vi) programme approach for availing multiple sources of concessional external assistance to for urban infrastructure; (vii) encouraging the issue of tax-free municipal bonds for raising resources for urban infrastructure with tax exemption in case of bonds issued by Municipal / Local Governments; (viii) pooled financing initiatives for municipal infrastructure for bringing in financial discipline and enhanced credit rating to provide direct access to capital market - a state level pooled financing mechanism for smaller and medium sized ULBs municipalities; (ix)
citywide reforms and restructuring for efficient management of the cities and increase creditworthiness (to attract private finance) and enable them to prepare long term plans for infrastructure investments through access to a performance based City Challenge Fund for catalyzing city level economic reform programmes; and (x) establishment of Urban Academy, visualized as a center of excellence for dissemination of best practices in urban matters such as urban water supply, sanitation, urban transport, urban governance, municipal finance, etc. through training and capacity building initiatives. It is noteworthy that the new Economic Policy launched by the GOI during 1991-92, did see several important initiatives in the urban sector towards encouraging private sector participation in urban infrastructure projects. The supporting urban reform measures as proposed in the 10th FYP is further expected to reverse the declining standards of urban infrastructure in the country.

AN EVALUATION OF THE URBAN CONDITIONS

Urban Development Policies in the Five-Year Plans

Preplan era was replete with various inadequacies like large-scale urban-rural migration, high cost of materials after the world war, influx of refugees, etc. Resource allocation during the successive plan periods has been inadequate. The approach of the tenth plan to urban management revolves around the strengthening of the democratic structure with the assistance of the various agencies. Importance is placed on capacity building in the ULBs for greater accountability and sustainability. The following are the major thrust areas of the tenth plan:

- Extra effort to ensure that the capacities created in areas like, water and sanitation, transport systems and planned city development are strengthened.
- Public-private partnerships are to be introduced for improving efficiency and better service delivery.
- Restructuring of municipal entities for efficient management and capacity building in the public services through training both elected and appointed officials.
• Strengthening of the finances of the ULBs through smooth working of the State Finance Commissions, rationalization and improvement of the property taxation system and levy of user charges. Transfers to from state budget to be linked to performance of the ULBs.
• Commencement of broad-based urban sector reform measures to strengthen functional and financial autonomy of the ULBs. This will improve debt-servicing capabilities of ULBs for market borrowing for infrastructure investments.

Capacity Building

The complex issues of urban planning, development and management can be addressed only by strengthening the role and capacity of institutions of urban governance and management. The enlarged functions of municipal bodies call for high levels of professionalism and managerial skills and appropriate policies of personnel management and staffing. Some of the major issues are training linked to projects and programs, a network of national and international training institutions, public participation in urban programs, etc. Capacity building will have to be addressed both for the local bodies and other stakeholders of the urban hierarchy. The State Government should play a major role in this.

Reforms in urban management are leading to political, functional, fiscal empowerment and integrated and participatory planning. Political empowerment is insured through the continuity of elected body, establishment of ward/zonal committees and wider representation of women and weaker sections. Functional empowerment takes place through devolution of additional functions to urban local bodies. Fiscal empowerment covers rationalization of fiscal transfers, improved financial management and mobilization of additional resources. District Planning Committees and Metropolitan Planning Committees promote a bottom-up approach to planning by elected representatives. The second generation of urban reforms discussed above will build capacity in the medium and long term.

The study of the urban sector services gives a gloomy glimpse of the chaotic conditions the Indian urban population is experiencing. If left unattended the
conditions will further deteriorate and could lead to untold hardships. The government sector has not been in a position to plan, and execute efficiently to provide adequate facilities to the Indian urban population. The following are some of the major reasons that have contributed to this situation:

- There are large disparities in spatial patterns in the different states of the country. This should lead to development of small and medium towns.
- There are imbalances across the cities in the availability of infrastructure and civic services. There may be a need for a new industrial location policy for regional dispersal of industries.
- In the constitutional framework of India, urban development and housing are state responsibilities. The Central Government has a catalytic role. It formulates broad policies at the national level, frames legislation and provision of financial support through schemes, financial institutions and external assistance.
- The provision of infrastructure facilities and services lags behind the pace of urbanization. This leads to shortages and consequently has serious negative impacts on urban dwellers and their environment.
- Legal and administrative systems concerning urban planning, governance, and management have not kept pace with the developments and growths taking place.

The Tenth Plan document states that urban governance is characterized by fragmentation of responsibility, incomplete devolution of functions and funds to the elected bodies and ULBs, unwillingness to move towards municipal autonomy, reluctance to change local taxes and revenue generation through user charges. There is a lack of confidence on the part of the State governments regarding the capabilities of the ULBs and therefore are treated as subordinate entities. State Governments therefore need to strengthen the autonomous functioning of the ULBs through positive measures in functional autonomy and financial independence.

There is an urgent need to revisit the governance aspect. The municipal corporations are not empowered to and capable of providing adequate and quality services.
Urbanization being a state subject majority of the decisions needs to be evolved by the state governments. With the enactment of the Constitution (74th Amendment) Act, 1992, the state urbanization strategy may envisage important roles for private sector and for the elected bodies.

There is need to involve private sector to create cost-effective and efficient public-private-partnerships including contribution both in provision and delivery of services. Civic administration needs to accept that the private sector involvement would provide access to new technologies, external expertise and new sources of finance with better efficiency in service provision and delivery with sound regulatory roles vested with the ULBs. International experience has shown that the private sector participation would improve the performance of the public sector due to fear of competition and given the size of the urban sector, the secondary benefits may be considerable. Thus, the primary objective of the private sector involvement should be increased incentives for performance improvements and greater autonomy for management.

Since India comprises many small and medium urban settlements (less than 0.1 million population), which accounts for one-fourth of total urban population, the service provider may not show adequate interests and in such cases, there is a need to evolve an integrated strategy so that the facilities may be shared and which would in turn facilitate the service provider to realize the potential benefits. Further, the associated risks of private sector involvement in service provision and delivery in urban India is very high as right legal and regulatory framework is still under evolution.

The ULBs in India lack the required skills to manage urban growth, provide the services and maintain appropriate levels due to lack of finances, training and capacity building measures. Inappropriate management and accountability along with absence of policy for the competition within the organization is one of the prime factors for poor planning, implementation and management. This is largely due to the application of inappropriate management tools, inefficient work culture and lack of performance-based incentives. Thus, one of the institutional issues requiring immediate address is to update the existing project management techniques, incentive based competition
and systematic and foolproof accounting system among the staff of the organization to enhance the working capability. Other major institutional problem facing the urban sector is inadequate technical competence of the staff of the ULBs to undertake sector planning, implementation and management. The technical incompetence is due to lack of skills, training and experience among the staff of the ULBs to effectively manage the projects.

It is generally observed that the deployment of the staff in the ULBs are on ad-hoc basis and in many cases, most of the ULBs either overstaffed or understaffed, leading to inefficiencies. Thus, there is a need to evolve certain norms - based on population, quantity and quality of services expected, etc. There is also a need for maintaining a disciplined work environment within the ULBs. There is a need for the State Government to avoid frequent transfers and adopt transparent criteria for evaluating the performance of staff. Further, there is also a need for appropriate and periodical training in technical, managerial and financial discipline.

The municipalities need to transform from being providers to regulators and monitors of the services. Private sector needs to step in as the provider of urban services. How to do this is the challenge of this study. Private sector participation is relatively a new concept in the Indian municipal systems. It is important that lessons are learnt from the experiences of the privatization models practiced both outside and inside India. An attempt is made in the next chapter to assess the various privatization models experimented in various municipal systems for management and delivery of services.