IHS Project Paper Series

Project Paper No. UEM4
Power to the People: The Local Government Context

Times Research Foundation, India
Other papers that have appeared in this series


UEM 2. ‘Environmental Sanitation and Infrastructure: The Case of the Marginal Urban Areas of the Southern Cone of Lima’ by Silvia Meléndez Kohatsu, Víctor Carrasco Cortez and Ana Granados Soldevilla, Fovida, Peru, 1997

UEM 3. ‘Defence and Conservation of the Natural Swamp Area Pantanos de Villa, Lima’ by Arnold Millet Luna, Eduardo Calvo, Elsie Guerrero Bedoya and Manuel Glave; Serpar, Peru; 1997

UEM 4. ‘Power to the People: The Local Government Context’ by the Times Research Foundation; India, 1997

UEM 5. ‘NGOs/Civic Societies and Urban Environmental Advocacy’ by Development Associates; India, 1997


UEM 7. ‘An Approach to Pollution Prevention in Electroplating Sector’ by Development Alternatives; India, 1997


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UEM 11. ‘Carrying Capacity Based Regional Planning’ by the National Institute of Urban Affairs; India, 1997

UEM 12. ‘City-Wide “Best Practices” in Solid Waste Management in Collection, Transportation, and Disposal’ by HSMI/WMC of UIFW; India, 1997

UEM 13. ‘Environmental and Health Improvement in Jajmau Area, Kanpur: Lessons and Experiences for Wider Replication’ by Ministry of Environment and Forests; India, 1997


UEM 17. ‘Urban Agriculture in Community Gardens’ by Julio Prudencio Bühr; Bolivia, 1998

Times Research Foundation

Power to the People; The Local Government Context

David J. Edelman Editor
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Institute for Housing and Urban Development Studies
Rotterdam, The Netherlands
February 1997
Introduction to the Capacity Building for the Urban Environment Project

Focus and Outline of the Project

Capacity Building for the Urban Environment is a comparative research, training and experience exchange project that was launched in October 1994 with the support of the Dutch government. It provides an inventory and review of the experiences of relevant bilateral and multilateral organisations and of Best Practices in urban environmental management. For the countries of India, Peru and Bolivia, it identifies, communicates and extends the application of Best Practices in environmental management for cities. In May 1995, the project was expanded to include Senegal/West Africa with the support of the Swiss government.

The focus of the project is on learning from experiences in urban environmental management at the city level and on developing strategies for capacity building in order to replicate and scale up the best of these experiences elsewhere. The overall co-ordination of the project is the responsibility of the Institute for Housing and Urban Development Studies in Rotterdam, while co-ordination in the participating countries is the responsibility of the following partner organisations:

- Human Settlements Management Institute (HSMI), New Delhi, India;
- Instituto para la Democracia Local (IPADEL), Lima, Peru;
- Instituto de Desarrollo Urbano (CIUDAD), Lima, Peru (since January 1997);
- Centro de Servicios para el Desarrollo Urbano (PROA), La Paz, Bolivia, and
- Institut Africain de Gestion Urbaine, (IAGU), Dakar, Senegal.

Project Activities

Support to cities in the form of applied research and development activities in the area of urban environmental management has been, and continues to be, provided by the co-ordinating partner organisations through the following set of activities:

Research

Within the applied research programme undertaken in the project, Best Practices in urban environmental management in Bolivia, India, Peru and, to some extent, Senegal were identified, and their lessons and experiences reviewed. An analysis and review of the identified Best Practices then took place involving a large number of individual research groups and professionals. In a process of on-going monitoring and review, guidance and support were provided by IHS and its partner organisations. The results of both the individual studies of Best Practices and their review are being published in several books and papers in both English and Spanish. These and their publication dates are listed in the Introduction to the Project Papers, which follows this note.

Networking

In identifying the research priorities of the project, during the conduct of the research studies, and throughout the review of research findings, a structure was developed and utilised to ensure the participation of all interested and concerned individuals and institutions through a consultative process. Expert group meetings and consultative seminars were organised for this purpose.
Capacity Building Strategies

After the Best Practices research, analysis and review were completed for all countries, outline capacity building strategies were developed for each based on what was learned from these local experiences and practices. These strategies were developed through a broad-based consultation process involving a large number of research institutions, individual professionals and academics, city representatives, NGOs and local representatives. They are currently being modified based on the outcome and findings of Habitat II, which was held in Istanbul in June 1996, and the emphasis has now shifted to applying a number of Best Practices to selected cities.

Best Practices Documentation

Concurrent to and co-ordinated with this project, IHS served as the secretariat of and contributed to the review of the Best Practices that were submitted to the United Nations Centre for Human Settlements (UNCHS) for the Global Best Practice Initiative for Improving the Living Environment in preparation for Habitat II. HSMI, PROA, IAGU and IPADEL were also involved and contributed to the national preparatory processes that took place in their own countries. An overview of the Best Practice submissions to UNCHS, as well as summaries of the additional case studies received by IHS, are being made available on the Internet through the IHS Home Page.

Databases

Two databases are also under preparation: an institutional database and a literature database. The institutional database is being developed in co-operation with the International Institute for Environment and Development (IIED) in London. It contains entries on relevant organisations, some of which are documented in extensive profiles, while others are included as shorter reference information entries. IHS is developing the second database, which provides references in the literature on experiences with urban environmental management.

Rotterdam Seminar

The Rotterdam Seminar, which took place in May 1996 during the two weeks preceding Habitat II, brought together all principal researchers, as well as city representatives and other professionals involved in the project for a period of intensive discussions. The seminar resulted in a document that provided a comparative analysis of practices and experiences in the field of urban environmental management. This analysis included the project process and network building, governance, job creation and poverty alleviation and gender. This was published as a book in February 1997 and is listed later in the Introduction to the Project Papers.

The Rotterdam seminar also discussed city-level capacity building strategies for the cities of Calcutta, India; Ilo, Peru; Santa Cruz, Bolivia and Dakar, Senegal. Experiences in urban environmental management were reviewed for the cities of Tilburg, The Netherlands and Nairobi, Kenya.

Habitat II

At Habitat II the project was presented in the Special Meeting on Implementing the Urban Environment, organised by UNEP and UNCHS, as well as in other fora.
Capacity Building Strategies for Peru, Bolivia, India and Senegal

The outline capacity building strategies which were developed in preparation for Habitat II (i.e., by CIUDAD, PROA, HSMI and IAGU with the support of IHS). They are being modified for implementation, which is expected to begin late in 1997.

Outline Training Program for Local Officials, CBO Workers, and other Partners for Peru, Bolivia and India

These training materials are to be developed over the next few months and will comprise curricula for short courses related to the most directly applicable Best Practices identified for each country in view of its national strategy for capacity building in urban environmental management.

The Development of a Medium-Term Capacity Building Strategy for Senegal and West Africa

This activity is in progress and addresses the building of individual and institutional capacities at the local level for urban environmental management in both Senegal and throughout West Africa.

Ed Frank, Project Manager
Rotterdam, February 1997
Introduction to the Capacity Building for the Urban Environment Project Papers

A number of publications have appeared under the Capacity Building for the Urban Environment project. These are listed below and can be ordered from IHS or its partner organisations respectively:

- *Capacity Building for the Urban Environment*, edited by David J. Edelman and Harry Mengers, summarises the research findings of the project and the conclusions of the Rotterdam Seminar. It was published by the Institute for Housing and Urban Development Studies (IHS) in Rotterdam in February 1997;

- *Urban Environmental Management: The Indian Experience*, edited by B.N. Singh, Shipa Maitra and Rajiv Sharma, reviews the Indian experience in urban environmental management and presents all the Indian Best Practice of the project in detail. It was published by the Human Settlements Management Institute (HSMI) and (IHS) in New Delhi in May 1996;

- *Problems and Issues in Urban Environmental Management: Experiences of Ten Best Practices*, also edited by B.N. Singh, Shipa Maitra and Rajiv Sharma reports on the Indian Best Practices of the project in an abridged form. It was published by HSMI and IHS in New Delhi in May 1996, and


The objective of this series of *Project Papers*, then, is to bring to an English speaking audience the results of tile project research in Peru and Bolivia appearing in the Miranda book. In addition, the Indian research, while documented in English in the second and fourth references listed above, has not appeared as complete, individual studies. Consequently, a selection of these will also be selected for this series. Finally, the first reference in the above list covers aspects of the research undertaken in all four countries of the project. Consequently tile selection of work appearing in the *Project Papers* includes the following:

**Bolivia**

- 'Urban and Environmental Reality Workshops' by Zoila Acebey;
- 'Urban Agriculture in Community Gardens' by Julio Prudencio Böhrt, and

**Peru**

- 'Defence and Conservation of the Natural Swamp Area Pantanos de Villa, Lima' by Arnold Millet Luna, Eduardo Calvo, Elsie Guerrero Bedoya and Manuel Glave;
- 'Consultation in Urban Environmental Management: The Case of Ilo' by José Luis López Folleygatti, Walter Melgar Paz and Doris Balvin Díaz;
- 'Promotion of Employment, Health and the Environment, Lima' by César Zela Fierro and Cecilia Castro Nureña
‘Environmental Sanitation and Infrastructure: The Case of the Marginal Urban Areas of the Southern Cone of Lima’ by Silvia Meléndez Kohatsu, Víctor Carrasco Cortez and Ana Granados Soldevilla, and
‘Inter-institutional Consultation and Urban Environmental Management in San Marcos Cajamarca’ by Marina Irigoyen and Russeles Machuca.

India

‘Power to the People: The Local Government Context’ by the Times Research Foundation;
‘Carrying Capacity Based Regional Planning’ by the National Institute of Urban Affairs;
‘NGOs/Civic Societies and Urban Environmental Advocacy’ by Development Associates;
‘Integrated Low-Cost Sanitation: Indian Experience’ by Sulabh International Institute of Technical Research and Training;
‘City-Wide “Best Practices” in Solid Waste Management in Collection, Transportation and Disposal’ by HSMI/WMC of UIFW;
‘Environmental and Health Improvement in Jajmau Area, Kanpur: Lessons and Experiences for Wider Replication’ by Ministry of Environment and Forests;
‘An Approach to Pollution Prevention in Electroplating Sector’ by Development Alternatives;
‘Integrated Study on Wetlands Conservation and Urban Growth: A Case of Calcutta’s Wetlands’ by Institute of Wetlands Management and Ecological Design;
‘Sustainable Urban Development: A Case of Navi Mumbai (New Bombay)’ by City & Industrial Development Corporation;
‘Community Based Sanitation and Environmental Improvement Programme: Experiences of Indore, Baroda and Ahmedabad’ by Shri Himanshu Parikh, and
‘Institutional and Development Framework for Urban Environmental Management in India’ by HSMI.

It should be emphasised here that the nineteen Project Papers in this series reflect the views of their authors only and have been edited to varying degrees. Initial English language editing was done by, among others, B.N. Singh, S. Maitra and R. Sharma for India and by D.J. Edelman for Peru and Bolivia. In fairness to both the authors and the publishers, they should, therefore, be characterised as working papers rather than full academic papers.

David J. Edelman, Series Editor
Rotterdam, February 1997
Power to the People: The Local Government Context

Times Research Foundation, India
Introduction

India is gradually becoming more and more urbanised, and according to the 1991 Census, about 26.13 percent of the population lives in urban areas. With the rapid expansion in urban growth, its management is increasingly becoming a challenge. Where there is unplanned urban growth, the environment of the cities and towns is most significantly affected. The poor drainage, inadequate sewage disposal, growing slum areas, increasing industrial pollution and solid waste management problems create major environmental hazards lowering the quality of life in these cities and towns. To cope with these growing demands and with the urban explosion, urban bodies (municipalities), as well as concerned departments, find themselves constrained in terms of resources and manpower. Many a time, even with sufficient resources, the planning and implementation of programmes become target oriented without taking into consideration the needs of the people. This overall situation leads to apathy and indifference, not only from the municipal corporation, but also from the residents of the city or town.

In this deadlock situation, the role of NGOs and civic societies becomes important to identify the issues of concern and to organise people to affect the centres of power for designing programmes and policies in their favour. NGOs, in such cases, represent the interests of the most affected and the oppressed. Advocacy, therefore, in the context of the urban environment becomes imperative and relevant.

There are several examples of effective and successful advocacy where a group of people or organisations have made institutionalised and sustained efforts to bring about changes in projects and policies. This study undertakes detailed research on urban environmental advocacy within the context of NGOs and civil society in India.
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TABLES
1. Power to the People: The Local Government Context

1.1 The Framework for Analysis: Its Several Dimensions

This research study on Democratic Decentralisation of Local Governments in India examines several issues involved within the following contexts:

(1) Capacity building for sustainable human settlements at the local level;
(2) Habitat II concerns;
(3) Decentralisation and its various manifestations;
(4) The initiative for spreading local democracy in India;
(5) Promotion of people-centred environmentalism;
(6) Gender awareness, and
(7) Preparing for transition - the HRD agenda.

Since the principal focus of this study is on the epoch-making reform in the Indian Constitution whereby local governments in India, both rural and urban, have been accorded Constitutional status, the various provisions of the Constitution (Seventy-fourth Amendment) Act, 1992 relating to municipalities and their impact on governance and urban environment management which, in turn, would influence the quality of life in the urban centres of India, have been examined.
2. Sustainable Human Settlements

2.1 From Vancouver and Rio to Istanbul

While the June 1976 Habitat I Conference in Vancouver concerned itself mostly with issues related to housing, and the Earth Summit at Rio in 1992 was devoted to ecosystems and consideration of the risks of global environmental deterioration, the Habitat II City Summit at Istanbul dealt with several cross-sectoral issues including, among others, governance, environment management, shelter provision, transport, communication and poverty alleviation, through gender-sensitive eyes.

2.2 Governance: The Key Issue

This study, however, aims to present the thesis that among the several initiatives with possible impacts on sustainable human settlements, governance through responsive and responsible local governments provides the common denominator for reforms in all other areas which may have an impact on the quality of life in human settlements, urban and rural alike.

2.3 People-Oriented Environmentalism

Environmentally speaking, this study emphasises the fact that, in today's context, the sphere of urban development extends beyond the supply of urban infrastructure which conventionally includes water supply, housing, transport, etc. The study further points out that investment in infrastructure development alone has not, and does not, make a sustainable city.

The study stresses that sustainable cities require the management of urban environment and an understanding of the linkages among infrastructure, productivity, poverty and environmental health.

2.4 Gender Awareness

A gender perspective was also among the concerns of Habitat II. This is so because a gender friendly environment can provide the components a household needs to ensure an optimum level of living.

The definition of optimum obviously differs in each society, but there are some universally accepted components which are recognised as basic human needs: food, shelter, clean water and air, safety, education and economic security.

Since, to a large extent, the responsibilities for family needs continue to fall on women, the study points out that a gender friendly environment means a women friendly environment.
2.5 Replicability

Actually, the fact that the Government of India chose to amend the Indian Constitution itself shows that this may be among the best examples anywhere in the world for any reform initiative related to sustainable human settlements. This initiative, for sure, aims to strengthen and spread local democracy, to ensure local fiscal autonomy and lays appropriate emphasis on decentralisation of local government functions having due regard for the new imperatives for urban environmental management. This will become obvious from the analysis which follows.
3. The Habitat II Concerns

3.1 Michael Cohen on the Challenge of Istanbul

However, to begin with, it is important to take a global view of the urgent concerns which dominated the City Summit agenda.

In this regard, no better statement can be made beyond what has been recently documented by Michael Cohen of The World Bank. After examining the legacy of Vancouver, Cohen summarised the changed global context thus:

"In contrast to the relative stability of the 1970s, the past 20 years have witnessed momentous change. Predominantly rural countries have experienced rapid and sustained urban growth whereby large cities have continued to expand their populations and territories and secondary cities and towns have mushroomed. Economically, the 1980s were a decade of debt and adjustment in Latin America and Africa resulting in lowered expectations for the future. In contrast, East Asian economies prospered at unprecedented rates. Politically, the developing countries of Africa and Asia have gone through their first generation of post-independence political leadership, and Latin America has shed its military dictatorships for democratic regimes.

At the end of the 1980s, the Berlin Wall was torn down and the Soviet Union collapsed, leading to the birth of new European and Asian states that are now facing the challenge of economic transition and the construction of market economies. By 1992, the world's leaders had been alerted to the risks of global environmental deterioration at the Rio Summit and their citizens were mobilised at the local, provincial, and national levels to address these issues."

Regarding the challenge of Istanbul, Cohen observed that:

"Within this context of economic and political change, the challenge of Habitat II is to convince the world's political leaders of the importance of urban issues in achieving global and national development objectives. Appreciation of the role of cities must go beyond ministries of housing to reach presidents, prime ministers, and ministers of finance to assert the need for effective public policies and resources to be mobilised to address the urban agenda. Habitat II must bring together the two definitions of the word "habitat": at Vancouver in 1976, it referred to human settlements i.e., people in cities, and in Rio 1992 "habitat" referred to ecosystems. The Istanbul conference must integrate these two different discourses and concerns: people and natural resources."

Cohen's views regarding the four new imperatives, then, were:

1. The economic performance of cities will determine the economic prospects of nations. If urban areas already account for at least 50 percent of GDP in all countries - up to 75 percent in Latin America and more in industrialised Europe and North America - it is evident that efficient cities are critical to generating economic growth required for future prosperity.

2. Urban economic performance and environmental quality are mutually interdependent. If urban air, water and land are degraded, it will be impossible for people to remain healthy and productive over time. There is a need to affirm "the human face of the
3. The reduction of poverty will be impossible without generating jobs and incomes in urban areas. This applies to both absolute poverty - decrease of incomes and calories below acceptable thresholds - as well as relative poverty and increasing inequality.

4. The crisis of governance in most countries can only be resolved through wider local participation at the urban and community level. The process of political decentralisation, already advanced in some countries, must continue and transform the current weak governance of cities into more accountable and transparent processes of administration and participation.

This study, then, aims to demonstrate as to how the Indian initiative in democratic decentralisation has addressed the various concerns highlighted by Cohen.
4. Alternative Forms of Decentralisation

4.1 Classic Typology

D. Rodinelli distinguishes between four different types of decentralisation, all of which represent some form of transfer of power from higher to lower levels of government. A distinction is made because they have different characteristics and different policy implications. The four types are:

1. Political decentralisation;
2. Spatial decentralisation;
3. Administrative decentralisation, and
4. Privatisation and market decentralisation.

According to him, administrative decentralisation, in turn, has three forms, namely, deconcentration, delegation and devolution.

On the various typologies of decentralisation, Rodinelli has the following to say:

*Political decentralisation* gives more political power for decision-making to citizens or their elected representatives and is usually associated with representative government, citizen participation and democratisation.

*Spatial decentralisation* is a process of diffusing urban population and economic activities geographically among settlements of different sizes. It aims to build the capacity of public and private organisations in secondary cities and towns to raise their own revenues to acquire the services, facilities and productive activities needed for economic development.

*Administrative decentralisation* implies the transfer of responsibility for planning, management and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities or non-governmental/private or voluntary organisations.

*Deconcentration*, the weakest form of decentralisation, is the redistribution of decision-making authority and financial and management responsibility for providing urban services and infrastructure among different levels within the central government.

*Delegation* implies that central ministries transfer responsibility for decision-making and administration to semi-autonomous organisations not wholly controlled by the central government, but ultimately accountable to it.

*Devolution* transfers responsibility for services to municipalities that elect their own mayors and councils, raise their own revenue and have independent authority to make investment decisions.

*Privatisation and market decentralisation* is the process of creating conditions in which goods and services are provided by market mechanisms primarily through the revealed preferences of individuals.
In the current Indian context, political decentralisation and devolution form a part of the scheme of the Constitutional reforms, while spatial decentralisation and market decentralisation are implied.

4.2 Evaluation of Decentralisation Policies

For the purpose of policy analysis, Rodinelli has proposed a framework involving six steps for evaluation of decentralisation policies and identified a variety of criteria to determine the degree to which decentralisation contributes to achieve political objectives, increases administrative effectiveness, promotes economic and managerial efficiency, promotes greater financial self-reliance among local groups and organisations, increases government and private sector responsibility to the diverse needs and demands of the urban population and contributes to the productivity and efficiency of the urban economy.

The political, economic and social dimensions of decentralisation policies need to be evaluated within these contexts, and this has been attempted here in relation to the Indian initiative.

4.3 International Experience

Bill Dillinger points out that political decentralisation is a widespread phenomenon. Out of the 75 developing and transitional countries with populations over 5 million, all but twelve claim to have transferred some political power to local units of government. The form and extent of decentralisation, however, varies.

In parts of Africa, for example, national governments are creating local political entities in territories that were formerly solely under the administration of central government. In Eastern Europe, what were formerly local administrative units of central government have been transformed into separate political entities, with leadership chosen by local election rather than by appointment through the party structure. In Latin America, similarly, decentralisation has meant a shift from centrally appointed mayors to mayors chosen by election.


In Asia, in the words of President Corazon C. Aquino of the Philippines, "...the approval of the Local Government Code of 1991 marks the high point in our effort to strengthen democracy and attain a sustainable development. The new law lays down the policies that seek to institutionalised democracy at the local level."

The Declaration of Policy under Section 2 and the Operative Principles of Decentralisation under Section 3 clearly enunciate the basic principles underlying the 1991 Code:

Section 2. Declaration of Policy 5
(a) It is hereby declared the policy of the State that the territorial and political subdivisions of the State shall enjoy genuine and meaningful local autonomy to enable them to attain their fullest development as self-reliant communities and make them more effective partners in the attainment of national goals. Toward this end, the State shall provide for a more responsive and accountable local government structure instituted through a system of decentralisation whereby local government units shall be
given more powers, authority, responsibilities and resources. The process of decentralisation shall proceed from the national government to the local government units.

(b) It is also the policy of the State to ensure the accountability of local government units through the institution of effective mechanisms of recall, initiative and referendum.

(c) It is likewise the policy of the State to require all national agencies and offices to conduct periodic consultations with appropriate local government units, non-governmental and people’s organisations and other concerned sectors of the community before any project or program is implemented in their respective jurisdictions.

Section 3. Operative Principles of Decentralisation 5 - The formulation and implementation of policies and measures on local autonomy shall be guided by the following operative principles:

(a) There shall be an effective allocation among the different local government units of their respective powers, functions, responsibilities and resources;

(b) There shall be established in every local government unit an accountable, efficient, and dynamic organisational structure and operating mechanism that will meet the priority needs and service requirements of its communities;

(c) Subject to civil service law, rules and regulations, local officials and employees paid wholly or mainly from local funds shall be appointed or removed, according to merit and fitness, by the appropriate appointing authority;

(d) The vesting of duty, responsibility and accountability in local government units shall be accompanied with provision for reasonably adequate resources to discharge their powers and effectively carry out their functions; hence, they shall have the power to create and broaden their own sources of revenue and the right to a just share in national taxes and an equitable share in the proceeds of the utilisation and development of the national wealth within their respective areas;

(e) Provinces with respect to component cities and municipalities, and cities and municipalities with respect to component barangays; shall ensure that the acts of their component units are within the scope of their prescribed powers and functions;

(f) Local government units may group themselves, consolidate or co-ordinate their efforts, services and resources for purposes commonly beneficial to them;

(g) The capabilities of local government units, especially the municipalities and barangays, shall be enhanced by providing them with opportunities to participate actively in the implementation of national programs and projects;

(h) There shall be a continuing mechanism to enhance local autonomy not only by legislative enabling acts but also by administrative and organisational reforms;

(i) Local government units shall share with the national government the responsibilities in the management and maintenance of ecological balance within their territorial jurisdiction, subject to the provisions of this Code and national policies;

(j) Effective mechanism for ensuring the accountability of local government units to their respective constituents shall be strengthened in order to upgrade continually the quality of local leadership;

(k) The realisation of local autonomy shall be facilitated through improved coordination of national government policies and programs and extension of adequate technical and material assistance to less developed and deserving local government units;

(l) The participation of the private sector in local governance, particularly in the
delivery of basic services, shall be encouraged to ensure the viability of local autonomy as an alternative strategy for sustainable development, and

(m) The national government shall ensure that decentralisation contributes to the continuing improvement of the performance of local government units and the quality of community life.

Provisions of sub-clause (i) of Section 3 are noteworthy for a clear-cut statement regarding the roles and responsibilities of local governments and national government for management and maintenance of ecological balance within the territorial jurisdictions.
5. Local Agenda 21 and The Local Government Nexus

5.1 The Lisbon Protocol

On May 1, 1995, the Secretary-General of Habitat II, Dr. Wally N'Dow, officially handed over signed copies of what has become known as the Lisbon Protocol to the representatives of international associations of local authorities, committing them to undertake major roles in national level preparations for Habitat II, in the deliberations at the City Summit, and in the follow-up of the Habitat II Conference.

This protocol was inspired by a call from Dr. Boutros Boutros-Ghali, the former Secretary General of the United Nations, at the first Preparatory Committee meeting, held in Geneva, when he stated:

"Because so many of the problems and solutions being addressed by Agenda 21 have their roots in local activities, the participation and co-operation of local authorities will be a determining factor in fulfilling its objective. Local authorities construct, operate and maintain economic, social and environmental infrastructure, oversee planning processes, establish local environmental policies and regulations and assist in implementing national and subnational environmental policies. As the level of governance closest to the people, they play a vital role in education, mobilising and responding to the public to promote sustainable development."

Dr. N'Dow called the local authorities the real captains of human settlements and a sine qua non for Habitat II.

5.2 The Constitutional Reform of Local Governments in India

The fact that much before the preparations for Habitat II commenced, in India, a bold initiative had already been undertaken to strengthen local governments, both rural and urban, demonstrates the foresight of the Indian Government to meet the challenges of Habitat II.

The Indian initiative relating to municipalities reached a climax on June 1, 1993, when the Constitution (Seventy-fourth Amendment) Act, 1992 came into force. This Act accorded Constitutional status to municipal governments in India.

For the sake of the historical record, it is noted here that the first initiative for democratic decentralisation of local governments in India was taken in August 1989 by the late Prime Minister Rajiv Gandhi who was committed to vest power in the only place where power rightfully belongs in a democracy, that is, in the hands of the people.

The major objectives which the 74th Constitution Amendment Act has aimed to achieve are as follows:

1. A political context, whereby municipalities shall be constituted on the basis of predefined criteria for municipalisation and not merely on political considerations.

Also, whereby duly elected governments, with due representation of the weaker sections from among the Scheduled Castes, the Scheduled Tribes and the backward classes shall be installed at the helm of civic affairs, and state
government’s control shall be limited, with specified powers for dissolution, and the condition that no elected body shall be superseded for any period more than six months;

(2) The empowerment of women, whereby one third of the seats in any municipality, including those of the offices of mayors, shall be reserved for women;

(3) New perspective for the functional domain of the municipalities as suggested in the Twelfth Schedule;

(4) Emphasis on strengthening local fiscal autonomy, whereby upon the recommendations of state finance commissions which would be Constitutional authorities, principles shall be enunciated for tax assignments, sharing of taxes and grants-in-aid;

(5) Emphasis on urban environmental management in addition to urban management;

(6) The precondition that people’s representatives would have a full say in all planning matters, and

(7) A new focus on development planning as against land use planning which shall also aim to integrate the rural and urban development plans in any district or metropolitan area.

For further decentralisation of urban functions, the Amendment Act also provides that the state legislature may, by law, make provisions for constituting ward committees in the territorial area of any municipality having a population of three hundred thousand or more.

It also provides that the legislature may, by law, endow the municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and to perform such functions as may be specified in the law.

5.3 Conformity Legislation

In view of a requirement under the 74th Constitution Amendment Act, the state governments in India passed the conformity legislation by May 31, 1994, to ensure that the provisions of the existing municipal laws in the respective states were not in opposition to the Constitutional provisions.
6. Spreading Local Democracy in India: The Political Context

6.1 Its Various Dimensions

Specification of the territorial jurisdictions of municipalities based on newly defined criteria for municipalisation, and in cities with population of three hundred thousand or more, constitution of ward committees involving the people's representatives, installation of representative local governments at the helm of civic affairs, reservation of seats for women besides the other identified groups from among the weaker sections, regularity of elections, limited control by state governments and specified powers for dissolution are among the salient features of the Constitution (Seventy-fourth Amendment) Act, 1992 in so far as political decentralisation is concerned.

6.2 The Municipal Areas

6.2.1 Territorial Jurisdictions of Municipalities

In a departure from the erstwhile practices whereby municipalities used to be constituted without reference to any specified criteria, and, in many cases, these used to be constituted mostly on political considerations, the amended Constitution requires that municipal areas shall be declared with regard to the population of the area, the density of population therein, the revenue generated for local administration, the percentage of employment in non-agricultural activities, the economic importance or such other factors as may be specified by the state government by public notification for this purpose.

This arrangement, in a way, relates to spatial decentralisation of the urban areas in any state. In this regard, it is to be noted that according to the 1991 Census, there were 3,592 urban local bodies in India, of which 55 were municipal corporations and 1,290 were designated as municipalities. Another 253 were governed by municipal boards and 213 were listed as municipal committees. In addition, there were several other types of local bodies such as city municipal committees, town municipal committees, town panchayats, notified area committees and cantonment boards. Table 1.1 presents data relating to the same.

According to the present scheme of things, there are some states which have only one type of urban local body, while there are others which have two, three and even four types of such bodies. Table 1.2 presents the data on population ranges for the various types of urban local bodies.
It may be noted that under the new Constitutional provisions, delimitation exercises for classification of the existing municipalities into the proposed three types will have to be conducted with due regard to the existence of numerous local bodies of various types. This may involve fixing new boundaries for the existing local bodies and redrawing of the municipal maps in India with attendant political implications.

It may be noted that until and unless very careful provisions are made in municipal laws, many industrial areas in the country may remain beyond municipal boundaries, depriving the municipalities of major revenue sources, while they may have to cater to the commuter population therefrom.

The point needs to be emphasised that preparatory administrative work is absolutely essential before the legislative intentions on the criteria for municipalisation are conceived.

6.3 Metropolitan Areas

Besides delimiting "larger urban areas", "smaller urban areas" and "transitional areas", for which municipal corporations, municipal councils and nagar panchayats, respectively, will be constituted, it will be necessary to delimit, for the first time, "metropolitan areas".

A "metropolitan area" means an area having a population of one million or more. It may fall entirely within the limits of one district, or parts of it may fall within the limits of one district, or parts of it may fall within the limits of more than one (contiguous) district. It may consist of two or more municipalities or panchayats or other contiguous areas. An area which fulfils the aforesaid criteria should be constituted as a "metropolitan area" has been left to be specified by the governor by public notification.

Obviously, the intention is to recognise the fact that a larger geographical area comprising two or more municipalities or panchayats, which requires co-ordinated spatial planning owing to the existing common social characteristics and economic linkages and integrated development of infrastructure, including sharing of physical and natural resources such as rivers, sub-soil water, etc., should be formally constituted as a single integrated unit for socio-economic planning.

Normally, a "metropolitan area" will be an area which will have as its nerve centres two or more "larger urban areas"/"smaller urban areas," together with their contiguous hinterland comprising panchayats. All of these taken together can be considered to be integrated with one another by discernible socio-economic and infrastructure linkages and mutually sustaining relationships.

6.4 Constitution and Government

6.4.1 Composition of Municipalities

The amended Constitution, provides that all the seats in a municipality shall be filled by persons chosen by direct election from the territorial constituencies in the municipal area, and for this purpose each municipal area shall be divided into territorial constituencies to be known as "wards."
6.5 Municipal Authorities

The fact that the political power shall henceforth vest with the people's representatives and not with the municipal bureaucracy is dealt with in the Constitution as follows:

Subject to the provisions of this Constitution, the legislature of state may, by law, endow -

(a) The municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provision for the devolution of powers and responsibilities upon municipalities, subject to such conditions as may be specified therein, with respect to -

(i) The preparation of plans for economic development and social justice and
(ii) The performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule.

(b) The committees with such powers and authority as may be necessary to enable them to carry out the responsibilities conferred upon them including those in relation to the matters listed in the Twelfth Schedule.

Though the Constitution is silent on the question of appointment of a political executive, the intention is clear that the members shall be vested with powers and authority for democratic functioning. In some states, the proposed municipal authorities would include the corporation or the council, the standing committee and the mayor.

A comparative analysis of the present situation based on the provisions of the Bombay Municipal Corporation Act, 1888; the Bombay Provincial Municipal Corporation Act, 1949; the Karnataka Municipal Corporations Act, 1976; and the Calcutta Municipal Corporation Act, 1980, shows that except for Calcutta, the Mayor is not designated among the municipal authorities, whereas under the Bombay, Karnataka and Hyderabad Municipal Corporation Acts, the municipal commissioners, i.e., the municipal authorities besides the corporations and the standing committees (see Table 1.3).

The 1980 Calcutta Act is unique in the country inasmuch as it provides for a full-time political executive consisting of elected members in the style of a mayor-in-council. Under this Act, the corporation, the mayor-in-council and the mayor constitute the municipal authorities; and the municipal commissioner, though endowed with several statutory and regulatory powers, is not a municipal authority. The Act provides that the executive power of the corporation shall vest in the mayor-in-council.

6.6 Ward Committees

There is a mandatory provision for the constitution of ward committees in municipalities having a population of three hundred thousand or more. The Article also empowers the legislature of a state to make, by law, provisions with respect to -

(1) The composition and territorial area of a ward committee, and
(2) The manner in which the seats in the ward committee shall be filled.
It also states that a member of a municipality representing a ward within the territorial area of the wards committee shall be a member of that committee.

This is an example of administrative decentralisation through devolution of municipal functions to a field level committee.

6.7 Term of Office and Elections

The amended Constitution provides that unless dissolved earlier under any law that is, for the time being, still in force, every municipality shall continue for five years from the date of its first meeting and no longer. It also provides that a municipality shall be given a reasonable opportunity of being heard before dissolution.

This further provides that an election to constitute a municipality shall be completed before the expiration of its term of office or before the expiration of a period of six months from the date of its dissolution.

6.8 State Election Commission

The amended Constitution, provides that the superintendence, direction and control of the preparation of electoral rolls for, and the conduct of, all elections to the municipalities shall be vested in the state election commission, which shall be common both to the panchayats and the municipalities.

6.9 Direction and Control

Although there are no Constitutional provisions relating to the role of the state government in matters of direction and control, the following powers are generally incorporated in the municipal laws for this purpose. They are:

(1) To require production of documents;
(2) To depute any of its officers to inspect or examine any department, office, service, work or property of a municipality;
(3) To annul any proceeding or resolution or order of a municipality on the following grounds, within fifteen days of the receipt thereof, after giving the municipality an opportunity of being heard -
   (a) That it is in excess of the power conferred by the Act or the rules made thereunder, or against any direction of the government; or
   (b) That it is likely to cause waste or damage to property of the municipality; or
   (c) That it is likely to lead to a breach of peace or encourage lawlessness by causing injury or annoyance to any class of persons, and
(4) To issue directions and policy guidelines not inconsistent with the provisions of the Act as it may consider necessary.

From the above, it is clear that adequate provisions have been made for empowerment of the people's representatives for managing the civic affairs and limiting the interventions by the State Governments to the minimum degree possible.
7. Empowerment of Women

7.1 Moving Towards a Gendered City

In preparation for the Fourth World Conference on Women, at Beijing, Catalina Hinchey Trujillo, Co-ordinator of the Women in Human Settlements Development Programme at UNCHS, has opined as follows:

"A gender-sensitive approach to human settlement development would take into account the different activities, roles, access to and control over resources of men and women, in varying national and local contexts, at particular points in time. This approach helps to ensure that targeting is appropriate to the needs of men and women respectively and facilitates the active involvement of women and men in the development process. While making interventions more effective and efficient, this approach can promote equity between men and women by promoting equal benefits from development."

Regarding empowerment of women, she observed that:

"There is a tendency among men, and some women, to feel threatened by the use of expressions such as the 'empowerment of women'. The fear seems to be that empowering women means giving them control over others (men). Implicit are two assumptions: first, that power equals control and second, that power is finite and, therefore, if there is more power for women there will be less power for men. Both these assumptions are questionable."

She concludes that power can be conceived differently, i.e., increasing personal power to act effectively, but not at the expense or control of others.

7.2 Reservations for Women under the 74th Amendment Act

Due to the national policy for assigning equal status to women, besides the reservations for Scheduled Castes, Scheduled Tribes and backward classes, the amended Constitution, makes elaborate provisions for reservation of seats for women in municipalities.

It is believed that by including women in the power hierarchy of the elected local governments in India, step one has been taken to ensure that women can play their rightful roles in the development process. While it is too early to assess the impact of this bold initiative, it can be easily conjectured that local government is one area where participation by women would make an important difference as the government at this level deals mostly with quality of life issues, an area which is most relevant to women's role in any society.
8. Municipal Functions and Their Financial Implications

8.1 The Constitutional Provisions

It is well known that both in a federal set up and in a unitary state where local government is formally subordinate to central government, the national constitution determine the functional jurisdictions of the various levels of government. At times, local bodies are also entrusted with functional responsibilities through state level executive decisions.

Under the Constitution of India, the legislative field is divided between the central and state governments, and there are three legislative lists. The entries in the three legislative lists delimit the areas of legislative competence of Parliament and the state legislatures. Entries in the legislative lists are not sources of legislative power but are merely topics for legislation.

Unlike the functional jurisdictions of the states which follow a constitutional delimitation, the functional domain of local bodies in India, including municipal governments, is derived from the responsibilities which are delegated by the states to the municipalities through legislation. It is for the legislature of a state to decide as to which powers and authority it may devolve on a municipality.

The newly inserted Twelfth Schedule in the Constitution lists the following functions:

1. Urban planning including town planning;
2. Regulation of land use and construction of buildings;
3. Planning for economic and social development;
4. Provision of roads and bridges;
5. Provision for water supply for domestic, industrial and commercial purposes;
6. Responsibility for public health, sanitation, conservancy and solid waste management;
7. Maintenance of fire services;
8. Urban forestry, protection of the environment and promotion of ecological aspects;
9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded;
10. Slum improvement and upgrading;
11. Urban poverty alleviation;
12. Provision of urban amenities and facilities such as parks, gardens, playgrounds;
13. Promotion of cultural, educational and aesthetic aspects;
14. Responsibility for burials and burial grounds; cremations, cremation grounds and electric crematoriums;
15. Maintenance of cattle pounds; prevention of cruelty to animals;
16. Compilation of vital statistics including registration of births and deaths;
(17) Provision of public amenities including street lighting, parking lots, bus stops and public conveniences, and
(18) Regulation of slaughter houses and tanneries.

The matters listed in the Twelfth Schedule and the corresponding entries in List II and List III in the Seventh Schedule to the Constitution are mentioned in Table 1.4.

Incidentally, traffic engineering and traffic infrastructure development are not mentioned in the Twelfth Schedule, even though traffic management has emerged as an urgent concern in Indian cities.

8.2 The Existing Scenario

Most of the existing municipal laws in India cover the functional domain of municipalities in terms of obligatory and discretionary functions.

8.3 The Institutional Arrangements

It should also be pointed out that presently different institutional arrangements exist for performance of urban functions, including those for supply of central and local public goods and services. There are some functions, including water supply, sewerage and drainage, solid waste management, sanitation, road maintenance, street lighting, maintenance of public parks and libraries, public health, etc., which are traditionally performed by the municipalities. There are some functions which are of a concurrent nature and are performed both by state governments and municipal bodies. For some functions, state governments have created parastatal agencies, and in the case of some functions which, strictly speaking, fall within the functional domain of higher levels of government, the municipalities have been assigned the roles. Such functions are hereinafter referred to as agency functions.

8.4 Functional Assignments to Municipalities

Even though the proposed functions of the local bodies are not mandatory, in the conformity legislation in the States of Andhra Pradesh, Bihar, Gujarat, Haryana, Karnataka, Maharashtra, Orissa, Punjab and Rajasthan, initiatives have been taken for making marginal amendments in the lists of municipal functions specified in the municipal laws in these states. However, much more needs to be done in this regard, particularly, in relation to establishing the functional linkages between poverty, productivity, infrastructure and urban environment.

8.5 Assignments to Parastatal Agencies

At times, certain functions are transferred to public corporations, particularly if these have a commercial bias. Issues of affordability of the resultant services by the urban poor and the hesitant measures of governments to underwrite the needed subsidies often plague the economic operations of such corporations. Cross-subsidies have to be managed by such bodies themselves.
Of late, there is great emphasis on private sector participation in the delivery of urban services. This, however, is conditioned by the profit motives of the private enterprises. Even in this case, the question of the access of the services to the urban poor would merit consideration.

For the performance of certain functions, there may be nation-wide or state-wide economies of scale which local governments cannot realize, and national, state or regional level agencies must then intervene. In such cases, considerations of political expediency often influence what is otherwise technically feasible and economically viable.

### 8.6 Agency Functions

In addition, there are some functions which fall in the category of agency functions and are best performed by the lower levels of government on behalf of the others. In this regard, it has been argued that it is convenient for some national functions to be administered locally under the auspices of elected local representatives. In some cases, when national policy issues are of paramount importance, central government may control a service considerably, but in its administration, still wish to involve elected members who are more responsive to local views. Primary education and poverty alleviation programmes are examples.

Failures of central or state governments to underwrite the costs for providing such agency services often mar, not only the delivery of such services, but the delivery of others as well which are effected by sharing of scarce local resources.

### 8.7 The Issues Arising

Speaking strictly in terms of allocation of functions to various levels of government or types of organisations, the central issues beyond who does what, pertain to:

1. The multiplicity of organisations being involved in the delivery of the same service;
2. The less than the needed levels of co-ordination, and
3. The manner in which financing is done.

To be efficient, distribution of functions at various levels, obviously, cannot be divorced from such considerations.

### 8.8 Devolution of Functions: Some New Considerations

In India, any number of studies on municipal finances reveal the mismatch between the expenditure responsibility and revenue authority of the municipalities. This may be due to the fact that in the assignment of the obligatory and discretionary functions in the erstwhile municipal laws in India, some of which were framed more than a century ago, economic principles were never taken into account. The result is that despite huge deficits, there are municipalities which run medical colleges even though this function is not strictly within the domain of any local government. It also needs to be appreciated that even now a beginning cannot be made on a clean slate.

In any financial arrangement, it should also be noted that both the revenue account and capital account needs would have to be kept in view.
8.9 **New Categories of Municipal Functions**

The various functions which a municipality, at any chosen level, may have to perform may be classified in terms of the following categories:

1. Essential municipal functions or core functions;
2. Environment management functions;
3. Planning functions, and
4. Other functions.

The paragraphs hereinafter deal with the characteristics of the various categories of functions.

8.10 **Essential Municipal Functions**

For the selection of essential municipal functions, of the 18 items listed in the amended Constitution, and with due regard to the existing provisions in the municipal laws in various states, a question has been posed at various fora, including the meetings of state finance commissions, whether the following may be considered as essential municipal functions:

1. Regulation of land use and construction of buildings;
2. Provision of roads and bridges;
3. Provision of water supply for domestic, industrial and commercial purposes;
4. Maintenance of public health, sanitation, conservancy and solid waste management;
5. Provision of urban amenities and facilities such as parks, gardens, playgrounds;
6. Maintenance of burials and burial grounds; cremations, cremation grounds and electric crematoriums;
7. Provision of cattle pounds; prevention of cruelty to animals;
8. Accumulation of vital statistics, including registration of births and deaths;
9. Provision of public amenities including street lighting, parking lots, bus stops and public conveniences, and
10. Regulation of slaughter houses and tanneries.

A municipality, as is well known, functions both as a government and as a utility organisation. The question is posed, therefore, whether the above mentioned functions relating to statutory and regulatory controls, on the one hand, and to provision of civic services, on the other, may be easily seen to fall within the functional domain of the municipalities.
8.11 Environmental Management Functions

In the case of urban forestry, protection of the environment and promotion of ecological aspects, the issues would have to be resolved in two contexts. Firstly, with regard to the role of the existing state environmental agencies, it is important to determine what roles should be assigned to the municipalities. Secondly, it is necessary to consider what should be the differentiation in the roles assigned to the different levels of municipality, i.e., the municipal corporation, the municipal council and the nagar panchayats. Both the "organisational" and "fiscal" strengths of the relevant levels of municipal body would have to be kept in view in any analysis of the subject.

8.12 Planning Functions

Regarding planning functions, it must be noted that the 74th Constitution Amendment Act envisages a much larger concept for planning than what is covered under the conventional Town and Country Planning Acts in the states. The specifications relating to preparation of plans for economic development and social justice, urban planning including town planning, slum improvement and upgrading, safeguarding the interests of weaker sections of society, including the handicapped and the mentally retarded, and urban poverty alleviation have elevated the planning concept to the level of development planning rather than land use planning only. The question here is whether municipalities, which at any level are mostly involved in fire fighting operations on a day-to-day basis, can handle such elaborate planning functions.

The existence of professionally managed planning and development authorities would also have to be kept in view while delineating the responsibilities for planning functions between the municipalities and such authorities, as would the role of the people's representatives in policy matters related to planning.

8.13 Other Functions

Of the remaining functions, namely, the provision of fire services and promotion of cultural, educational and aesthetic aspects, depending upon the policies and traditions of a particular state, these could be among the agency functions to be performed locally, while their costs are underwritten by higher levels of government. Alternatively, these may be considered as municipal functions.

8.14 Financial Implications of Functional Assignments

Policy level analysis of the issues pertaining to functional assignments of municipalities and the financial implications thereof have become urgent in view of several considerations:

1. The demand and supply of municipal services;
2. Institutional issues and alternative approaches for service delivery;
3. Expenditure norms regarding technology options and levels of services;
4. Territorial issues;
(5) Regional and national roles of local government;
(6) The interventions of state government;
(7) The revenue capacity and the revenue efforts of municipalities;
(8) The financial management capacity of municipalities;
(9) Commitments of national and state governments, and
(10) The issues of accountability.

8.15 Demand and Supply of Municipal Services

In this regard, it is noteworthy that:

(1) Due to demographic pressures, on the one hand, and (marginally) improving living standards, on the other, the demands for urban services are steadily increasing. Paradoxically, however, due to resource constraints, deficits in available urban infrastructure are also increasing day by day;

(2) The effectiveness of urban service delivery is further hampered by inadequate management expertise consistent with the complexities of the diverse operations. The low salaries and prestige of local government employees also act as a constraint for attracting personnel with the appropriate skills;

(3) There is inequitable distribution of the available services among the different segments of the population, and the poorer sections, which comprise nearly half of the total in most cities, hardly benefit;

(4) The prevalence of large populations in any city at or below the median income level militates against raising demands even where services are provided;

(5) New capital projects for the extension of services to unserviced areas and uncovered population groups have low priority since ever larger proportions of available resources go into current expenditures to meet the maintenance costs of existing services. These keep mounting due to inflationary pressures, and

(6) Resource requirements have not been matched by increased public revenues, not only because of the limited economic bases of most of the cities, but because there often exists a fundamental imbalance between the revenue authority and the expenditure responsibility assigned in municipal laws for supplying urban public services.

8.16 Institutional Issues and Alternative Approaches for Service Delivery

Regarding institutional issues and the alternative approaches for service delivery, central and state governments have responded to the imbalances between revenue authority and expenditure responsibility by creating autonomous agencies at the national, state, regional or local levels. This has led to numerous adverse consequences, namely:

(1) The construction of urban infrastructure and its operation and maintenance are generally the responsibilities of different levels of governments or different agencies, the roles of which are neither clearly defined nor institutionally co-ordinated;

(2) The responsibility for urban infrastructure investments are diffused among many government agencies. This ad hoc division of functions works poorly;

(3) The physical co-ordination of investments of various state agencies and local
governments poses difficulties;

(4) Higher level investment decisions are made without regard to the capacity or willingness of local governments to maintain the assets so created;

(5) The local inability to maintain the state built infrastructure results in its premature deterioration;

(6) Local failures in recovering investment costs require increasing outlays of state and central finances, and

(7) Investment decisions are made outside local government, and, therefore, political accountability becomes greatly diffused.

Also, by assigning commercially viable functions to public sector corporations or the private sector, another issue arises as to how municipalities should be compensated for the supply of services to the urban poor; in other words, who should subsidise such services. It may well be considered whether state governments should have the responsibility for underwriting all the subsidy costs.

8.17 Expenditure Norms, Technology Options and Levels of Services

Various committees and agencies, including the Central Public Health and Environmental Engineering Organisation, the Zakaria Committee on Augmentation of Financial Resources of Urban Local Bodies, the Town and Country Planning Organisation and the Planning Commission, have been concerned about issues related to expenditure norms, technology options and the affordable levels of services, at least for the core municipal functions.

The state finance commissions constituted under the 74th Constitution Amendment Act are presently examining the relevant factors based on a consideration of the fiscal capacity of local bodies and users, the topography and geology of the settlements concerned, the history of infrastructure development, population size and other economic and political factors.

Financial requirements, even for minimum levels of service, both on the capital and O&M accounts, are enormous and need scrutiny by the state and municipality. New initiatives are required for mobilising the required resources.

The central issue, however, revolves around cost recovery, at least, from those who have the capacity to pay. Among other considerations, political will at all levels is necessary if any breakthrough is to be achieved.

8.18 Territorial Issues

An issue of a different nature confronts several municipalities which acquired this status purely on political grounds without regard to the economic viability of the action. The issue, therefore, is whether states should remedy such situations by amalgamating such municipalities with other financially viable ones or resort to demunicipalisation, which has political ramifications.

Another issue of territorial character is the exclusion of the urbanising fringes of municipal areas for long periods of time irrespective of the fact that the human settlements in such fringes often draw heavily upon municipal services without paying for them. The issue is who should pay for such services and whether the state governments should consider underwriting the costs involved through transfers.
An issue, which will assume critical dimensions with the implementation of the provisions of Article 243Q relating to exclusion of "industrial townships" from municipal areas, is how and by whom the municipal functions for servicing such areas will be provided. This article makes no provisions for specification of the terms and conditions under which the industrial townships may be excluded from any municipal area. Moreover, since these areas will no longer be within municipal boundaries, the issue remains as to how the powers of taxation and performance of statutory and regulatory functions, such as the sanctioning of building plans, will be exercised and how their costs will be recovered.

8.19 Regional and National Roles

By commissioning megacities projects in a number of metropolitan cities, the Government of India has indirectly recognised the fact that several cities, in addition to their strictly local roles, also play regional and national roles. The point to be noted here is that while metropolitan cities undoubtedly play larger regional and national roles, even small towns can do so. The issue, therefore, revolves around the financing of the special requirements of towns and cities for playing roles which are not strictly local, such as provision of link roads to a nearby port in the case of a mining town catering to exports.

8.20 State Government Interventions

A question also needs to be raised about the interference of state governments in matters related to the functional domain of the municipalities beyond what has been enacted by state legislatures. Even under existing municipal laws, there are any number of examples of state government intervention which are not consistent with the basic spirit of the Constitution (Seventy-fourth Amendment) Act, 1992.

8.21 Revenue Capacity and Revenue Efforts

In the matters of revenue capacity and revenue efforts, the following considerations prevail:

(1) In the present scheme of things, local governments are saddled with the weakest revenue instruments, yields from which do not grow in line with increasing population or incomes;

(2) Borrowing from external sources has not been possible to the degree desired due to a general capital shortage, the lack of developed capital markets and the poor debt servicing capacity of local governments;

(3) The grants-in-aid and transfer mechanisms adopted in response to such situations have not worked well due to the ad hoc nature of allocations and to volatile and uncertain support, and

(4) Despite all the above factors, analysis has often not been done to establish whether it is the local government revenue capacity or its revenue effort which constitutes the real limiting factor.
8.22 Financial Management

Regarding financial management, the important considerations are:

(1) Even in crisis management situations, the bias more often has been towards resource mobilisation and less towards efficient management of existing resources;

(2) Effective fiscal management is handicapped by a number of technical, institutional and political issues, including:
   (a) The use of inordinately high and often unaffordable standards for the services provided;
   (b) Reliance on imported technologies which are not in tune with the locally available operational and maintenance skills, and
   (c) Over-staffing, mostly due to political considerations.

(3) Poor financial practices also affect fiscal planning and management as is illustrated below:
   (a) The cost implications of long-term physical development plans are rarely worked out to provide a basis for projecting capital and current account expenditures resulting from the implementation of the physical plans;
   (b) Annual municipal budgets frequently neglect to account fully for planned capital spending;
   (c) Local accounting procedures are complicated by cumbersome, incomplete, and delayed budgeting and financial reporting;
   (d) The failure to monitor effectively cash flows leads to unrealistic revenue projections and expenditure commitments;
   (e) Since local governments frequently encounter serious cash flow problems, they find themselves operating without sufficient operational capital and, therefore, often have to make ad hoc and costly adjustments in expenditure programs or resort to using loan funds to finance recurrent expenditures;
   (f) The lack of competent and independent auditors further hampers the maintenance of reliable accounts, and
   (g) The imbalance between expenditure responsibility and revenue authority by itself induces questionable financial practices.

8.23 National and State Level Commitments

As regards commitments of central and state governments, aside from the management maladies at the local government level, the root of many urban fiscal problems is be found in the way local government matters and questions of urban finance are handled at the national or state levels. For one thing, the urban sector enjoys only residual claims in national budgets. In addition, more often than not, state authorities in the discharge of their supervisory, control and restraint functions inhibit local initiatives designed to grapple with the urban finance impasse.
8.24 Accountability

Another important issue relates to the diffusion of political and administrative accountability under the existing arrangements. In this connection, the amended Constitution specifies whether the functions assigned to the municipalities shall be categorised as "obligatory" or "discretionary" functions.

It has been further argued that specification of obligatory duties in any municipality may imply that:

(1) The municipality shall make adequate or reasonable provisions from its own funds for the performance or discharge of these obligatory duties, and
(2) The municipality shall itself perform or discharge these obligatory duties entirely on its own, i.e., departmentally.

The question is whether the present opportunity should not be utilised to define precisely those matters related to the functional domain of governments at the three levels in the law so that these are based on well-conceived principles and policies. In this regard, the courts have interpreted a provision in a municipal law casting, on the one hand, an "obligatory duty" on a municipality confers, on the other hand, a "right" on citizens to demand that the municipality shall necessarily perform that duty and allocate and spend out of its funds an adequate amount for the performance and discharge of such an obligatory duty.

An incidental issue which may be raised here is that, essentially being a unit of democratically elected local self-government, should a municipality not have the inherent power or discretion to decide the inter se priority of the various duties cast upon it, and should it also not decide whether or not and to what extent funds may be provided out of the resources at its disposal for the performance of a particular duty.

It has been argued that the term "self-government" will lose its true meaning if a similar power or discretion is denied to a municipality to decide the inter se priority amongst various duties cast upon it, and, whether or not to allocate funds, and, if so, to what extent, for the performance of any particular duty. It should be pointed out that the central and state governments do have such an inherent power. Furthermore, there are no laws laying down the "obligatory" and "discretionary" duties of governments at the central and the state levels.

Another issue in this regard is whether, devoid of any binding as may be specified by a state legislature, the municipalities may, due to populist tendencies, overlook or underplay their roles with regard to the provision of essential municipal services and prefer organising, say, musical extravaganzas to solid waste management. Each state government would have to consider this aspect with due regard to the history and experience in the state and ensure political accountability.

8.25 Summing Up

Against the backdrop of such paradoxical situations, it is imperative that policy interventions duly supported by legislative reforms are urgently considered and speedily adopted, keeping in view that the current urbanisation trends cannot be reversed and the emerging problems must be tackled forthwith, lest they reach unmanageable dimensions.
9. Ensuring Local Fiscal Autonomy and Roles of State Finance Commissions

9.1 Inter-governmental Fiscal Relations: The Various Contexts

To be relevant, inter-governmental fiscal relations between state governments and municipalities in India must be examined in the following contexts:

(1) The existing constitutional and legal frameworks;
(2) The current functional and territorial jurisdictions of the various levels of local government;
(3) The devolution of powers for resource mobilisation at various levels of government;
(4) The fiscal transfer mechanisms between various levels of government and the institutional context thereof, and
(5) The powers and policies for controls as exercised by the higher levels of government.

One basic issue is whether the allocation of financial powers and responsibilities is consistent with the territorial and functional jurisdictions and responsibilities as per the existing constitutional and legal framework. In other words, the question is whether for any given level of government, there is a mismatch between expenditure responsibility and revenue authority. If the logic of the politically popular concept of local autonomy is extended to local fiscal autonomy as well, the separation of taxation and resource mobilisation powers should be such that local governments should be able to generate enough resources, both for their recurrent and developmental needs.

The question remains as to whether state governments genuinely wish to reduce the financial dependence of local bodies, and, if so, what fiscal instruments they are willing to share.

Given the observed centralisation of tax powers and decentralisation of expenditure responsibilities, it is, however, necessary to identify some new fiscal equations. To the extent that limitations exist in the municipal fiscal base and higher levels of governments consider it inadvisable to part with any major productive tax instruments for exploitation by local bodies, arrangements for fiscal transfers from higher levels of government become unavoidable to support municipal budgets.

9.2 Grants by State Governments

From the study of available information, it is noted that grants by state governments to municipalities are not based on any specific principle. Mostly, grants are distributed on an ad hoc basis as is obvious from the following:

(1) In Maharashtra, the list of grants includes a dearness allowance grant, an entertainment tax grant, land revenue and non-agricultural assessment tax grants, a vehicle tax grant, a pilgrim tax grant, a stamp duty grant, a minor mineral grant, a road grant and a profession tax grant;

(2) In Karnataka, there are grants in lieu of the profession tax, octroi and under the Karnataka Entertainment Tax Act, 1958 and the Karnataka Motor Vehicles Act, 1957;
(3) In Andhra Pradesh, grants-in-aid include proceeds from an entertainment tax, a surcharge on the stamp duty and compensation under the profession tax, and

(4) In Punjab, no grant-in-aid is given by the state government to the municipalities to meet any revenue deficit.

However, since 1991-92, grants-in-aid to urban local bodies are routed through the district planning boards for specific development projects. The amount of grant in any year depends on the state government’s resource position. There are no predetermined criteria, although, generally, efforts are made to provide the maximum possible funds for the development schemes of municipalities.

The practice of the state government advancing loans to municipalities in Punjab has been abandoned, and municipalities have to arrange institutional finance for which state government guarantees are available for approved schemes.

In addition, funds are released to all states for centrally sponsored schemes such as the Nehru Rojgar Yojana, Urban Basic Services for the Poor and Intensive Development of Small and Medium Towns and the Scheme of Environmental Improvement of Urban Slums.

9.3 Constitution of State Finance Commissions

The Constitution (Seventy-fourth Amendment) Act, 1992, provides for the setting up of a state finance commission in each state which is common to both panchayats and municipalities. The commissions review the financial positions of panchayats and municipalities and make recommendations as to the principles which should govern:

(1) The distribution between the state and its municipalities of the net proceeds of taxes, duties, tolls and fees levied by the state, which may be divided between them, and the allocation among the municipalities at all levels of their respective shares of such proceeds;

(2) The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the municipalities, and

(3) The grants-in-aid to municipalities from the Consolidated Fund of the State.

9.4 Roles of State Finance Commissions

Just as in centre-state fiscal relations, in state-municipal relations, the lower levels of governments should also not be required to depend on the whims of the higher levels of government for their financial needs. Whatever they get must come to them through either constitutional rights, through the dictates of the legislatures or on the basis of clear-cut policies which, in the light of possible internal revenues, should match expenditure responsibilities with appropriate fiscal transfers. Such transfers would, undoubtedly, include the assigned revenues and shared taxes, capital and revenue grants and development finance.

The other important considerations are that:

(1) Fiscal policies should clearly identify and specify the taxes and other receipts which would be assigned for the urban sector and which would constitute the divisible pool;

(2) The devolution of funds should be systematic and predictable from the point of view of the recipients;
Simultaneously, the distributional aspects should also be clearly specified, and the gap filling approach adopted should be protected to ensure that the more efficient are not penalised at the cost of others whose efforts may lag far behind their capacities for self-help;

In these distributional approaches, equalisation slants should also not have outright sway over the areas which contribute more to the divisible pools. The needy elements can, however, be protected through safety nets;

Careful assessments are unavoidable to identify the needs for capital grants which can make some essential but expensive infrastructure schemes affordable, and

Revenue grants also have a role to play inasmuch as there may be gaps even after local resources have been fully exploited. Revenue grants may also be essential to match the maintenance responsibilities for new investments.

9.5 Towards a National Consensus of State Finance Commissions

Since their inception, the state finance commissions have met on four occasions in order to develop a national consensus on various issues. The broad conclusions arrived at the last meeting, which was held at New Delhi, on November 3-4, 1995, were as follows:

(1) Regarding the functional domain of the municipalities, the broad consensus was on the same lines as discussed under the marginal titles on essential municipal functions, environment management functions and planning functions;

It was also proposed that a list of agency functions be identified. Such functions may be performed by local bodies, but their costs should be totally underwritten by the state governments;

These agency functions could include: the protection of the environment and the promotion of ecological aspects; safeguarding the interests of weaker sections of society, including the handicapped and the mentally retarded; urban poverty alleviation; promotion of cultural, educational and aesthetic aspects; primary education and primary health care;

(2) Regarding principles for municipal tax assignments, it was proposed that:

(a) Local taxes should be linked to the economic base, immobile factors of production and property;

(b) Benefit taxes and user charges should be used as extensively as possible;

(c) The tax base should be easily identifiable and buoyant;

(d) The tax yield should be stable and predictable over time and should not be susceptible to cyclical fluctuations;

(e) Taxes should be perceived to be reasonably fair by the taxpayers, and

(f) Taxes should be easy to administer and their incidence should be transparent;

(3) The following taxes were considered for assignment to municipalities:

(a) Property tax;

(b) Vacant land tax;

(c) Profession tax;

(d) Entertainment tax, and
(e) Advertisement tax;

(4) It was suggested that shared taxes may include the following:
    (a) Motor vehicle tax;
    (b) stamp duty, and
    (c) In the case of non-octroi states, share in sales taxes;

(5) Regarding grants, based on the premise that these should be kept to the minimum, it was proposed that:
    (a) Per capita health grants should meet primary health costs based on state level standards;
    (b) Per capita education grants should meet primary education expenditures based on predetermined state norms, and
    (c) Slum upgrading grants should on a per capita basis;

(6) To take care of fiscal disparities between municipalities on various accounts, it was proposed that a municipal equalisation fund be set up, and

(7) It was also suggested that a municipal development fund be set up for financing the capital requirements of remunerative projects or projects with a potential for cost recovery.

Based on the above mentioned proposals, it was left to each state finance commission to consider and decide the options which would suit its own requirements. The question, however, remains as to how far the state finance commissions would succeed in responding to the genuine aspirations of the local bodies in India.

In this context, a reference to the Constituent Assembly debates relating to the setting up of the Central Finance Commission, made in the Report of the Expert Committee on Financial Provisions of Union Constitution is relevant:

"The problem before us is how to transfer from the centre to the provinces, sufficient amount which, while not placing too great a strain on the centre, would provide adequate resources for the inauguration of useful schemes of welfare and development by the provinces. While the centre, on its present basis, may not be in a position to part with substantial sums, we feel that with the resolution of its temporary difficulties and improvement in its tax administration, together with levy and collection of taxes evaded in the past, it can with no serious risk to its own budget, part with sizeable sums every year.....

We have already referred to the need for provinces having clear priorities as between contending demands for money and have no doubt that the provinces in the earlier years utilised the additional resources now placed at their disposal by concentrating on schemes that would add to the productive capacity of the country and consequently the income of the people and thus enable the provinces to embark on future schemes of reform and development."

The case of state-municipality fiscal relationships cannot be much different.
9.6 Implementation of Recommendations of Finance Commission

Lastly, a point should be made regarding the acceptance and implementation of the recommendations of the state finance commissions by the state governments. In this respect, due regard should be given to the recommendations of the Expert Committee referred to above, which emphasise the binding nature of the recommendations of a finance commission and its role as an arbitrator.

The Government of India has established a healthy tradition in accepting the finance commission reports, more or less in toto, and the state governments would do well to follow in its footsteps.
10. Municipal Finance

The amended Constitution provides that the legislature of a state may, by law:

(1) Authorise a municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;

(2) Assign to a municipality such taxes, duties, tolls and fees levied and collected by the state government for such purposes and subject to such conditions and limits;

(3) provide for making such grants-in-aid to the municipalities from the Consolidated Fund of the State, and

(4) Provide for the constitution of such funds for crediting all moneys received, respectively, by or on behalf of the municipalities, and also for the withdrawal of such moneys therefrom, as may be specified in law.

10.1 Revenue Structure of Local Governments

Local governments depend upon three local sources and two external sources for their revenue requirements. These are:

(1) Locally raised taxes;

(2) User charges;

(3) Other non-tax revenues from performance of statutory and regulatory functions and from commercial ventures;

(4) Borrowing, and

(5) Transfers from higher levels of government, including shared taxes and grants-in-aid.

The proper mix of the internal and external revenues and division thereof can be determined only in city specific situations, keeping in view the Constitutional and legislative provisions, the political and socio-economic environments, local attitudes and local traditions in matters of the allocation of financial responsibilities and the institutional set up for mobilisation of the resources.
10.2 The Urban Context of Taxation

Besides the economic objectives that they serve, taxes play an important role in financing the activities of various levels of governments, particularly state and local governments, which, unlike national governments, do not have unlimited powers to borrow from central banks and must rely on taxation and other sources of finance.

For any country, at any given time, the existing constitutional and legislative arrangements determine the tax jurisdictions and limitations as far as the various levels of government are concerned. Any unsatisfactory arrangements can only be corrected through constitutional or legislative reforms, whichever the case may be.

Viewed from the municipal context, the basic problem lies in the pre-emption of the more buoyant and cost-effective tax instruments by higher levels of government, with the result that local governments have to rely on less productive and coslier to administer taxes.

The taxes which can be identified for having been exploited for the purpose of local governments, irrespective of the levels at which these are administered, can be classified into the following categories:

1. Land-based taxes including taxes on government properties;
2. Taxes related to services;
3. Taxes on entry or exit of passengers, goods or services;
4. Taxes on business, professions and entertainment;
5. Taxes with a registration bias, and

The practice of ‘piggybacking’ local taxes on national or state taxes appears to exist in some developing countries. This is a form of shared taxation in which surcharges are placed on national or state taxes. The advantages are that a portion of the local revenue gets linked to the more buoyant tax sources; and, of course, there are substantial savings in the administration of such taxes.

10.3 Choice of Tax Instruments

In determining the taxation domains of various levels of government and considering the theory of fiscal federalism, the first task revolves around the choice of tax instruments which any municipality might exploit. As is well known, the tax instruments so chosen will have to meet the criteria of equity, elasticity and cost effectiveness. Another important consideration would be to ensure regular incomes as in the case of octroi.

In this regard, it is essential that both the land-based and non-land-based tax instruments are considered. In the Indian context, the property tax and service taxes (which are mostly levied on the same base as the property tax) have continued to enjoy a dominant place. Since there are on and off political pressures for abolition of octroi, it is all the more urgent that the scope of exploitation of other non-land based-taxes is fully explored.

In the case of non-land-based taxes, namely, taxes on professions, trades, callings and employment, taxes related to motorised vehicles, advertisement taxes, entertainment taxes and
environmental taxes, analysis needs to be made of the appropriate level of government at which these may be levied. In this connection, an urgent concern in the larger municipal areas has been to ensure some levies on the daytime populations, that is, the commuters. The question is whether the professions, trades, callings and employment tax can be exclusively assigned to the municipalities to provide a buoyant source of revenue to recover the costs of services provided to commuters. If not, other tax instruments which can help satisfy this objective need to be considered.

In this regard, it is noteworthy that due to the enhancement of the limits under Article 276 of the Constitution, the potential for this tax has improved substantially. Besides, this instrument has a direct correlation with economic activities which are strictly of a local nature.

Correlated with the principle that exploitation of civic infrastructure and sub-soils in municipal areas requires a corresponding tax or fee burden is the issue of whether all or any of the automobile related taxes, such as taxes on motor vehicles, taxes on petroleum products, water charges for consumption of water for washing motor vehicles (a new levy introduced in Calcutta), or a street tax (a new levy in Bombay) may be included within the taxing jurisdiction of municipalities.

Another issue for consideration is to identify the tax instruments for which the powers for levy and collection of taxes may be assigned to the state governments but the proceeds of which would be fully assigned to municipalities (perhaps on a differential basis in relation to the proposed 3 tiers of municipality, namely, municipal corporation, municipal council and nagar panchayat. The fire tax and the environmental tax may also be considered in this category.

Also to be considered are those tax instruments which could be exploited by state governments, part of the proceeds of which could be retained by the state governments, and part of which would be shared with the municipalities and nagar panchayats. The 'piggy back' taxes, if any, would surely belong to this category.

10.4 Optimum Exploitation of Tax Instruments

The basic problems with regard to achieving the fullest possible exploitation of the chosen tax instruments are:

1. The lack of local autonomy;
2. The multiplicity of taxing agencies;
3. The technical problems associated with the taxation system itself and its assessment procedures;
4. Popular resistance due to some irritants in tax administration;
5. The cost effectiveness of tax instruments;
6. Incompetent and inadequate taxation machinery, and
7. Collection of less than the billed amounts.

As to the lack of local autonomy, a reference can be made to the property tax itself, which is among the most potent local tax instruments.

It has been observed that in most municipal laws in India, tax rates, assessment procedures and institutional arrangements for assessment are all determined by higher levels of government, usually on the basis of standards which apply to all local authorities governed by the respective states. In addition, there are instances, of different levels of government levying different taxes
on the same base, such as Calcutta Municipal Corporation's levy of property tax, the state government's levy of land tax and multi-storey building tax and the central government taxes on income, wealth and estate duty, all on the same property.

In terms of the technical problems associated with assessment procedures, the best example is the property tax itself when the rent based rateable valuation system is handicapped due to numerous built-in defects, such as ceilings on property valuations due to rent control laws, obsolescence of properties, long term tenancies, etc.

Problems of another nature can be cited for inadequate property tax burdens on the non-residential assesses, who, undoubtedly, place proportionately much larger burdens on civic services, but for which there is no quid pro quo by way of user charges.

Administration cost is an important consideration in evaluating tax instruments. There is evidence in some cases of the collection costs consuming 30 to 40 per cent of the yields of some of the local taxes. Any tax with an administration cost exceeding 5 to 10 per cent of the total collected does not pass the test of cost-effectiveness.

Another problem in the field of tax administration relates to the fact that, with the possible exception of property taxes and octroi, most of the other taxes, though collected from urban areas, are not clearly earmarked for the urban sector. The result is that there is no vested interest for enhancing their yields, since there is an uncertainty as to who would be the beneficiaries. Unfortunately, this is not done even in the context of shared taxes, which may be collected by national or state governments and assigned to local governments, either partially or fully. In many cases, it is not even known which are the assigned taxes.

For effective tax management, Lethbridge, Linn and Whitehead have suggested that various tax instruments employed in any city should be fully evaluated, both in comparative and specific terms. There is wide scope for tax reforms in several areas such as:

1. Choice of tax instruments;
2. Their assignment to various levels of government;
3. Basic concepts of taxation, namely, tax base, tax incidence and liability thereof, rate structures, assessment procedures, taxation of privileged assesses, etc.;
4. The structure of tax administration and its administrative practices, and
5. The management ethos behind the entire system.

Such evaluations are unavoidable if the focus of the proposed policies and reforms is to be sharpened.

### 10.5 The Case for Property Tax Reforms in India

As is well known, the property tax, in addition to octroi wherever it is levied, is the mainstay of municipal finance in India. However, various studies have established the fact that the property tax is not being exploited to its full potential. This is due to several factors, namely, a defective rent-based valuation system, inequitable rate structures, lavish exemptions and the absence of tax mapping. These issues are examined below.
10.6 The Basis for Determining Annual Values

At present, the property tax in India is levied in terms of the rent-based valuation system. As to the tax base, recent judgements of the Supreme Court, whereby the civic authorities are required to assess annual values for the levy of property tax on the basis of fair rents as determined under the relevant Rent Control Acts, irrespective of whether a fair rent has been determined by a rent control court or not, have given a major jolt to the revenue aspirations of the local bodies in India.

The cumulative effects of the shortcomings of the tax base and the administration of the rent-based system have been inequitable distribution of the tax burdens between individual assessees (old versus new tenants in the same premises, different apartments in the same buildings, some on the same floors, all for identical uses), old and new construction (for identical uses, in the same vicinity), and between assessees in different geographic areas in the city (high priced inner city areas versus newly developed areas and urbanising fringes). When viewed in terms of the levels of civic services in different areas, this effect becomes all the more pronounced with the highly serviced inner city areas getting away with lower tax burdens whereas the inadequately serviced fringes attract higher taxes.

The most startling aspect is that the more affluent sections and the non-residential sector, with a much larger capacity to pay, have succeeded in exploiting, through corrupt practices or otherwise, the weaknesses of the present system so that it would not be wrong to surmise that in many situations, the poorer sections of population and low profile areas subsidise the wealthier sections of the population and the affluent neighbourhoods.

Leaving aside the near term reforms for improving the administrative efficiency of the rent-based rateable valuation system, two approaches have been advocated for meaningful long-term reforms. According to the first approach, the remedy lies in reforms in rent control laws so that fair rents determined under the same are more realistic in the current context. The other approach advocates delinking the property tax from the rental value concept and imposing taxes based on determinable unit area annual values and area measurements taking into consideration location, structural characteristics, age of building, building characteristics, use characteristics and access to civic services.


The Zones/Sub-zones and the rates for various Circles/Divisions, as finalised after initial notification and the hearing of objections, have also been published.

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The reforms in the Delhi Rent Control Act, whereby new properties and properties rented for Rs.3,500 or more per month will no longer be subject to rent control, do not help in boosting civic revenues since the bulk of the old high priced, inner city properties would continue to be assessed at very low rateable values based on fair rents fixed long ago; i.e., these properties would still be covered by the rent control laws.
Features of a new system designed by R.M. Kapoor and P.K. Ghosh have been highlighted in a paper entitled "Composite Area Linked System for Property Tax Reform in India". Ghosh has prepared model draft legislation based on this system and has also examined its constitutional validity. The basic concerns which led to the design of this system are:

1. Whether the reform proposals can overlook the critical needs to ensure that the high priced inner city areas are adequately taxed, the new entrants in the housing market are reasonably taxed and the distortions due to unequal tax burdens on equally placed assesses (such as a disproportionate tax burden for the addition of two rooms in any existing residential premises) are removed;

2. Whether the use of discretionary powers could be limited to groups rather than individuals, which will enable a systems approach for management of corrupt practices;

3. Whether, at the policy level, the municipalities may consider how the entire tax burden in any municipal area is to be apportioned among the residential and non-residential assesses, which is not possible under the present system, and

4. Whether the savings in premise-wise assessments can be overlooked, which would result due to a change over to the area-based system where the unit area values of land and buildings would be determined by a municipal valuation committee, and self assessment would be possible.

The constitutional and legal validity of this system having been examined by the Union Law Ministry, and it awaits a field trial before it can be universally adopted.

10.7 Institutional Arrangements

The point to be considered here is whether quasi-judicial municipal valuation committees and municipal assessment tribunals may be provided for in the municipal laws so that the opportunities for contesting the valuations are reduced and the consequent litigation and social costs are also reduced, an indirect benefit being the timely payment of municipal dues.

10.8 Transparency of Municipal Assessments

It should be considered whether the final municipal assessment lists are published and sold freely at reasonable prices so that the assesses have ready access to information on the assessments of the neighbouring premises, which may help in checking corrupt practices. Sub-section (5) of Section 191 of the Calcutta Municipal Corporation Act, 1980, is relevant in this regard:

"The Municipal Assessment Book may be printed and published for every ward of the Corporation and made available for sale to the public in such form and in such manner as may be prescribed provided that the publication shall not be kept pending for any cases in respect of which any objection or appeal has been filed under section 188 or section 189."
10.9 Rate Structures and Rates

Four different systems are utilised in different States in India, namely:

1. A uniform rate of tax irrespective of the valuations (as in Bombay);
2. A progressive rate on the same basis as used for income tax purposes (as in Delhi);
3. A progressive rate based on a slab system, with built-in defects (as in Hyderabad, Ahmedabad and formerly in Calcutta), and
4. A straight line system wherein the rates at the lowest and highest valuation limits are specified in the law, and the rates at intermediate valuations are determined on the basis of a straight line formula (as in force in Calcutta at present).

Of the four systems listed above, the system adopted by Hyderabad Municipal Corporation has a built-in defect, on the basis of which, within a given slab range, the per cent tax demand varies instead of remaining constant. In other words, the incremental tax demand for increase in annual values over various valuation ranges is erratic and irregular. Another question is whether uniform rates should be specified irrespective of the valuations, without regard to equity principles, or whether rates should be progressive, with the tax demands on higher valuation properties being progressively higher.

Regarding the choice of a slab system, barring the system used under the Hyderabad Municipal Corporation Act, both the income tax formula approach and the straight line system ensure progression in tax demands. However, it may be pointed out that the straight line system eliminates two ad hoc decisions which are necessary under the income tax system, namely, where the slabs should be split and what should be the progression in the various slab ranges.

10.10 Exemptions

It is noteworthy that, in general, besides the exemptions for properties of diplomatic or consular missions, properties used for charitable purposes, excluding those parts used for commercial purposes and for burning ghats, crematoria and so on, the laws exempt only such properties where the tax yields may be lower than the estimated collection costs. In Punjab, however, self-occupied houses built on an area measuring up to 250 square yards under Notified Area Committees and Class II and Class III Municipal Committees are also exempted from payment of property tax. It is obvious that in each city-specific situation, the provisions for granting exemptions need to be critically reviewed and transparency needs to be introduced by publishing the exemption lists.

10.11 Liability to Pay

Inasmuch as municipal taxes are levied to mobilise resources for performance of duties under the municipal laws, and not for taxing the incomes from properties, the issue may be raised as to whether the occupiers, be they owners or tenants, should be liable to pay taxes. For administrative purposes, it may be desirable to fix the liability on the owners. However, as has been done in Section 194 of the Calcutta Municipal Corporation Act, 1980, the tax burden can be shared between the owners and the occupiers. In the case of non-residential premises, it can be assigned to the occupiers only.
10.12 Tax Mapping

An issue is also raised here as to how it can be ensured that all the likely assesses of the municipal taxes are carried on municipal registers. Considering that the conventional approaches for tax mapping based on field surveys are extremely cumbersome and time consuming, the Times Research Foundation (TRF) has proposed a Unique Premises Numbering System which can help, provided such premise numbers are used for specifying the address used by any citizen for all statutory and regulatory purposes while applying for services such as electricity, telephone, gas, etc. This system is under active consideration by some state governments.

10.13 Tax Administration

Inasmuch as tax demands remain constant over the period of validity of given valuation cycles, it is important to consider whether this opportunity should not be exploited to introduce reforms in billing. Also, in the matter of recovery of taxes, the issue is whether the interest charged for delayed payments should not be correlated to bank rates, thereby ensuring that intentional defaults are eliminated. There is also the question of whether there should be other penalties as well. For example, in cities where electricity is among the municipal services, disconnection of electric supply for non-payment of municipal dues is possible. The question is whether in managing poor collection, other approaches could be followed which would ensure compliance in the timely settlement of municipal dues.
11. The Role of Cities in the Management of the Urban Environment in India

11.1 Environmental Concerns

In the closing decade of the twentieth century, issues related to environmental pollution have become so critical that, besides the legislature and the executive wing at all levels of government, even the judiciary is concerned with the need for concrete and urgent action. The Supreme Court has remarked that in India, as elsewhere in the world, uncontrolled growth and the consequent environmental deterioration are fast approaching menacing proportions, and that all Indian cities are afflicted with this problem. The Court added that the environmental question has become urgent must be properly understood and squarely met by man.

11.2 The Evolution of Constitutional Reforms on the Environment in India

It is noteworthy that before 1976 there was no constitutional requirement in India to protect and improve the environment. In that year, the Constitution of India was amended by the Constitution (Forty-second Amendment) Act, 1976. By this Amendment Act, a new Article was inserted in the Constitution which provides, "The State shall endeavour to protect and improve the environment and to safeguard the forests and wildlife of the country."

Realising that people's participation and social consciousness is the driving force for the prevention of pollution, and that the environmental literacy of the general public is an imperative need, the Constitution also mentions certain fundamental duties of the Indian citizens. Thus, it is stated that, "It shall be the duty of every citizen of India to protect and improve the natural environment including forests, lakes, rivers and wild life and to have compassion for living creatures. Urban forestry, protection of the environment and promotion of ecological aspects, have however, been added by the Constitution (Seventy-fourth Amendment) Act, 1992.

Thus, it may be seen that urban development, which basically involves the supply of urban infrastructure, is no longer enough for promoting sustainable cities. Instead, there must be a new concern for urban environment management with due understanding of the linkages between infrastructure, productivity, poverty and environmental health. The 74th Constitution Amendment implies as much by the inclusion of the following entries under the Twelfth Schedule:

1. Planning of economic and social development (item 3 of the Twelfth Schedule);
2. Water supply for domestic, industrial and commercial purposes (item 5);
3. Public health, sanitation, conservancy and solid waste management (item 6);
4. Urban forestry, protection of the environment and promotion of ecological aspects (item 8);
5. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded (item 9), and
(6) Slum improvement and upgrading (item 10).

It is in the above mentioned constitutional context that the role of cities in the management of the urban environment in India needs to be examined.

11.3 Local Authorities' Initiative in Support of Agenda 21

The following observations in Chapter 28 of Agenda 21 of the Rio World Conference on Environment and Development need to be taken note of to specify local authorities' initiatives in support of Agenda 21.

11.4 Programme Area

Basis for Action

(Section 28.1) Because so many of the problems and solutions being addressed by Agenda 21 have their roots in local activities, the participation and co-operation of local authorities will be a determining factor in fulfilling its objectives. Local authorities construct, operate and maintain economic, social and environmental infrastructure, oversee planning processes, establish local environmental policies and regulations, and assist in implementing national and sub-national environmental policies. As the level of governance closest to the people, they play a vital role in educating, mobilising and responding to the public in promoting sustainable development.
Activities

(Section 28.3) Each local authority should enter into a dialogue with its citizens, local organisations and private enterprises and adopt a "Local Agenda 21." Through consultation and consensus building, local authorities would learn from citizens and from local, civic, community, business and industrial organisations and acquire the information needed for formulating the best strategies. The process of consultation would increase household awareness of sustainable development issues. Local authority programmes, policies, laws and regulations to achieve Agenda 21 objectives would be assessed and modified, based on local programmes adopted. Strategies could also be used in supporting proposals for local, national, regional and international funding.

11.5 National Strategy for Wider Replication

Operationalising Local Agendas 21 would involve actions on several fronts, namely:

1. Legislative reforms of central government laws on environment and of state laws governing planning and development and municipal administration (See Table 1.5 for Central and State Acts related to the environment.);

2. Institutional reforms with a view to defining the organisational hierarchy in matters of urban environment management, co-ordination of roles of various agencies and for ensuring public participation;

3. The redefinition of the functional domains of various agencies involved in urban environment management, with a focus on the monitoring of pollution levels and for undertaking health risk assessments, and

4. Training and human resource development, with a view to meeting the new challenges on this front.

11.6 Central Acts on Environmental Aspects

The principal laws on environmental protection in India, as enacted by Parliament, are:

1. The Water (Prevention and Control of Pollution) Act, 1974;

2. The Air (Prevention and Control of Pollution) Act, 1981, and


The Water (Prevention and Control of Pollution) Act, 1974, was passed, on the basis of the resolutions adopted by all the houses of the legislatures of the States of Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Rajasthan, Tripura and West Bengal, to provide for the prevention and control of water pollution and the maintaining or restoring of wholesomeness of water. The Air (Prevention and Control of Pollution) Act, 1981, and the Environment (Protection) Act, 1986, were passed for implementing the decisions taken at the June 1972 Stockholm Conference on Human Settlements.
11.7 State Government Laws

The planning and development legislation in various States would require modifications to achieve the following ends:

(1) To establish a linkage between planning procedures and implementation mechanisms and the factors which contribute to settlement change;
(2) To devise settlement and neighbourhood plans which lead to resource-efficient and affordable transport and infrastructure patterns;
(3) To establish a co-ordination mechanism involving planning and development authorities and urban local bodies, and
(4) To redefine development and modify the regulatory framework.

11.8 Municipal Laws

The municipal laws would need to be revised to provide for the following:

(1) The new role of local governments in management of urban environment;
(2) The new imperatives for measuring quality of living and work environment;
(3) The new responsibilities for monitoring of pollution levels and for undertaking health risk assessments, and
(4) The involvement of community based organisations.

11.9 The Local Agenda for Urban Environmental Management

While planning a local agenda for urban environmental management, the following well known positions need to be reiterated:

(1) Urban environmental management tasks should be appreciated in terms of the linkages between the city economy, infrastructure, productivity, poverty and environmental health;
(2) It should be noted that today's cities are net consumers of natural resources and exporters of wastes;
(3) Environmental degradation in any city affects the poor and other vulnerable groups the most, including the children, and
(4) Much of the environmental damage is of an irreversible nature.

The objectives for environmental management at the local level may include the following:

(1) Preparing an environmental management strategy and action plan;
(2) Carrying out studies on vulnerability and risk assessment;
(3) Establishing an adequate institutional and regulatory framework to plan and implement the environmental management plan;
(4) Enhancing the capability of the concerned agencies for better management of the environment, and
(5) Conducting research and training activities to equip better the municipal personnel for realisation of the above mentioned objectives.
To sum up, the responsibilities for management of the urban environment would have to be shared between the central and state agencies, and local governments would have to be assigned roles which are consistent with their technical, managerial, organisational and fiscal capacities.
12. REFERENCES


Rodinelli, D. op. cit.


Boutros-Ghali, Boutros. quoted in the article Local Authorities to Take Major Role in Habitat II, Countdown to Istanbul, UNCHS, Number 3, June 1995.


Tables

1.1 Urban Local Bodies in India 1991
1.2 Urban Local Bodies in India various types and size ranges
1.3 Municipal Authorities as defined in various municipal acts in India
1.4 Twelfth Schedule and the corresponding entries in List II and List III in the seventh schedule to the constitution of India
1.5 List of Selected Central and State Acts Related to Environment
| TABLE 1.1 |
| URBAN LOCAL BODIES IN INDIA, 1991 |

<table>
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<tr>
<th>State</th>
<th>Municipal Corporation</th>
<th>Municipal Council</th>
<th>Municipal Board</th>
<th>Municipal Municipality</th>
<th>City Municipal Committee</th>
<th>Town Municipal Committee</th>
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<th>Town/ Nota Panchayat</th>
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### Table 1.2
Urban Local Bodies in India: Various Types and Size Ranges

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# TABLE 1.3

MUNICIPAL AUTHORITIES AS DEFINED IN VARIOUS MUNICIPAL ACTS IN INDIA

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<td>*</td>
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<td>The Mayor-in-Council</td>
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<td>*</td>
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<td>A General Manager of the Electric Supply &amp; Transport Undertaking</td>
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<td>9.</td>
<td>Corporation Establishing or Acquiring a Transport Undertaking</td>
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<td>Entry 20 of List III</td>
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State Laws

A. Water Pollution
1. Orissa River Pollution Prevention Act, 1953
2. Maharashtra Prevention of Water Pollution Act, 1969

B. Smoke Control
3. The Bengal Smoke Nuisance Act, 1908
4. The Gujarat Smoke Nuisance Act, 1963
5. The Bombay Smoke Nuisance Act, 1912

C. Pest Control
6. The Andhra Pradesh Agricultural Pest and Disease Act, 1919
7. The Assam Agricultural Pests and Disease Act, 1954
8. The Uttar Pradesh Agricultural Disease and Pests Act, 1954
9. The Mysore Destructive Insects and Pests Act, 1917
10. The Kerala Agricultural Pests and Disease Act, 1958

D. Land Utilization and Land Improvement
11. The Andhra Pradesh Improvement Scheme Act, 1949
12. The Acquisition of Land for Flood Control and Prevention of Erosion Act, 1955
13. The Bihar Waste Lands (Reclamation, Cultivation and Improvement) Act, 1946
| TABLE 1.5
| LIST OF SELECTED CENTRAL AND STATE ACTS RELATED TO ENVIRONMENT |

**Central Laws**

A. Water pollution
   1. The River Board Act, 1956
   2. The Merchant Shipping (Amendment) Act, 1970

B. Air Pollution
   3. The Indian Boiler's Act, 1923
   4. The Factories Act, 1948
   5. The Industries (Development and Regulation) Act, 1951

C. Radiation
   8. Radiation Protection Rules, 1971

D. Pesticides
   9. The Insecticide Act, 1968
   10. The Factories Act, 1948
   11. The Poison Act, 1919

E. Others
   12. The Indian Fisheries Act, 1897
   13. The Urban Land (Ceiling and Regulation) Act, 1976
13. Promotion of cultural, educational, and aesthetic aspects

14. Burials and burial grounds; cremations, cremation grounds and electric crematoriums

15. Cattle pounds; prevention of cruelty to animals

16. Vital statistics including registration of births and deaths

17. Public amenities including street lighting, parking lots, bus stops and public conveniences

18. Regulation of slaughter houses and tanneries

Entries 12, 53 of List II
Entry 25 of List III
Entry 10 of List II
Entry 15 of List II
Entry 17 of List III
Entry 30 of List III
Entry 5 of List II
Entry 20 of List III
Entry 15 of List II