



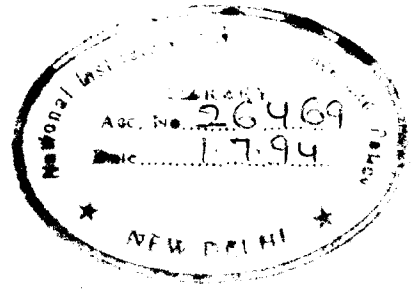
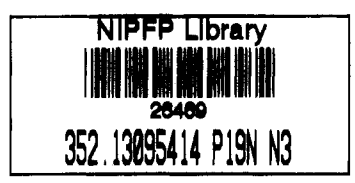
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NON TAX REVENUE OPTIONS IN WEST BENGAL.

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A Study Sponsored  
by

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## PREFACE

In April 1991, the Second West Bengal Municipal Finance Commission suggested that the National Institute of Public Finance and Policy should undertake a study of the non-tax component of revenues of urban local bodies in the State of West Bengal, and make specific recommendation on how the potentials of this component could be further exploited in order to strengthen the local revenue base. It further proposed that the property tax data of urban local bodies which the First West Bengal Municipal Finance Commission (1982) had put together should be updated and analysed with a view to identifying the changes that had taken place in the accrual of property taxes during the post-1980 period.

The National Institute of Public Finance and Policy is pleased to submit herewith a report consisting of two parts: the first part deals with the non-tax component of revenues, while the second part provides detailed analysis of the changes in property tax revenues of different urban local bodies in the State of West Bengal. Specific suggestions have been made in the first part of the report on augmenting the revenues from non tax sources.

We would like to place on record our gratitude to Professor Mohit Bhattacharya, Chairman and other members of the Second West Bengal Municipal Finance Commission for entrusting the study to us, and to Dr. Tapan Banerjee, Member-Secretary of the Commission for his substantive assistance and the very perceptive comments on the earlier drafts of the report.

At this Institute, Dr. Rita Pandey was responsible for the study on non-tax component of revenues. She designed the study and undertook the preparation of the report excepting chapter four which was prepared by Ms. Shobhana Chandra. Dr. O.P. Bohra has conducted the study on Property Taxes. I am thankful to them for their untiring efforts.

The Governing Body of the Institute does not take any responsibility for the views and conclusions contained in the Report.

**Raja J. Chelliah**  
Chairman

**March 1993**  
**New Delhi**

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## CHAPTER I

### I. Introduction

As the reasons for many urban problems - especially in regard to poor service level, lack of required urban infrastructure etc. are found to be largely rooted in the poor financial position of urban local bodies (ULBs), considerable emphasis has been placed on improving the position of local finances.

However, with the growing rigidity in the tax revenues both due to structural deficiencies in the tax base, legal constraints and weak administration, and with inadequate devolution of funds from State governments to local bodies, a change in the perception of both experts and the policy makers is clearly visible. Non-tax revenue is now considered as an important source of supplementing the own source income of local bodies. However, a considerable volume of literature on local finances in India has dealt only partially with the issues related to the non-tax revenue sources and their management. To examine some of these issues with a focus primarily on West Bengal, the second Municipal Finance Commission of the West Bengal Government (SMFC) has commissioned this study to the National Institute of Public Finance and Policy (NIPFP).

### II. Objectives of the Study

The objectives of the study as embodied in terms of reference are:

- i. A comparative analysis of non-tax revenue generation in West Bengal vis-a-vis other States in India.

- ii. Analysis of income from own sources - particularly from the non-tax sources - of a cross-section of urban local bodies in West Bengal, to examine (a) the relative importance of the non-tax revenue (NTR) in the total own source revenue, (b) the status of and the trends in NTR by the CMA, non-CMA and also by size class and (c) the flow of income from certain major components of NTR to look into the relative buoyancy of these components across a sample of local bodies chosen for the analysis,
- iii. To examine the scope for further improvement in non-tax revenue generation from user charges in the Calcutta Municipal Corporation,
- iv. To review the status of non-tax revenue in two municipal bodies in the Calcutta Metropolitan Area (CMA) and identify new options for non-tax revenue generation and
- v. To suggest on the basis of conclusions drawn from the study, the future directions in planning for greater self-sufficiency of urban local bodies.

## CHAPTER II

### DATA SOURCES AND COVERAGE OF THE STUDY

#### I. Data Sources

Given the overall perspective of the study, the data requirements encompass both primary and secondary data on both non-tax receipts and the total revenue receipts and expenditure patterns. Most of the secondary data is obtained from a survey of local bodies carried out by the second Municipal Finance Commission, West Bengal, Handbook of Municipal Administration and other publications of the West Bengal Government and the Institute of Local Government and Urban Studies (ILGUS). Extensive use of data from the National Institute of Urban Affairs (NIUA) and the NIPFP studies has also been made in this study. Data analysis has been supplemented with information based on the views and judgements of Municipal authorities and knowledgeable persons.

#### II. Coverage of the Study

As mentioned, the study is based on a cross - section of urban local bodies (ULB) in West Bengal. This cross-section represents a wide variety of ULBs drawn separately from the CMA and Non-CMA areas and cross-classified into three different size classes based on population norms of 1 lakh and above, 50,000 to 99,999 and below 50 thousand. In all, 91 ULBs have been covered for this analysis which represent about two thirds of a total of 115 urban local bodies in the State. A list of ULBs covered in the analysis, classified by size and their location within and outside the Calcutta Metropolitan Area (i.e. CMA and Non-CMA) is presented in the Appendix at the end of this Chapter. Moreover, the study spreads over five consecutive years from 1985-86 to 1989-90.

### III. Sample

A tabular detail of the sample and its distribution between the CMA and Non-CMA is presented below in Table II.1.

Some observations about the sample:-

1. The sample covers roughly 79% of the ULBs and can be taken to be a fair representative of the local government structure in West Bengal.
2. It includes 80% of the CMA ULBs and 78% of the non-CMA local bodies. The CMA includes 31% of the total number of ULBs and non CMA covers 69% of the 115 ULBs in West Bengal.
3. Considering CMA and Non-CMA together the three classes A, B, C are given similar representation in the sample. For example, the sample covers 86% of class A bodies (i.e. 19 out of 22); 83% of class B (25 out of 30) and 75% of class C<sup>1</sup> (47 out of 63) ULBs. However, within CMA and non-CMA the three classes A, B, C do not get similar representation in the sample.

Table II.1

Number of ULBs in West Bengal: Actual and Sampled

Size Classes	CMA			Non CMA			CMA and Non-CMA		
	Actual	Sample	Coverage (%)	Actual	Sample	Coverage (%)	Actual	Sample	Coverage (%)
Class A	14	11	78	8	8	100	22	19	86
Class B	13	12	92	17	13	76	30	25	83
Class C <sup>1</sup>	9	6	66	54	41	76	63	47	75
Total	36	29	80	79	62	78	115	91	79

1. ULBs covered in class C consist of all the towns/cities below 49,999 population. In some studies, this class is further broken up into classes D and E but we maintain only 3 classes, i.e., A, B and C.

#### IV Chapter Scheme

The chapter scheme of the report is as follows. Chapter three presents a comparative analysis of trends in revenues, particularly from non-tax sources, and expenditure of urban local bodies in West Bengal, vis-a-vis, other 13 States in India. Analysis of non-tax revenue of 93 urban local bodies in West Bengal constitute chapter 4. Issues in user charges are examined in chapter 5. In this chapter, cost recovery aspects of municipal services with particular reference to water supply have also been examined. Chapter 6 is concerned with an analysis of management of non-tax revenue in the two urban local bodies in West Bengal, namely; Uttarpara Kotrung and Kamarhati. The final chapter provides major findings and recommendations.



## CHAPTER III

### NON-TAX REVENUE: AN INTER-STATE COMPARISON

#### I. Introduction

With the growing rigidity in the tax revenues both due to structural deficiencies in the tax base and weak administration, it is increasingly felt that there is a need to explore alternative sources of revenue to supplement the own source income of local bodies. It is believed that in developing countries, own non-tax sources have a large revenue potential which the local bodies have failed to exploit (J.F. Linn, 1985). India is no exception in this regard and this is all the more true in the case of West Bengal (T.K. Banerjee 1989). It is considered that more attention is needed towards more fruitful exploitation of existing potential of non-tax revenue (NTR). However, the choice of specific instruments of policy for augmenting revenues through this source would require an insight into the existing status of and the trends over time in NTR of urban local governments within a State and also a comparison of NTR among local bodies across States. Since focus of the study is on West Bengal, this chapter attempts a comparative analysis of the status of NTR in West Bengal, vis-a-vis, the other thirteen major States of India. Relative position of NTR in ULBs across the sample of States chosen for the analysis, may enable us to make certain observations in regard to the performance of NTR in West Bengal.

To carry out this we have largely relied on the existing information in the studies carried out by the National Institute of Urban affairs (hereafter referred to as NIUA). The analysis has been supplemented by a more recent survey of local bodies in West Bengal

carried out by the Second Municipal Finance Commission, West Bengal (SMFC) and studies conducted at the National Institute of Public Finance and Policy.

## II. Description and Limitations of Data

Before we present the analysis, a brief description of the data is in order. As has been mentioned before there are basically two data sources: The NIUA (1983 and 1989) and the 2nd Municipal Finance Commission, West Bengal. The 1983 study of NIUA reports data for about 80% of the total urban local bodies in India, including the town area committees and notified area committees, for the years 1974-75 and 1979-80. Since the sample is quite large, the results emerging from the analysis may be taken to broadly conform to the general pattern of Municipal finance in these States. However, the 1989 study carried out by the NIUA gives data only for 157 Municipal bodies (Class I) for the year 1986-87. Due to large differences in sample coverage of the two studies, the data is not strictly comparable to draw any meaningful conclusions. Since the 1989 study of the NIUA covered only large Municipal bodies (Class I), this data is compared with Class I Municipality data obtained from 1983 study of the NIUA. The Second Municipal Finance Commission, West Bengal, provides continuous time series data for the 5 year period beginning, 1985-86 to 1989-90. Here the level of disaggregation is far greater than that of the NIUA data.

Financial resources of Municipal bodies are generally divided into two groups; (a) revenue from their own sources and (b) revenue from sources other than their own. While the first group comprises of (i) tax revenue and (ii) non-tax revenue, the second group consists of State subventions such as grants-in-aid, assigned revenues.

Non-tax revenue covers a wide variety of revenue sources, such as rents, fees, income from public utilities, income from commercial undertakings, interest on investments and other miscellaneous sources incidental to the functions undertaken by the Municipal bodies.

Further, non-tax revenue of local bodies comes by way of recoveries from those services for which it is generally possible to identify direct or indirect beneficiaries. These services can be grouped into two categories. Revenue from services in the first category includes rent from Municipal properties, various kinds of registration and licence fee etc., where it is possible to identify the beneficiary as well as measure his/her consumption of services. Recoveries from services such as water supply, drainage, sanitation, constitute the second category. While beneficiaries of these services can be identified, it is generally found difficult to appropriately quantify the benefits derived from such services.<sup>2</sup> This particular feature of this category of services seems to be one of the reasons for the charges on these services being generally combined with general property tax. In some States, these charges are shown independently but collected along with the general property tax on the basis of the rateable value of a property and hence collection from these taxes constitute property tax revenue. The NIUA data used here includes service charges under the head, 'tax revenue' though, they should be forming a part of non-tax revenue. The reason for this appears to lie in the difficulties in separating service charges from the property tax especially in those States where service charges have been amalgamated with general property tax, for instance in West Bengal.

Further, since there is no legislative uniformity in allocating functions and revenue authority to Municipalities, contribution of non-tax revenue from own sources would constitute varying proportions in different local bodies depending upon their size and diversification of

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2. Except in the case of metered water supply.

the activities. Besides, resource mobilisation efforts through non-tax sources cannot be delinked with the paying capacity of the population. Further, the support for necessary funds from the higher levels of governments for undertaking remunerative projects, such as development of markets will have implications on revenue mobilisation through non-tax sources.

It may be pointed out that the available data are not adequate to consider all these aspects in making a comparative analysis of non-tax revenue among various States, any conclusions drawn from this exercise must however be judged, keeping the above mentioned factors in mind.

### **III. Trends in Revenue Receipts and Expenditure**

Ability of the local governments to respond adequately to the rapidly increasing urban service needs critically depends upon their resources. The analysis of the trends in revenues, therefore is of central importance. Tables III.1 and III.2 present an overview of revenue receipts of local bodies for the year 1974-75 and 1979-80, and 1979-80 and 1986-87 respectively. As noted earlier, the data in Table 3.2 pertain to Class I Municipal bodies. On comparing the growth in aggregate revenue receipts in West Bengal, vis-a-vis, other States, the picture that emerges is somewhat disappointing. For, in the second half of the 70's, revenue income of local bodies for the States as a whole increased by more than 90 per cent at current prices as against only 46.2 per cent increase in revenue income in West Bengal. What is worse, West Bengal ranked the lowest among the 14 States, with the exception of Bihar, where revenues grew only by 37.3 per cent during the period in question (see Table III.1). In fact, per capita revenues at constant prices (1970-71 base) in West Bengal declined by Rs.1.5 as against all State average increase of about Rs. 3.0 during the reference period (see Table III.3b). Other States where per capita revenues showed a decline were Bihar and Orissa. High increase in per capita revenue was recorded

in Punjab (Rs.11), Maharashtra (Rs.11.6), Gujarat (Rs.9.3) and Rajasthan (Rs.4.5). In West Bengal, a similar trend in per capita revenue continued in 80's also with per capita revenue, at constant prices, showing a decline from Rs. 19.6 in 1979-80 to Rs. 10.8 in 1986-87. Statistics displayed in Table III.4b confirms this. It is significant to note that at 1986-87 prices per capita revenue income in West Bengal was Rs.50 as against the norm (Rs.222) proposed by the Zakaria Committee. In Gujarat and Maharashtra, per capita income level was much higher than the norms while in Punjab it was close to the norms set by the Zakaria Committee.

Disparities in revenue income of Municipalities across States may be attributable, at least partly, to disparities in the level of urban income of the States. However, data set out in Table 3.2b shows that there is no clear cut relationship between per capita revenue of local bodies and per capita urban income<sup>3</sup>. For, Madhya Pradesh with lowest per capita urban income had the highest per capita revenue income whereas Haryana with the highest per capita urban income (almost one and a half the all States average) had a per capita revenue income less than the all States average in 1986-87. However, West Bengal with above average urban income had per capita revenue much under half of all States average. It may be interesting to note that in West Bengal own source revenue constituted only about 36% of the total while the remaining came by way of transfers from the States (Table III.6). Further, at per capita level also own source revenue in West Bengal was the lowest among the 14 States which indicates relatively poor tax effort at the local level. State transfers continue to be the predominant source of income in West Bengal forming little under two thirds of the total revenue receipts during the second half of 80's. This is evident from the data displayed in table 3.11. It may also be seen from the above table that own source revenue as % of total revenue in West Bengal

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3. Non-primary sector SDP divided by urban population.

does not compare favourably with other States, with State transfers forming about 64% of the total receipts. The comparable figure for Kerala, Gujarat, Tamil Nadu and Maharashtra was under 20%.

In an attempt to explain the increasing dependence of local bodies on transfers from the States, often a distinction has been made between the octroi collecting and non-octroi collecting States (Banerjee 1991). It is viewed that in octroi collecting States the relative importance of tax revenue (as % of total receipts) was higher than that in non-octroi collecting States. Data displayed in Table III.6 indicates that while octroi collecting States had high proportion of tax revenue, there are certain non-octroi collecting States such as Kerala, Karnataka, Haryana and Punjab where contribution of tax revenue to total revenue is comparable to that in octroi collecting States. This suggests that there are other factors at work influencing the composition of revenue receipts of local bodies. One of the important sources of such influences seem to be the inter-State disparity in delegated sources of tax. This is also evident in Table III.12 which gives a composition of State transfers. From the above table it may be discerned that, in general, contribution of either shared taxes or other transfers was much higher in those States where tax revenue in the revenue composition of Municipalities was relatively lower than in other States. Other transfers may be a compensatory grant in lieu of repeal of a tax, as octroi in Madhya Pradesh, or a transfer to finance some State or Centrally sponsored scheme.

The above discussion shows that low share of own source revenue alone does not necessarily indicate inadequate resource mobilisation efforts at the local level.

The level of Municipal services is partially<sup>4</sup> determined by the per capita expenditure of local bodies. When the level of services is

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4. Efficiency in management of resources is an equally important factor determining the level of Municipal services.

assessed in terms of per capita expenditure, the performance of West Bengal is found to be relatively poor. Figures presented in Table III.3 show that in real terms (base 1970-71) on an average Municipal bodies spent Rs.25 and Rs.25.8 per capita on the operation and maintenance of various services during the years 1974-75 and 1979-80 respectively. This indicates a marginal increase in expenditure or level of services. On the contrary, in West Bengal per capita expenditure (in real terms) has not only declined from Rs.23.4 in 1974-75 to Rs.10.4 in 1986-87, but has also lagged behind the all States average. This reflects the poor and deteriorating level of Municipal services in this State. Statistics reveal that the growth in per capita expenditure has generally been low in most States except in Maharashtra, Gujarat and Haryana, where it has shown an increase over time and has also maintained a level much above the all State average during the period in question. The level of civic services appears to be more critical in Class I Municipalities. For, per capita revenue expenditure in Class I Municipalities in West Bengal (in real terms) showed a sharp decline from Rs. 19.3 in 1979-80 to Rs.10.4 in 1986-87. During the above period per capita average expenditure for Class I Municipalities (all the states combined) grew from Rs. 24.8 to Rs. 37.4. What is more, in West Bengal per capita revenue expenditure of Class I Municipalities at 1986-87 prices was Rs.34.4 which is far below the all State average of Rs.127.6 and also the norm proposed by the Zakaria Committee (Rs.205 at 1986-87 prices). It is worth noting that in the list of 14 states, West Bengal is the only State which has experienced decline in per capita expenditure. Further, barring Bihar, West Bengal has also taken lower down position among the 14 States in terms of per capita expenditure in the 80's. Other States falling in the similar suit were Rajasthan (Rs.72) Tamil Nadu (Rs.119), Uttar Pradesh (Rs.90) and Madhya Pradesh (Rs.86.5). Of the total, only 15 per cent of the sample (as of 1986-87) had expenditure levels at par or higher than the Zakaria norms. In 73 Municipalities (about 47 per cent of the sample) expenditure levels were less than 50 per cent of the norm. In West Bengal, the situation was particularly bad in respect of public health (which includes water

supply and waste disposal) public safety and education, as per capita expenditure level on these services was much below the norms laid down by the Zakaria Committee. For instance, in West Bengal, the sample Municipal bodies spent just Rs.19.06 per capita on public health as against the norm of Rs.126.27 per capita - that is, less than 40 per cent of the desirable level of expenditure.

In terms of population coverage also, level of services was far below the proposed norms (see NIUA 1989). Further, increase in the level of spending has not resulted in proportional improvement in the physical performance of services. This reflects the fact that besides finance-critical factor determining the level of services of local bodies - there are other factors at work in influencing the physical level of services. One of the important sources of such influence seem to be administrative inefficiency of Municipal governments.

A notable feature of Municipal finances in West Bengal is that the per capita incomes were higher than those of expenditures both at current as well as constant prices indicating a surplus in the revenue budget. "This pattern is likely to be more due to statutory requirement that Municipalities can not have deficit budget rather than sound financial position of Municipalities" (Bagchi and Sen, 1986). A large gap between per capita expenditure in West Bengal and the norm proposed by Zakaria Committee seems to confirm this.

#### **IV. Trends in Non-Tax Revenue**

As noted in section III, the record of West Bengal in regard to growth in revenue has been poor when compared with other States. An important reason for the sluggish growth in revenue of West Bengal may be found in the declining contribution of own source non-tax revenue (hereafter referred as NTR). This is clear from the data presented in the Table III.5, which gives composition of the total revenue income (TRI) in percentage terms. From the table, it is evident that in West



Bengal NTR formed 22.2 per cent of TRI in 1974-75 which has fallen to 9.8 per cent in 1979-80 recording a decline of 12.4 percentage points against only about 4 percentage points decline for the States as a whole. A similar trend was followed in the eighties also. A look at the second Municipal Finance Commission, West Bengal data (which covers about 80% of the Urban local bodies in West Bengal), reveals that during 1985-86 to 1989-90 the average share of NTR in TRI decelerated further to be reduced to about 8.7% (see Table III.11). The situation in Class I Municipal bodies seems to be even more critical with the share of NTR declining from 5.2 per cent in 1979-80 to 3.7 per cent in 1986-87 (see Table III.6). Given this, it would be only logical to expect a decline in per capita NTR of local bodies in West Bengal over the period in question. This is revealed by Table III.7 which gives per capita NTR both at current and constant prices in 14 States. Besides, it is a noticeable fact that in 1979 per capita NTR is lower in West Bengal when compared with all State average both in nominal and real terms. This difference has grown larger in eighties in Class I Municipal bodies. However, as data in tables III.7 and III.11 show, that in nominal terms per capita NTR shows only a marginal growth, i.e., from Rs.5.4 in 1979-80 to Rs.6.34 and Rs.7.05 in 1988-89 and 1989-90 respectively, clearly, in real terms per capita NTR has recorded a negative growth.

It is important to note that in the second half of the 70's, share of NTR in TRI has fallen in all the states with the exception of Bihar, Madhya Pradesh, Punjab and Tamil Nadu. However, in Madhya Pradesh, Punjab and Tamil Nadu increase in NTR was marginal 0.1 to 0.2 percentage points. In 80's, in Class I Municipal bodies, contribution of NTR in TRI has increased (in percentage terms) except in Orissa, Uttar Pradesh and West Bengal (table III.6). data displayed in Table III.5 reveals an interesting trend between NTR and grants. The trend that is obtaining is when relative position of grants improves, there is deceleration in the share of NTR and vice-versa with the exception of Tamil Nadu. This pattern is suggestive and demonstrates the need for further investigation of the effect of grants on local revenue

mobilisation efforts through NTR. However, no clear pattern was observed between NTR and grants in 80's in the case of Class I Municipal bodies.

One of the reasons for deterioration in NTR in West Bengal, can be found in the declining contribution of Fees and Fines. A glance at the composition of NTR given in Table III.8 confirms this. For, the share of fees and fines in NTR declined from 82.6 per cent in 1974-75 to only 10.2 per cent in 1979-80. The main reason for this appears to be non-revision in the rates of fees over the years. Rents and prices however, appreciated significantly recording an increase of 237.8 per cent during the corresponding period. The share of betterment levy<sup>5</sup> remained residual, showing only a marginal increase. It is worth noting that in the list of 14 States West Bengal is the only State where revenue from fees and fines in absolute terms decelerated by 92% compared to 92 per cent growth in fees and fines for all the States combined. In aggregate also, NTR grew by 60% for the states as a whole while it deteriorated in West Bengal and also in Orissa. Deterioration was particularly marked (-92 per cent) in West Bengal. In the absence of comparable data for the later years, it is difficult to say how these components of NTR would have performed in various states.<sup>6</sup> However, an analysis of the structure of non-tax revenue of Class I Municipal bodies (all states combined) carried out by the NIUA as of 1986-87, shows that 'Rents and Prices' continued to be major contributors in non-tax revenue (see Table III.9). It is apparent from this table that 'Rents and Prices' formed about 30 per cent of NTR. The fees and fines came next (15.2%) and user charges were (4.9%) last in order.

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5. In West Bengal the betterment levy is classified as Development Charge. It is levied under the Town and Country Planning Act.
  6. A detailed analysis of relative significance of components of NTR in West Bengal is presented in Chapter IV.

Since opportunities for levying non-tax charges and various other factors determining growth in NTR vary widely from one State to another and even within the States, revenue from non-tax sources is expected to show variations among the States. In order to explain the divergence in NTR across States, it would be essential to examine the potential of this source of revenue, rates and base of charges, collection performance and the frequency of revision in rate etc. in various Municipal bodies of the States. However, in the absence of data in required details it is difficult to identify the factors, which may have been constraining revenue mobilisation through NTR and thus causing inter-State variations in NTR; whether it is weak enforcement, non-revision of rates/charges, decline in investments in projects which ought to generate non-tax revenue, the choice of projects or the reluctance of local bodies to exploit this source of revenue to the required extent.<sup>7</sup> Nevertheless, an attempt has been made to see if there is any correlation between per capita NTR and per capita Urban income. This exercise is carried out in view of a finding that a rise in urban income causes an increase in locally raised revenue of local bodies (NIPFP, 1992). Given this, one may expect a similar relationship between urban income and own source non-tax revenue. Data presented in Table 3.10 shows that per capita NTR (taken as percentage of per capita urban income) has increased in 12 out of 14 States during the period 1974-75 to 1979-80. The States which observed a decline in the NTR/urban income ratio during the reference period were Gujarat and West Bengal. However, after 1979-80 it has declined in more than 50 per cent of the States, under study (57% of the sample). The decline was particularly noticeable in the case of West Bengal and Bihar, from 0.3 and 0.33 in 1979-80 to .03 and .06 in 1986-87 respectively. This decline may

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7. An attempt has been made to examine these in the case of two Municipalities in West Bengal. In doing this additional information is generated through visits and extensive discussions with concerned Municipal authorities (see chapter VI).

partially be attributed to the relatively poor performance of Class I Municipal bodies in respect of NTR, when compared with Class B and Class C Municipal bodies (see chapter IV).

It is often believed that local bodies can raise substantial revenue through user charges. However, mobilisation of revenue through user charges is a neglected area in India despite the fact that there are virtually no interventions by State governments in pursuing user charges. The reasons for the failure to use this revenue source can be found in the complications associated with the pricing of Services and its applications and more importantly in the reluctance of local bodies to apply a direct charge for publicly provided services. Issues related to user charges are dealt in detail in another chapter of this report.

#### **V. Trends in Non-tax Revenue: International Experience\***

The data which pertain to early 70's are mainly drawn from ten case studies in the context of developing countries. The focus, here, is on examining the extent to which expenditures are financed out of locally raised non-tax revenues. In doing this, the total revenues have been classified into two categories; local sources and external sources. The former comprises (a) taxes, (b) revenues raised from user and other benefit charges (referred to here as 'self-financing services' and (c) a residual group of locally raised revenues such as licence fees, penalties, stamp duties. In India, sub-categories b and c are generally classified as non-tax revenues. The two external sources of local finance are borrowing and grants. Distribution of revenues according to these sources reveals that the share of internally raised revenues in financing total expenditures ranged from over 100% in Francis town and Mexico city to an exceptionally low share of 30% in Kingston (see Table

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\* This analysis draws heavily on J.F.Linn (1985).

3.12). In Madras, Ahmedabad and Bombay it ranged between about 70% to 85% with a median of 79% for all the cities studied. Taxes on an average provided more than half of the locally raised revenues while self-financing service revenues contributed 25% and other local revenues, the remainder. Between cities a wide variety of financing pattern prevailed. The Columbian cities showed limited reliance on taxes and a much heavier emphasis on self-financing service revenues.

This is related to the fact that in the large cities local governments tend to provide services such as water, sewerage, electricity, but it also reflects the relatively heavy Columbian emphasis on benefit-related charges in financing urban infrastructure. Mexico city, Karachi, Jakarta, Manila and Madras relied heavily on taxes. This, in part, has resulted from the fact that in those cities the local government is responsible for services not readily lending themselves to self-financing; such as education, public health, fire protection, parks and recreation. But it also reflects the fact that at least in some of these cities relatively little attention was given to financing services through user charges.

Francis town, Ahmedabad, Bombay and Seoul exhibited a balanced local revenue structure, in that taxes and self-financing service revenue contributed roughly equal shares to locally raised resources. In Francis town and Bombay this may be explained by the local electricity undertakings which contributed substantially to the share of self-financing services revenues, while in Ahmedabad and Seoul it is probably a result of emphasizing benefit and user-charge financing wherever possible. Finally in those cities such as Tunis, where local governments have relatively less responsibilities, revenue sources other than taxes or user-charges were the most important in raising local resources.

With the exception of the Columbian and Korean cities, betterment levies and related revenue sources did not account for important shares in the revenue of these cities, though the cities in the sample were entitled to exploit this source of revenue. The reasons for the failure to use this revenue source thus, is believed to be either in technical problems associated with its application, or reluctance of local authorities to apply these levies.

In most cities, except in India user charges are found to be often controlled by Central authorities. In some countries, for instance in Columbia, these controls include nationwide guidelines and review of rates in user charges. Further, in Columbia, national-level intervention has supported pricing according to average long-run costs of public utility services. However, the Korean cities were generally unable to raise their user fees to levels thought appropriate by local authorities, due to higher level governmental intervention. The only major self financing service where local governments in Korea are generally free to set charges, is the provision of housing. In Ahmedabad, despite the fact that there are not any major interventions by State governments so far as user charges are concerned, only Municipal transport and Dairy schemes belong to self financed category and all other services are financed by general revenue. Even dairy and transport enterprises are not fully self sufficient. This is due primarily to policy objective of the local government in Ahmedabad.

An important observation made in Linn's study would be worth mentioning here. "So far as non-tax revenue is concerned, local governments have not often used their revenue authority to the extent feasible. The most important of the under used revenue instruments are motor vehicle taxation, betterment levies, and user charges". Local bodies in India characterise a similar phenomenon. Most of the services provided by them are usually either heavily subsidised or are not charged, for at all.

## VI. Summary and Conclusion

From above, we find that there are disparities in revenue of urban local bodies across States. The reasons for this are found to be explained by the inter-State disparity in delegated sources of tax, disparate State-local functional and fiscal relationship and differing levels of urban income of the States. Although no definite relationship was found between urban income of the States and per capita revenue income of urban local bodies, yet the statistics show that in West Bengal tax effort at the local level is relatively poor, vis-a-vis, in most other States. For instance, West Bengal with above average per capita urban income had per capita revenue income of local bodies much under half the all States average. What is more, in West Bengal own source revenue constituted only about 36% of the total revenue in 1986-87. Further, in terms of per capita own source revenue also West Bengal has taken a lower down position in the list of 14 States. The position of non-tax revenue is even more critical in West Bengal. For instance, in West Bengal, per capita NTR has not only shown a continuous decline between 1974-75 to 1986-87 but has also been lower than the all States average per capita NTR. While poor performance in respect of tax revenue of local bodies in West Bengal may be defended on the ground that their revenue authority has been eroded by taking away their taxing powers, it may be difficult to stretch this argument further to explain the negative growth rate in non-tax revenue.

In literature, while analysing the status of finances of local bodies it is generally emphasised that the local bodies do not have adequate resources to provide essential services to its population and also augment them wherever necessary. The gap between revenue and expenditure is attributed largely to the non-elastic character of local revenue sources and overriding State governmental restrictions. While these factors are important, there are various other equally important factors responsible for the poor State of revenues (generated internally) which have not been given proper attention. These factors

include improper pricing of various services, reluctance of local bodies to use their revenue authority to the required extent and inefficient enforcement.

It is believed that the most important of the under-used potential non-tax revenue instruments are user charges and fees. So far as improving revenue from user charges is concerned, determining recoverable cost of services rendered by Municipal bodies becomes critical. As a first step, a long-term strategy may be formulated for the distribution of current expenditures. Such a strategy would enable planners to rationalise the pricing as also financing of various services. The second step may include exploring ways in which costs of services can be allocated to beneficiaries and charged for. The rates of fee should be adequate enough to cover the cost of regulation and supervision of these activities. The collection system should be made more efficient.

The administrative inefficiency directly affects both the financial and physical performance of Municipal bodies. In most of the local bodies in India, barring a few local bodies belonging to the States like Maharashtra, Gujarat, and Karnataka, revenue collection ratio is generally poor. Besides being inefficient, many of the local bodies have also been notorious for corruption. This suggests that there is a need to increase the standards of administration.

Lack of training and incentives to the Municipal staff and non-vigilant public result in an overall inefficiency in the management of Municipal activities. To improve the efficiency of Municipal administration, it is suggested to enforce performance obligation on them. Penalty/rewards for bad/good performance may be incorporated in the grants structure for local bodies.

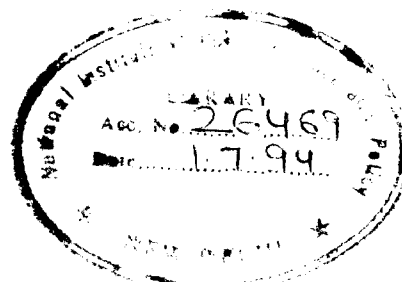




Table III.1

Growth in Revenue and Expenditure of Municipal Bodies: by Major States  
(between 1974-75 and 1979-80)

(at current prices) (Rs. million)

States	1974-75			1979-80			Percent Variation between 1974-75 to 1979-80	
	Revenue	Expenditure	Revenue surplus and deficit (-)	Revenue	Expenditure	Revenue surplus and deficit (-)	Revenue	Expenditure
Andhra Pradesh	291.9	165.2	126.7	532.9	446.4	86.6	82.6	170.2
Bihar	53.4	74.1	-20.7	73.3	85.9	-12.6	37.3	15.9
Gujarat	383.9	422.7	-38.8	798.8	800.8	-2.0	108.1	89.4
Haryana	54.4	63.1	-8.6	109.8	128.9	-19.2	101.7	104.5
Karnataka	205.2	234.0	-28.8	405.5	391.1	124.3	97.6	20.1
Kerala	91.8	65.2	26.5	175.3	123.0	52.2	90.6	88.6
Madhya Pradesh	184.6	177.9	6.7	361.7	320.2	41.5	95.5	79.9
Maharashtra	1340.3	1270.0	70.3	2696.0	2139.4	556.6	101.1	68.5
Orissa	48.6	46.7	1.9	72.8	86.3	-13.4	49.8	84.6
Punjab	62.0	56.0	6.0	149.6	103.9	45.7	141.3	85.3
Rajasthan	92.7	91.7	1.0	242.5	220.6	21.9	161.7	140.7
Tamil Nadu	369.6	378.7	-9.0	691.0	583.2	107.7	86.9	54.0
Uttar Pradesh	312.7	318.9	-6.2	534.8	540.5	-5.7	71.0	69.5
West Bengal	432.2	373.6	58.6	632.0	621.8	10.2	46.2	66.4
All State Average	280.2	267.0	13.3	534.0	463.0	71.0	90.8	81.3

Source: MIDA, 1982

Table III.2a

Growth in Revenue and Expenditure in Class I Municipal Bodies  
(between 1979-80 and 1986-87)

(at current prices) (Rs. million)

States	1979-80			1986-87			Percent Variation between 1979-80 to 1986-87	
	Revenue	Expenditure	Revenue surplus and deficit (-)	Revenue	Expenditure	Revenue surplus and deficit (-)	Revenue	Expenditure
Andhra Pradesh	255.0	164.6	90.4	674.1	585.2	88.9	164.4	255.5
Bihar	44.7	53.6	-8.9	12.4	21.6	-9.2	-72.1	-59.7
Gujarat	240.7	259.0	-18.3	750.9	721.8	29.1	212.0	178.7
Haryana	54.8	59.3	-4.5	125.9	109.6	16.3	129.5	84.7
Karnataka	80.3	57.7	22.6	421.5	482.3	-60.8	425.0	735.7
Kerala	102.2	70.5	31.7	130.7	171.0	-40.3	27.9	142.7
Madhya Pradesh	226.8	187.3	39.5	134.6	175.4	-40.8	40.7	-6.4
Maharashtra	366.7	338.6	28.1	1914.0	1677.3	236.7	422.0	395.3
Orissa	39.5	58.1	-18.7	176.6	149.4	27.1	347.5	157.1
Punjab	49.8	26.0	23.8	544.5	486.6	57.9	993.7	1770.1
Rajasthan	95.3	76.0	19.3	2430.1	213.0	2217.1	155.0	180.3
Tamil Nadu	240.6	154.5	86.2	305.0	345.1	-40.1	26.7	123.4
Uttar Pradesh	265.6	245.9	19.7	533.7	584.0	-50.3	100.9	137.5
West Bengal	200.5	197.7	2.8	51.5	35.5	16.0	-74.3	-82.0
All States Average	161.6	129.2	22.4	586.1	411.2	174.8	201.2	286.6

\* Revenue and expenditure data for Bihar, Madhya Pradesh and West Bengal seem somewhat abnormal. This appears to be due to the difference in sample size in 1993 and 1989 studies of the NICE. For capita income and expenditure figures presented in Tables 1.4(a) and 1.4(b) seem to support this view.

Source: NIOA, 1981 and 1989.

**Table III.2b**  
**Per Capita Revenue and Expenditure as Percentage of**  
**Per Capita Urban Income, 1986-87**

(in Rs.)

State	Per capita urban income	Per capita revenue	Per capita expenditure	As per cent of urban income	
				Revenue	Expenditure
1	2	3	4	5	6
Andhra Pradesh	5218.59	134.38	116.66	2.57	2.24
Bihar	5540.48	19.56	34.04	0.35	0.61
Gujarat	6515.80	256.83	246.87	3.94	3.79
Haryana	8841.74	115.46	100.52	1.30	1.14
Karnataka	4520.16	123.62	141.45	2.73	3.13
Kerala	7071.47	66.07	86.47	0.93	1.22
Maharashtra	7398.26	102.59	133.43	1.39	3.08
Madhya Pradesh	4335.42	335.63	294.12	7.74	3.98
Orissa	5102.57	154.72	130.96	3.03	2.57
Punjab	8573.27	208.20	180.05	2.43	2.17
Rajasthan	5020.41	81.82	71.72	1.63	1.43
Tamil Nadu	6412.84	105.70	119.61	1.65	1.87
Uttar Pradesh	6065.50	82.33	90.09	1.36	1.49
West Bengal	6397.29	49.94	34.41	0.78	0.54
All States Average	6215.27	131.20	127.17	2.27	2.09

Source: Columns 3 and 4 from NIOA (1989), rest is computed.

**Table III.3a**  
**Per Capita Revenue and Expenditure : by Major States**  
**(At current prices)**

(in Rs.)

States	Revenue			Expenditure		
	1974-75	1979-80	Increase or Decrease(-)	1974-75	1979-80	Increase or Decrease (-)
Andhra Pradesh	50.1	64.4	14.3	28.3	53.9	25.6
Bihar	16.0	14.3	-1.7	22.2	16.7	-5.5
Gujrat	78.0	119.1	41.1	85.9	119.4	33.5
Haryana	40.4	52.6	12.2	46.8	61.8	15.0
Karnataka	35.1	49.9	14.8	40.0	34.6	-5.4
Kerala	31.4	52.7	21.3	22.3	37.0	14.7
Madhya Pradesh	37.3	49.7	12.4	36.0	44.0	8.0
Maharashtra	113.1	165.5	52.4	107.2	131.4	24.2
Orissa	44.5	45.5	1.0	42.8	53.3	11.1
Punjab	44.8	79.4	34.6	40.5	52.2	11.7
Rajasthan	19.7	34.1	14.4	19.5	31.0	11.5
Tamil Nadu	44.7	58.6	13.9	45.8	49.4	3.6
Uttar Pradesh	33.7	41.4	7.7	34.4	41.8	7.4
West Bengal	47.4	55.5	8.1	41.0	54.6	13.6
All States average	45.4	63.1	17.7	43.8	55.2	12.0

Source: NITUA, 1982

Table III.3b

Per Capita Revenue and Expenditure: by Major States  
(At 1970-71 prices)

(in Rs.)

States	Revenue			Expenditure		
	1974-75	1979-80	Increase or Decrease	1974-75	1979-80	Increase or Decrease (-)
Andhra Pradesh	28.5	29.6	1.1	16.2	24.8	8.6
Bihar	9.1	6.6	-2.5	12.6 <sup>1</sup>	7.7	-4.9
Gujarat	44.5	54.8	10.3	49.0	54.9	5.9
Haryana	23.0	24.2	1.2	26.7	28.4	1.7
Karnataka	20.0	23.0	3.0	22.8	15.9	-6.9
Kerala	17.9	24.2	6.3	12.7	17.0	4.3
Madhya Pradesh	21.3	22.9	1.6	20.5	20.3	-0.2
Maharashtra	64.5	76.1	11.6	61.1	60.4	-0.7
Orissa	25.4	20.9	-4.5	24.4	24.8	0.4
Punjab	25.5	36.5	11.0	23.1	25.4	2.3
Rajasthan	11.2	15.7	4.5	11.1	14.3	3.2
Tamil Nadu	25.5	26.9	1.4	26.1	22.7	-3.4
Uttar Pradesh	19.2	19.0	-0.2	19.6	19.2	-0.4
West Bengal	27.0	25.5	-1.5	23.6	25.1	1.5
All States average	25.9	29.0	3.1	25.0	25.8	0.8

Source: NICA, 1983.

Table III.4a

Per capita Revenue and Expenditure of Class I Municipal Bodies: by Major States  
(At Current Prices)

(in Rs.)

States	Revenue		Increase or Decrease(-)	Expenditure		Increase or Decrease (-)
	1979-80	1986-87		1979-80	1986-87	
Andhra Pradesh	89.5	124.38	53.9	51.9	116.66	64.8
Bihar	15.0	19.56	4.6	18.0	34.04	16.0
Gujarat	100.0	256.83	156.8	108.0	246.87	138.9
Haryana	56.7	115.46	58.8	61.4	100.52	39.1
Karnataka	54.3	123.62	69.3	39.0	141.45	102.5
Kerala	56.8	66.07	9.3	39.2	86.47	47.3
Madhya Pradesh	60.4	102.59	42.2	49.9	133.43	83.5
Maharashtra	126.7	335.63	208.9	117.0	294.12	177.1
Orissa	45.8	154.72	109.1	67.2	130.96	63.8
Punjab	96.8	208.20	111.4	50.6	180.05	129.5
Rajasthan	41.7	81.82	40.1	33.2	71.72	38.5
Tamil Nadu	56.7	105.70	49.0	36.4	119.61	83.2
Uttar Pradesh	42.7	82.33	39.6	39.5	90.09	50.6
West Bengal	42.5	49.94	7.4	41.5	34.41	-7.1
All States average	59.6	131.10	71.5	53.8	127.60	73.8

Source: NICA, 1989.

Table III.4b

**Per capita Revenue and Expenditure of Class I Municipal Bodies:  
by Major States (At 1970-71 Prices)**

(in Rs.)

States	Revenue			Expenditure		
	1979-80	1986-87	Increase or Decrease (-)	1979-80	1986-87	Increase or Decrease
Andhra Pradesh	37.0	34.3	-2.7	23.9	38.9	15.0
Bihar	6.9	4.5	-2.4	8.3	9.2	0.9
Gujarat	46.2	60.2	14.0	49.7	65.0	15.3
Haryana	26.1	33.4	7.3	28.2	31.4	3.2
Karnataka	25.0	28.9	3.9	17.9	42.9	25.0
Kerala	26.1	15.9	-10.2	18.0	23.3	5.3
Madhya Pradesh	60.4	23.2	-37.2	23.0	38.1	15.1
Maharashtra	58.3	77.1	18.8	53.8	81.7	27.9
Orissa	21.0	36.1	15.1	30.9	34.5	3.6
Punjab	44.5	67.0	22.5	23.3	64.1	40.8
Rajasthan	19.2	21.6	2.4	15.3	20.5	5.2
Tamil Nadu	26.1	22.9	-3.2	16.7	37.4	20.7
Uttar Pradesh	19.7	12.4	-7.3	18.2	25.7	7.5
West Bengal	19.6	10.8	-8.8	19.3	10.4	-8.9
All States average	29.4	32.4	3.0	24.8	37.4	12.6

Source: NIOA, 1989.

Table III.5

## Structure of Revenue of Local bodies: by Major States

(per cent)

States	Tax Revenue		Non-Tax Revenue		Ordinary Grants*		Total Ordinary Income	
	1974-75	1979-80	1974-75	1979-80	1974-75	1979-80	1974-75	1979-80
	Andhra Pradesh	65.6	50.4	8.8	8.7	25.5	40.9	100
Bihar	50.5	49.7	7.8	10.2	41.7	40.1	100	100
Gujarat	77.1	75.2	9.7	7.2	13.2	17.4	100	100
Haryana	82.1	79.4	16.2	15.2	1.7	5.4	100	100
Karnataka	62.2	33.9	14.7	11.1	23.1	55.0	100	100
Kerala	59.0	70.1	31.1	16.8	9.9	13.1	100	100
Madhya Pradesh	85.5	83.8	5.9	6.1	8.6	10.1	100	100
Maharashtra	77.1	25.6	11.1	10.2	11.8	64.2	100	100
Orissa	42.5	46.8	18.7	12.2	38.8	41.0	100	100
Punjab	85.1	89.4	8.3	8.5	6.4	2.3	100	100
Rajasthan	85.2	82.1	11.3	8.0	3.5	9.9	100	100
Tamil Nadu	61.0	58.8	13.3	13.4	25.7	27.8	100	100
Uttar Pradesh	60.3	64.8	18.2	12.1	21.5	23.0	100	100
West Bengal	48.0	40.0	22.2	9.8	29.8	50.2	100	100
All States Average	67.2	60.7	14.0	10.7	18.7	28.6	100	100

Note : \* includes shared taxes.

Source: NICA, 1983.



Table III.6

## Structure of Revenue of Class I Municipal Bodies

(Per cent)

States	Tax Revenue		Non-tax Revenue		Ordinary grants		Total ordinary Revenue	
	1979-80	1986-87	1979-80	1986-87	1979-80	1986-87	1979-80	1986-87
	Andhra Pradesh	46.1	26.3	9.7	23.6	45.2	50.0	100.0
Bihar	58.0	30.5	10.1	16.6	31.9	53.0	100.0	100.0
Gujarat*	74.4	64.4	5.2	10.6	20.4	25.0	100.0	100.0
Haryana	80.0	49.9	17.2	20.7	2.8	29.4	100.0	100.0
Karnataka	42.8	54.8	7.3	19.8	49.9	25.0	100.0	100.0
Kerala	75.4	63.4	13.7	20.2	10.9	17.0	100.0	100.0
Madhya Pradesh	22.6	42.1	11.5	14.4	66.0	44.0	100.0	100.0
Maharashtra*	73.0	59.5	6.0	7.4	20.9	33.0	100.0	100.0
Orissa*	40.9	56.6	13.4	9.1	45.7	36.0	100.0	100.0
Punjab	92.9	78.5	5.4	13.1	1.7	8.4	100.0	100.0
Rajasthan*	85.4	74.6	5.0	11.3	9.6	14.0	100.0	100.0
Tamil Nadu	58.1	25.3	13.6	34.7	28.3	40.0	100.0	100.0
Uttar Pradesh*	64.3	52.6	13.7	9.4	22.0	38.0	100.0	100.0
West Bengal	28.5	33.1	5.2	3.7	66.3	63.0	100.0	100.0
All States Average	60.2	50.8	9.7	15.3	30.1	34.0	100.0	100.0

Note: \* Octroi collecting States.

Source: NIOA, 1983 and 1989.

Table III.7

## Per Capita Non-Tax Revenue of Local Bodies by Major States

(in Rs.)

States	Current prices		Constant prices		For Class I Municipalities			
					Current prices		Constant prices	
	1974-75	1979-80	1974-75	1979-80	1979-80	1986-87	1979-80	1986-87
Andhra Pradesh	4.4	5.6	2.5	2.6	7.0	31.8	10.6	3.2
Bihar	1.2	1.5	0.7	0.7	1.5	3.2	0.9	0.7
Gujarat	7.6	8.6	4.3	4.0	5.1	27.3	7.2	4.0
Haryana	6.5	8.0	3.7	3.7	9.8	23.9	7.5	4.5
Karnataka	5.2	5.6	2.9	2.6	4.0	24.4	7.4	1.9
Kerala	9.8	8.9	5.6	4.1	7.8	13.4	3.6	3.6
Madhya Pradesh	4.1	5.1	2.4	2.3	6.9	14.8	4.2	3.2
Maharashtra	6.7	10.1	3.8	4.7	7.6	24.9	6.9	3.5
Orissa	8.3	5.6	4.7	2.6	6.1	12.6	3.3	2.8
Punjab	3.8	6.6	2.2	3.0	5.2	27.2	9.4	2.4
Rajasthan	2.2	2.7	1.3	1.3	2.1	9.3	2.6	1.0
Tamil Nadu	6.0	7.9	3.4	3.6	7.7	36.7	11.5	3.5
Uttar Pradesh	6.1	5.0	3.5	2.3	5.9	7.7	2.2	2.7
West Bengal	10.6	5.4	6.0	2.5	2.2	1.9	0.6	1.0
All States Average	5.9	6.2	3.4	2.9	5.7	18.5	5.6	2.7

Source: NTOA, 1983 AND 1987

Table III.8

## Structure of Non-tax revenue of Local bodies: by Major States

(Per cent)

States	Rents & Prices		Fees & Fines		Betterment Levy		Total Non-tax Revenue		Percent Variation Between 1974-75 to 1979-80			
	1974-75	1979-80	1974-75	1979-80	1974-75	1979-80	1974-75	1979-80	Rents & Prices	Fees & Fines	Betterment Levy	Total
	Andhra Pradesh	30.0	44.8	68.5	50.8	1.5	4.4	100.0	100.0	169.2	33.7	440.0
Bihar	52.3	68.0	44.5	29.7	3.2	2.4	100.0	100.0	134.7	20.5	32.6	80.6
Gujarat	82.0	69.6	15.2	27.7	2.7	2.7	100.0	100.0	30.8	180.3	52.1	54.1
Haryana	41.5	42.1	57.0	51.1	1.5	6.9	100.0	100.0	92.0	69.8	746.2	89.4
Karnataka	63.6	58.3	26.6	35.6	9.7	6.1	100.0	100.0	37.2	100.1	- 5.7	49.8
Kerala	82.9	53.7	17.8	45.6	0.4	0.7	100.0	100.0	- 32.2	165.6	97.2	3.4
Madhya Pradesh	69.9	59.3	27.1	32.5	3.0	8.2	100.0	100.0	53.9	117.2	399.8	81.3
Maharashtra	57.7	45.5	40.5	53.2	1.8	1.3	100.0	100.0	64.4	173.9	49.9	108.5
Orissa	40.7	44.1	23.8	38.7	35.5	17.2	100.0	100.0	6.0	59.3	- 52.6	- 2.1
Punjab	68.2	58.4	28.3	38.3	3.5	3.3	100.0	100.0	101.1	217.7	125.1	134.9
Rajasthan	51.0	42.4	28.5	31.1	19.5	26.5	100.0	100.0	53.3	94.8	152.0	84.8
Tamil Nadu	47.4	42.7	47.2	53.4	5.4	3.9	100.0	100.0	69.5	112.9	35.7	88.1
Uttar Pradesh	75.1	68.9	24.9	29.2	0.0	1.9	100.0	100.0	4.7	33.7	4578.7	14.0
West Bengal	16.7	87.8	82.6	10.3	0.7	1.9	100.0	100.0	237.8	- 82.0	71.7	- 35.8
All States Average	55.6	56.1	36.0	37.7	6.3	6.2	100.0	100.0	73.0	92.0	480.2	59.4

Source: NIOA, 1983.

Table III.9

Distribution of Non-Tax Revenues in the Sampled  
Class I Cities\*, 1986-87

Non-tax Components	Total Receipts	Average Receipts per Urban Centre	% Total
User charges	3543	236	4.3
Fees & Fines	10889	726	15.2
Rents & prices	57397	3827	73.9
Total	71829	4789	100.0

Note: \* Data pertain to 15 urban Centres. Source: NIUA, 1989.

Table III.10

Per Capita Non-Tax Revenue as Percent of  
Per Capita Urban Income

State	1974-75	1979-80	1986-87	Average
	NTR as % of urban income	NTR as % of urban income	NTR as % of urban income	
Andhra Pradesh	0.22	0.31	0.61	0.38
Bihar	0.06	0.33	0.06	0.15
Gujarat	0.33	0.21	0.42	0.32
Haryana	0.26	0.35	0.27	0.29
Karnataka	0.32	0.42	0.54	0.43
Kerala	0.37	0.44	0.19	0.33
Madhya Pradesh	0.24	0.28	0.20	0.24
Maharashtra	0.25	0.25	0.57	0.36
Orissa	0.34	0.40	0.25	0.33
Punjab	0.14	0.18	0.32	0.21
Rajasthan	0.14	0.34	0.19	0.22
Tamil Nadu	0.35	0.49	0.57	0.47
Uttar Pradesh	0.33	0.42	0.13	0.29
West Bengal	0.47	0.30	0.03	0.27
Average	0.27	0.33	0.30	0.31

Table III.11  
Percentage Composition of Total Revenue Receipts

State	1985-86			1986-87			1987-88			1988-89			1989-90			Average (1985-86 to 1989-90)		
	Tax Revenue	Non-Tax Revenue	State Transfer	Tax Revenue	Non-Tax Revenue	State Transfer	Tax Revenue	Non-Tax Revenue	State Transfer	Tax Revenue	Non-Tax Revenue	State Transfer	Tax Revenue	Non-Tax Revenue	State Transfer	Tax Revenue	Non-Tax Revenue	State Transfers
Kerala							55.30	25.80	18.90									
Tamil Nadu				38.30	24.00	14.80												
Maharashtra	77.29	10.42	12.29															
Gujrat				63.00	13.50	18.50	27.56	9.37	63.08									
West Bengal	31.64	10.83	57.54	26.76	8.16	65.08	25.94	6.89	67.17	24.88	3.17	66.95	27.56	9.37	63.08	27.36	8.63	63.95
Andhra Pradesh	52.70	14.00	33.30															
In Per Capita Terms:																		
West Bengal (Rs.)	16.14	5.52	29.35	17.82	5.44	43.35	18.42	4.89	47.69	19.31	6.34	51.96	20.76	7.05	47.50			
Maharashtra (Rs.)	330.30	44.60	52.60															

Source: 1. West Bengal data are taken from the Second Municipal Finance Commission, West Bengal.  
2. Data for the State of Gujarat, Tamil Nadu and Maharashtra are from a NIPFP study on "Devolution of Funds from State to Local Governments", 1992.  
3. Remaining data are from Rao (1992).

Table III.12

**Revenue Composition of Municipal Bodies  
of Some States (1986-87)**

(Per cent)

States	Own Source Revenue			Transferred Revenue			Total Revenue
	Tax	Non-Tax	Total	Grants	Shared Taxes	Others	
1. Andhra Pradesh	26	24	50	27	11	12	100
2. Gujarat	64	11	75	14	4	7	100
3. Karnataka	55	20	75	3	8	14	100
4. Kerala	63	20	83	6	11	-	100
5. Madhya Pradesh	42	14	56	23	2	19	100
6. Maharashtra	60	7	67	16	5	12	100
7. Orissa	56	8	64	24	-	12	100
8. Rajasthan	75	11	86	7	-	7	100
9. Tamil Nadu	25	35	60	9	29	2	100
10. Uttar Pradesh	53	9	62	28	1	9	100
11. West Bengal	33	4	27	34	29	-	100

Source: T.K. Banerjee, 1991.

## CHAPTER IV

The present chapter looks at the trends in revenue income of Urban Local Bodies (ULBs) in West Bengal over the period 1985-90 with a view to assess their financial status and relative importance of various revenue sources. It incorporates a detailed study of the income generated through non-tax sources in West Bengal and highlights the importance of non-tax revenue as a promising means of supplementing the income of municipalities.

### I. Introduction

In West Bengal, as in all other states, municipalities have to perform a variety of functions like looking after public health, sanitation, education, public works, provision of water and electricity etc. But the financial resources available to the municipalities do not in any way match their requirements as the municipalities are tapping only a small fraction of the potential yield from tax and other sources. Moreover, new avenues for additional resource mobilisation are limited. Consequently, municipal services are inadequate and service standards are low. Added to this is the problem of rapid population growth and urbanisation, which adds to the burden of responsibilities of the ULBs.

In structural pattern and organisation the ULBs in West Bengal are similar to those in other parts of India but in regard to their functions, scope for revenue generation, expenditure on public services, efficiency in revenue collection and overall financial management the municipalities in West Bengal differ from their counterparts in other states. West Bengal has followed an orthodox pattern of income generation at the municipal level relying mainly on its tax revenue (Property tax) and making up for the shortage of funds through grants



from the Central and State governments. The financial appraisal of the ULBs (done before the allocation of IDA assistance for CUDP-III) summed up the situation as follows:

- a. Resource mobilisation efforts of the ULBs from their own revenue sources were, in general, far from adequate and there were wide variations in their relative performance.
- b. Notwithstanding limited internal sources of revenue, only a small portion of the potential revenue was being exploited; properties were grossly undervalued (for the purpose of Property tax), tax collection was generally poor, no user charges were collected and revenue earning schemes like markets and slaughter houses were regularly running at a loss.
- c. ULBs continued to depend on transfers from the State.

There has not been any significant improvement in the financial status of ULBs in West Bengal since the 1980's; their revenue income figures, are a sufficient indicator (see table below).

#### Total Revenue Income of Urban Local Bodies in West Bengal

(Rs. in '000)

	1985-86	1986-87	1987-88	1988-89	1989-90
CMA	190568	253324	278435	308670	300621
Non-CMA	176994	241834	266530	306934	317409

#### II. Methodology

Our analysis is carried out at various levels. The data covers a total of 91 ULBs which we have put into two broad groups : the CMA municipalities and the non-CMA ULBs. Another classification that we have used is the IDSMT municipalities and the non-IDSMT ones. For each of these classifications, we will compare the performance of the two groups. Differences, if any, will be discussed in the light of the CMA-non-CMA disparity in per capita investment, development efforts etc. and the impact of the IDSMT grants. We will also explore the link

between size and performance of ULBs and test the assumption that bigger sized municipalities are likely to have better income and better overall management. For this purpose, all ULBs are grouped into three classes : Class A, B and C in descending order of population<sup>8</sup> (irrespective of whether they are CMA or non-CMA, IDSMT or non-IDSMT towns). We will also compare the performance of the three classes within CMA and a similar exercise will be done for Class A, B, C within non-CMA. For each of these exercises, we will look at the per capita revenue income and will also assess the relative importance of each tax and non-tax source by looking at its % share in total revenue of the municipality. Finally, we will select a few ULBs which seem to be doing better or worse than their class average and look at their non-tax earnings in detail. We will try to identify the exogenous and indigenous factors that may have contributed to the financial performance of these ULBs and bring out the need to give due importance to non-tax revenue options in these ULBs.

### III. Trends in Municipal Finance : A Classwise Analysis of ULBs in West Bengal

We start by looking at the classwise revenue figures for the years 1985-90 in order to compare the income levels of municipalities in the three classes : A, B, and C. The only criterion for comparison is the size of the ULB (based on population). Class B is doing the best among the three classes, with the highest per capita figures for each of the components of total revenue: Property tax, non-tax revenue, grants and other transfers (see Table IV.1). Class C has the lowest per capita revenue income in all the five years. Though revenue income is low in general in West Bengal ULBs, there has been some growth over the years. In Class A ULBs, total revenue per head rose by roughly 10 per cent per annum, from Rs 50 in 1985-86 to Rs 75.18 in 1989-90. In Class B there was increase of Rs 27.36 per capita in this five year period. For Class

8. Class A ULBs have population of 1 lakh and above, Class B includes ULBs with population between 50,000 and 99,999 and Class C has ULBs with population below 49,999.

C the per capita figures were much lower to begin with (only Rs 42 in 1985-86) and they remained lower than other classes, being only Rs 62.41 in 1989-90.

Table IV.1

Per Capita Revenue Income in Class A, B, C Municipalities in West Bengal

(Rs.)

Years	Property Tax	Other Taxes	Total Tax Revenue	Non Tax Revenue	Own Source Revenue	Shared Taxes	Other Grants	Tot. Revenue Transfers	Total Rev. Income
Class A Total	1985-85	14.99	1.22	16.22	6.01	22.23	12.96	15.29	50.49
	1986-87	17.88	1.35	19.23	5.70	24.92	21.84	43.51	68.43
	1987-88	18.94	1.60	20.54	4.31	24.84	26.84	46.87	71.71
	1988-89	19.82	1.67	21.49	5.63	27.12	28.90	52.13	79.25
	1989-90	19.39	1.79	21.18	6.60	27.79	25.70	47.39	75.18
Class B Total	1985-85	18.34	1.01	19.36	5.68	25.04	13.18	19.64	57.86
	1986-87	17.35	1.28	18.63	6.07	24.69	21.29	47.51	72.20
	1987-88	17.54	1.49	19.03	6.67	25.70	27.58	52.78	78.48
	1988-89	18.76	1.54	20.31	8.25	28.56	28.33	56.11	84.66
	1989-90	23.74	1.60	25.34	8.21	33.54	25.65	51.67	85.22
Class C Total	1985-85	10.07	1.06	11.14	4.12	15.25	11.72	15.03	42.00
	1986-87	12.37	1.08	13.45	3.92	17.37	17.34	36.93	54.30
	1987-88	11.67	1.20	12.87	3.68	16.55	21.24	42.30	58.85
	1988-89	12.00	1.31	13.31	5.24	18.55	23.88	45.88	64.43
	1989-90	12.44	1.36	13.79	6.44	20.23	21.11	42.18	62.41

For per capita revenue from internal sources (comprising tax and non-tax revenue) the earnings are again highest for Class B and lowest for Class C (never above Rs 20.23 per capita during the period 1985-90). Non-tax revenue in per capita terms is uniformly low over all three classes; it was Rs 6.01 in 1985-86 for Class A, went down to Rs 4.31 in 1987-88 and rose again to reach Rs 6.60 in 1989-90. For Class B, the non-tax revenue figures show a consistent though gradual increase, going up above Rs 8 in the last two years (88-89 and 89-90). Class C has much

lower figures with non-tax revenue averaging Rs 3 over 1985-90. Thus for all three classes of Municipalities per capita income from all sources is extremely low.

Percentage composition of Total Revenue receipts (Table IV.2) brings out the poor contribution of tax and non tax sources vis-a-vis Revenue Transfers. The trends over 1985-90 show that municipalities of the smallest class size (Class C) have the highest proportion of Revenue Transfers along with the lowest proportion of revenue from their own sources of income. Class A and B have roughly similar figures, with Class A showing marginally higher own source income. Also Property Tax contributes roughly 26% to Total Revenue in Class A and 23% in Class B. Non-tax revenue forms only about 8.5% of Total Revenue in Class B (which shows the highest non-tax earnings) while it is slightly lower in Class A and C. The range of non-tax revenue is between 6% and 11% in any year for all three Classes, which is a clear indicator of the need to exploit this revenue source more effectively.

Table IV.2

Percentage Composition Of Total Revenue Income in Class A , B , C Municipalities in West Bengal

		Property Tax/ Rev.Income	Other Taxes/ Rev.Income	Tot.Tax Rev/ Rev.Income	NonTax Rev/ Rev.Income	OwnSource Rev/Rev Inc	Shared taxes/ Rev.Income	OtherGrants Rev.Income	Rev.Transfers/ Rev.Income	
Class A Total	1985-85	29.70	2.43	32.13	11.91	44.04	25.67	30.29	55.96	100.00
	1986-87	26.13	1.97	28.09	8.33	36.42	31.91	31.67	63.58	100.00
	1987-88	26.41	2.23	28.64	6.01	34.64	37.42	27.93	65.36	100.00
	1988-89	25.01	2.11	27.12	7.10	34.22	36.47	29.32	65.78	100.00
	1989-90	25.79	2.39	28.18	8.78	36.96	34.19	28.85	63.04	100.00
Class B Total	1985-85	31.70	1.75	33.45	9.82	43.28	22.77	33.95	56.71	100.00
	1986-87	24.03	1.77	25.80	8.40	34.20	29.48	36.32	65.80	100.00
	1987-88	22.35	1.90	24.25	8.50	32.74	35.14	32.12	67.26	100.00
	1988-89	22.16	1.82	23.98	9.74	33.73	33.47	32.20	66.27	100.00
	1989-90	27.85	1.88	29.73	9.63	39.36	30.10	30.54	60.64	100.00
Class C Total	1985-85	23.98	2.53	26.51	9.80	36.31	27.91	35.79	63.69	100.00
	1986-87	22.78	1.99	24.77	7.22	31.99	31.93	36.08	69.01	100.00
	1987-88	19.84	2.83	21.87	6.25	28.12	36.09	35.79	71.28	100.00
	1988-89	18.63	2.83	20.66	8.13	28.79	37.06	34.55	71.21	100.00
	1989-90	19.83	2.17	22.10	10.32	32.41	33.83	33.72	67.55	100.00

The above data reveals that (a) it is not necessarily true that the largest ULBs will show the best financial performance. Though Class A ULBs are the biggest, in West Bengal they are not doing as well as Class B ULBs. However, there may be some relationship between size and revenue status of municipalities, in the sense that the smallest class size of ULBs (Class C) is generally seen to be in a weaker financial position all through. (b) The major portion of Total Revenue consists of Revenue Transfers including Shared Taxes and grants and reliance on internal sources is well below 50%, irrespective of city size. (c) Property tax is the main source of tax revenue and it forms roughly the same proportion of Total Revenue in all the three Classes. (d) Non-tax revenue is, at best, Rs 6 or Rs 7 in each of the Classes and remains low throughout the period 1985-90.

#### IV. Composition of Revenue Income : A CMA vs Non-CMA Comparison

Urban local bodies are expected to manage their finances in such a way that they have as much of their own income (from taxes and non-tax schemes) as possible and this should then be supplemented by revenue transfers from State Governments and the Centre. The composition of total revenue income (see Table IV.3) shows that in most ULBs of both CMA and non-CMA, this is not so. Except for 1985-86, the own source revenue of CMA municipalities was only in the range of 30-34% of revenue income though for non-CMA, this range was higher. Grants were, accordingly, a higher proportion of total revenue in CMA than in non-CMA ULBs: a little over 66% of total revenue in CMA was from shared taxes and grants-in-aid during 1985-90 while in non-CMA the % share of revenue transfers was around 63% during the same period. The classwise data for internal and external sources of revenue income in CMA and non-CMA shows that in CMA, all classes have more or less the same % composition of total revenue income, with own sources contributing about one third

while the rest is made up through transfers. Thus in CMA municipalities, size and self-sufficiency in revenue income are not linked, as our data for five years shows.<sup>9</sup> In non-CMA, the % share of own source revenue varies from class to class, with the highest share in Class A (41% internal revenue on an average). Class B has 35% and Class C has 29% own source revenue.

Table IV.3  
Percentage Composition Of Total Revenue Income In CMA.

	Years	Prop Tax/ Rev. Income	*st. Tax/ Rev. Income	NonTax Rev/ Rev. Income	Own Source/ Rev. Income	Rev. Transfers/ Rev. Income	RR7/RR*
CMA Class A	1985-86	28.55	30.48	8.51	38.99	61.01	100.00
	1986-87	24.16	25.67	6.08	31.76	68.24	100.00
	1987-88	24.48	25.97	6.20	32.17	67.83	100.00
	1988-89	22.07	23.43	6.77	30.21	69.79	100.00
	1989-90	24.11	25.63	7.55	33.18	66.82	100.00
CMA Class B	1985-86	35.61	36.82	10.16	46.99	53.01	100.00
	1986-87	25.90	27.40	8.04	35.44	64.56	100.00
	1987-88	23.36	25.11	7.82	32.92	67.08	100.00
	1988-89	22.03	23.77	8.05	31.82	68.18	100.00
	1989-90	27.22	28.96	7.95	36.91	63.09	100.00
CMA Class C	1985-86	30.38	32.53	6.47	38.99	61.01	100.00
	1986-87	29.69	31.21	5.10	36.31	63.69	100.00
	1987-88	22.95	24.49	6.08	30.57	69.43	100.00
	1988-89	21.14	22.53	8.05	30.58	69.42	100.00
	1989-90	24.67	26.17	8.06	34.22	65.78	100.00
CMA Total Class A+B+C	1985-86	31.33	33.01	8.97	41.98	58.02	100.00
	1986-87	25.26	26.77	6.68	33.44	66.56	100.00
	1987-88	23.96	25.54	6.74	32.27	67.73	100.00
	1988-89	21.97	22.46	7.32	30.78	69.22	100.00
	1989-90	25.20	26.79	7.74	34.53	65.47	100.00

9. This is further confirmed by the per capita figures for Property tax, which are again similar in all three Classes of CMA, though one would normally expect higher Property tax earnings in larger sized municipalities.

Tax revenue generally includes Property tax; octroi (not applicable in West Bengal); tax on land and buildings and advertisements; taxes on trade and callings, registration of carts and animals; conservancy tax etc. Since the ULBs in West Bengal get their revenue income mainly through Property tax, we have taken two broad categories for total Tax Revenue : Property tax and other taxes. In CMA, Class A, B as well as Class C have a similar average of 26% tax revenue but in non-CMA, Class A has a distinctly higher proportion of tax revenue (32%), Class B has about 25% and Class C has the least, roughly 21%. It should be noted that the average tax revenue share for non-CMA as a whole is just over 26%, which is similar to the average for CMA (see Table IV.4). Also, except for Class A of non-CMA, the ULBs in other classes of non-CMA are doing worse in tax revenue generation as compared to their counterparts in CMA.

Table IV.4  
Percentage Composition Of Total Revenue Income In NON CMA

YEAR	Prop Tax/ Rev.Income	Tot.Tax Rev/NonTax Rev.Income	Rev/ OwnSource/ Rev.Income	Rev.Transfs/ Rev.Income			
NONCMA Class A	1985-86	31.35	34.49	16.81	51.30	48.70	100.00
	1986-87	28.86	31.46	11.45	42.90	57.10	100.00
	1987-88	29.32	32.66	5.72	38.38	61.62	100.00
	1988-89	29.32	32.53	7.57	40.10	59.90	100.00
	1989-90	28.22	31.85	10.55	42.40	57.60	100.00
NONCMA Class B	1985-86	26.82	29.25	9.40	38.65	61.35	100.00
	1986-87	21.87	23.95	8.83	32.77	67.23	100.00
	1987-88	21.29	23.35	9.21	32.56	67.44	100.00
	1988-89	22.29	24.20	11.44	35.64	64.37	100.00
	1989-90	28.42	30.42	11.12	41.54	58.45	100.00
NONCMA Class C	1985-86	21.95	24.61	10.86	35.47	64.54	100.00
	1986-87	20.30	22.46	7.98	30.44	69.56	100.00
	1987-88	18.71	20.92	6.32	27.23	72.77	100.00
	1988-89	17.74	20.00	8.16	28.16	71.84	100.00
	1989-90	18.26	20.67	11.11	31.78	68.22	100.00
NONCMA Class A+B+C	1985-86	27.38	30.16	12.83	42.98	57.02	100.00
	1986-87	24.43	26.75	9.72	36.47	63.54	100.00
	1987-88	23.75	26.35	7.06	33.41	66.59	100.00
	1988-89	23.80	26.31	9.02	35.34	64.66	100.00
	1989-90	25.57	28.29	10.91	39.19	60.81	100.00

In West Bengal, Property tax forms over 94% of the total Tax Revenue in CMA and about 90% in non-CMA. This tax has assumed additional importance as the major source of internal revenue at the municipal level because West Bengal is a non-octroi state. Thus, over 75% of the own source income of ULBs in CMA (and slightly less in non-CMA) comes from Property tax alone. Within CMA, Class B and C have only marginally lower figures for % of Property tax to total revenue as compared to Class A so we can say that irrespective of their size, all municipalities in CMA are earning a similar proportion of their income through the Property tax. In non-CMA, Class C displays poor performance in Property tax income relative to Class A and B. It is difficult to say anything about the relative performance of CMA and non-CMA ULBs on the basis of these figures because, on the one hand, Classes B and C of non-CMA have a lower share of Property tax (and therefore lower own source income and higher grants component) in total revenue than Class B and C of CMA while on the other hand, Class A of non-CMA has the highest % figures for Property tax (about 29%) among all CMA and non-CMA classes. All we can infer is that Property tax is nearly a quarter of the total income in all ULBs of CMA and non-CMA but its share in own source income is more important and larger in CMA municipalities. Revenue from 'Other taxes' which includes Tax on carriage, tax on trade and professions etc. is lower in CMA than in non-CMA. The third component of Own Source Revenue i.e. Non Tax Revenue, is again lower in CMA ULBs (about 20%) as compared to non-CMA ones, where it is 26% of the internal income. Thus, there is no clear cut trend to support the general belief that CMA municipalities are financially more self-sufficient and are earning higher revenue from their internal sources. The overwhelming importance of Property tax (which is clearly higher in CMA) tends to give the impression that CMA ULBs are better off, whereas for the less important sources of revenue such as non-tax and other taxes, it is the non-CMA ULBs which show higher share.



Non-tax revenue is obtained from user charges fees and fines and remunerative enterprises carried out by the municipal bodies. In West Bengal, there are no well-defined user charges for the services rendered by the municipalities or even the Municipal Corporations. There are nominal rates for water supply in the Calcutta Municipal Corporation (CMC) area but they are not levied efficiently and there is no system of water metering except for the ICI (institutional, commercial and industrial) category of consumers. The lack of user charges (which form the major component of non-tax revenue in other countries) leaves the municipal authorities in West Bengal with very few sources of non-tax revenue. Fees, fines and tolls bring in some revenue and Rents from municipal properties is an important source of revenue. In CMA, non-tax revenue forms only around 7% of total revenue and during the period 1985-90 it fluctuated around this low figure in Class A, B and C. In non-CMA municipalities, non-tax revenue has no clear trend. It was high in 1985-86 and 1989-90 but decreased substantially in the intervening years. Lack of sufficient data or details makes it difficult to explain why non-tax revenue varies from 5 to 16% of total revenue in non-CMA ULBs in this period of five years. Among the three classes of ULBs there is not much of a difference; non-tax income works out to an average of 10% for each class. The main findings of this analysis are (a) non-tax revenue does not show any significant contribution to the total revenue of the municipalities and the available data does not suggest a trend of improvement in non-tax income in the coming years unless some positive efforts are made in this direction (b) Non-tax revenue earnings, like all other sources of revenue discussed so far, seem to be unrelated to the size of the ULBs. (c) An interesting observation is that non-CMA municipalities have better non-tax income as compared to CMA, though this is not a stable source of income in non-CMA.

The third important component of revenue income of municipal bodies is revenue transfers, which in our study have been divided under two broad heads : Shared Taxes and Other Grants. In West Bengal, the

taxes which are shared by the State and municipal authorities include Entry tax, Entertainment tax and Motor Vehicle tax. Out of these taxes, Entry tax is the most important and 50% of it is shared by the CMDA. Shared taxes together form about half the revenue transfers; the other half comprises DA and ADA subvention, education grant and other grants. In Class A, B and C of CMA, about 65% of total revenue income is made up of revenue transfers but in non-CMA this figure is lower. In non-CMA, grants and shared taxes are highest in Class C followed by Class B and then Class A; in non-CMA the smaller ULBs have a higher share of external revenue in their total income than the bigger (Class A) municipalities.

Within non-CMA, ranking of the three classes with respect to proportion of own source revenue to Total Revenue is Class A, B, C (descending order) which is in reverse order to the ranking of these classes with respect to proportion of revenue transfers to Total Revenue, which is Class C, B, A. This brings out the link between performance of ULBs with respect to internal revenue generation and dependence on external sources of funds : where own source income is lowest, the municipalities receive the highest share of grants and other transfers. In both CMA and non-CMA we find this link but it is difficult to say whether the trend of low income generation through internal sources is continuing because of the high proportion of revenue transfers or whether the high dependence on external sources of revenue is caused by the poor state of finances in the ULBs as regards internal revenue. The ULBs in CMA have a 65 : 35 ratio of grants to own source revenue while in non-CMA this ratio is 60 : 40. In either case, this trend of increasing shares of revenue transfers is not good for the autonomy and financial health of the ULBs. The emphasis should be on generation of own source revenue rather than on dependence on grants from the State Government as a regular source of funds.

## V. A Classwise Analysis of Per Capita Revenue Income

In West Bengal, where most ULBs are facing a difficult financial situation, the task of raising additional revenue through all possible sources is extremely important. Revenue income from various sources has been increasing in both CMA and non-CMA, but it is still below that of many other states.

The rise in absolute level of total revenue receipts does not imply that the ULBs are now financially better off than earlier years. The present system of revenue mobilisation concentrates on a few major taxes and grants and is inadequate in providing for even the obligatory functions of the municipalities. Increase in population has kept the per capita income levels low in both big and small ULBs all over the State. Per-capita total revenue remained below Rs 80 in CMA and about Rs 70 in non-CMA on an average during the period 1985-90 (see Tables IV.5 & IV.6). Among the classes within CMA, Class B had the highest per capita non-tax revenue and this was a paltry sum, averaging Rs 6.50 in each of the five years. Class A and C had even lower non-tax revenue, which was not even one third of their per capita Property tax earnings. Revenue transfers were roughly Rs 50 per annum per capita in all three classes in the CMA region. Within non-CMA, per capita non-tax revenue was around Rs 7 for Class B (highest) and the least amount (Rs 5) was earned by Class C. Comparing this with the average per capita revenue from Property tax and Revenue Transfers, it is evident that non-tax revenue has never been exploited properly by the local bodies.

Table IV.5

## Per Capita Revenue Income in CMA Municipalities

	Years	Property Tax	Other Taxes	Total Tax Revenue	Non Tax Revenue	Own Source Revenue	Shared Taxes	Other Grants	Revenue Transfers	Total Revenue Income
CMA Class A	1985-86	15.00	1.01	16.02	4.47	20.45	14.74	17.31	32.06	52.55
	1986-87	17.02	1.07	18.09	4.29	22.38	25.19	22.89	48.08	70.46
	1987-88	18.76	1.14	19.91	4.75	24.66	30.25	21.75	51.99	76.65
	1988-89	18.55	1.15	19.70	5.69	25.39	32.63	26.05	58.67	84.07
	1989-90	19.15	1.21	20.37	6.00	26.37	28.16	24.94	53.09	79.46
CMA Class B	1985-86	22.75	0.78	23.53	6.50	30.03	16.10	17.78	33.87	63.90
	1986-87	20.05	1.16	21.21	6.22	27.43	26.73	23.24	49.97	77.40
	1987-88	18.90	1.41	20.31	6.32	26.63	33.27	21.00	54.27	80.90
	1988-89	18.90	1.49	20.39	6.90	27.29	34.29	24.18	58.47	85.76
	1989-90	22.27	1.42	23.69	6.50	30.19	29.93	21.68	51.61	81.80
CMA Class C	1985-86	13.92	0.98	14.90	2.96	17.86	15.15	12.79	27.95	45.81
	1986-87	18.99	0.98	19.96	3.26	23.22	24.34	16.39	40.74	63.96
	1987-88	15.75	1.06	16.81	4.17	20.98	31.40	16.25	47.65	68.63
	1988-89	15.29	1.00	16.30	5.83	22.13	33.14	17.08	50.22	72.34
	1989-90	16.95	1.03	17.98	5.54	23.52	27.70	17.49	45.19	68.70
CMA Class A+B+C	1985-86	17.42	0.93	18.35	4.99	23.34	15.22	17.03	32.25	55.59
	1986-87	18.20	1.09	19.29	4.81	24.10	25.60	22.36	47.96	72.06
	1987-88	18.49	1.22	19.71	5.20	24.91	31.35	20.93	52.27	77.18
	1988-89	18.30	1.24	19.55	6.10	25.65	33.22	24.46	57.68	83.32
	1989-90	19.90	1.26	21.16	6.11	27.26	28.67	23.02	51.70	78.96

Table IV.6

## Per Capita Revenue Income in NON CMA Municipalities

	YEAR	Property Tax	Other Taxes	Total Tax Revenue	Non Tax Revenue	Own Source Revenue	Shared Taxes	Other Grants	Revenue Transfers	Total Rev Income
NONCMA Class A	1985-86	14.98	1.50	16.48	8.03	24.52	10.62	12.65	23.27	47.79
	1986-87	18.99	1.71	20.70	7.53	28.23	17.49	20.08	37.58	65.81
	1987-88	19.16	2.18	21.35	3.74	25.09	22.45	17.83	40.28	65.36
	1988-89	21.43	2.35	23.78	5.54	29.31	24.14	19.64	43.79	73.10
	1989-90	19.69	2.53	22.22	7.36	29.58	22.59	17.59	40.18	69.76
NONCMA Class B	1985-86	13.88	1.26	15.14	4.87	20.01	10.23	21.53	31.75	51.76
	1986-87	14.66	1.39	16.05	5.92	21.96	15.85	29.20	45.06	67.02
	1987-88	16.20	1.57	17.77	7.01	24.77	21.96	29.36	51.32	76.09
	1988-89	18.63	1.59	20.23	9.56	29.79	22.54	31.27	53.80	83.59
	1989-90	25.15	1.77	26.92	9.85	36.77	21.54	30.20	51.73	88.50
NONCMA Class C	1985-86	8.98	1.09	10.07	4.44	14.51	10.75	15.66	26.41	40.92
	1986-87	10.46	1.11	11.57	4.11	15.68	15.31	20.52	35.83	51.51
	1987-88	10.47	1.23	11.71	3.53	15.24	18.24	22.48	40.73	55.97
	1988-89	11.01	1.40	12.41	5.06	17.47	21.08	23.49	44.57	62.04
	1989-90	11.04	1.46	12.50	6.72	19.21	19.08	22.17	41.25	60.46
NONCMA Class A+B+C	1985-86	12.82	1.30	14.13	6.01	20.14	10.55	16.16	26.71	46.85
	1986-87	15.08	1.43	16.51	6.00	22.51	16.34	22.88	39.21	61.72
	1987-88	15.56	1.71	17.27	4.62	21.89	20.98	22.65	43.63	65.52
	1988-89	17.28	1.82	19.10	6.55	25.66	22.70	24.25	46.95	72.60
	1989-90	18.45	1.96	20.41	7.87	28.28	21.14	22.73	43.87	72.15

Growth of the different components of revenue income has been fairly steady, though slower than what is required, during 1985-90. Per capita Property tax grew by about Rs 3 over the five years in most CMA municipalities except for Class B in which it decreased from Rs 22.75 in 1985-86 to Rs 18.90 in 1988-89 but rose again to Rs 22.27 in 1989-90. In non-CMA ULBs as well, Property tax showed an increase of only a few rupees, except in Class B where it almost doubled in these five years. Grants and shared taxes increased by roughly Rs 20 over the five years 1985-90 in both CMA and non-CMA. In comparison, non-tax revenue exhibited an increase of only Rs 2 or 3 in Class A and C of CMA while

Class B had the same per capita non-tax income throughout the five years. The increase in per capita non-tax revenue is steady over the years and in 1989-90 amounts to nearly one and a half times as much as its initial level in 1985. Nevertheless, the absolute level of non-tax revenue is so low that the increase does not help in providing large amounts of additional revenue for the ULBs which have huge revenue gaps. The present trend of steady growth of non-tax revenue in CMA municipalities combined with efforts to raise the per capita level above Rs 5-6 could turn non-tax revenue into an important and substantial source of income. In non-CMA growth of per capita non-tax revenue is more erratic, increasing in some years and falling in others. Class B is the only class of ULBs which shows a steady improvement in per capita non-tax income, which more than doubles from Rs 4.87 in 1985 to Rs 9.85 in 1989-90. Several things lead us to the conclusion that size of the ULBs is unrelated to their performance, especially on the non-tax front. Class B rather than Class A is doing the best in terms of highest non-tax revenue in both CMA and non-CMA. Though Class C (of both CMA and non-CMA) has lower absolute levels of per capita revenue, the growth rates in this class of ULBs are similar to other classes. Another point worth noting is that the difference between the three classes is more marked for Property tax and for transfers; for non-tax revenue the per capita levels are very similar to Class A and B. The per capita figures also serve to negate the belief that the CMA ULBs, due to their better infrastructure and personnel, would be in a more advantageous position to initiate and operate non-tax schemes. Here the results are just the opposite : the lowest per capita non-tax earnings in any Class of non-CMA are still higher than the lowest in CMA and the highest per capita non-tax revenue (Rs 9.85 in Class B of non-CMA) is higher than the non-tax earning in any Class of CMA municipalities.

So far we have looked at the classwise per capita revenue figures, which show that non-tax revenue vis-a-vis other sources is extremely low and though some middle size (Class B) ULBs show good growth in non-tax income, this source needs to be looked at more

seriously as a potential avenue for additional revenue generation. But this does not imply that all ULBs have low non-tax revenues. Some may show higher levels than the per capita average for the Class as a whole while some may have negligible earnings from non-tax schemes; the classwise picture does not reveal these things. The following section looks at the revenue data for individual municipalities in a little more detail.

The frequency table given below gives a rough idea of the spread of ULBs over various ranges of per capita non-tax revenue. In both CMA and non-CMA, the maximum concentration is around the two lowest Class Intervals of Rs 0 to 3 and Rs 3 to 6. (see Frequency Table IV.7)

Table IV.7

Frequency Distribution Of ULBs - Per Capita Non Tax Revenue

Class Intervals	1985-86		1986-87		1987-88		1988-89		1989-90	
	CMA	NonCMA	CMA	NonCMA	CMA	NonCMA	CMA	NonCMA	CMA	NonCMA
Rs.0-3	13	35	9	30	6	27	6	22	7	15
Rs.3-6	7	12	14	15	12	14	8	15	7	16
Rs.6-9	5	7	2	9	7	12	8	9	9	12
Rs.9-12	1	1	2	0	2	4	2	8	3	9
Rs.12-15	1	2	0	3	0	2	3	0	2	2
Rs.15-18	1	1	1	1	0	1	1	2	0	2
Above Rs.18	1	4	1	4	2	2	1	6	1	6

In CMA there seems to be a trend of improvement in non-tax per capita levels : the number of ULBs in the lowest Class decreased by more than half in the five year period and more ULBs moved to the middle range and some to the highest per capita non tax revenue Class Interval. In view of the fact that there is not so much of an upward movement of ULBs with respect to their per capita income from Property tax or other income, the trends in non-tax revenue are encouraging and should be given due notice by the municipal authorities. In non-CMA also, the Class Interval of Rs 6-9 shows the maximum increase in the number of ULBs over the five year period 1985-90. For revenue transfers<sup>10</sup>, there is a concentration of ULEs in the middle range, with a trend of ULBs moving out of the low per capita transfers category into the Class Intervals with high per capita revenue transfers. This latter trend should be discouraged by municipal authorities as greater dependence on transfers is not conducive to the financial well-being of ULBs.

To sum up, the above analysis brings out some useful results and their implications for further course of action by the municipal authorities. In particular, it must be recognised that though Property tax collection can be improved in order to obtain additional revenue, this source cannot be tapped beyond a certain limit; there is not much upward mobility of ULBs and Property tax would soon become a stagnant revenue source. On the other hand, non-tax revenue is still a relatively under-exploited source and trends point to substantial additional revenue if non-tax schemes are initiated in all ULBs and are maintained well. This will also reduce dependence on revenue transfers from the State.

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10. See Appendix Tables.



## VI. Non-Tax Revenue in Selected ULBs

We now look at the per capita revenue income of some ULBs and try to find out reasons for their better or worse financial status. A quick way of selecting the local bodies is to take class average for per capita non-tax revenue and pick out those ULBs which show non-tax revenue well above or below their class average. Using this criterion, the ULBs which had better than average non-tax revenue are Hooghly Chinsurah, Chandernagore, Uttarpara-Kotrung, Konnagar and New Barrackpore in CMA. In non-CMA, the municipalities which showed higher non-tax revenue are Cooch Behar, Darjeeling, English Bazar, Dinhata, Birnagar, Joynagar-Mazilpur, Katwa, Jangipur, Diamond Harbour and Old Malda.

There could be many reasons why non-tax revenue (per capita) is high in these ULBs. For most, like Chandernagore, Uttarpara, Konnagar etc. the high per capita non-tax revenue may be explained by their good overall performance in managing their finances. Chandernagore is a riverside town (earlier an important French settlement) which is actually a Corporation but for all practical purposes it is treated like a big municipality. Its population is lesser than that of most Class A municipalities and because its revenue income is in general higher, the per capita tax revenue and non-tax income also turns out higher than the other municipalities. New Barrackpore is the only Class C ULB in the CMA region which has per capita non-tax revenue higher than the Class C average (as high as Rs 13.37 in 1989-90) but its per capita Property tax earnings are not even half the Class C average. The major non-tax revenue comes from Fees for household connection of water and some from Rents. But this peculiarity is difficult to explain because we do not have more details about this municipality, its non-tax schemes etc.

Before going further, it is important to remember that though non-tax revenue is considered a promising source of revenue and greater exploitation of this source would provide the much needed funds for West Bengal municipalities, it cannot always be looked at as a ready solution to their financial problems. Non-tax revenue can be earned from schemes as varied as sale of manure, setting up municipal markets, dealings in real estate, fees, fines and charges for services. Out of these, only a few may be useful to implement in a certain ULB. Size, location, socio-economic background, management skills of the municipal authorities et. could be some of the reasons for the success of non-tax ventures in some municipalities while others of the same class have lower non-tax revenues. Cooc. Behar is one of the Class B towns in non-CMA which is earning perhaps the maximum amount of non-tax revenue. Due to its princely status till 1956, this municipality has had the advantage of good town planning and better infrastructural facilities like big roads. Rents from municipal property bring in the major portion of non-tax revenue. Property tax as well as other sources of revenue income are also high in this town.

High levels of industrial and other economic activities not only serve to raise the earnings from Property tax but are also conducive to greater non-tax earnings. Markets, dormitories and commercial complexes flourish in such towns and instances of this can be found in ULBs like English Bazar and Katwa. These towns are also important due to their status as District Headquarters and subdivisional H.Q. respectively and both have high levels of per capita non-tax revenue. Darjeeling is one of the smaller ULBs in terms of population but the per capita revenue from Property tax and other taxes is almost equal to the per capita non-tax revenue. Rents from municipal property contributes to the high non-tax revenue; this could perhaps be explained by the nature of the town -- Darjeeling is one of the most popular tourist spots in the region. ULBs like Mirik, which have potential for tourism, can also generate additional revenue through non-tax schemes like constructing

dormitories and developing markets and a lot depends on the municipal authorities, who must recognise and tap this potential source of revenue.

The issue of a link between size of the ULBs and their financial performance has been brought up many times during the course of this chapter. For non-tax revenue generation, one could expect that towns of a larger size (and hence having better provision of services) would be in a better position to charge for civic amenities and also to initiate various non-tax schemes. Smaller towns would have to depend more on outside funds or on conventional sources like municipal taxes. But this belief is proved false in cases like Joynagar-Mazilpur and Birnagar which are small ULBs, but their per capita non-tax revenue is above the

Table IV.8

Per Capita Revenue in Some Small Municipalities

Name of ULB	Years	Population	Property Tax (Per Capita)	Non-Tax Revenue (Per Capita)	Total Revenue Income (Per Capita)
Dinhata	1985-86	16.61	11.80	7.04	49.01
	1986-87	16.91	10.41	7.15	49.37
	1987-88	17.22	14.51	7.43	79.19
	1988-89	17.54	14.48	11.74	72.68
	1989-90	17.86	18.92	9.18	72.55
Birnagar	1985-86	17.62	3.01	6.19	33.55
	1986-87	18.13	2.92	6.51	41.76
	1987-88	18.66	5.04	8.31	57.02
	1988-89	19.20	4.79	10.00	51.71
	1989-90	11.05	8.41	5.16	39.90
Old Malda	1985-86	11.05	8.41	5.16	39.90
	1986-87	11.47	6.98	2.70	49.71
	1987-88	11.90	8.07	6.47	72.12
	1988-89	12.34	9.48	18.88	71.54
	1989-90	12.80	9.92	10.41	55.45

Class A average. Other small towns where per capita non-tax revenue is high are Dinhata (population around 17,000 in 1989-90) and Old Malda (about 12,000 population in 1989-90) and Diamond Harbour. In Birnagar and Old Malda we again come across the peculiarity that per capita non-tax revenue is well above the Class C average but per capita Property tax is below the class average, in fact in 1988-89 and 1989-90 Old Malda had higher per capita non-tax revenue than per capita Property tax revenue and the same was true for Birnagar in all the five years from 1985-86 to 1989-90. Lack of sufficient details-prevents us from making further comment on this. But if the data is indeed correctly reported then it opens up a host of issues related to the importance of non-tax revenue as only a supplementary source of municipal revenue as compared to Property Tax, which is considered the principal source of internal revenue for most ULBs. Also, the above examples are a reminder to other smaller municipalities that their poor performance and repeatedly low levels of per capita revenue cannot for long be justified on grounds of their being 'small towns'.

Advantages of better management and improved collection mechanism have helped in raising non-tax revenue by significant amounts. Towns doing well in this respect include Uttarpara, Barrackpore, Konnagar, Baruipur etc.

While it is heartening to come across instances (such as above) of municipalities which are able to achieve and sustain levels of per capita non-tax revenue much higher than the meagre amounts earned by most ULBs in West Bengal, it is still true that these 'success stories' form only a small percentage of the total number of municipalities. Poor non-tax income coupled with low Property tax revenue leave most ULBs with little choice but to depend on grants from the State and Central Government (whether such revenue from external sources is actually beneficial, especially in developing infrastructure and helping in additional non-tax revenue generation, will be discussed in the next section, when we take up the IDSMT towns).

There are quite a large number of municipalities even in the CMA region which show low per capita non-tax revenue, much lower than their class average. In Class A of CMA, which has an average per capita non-tax revenue of Rs 5 per annum, the municipalities which have non-tax revenue well below this amount include Naihati, Bhatpara, Garulia and Titagarh. In Naihati, per capita non-tax revenue remains around 85 paise in each of the five years (1985-90) and non-tax revenue comprises a maximum of 3 to 4% of total revenue receipts. The overall revenue income position is very poor as Property tax revenue is also less than half that of other ULBs in the same class. Garulia, which is also a Class A town, shows per capita Property tax revenue of less than Re 1 in four out of the five years for which we have data; its non-tax revenue is even lower. In all such municipalities, whatever little non-tax income is obtained, it is through Water fees, rents and service charges. In Garulia, some revenue is also obtained from tolls. Among Class B and C of CMA, poor non-tax income (in the range Rs 1 to 3) is found in Kanchrapara, Budge-Budge, Barasat and Uluberia. Except for Budge-Budge where per capita income from other sources is high, the rest of these ULBs have not only low non-tax revenue but low Property tax and other taxes and revenue as well.

Within non-CMA, the municipalities which have poor per capita non-tax revenue include Asansol, Durgapur (both Class A towns), Santipur and Chakdaha. Exceptionally low levels of non-tax revenue are found in Class C towns, notably Kurseong, Rampurhat, Gobardanga, Baduria etc. These towns have very low income levels and non-tax sources bring in negligible amounts of revenue: Asansol, Durgapur and some other ULBs have per capita Property tax revenue above the class average but in general, this along with other sources of revenue is still not adequate to meet the expenditure needs of the ULBs.

To conclude, the indications are clear : the root of the problem lies in the weak financial position of the ULBs. Property tax is the major internal source but is not enough. Non-tax revenue has never been

considered a major source of revenue, thus it continues to contribute insignificant amounts of revenue. Investment in infrastructure and non-tax revenue raising schemes is badly needed but the paucity of funds, coupled with lack of initiative prevents the ULBs from exploiting non-tax revenue sources to the full. Municipal authorities therefore need to focus especially on the financially weak municipalities and should pull them up to a reasonable level of per capita revenue income. This can be achieved through improvement in the collection of Property tax, better revenue generation through other taxes and most important, through introduction of non-tax revenue raising measures. Only when the internal financial position is strong will the ULBs be in a position to depend less on revenue transfers and will be able to provide better services.

#### **VII. Review of Trends in Revenue Income of IDSMT Municipalities**

The IDSMT is a centrally sponsored project which was launched in 20 municipal towns in West Bengal during the Sixth Plan. It now covers twenty six non-CMA ULBs. (see List of IDSMT towns in Appendix) The IDSMT was conceived as a project which would offer funds for augmentation of local infrastructural facilities and provide urban development in small and medium towns. The Government of India and West Bengal Government would each bear 50% of the cost of the project, which would cover development of major link roads, bus terminals, commercial complexes, tourist dormitories and the like, all of which would help in generation of more non-tax revenue and better urban services. It was thus expected that IDSMT ULBs would show higher revenue income, specially from non-tax sources. The grants led to substantial improvements in these towns and in setting up of revenue earning assets like municipal markets. This project has also given focus to the management aspect of developmental work through setting up a Review Committee involving local representatives to check the progress of various developmental

programmes and also tried to enhance the organisational capability of the municipalities by helping them build up the expertise to manage non-tax schemes.

When we look at the relative performance of various revenue sources, however, it is not immediately noticeable that IDSMT towns are better off or have higher non-tax income than the municipalities which did not have the benefit of the IDSMT grants. Data is available for 21 out of the 26 municipalities under the IDSMT projects. An analysis of their per capita revenue income over 1985-90 reveals that only nine of these ULBs had per capita non-tax revenue above their class average, six towns had below average non-tax revenue and only six were equal to their class average.

We first take up the ULBs which have lower non-tax revenue than is expected. Siliguri has a good dormitory and two markets have also been constructed with the grant money. Kharagpur has an auditorium cum dormitory and three medium sized markets while Bolpur also used the IDSMT grant for dormitories and markets which provide non-tax revenue through rents and Building Plan Sanction Fees. In Raiganj a bus terminal cum shopping complex was started but somehow, there were no non-tax earnings from this source and the investment went waste. Fees and rents form the meagre non-tax income of Habra where only a market was set up with the grant. Haldia (a Notified Area Authority) shows almost no non-tax revenue at all. Population growth is high in this town and the coming up of the new port and heavy investment in industrial infrastructure have led to some non-tax earnings in 1988-89 and 1989-90 (mainly through Building Plan Sanction fees and rents). In all these municipalities, despite the introduction of non-tax schemes using the IDSMT grants, financial position is weak and most non-tax measures have failed to generate the expected revenue.

There are some ULBs where the IDSMT grant has helped to improve non-tax revenue so that it matches the non-tax income of other ULBs in the same size class. For instance, in Kalimpong the dormitory that was constructed with the grant is the only major source of non-tax revenue and in Balurghat there are three market complexes which are doing very well. But for some other towns where total non-tax revenue is nearly the same as the class average, the credit cannot go to the IDSMT project. In fact, in these towns, the schemes set up under the IDSMT have been unsuccessful in generating sufficient non-tax revenue to make the schemes financially viable. A scheme to set up a Bus terminal in Krishnanagar has been a failure while in Bankura a by-pass road and a bridge over the river were constructed under the IDSMT project but these did not raise any non-tax income.

Among the successful projects (in terms of having helped to raise non-tax revenue levels) it has mostly been municipal markets, auditoriums and dormitories which have done well in raising the level of non-tax revenue, especially in Cooch Behar, English Bazar, Purulia and Arambagh. Bus terminals cum shopping complexes are another popular source of non-tax revenue (as in Tarakeshwar). Katwa is another ULB which has high non-tax earnings from bus stands and markets. It is an important trading centre (particularly for handlooms) and the IDSMT grant has helped in development of its markets. The grant has made it possible for the municipality to provide piped water throughout the town but revenue from water fees is nil due to problems in levying the fee in this ULB.

Thus we find that IDSMT towns exhibit varied patterns and levels of non-tax revenue; in some cases the grant has helped to lay the foundation for additional non-tax revenue generation while in others it has been a failure. This result has important implications: it is not enough to provide the capital to finance new revenue-raising schemes, it must also be seen that the grant is actually used for the purpose intended and that the venture is operated efficiently. There are various



problems which hindered the successful implementation of non-tax revenue measures under the IDSMT project and these problems could well be the reason why one finds such disparity in the levels of non-tax revenue earned by individual municipalities. Some of these are discussed below.

#### VIII. Problems in Generating Non Tax Revenue

Establishment of markets has been suggested as one of the simplest and most lucrative non-tax revenue raising options. The IDGMT grant was used to construct commercial complexes, auditorium cum markets etc. in almost all the twenty six towns under the IDSMT project. But in many cases the project was not implemented properly : stalls were isolated and markets were not developed in a well planned manner. Lack of supportive amenities like good approach roads, electricity etc. further prevented these markets from coming up in a big way and consequently, shops had to be let out at very low rents. For example, in Siliguri and English Bazar the net revenue generation from municipal markets turned out to be negative and only the cost of construction was recovered. Scarcity of space in prime locations is another problem that constrains ULBs from developing industrial estates and large shopping complexes through which they can earn high rents.

Though basic social services are provided (at varying levels of quality and quantity) by all ULBs, in West Bengal there are very few ULBs which are able to recover some non-tax revenue through charges for these services. Income from this source is difficult to identify (in many cases it is clubbed in the 'miscellaneous' category) and there are problems in levy and collection of service fees. In other countries, the municipal authorities find it easier to collect user charges because the system of charges is well defined and is in line with the quality and efficiency in provision of civic amenities. But in West Bengal, social services are of poor quality and even basic services like piped drinking water are not provided efficiently. Under such circumstances, it is difficult to conceive of a system of user charges whereby not only

costs but some additional non-tax revenue is recovered. Unwillingness to pay is not unjustified in most cases and the municipal authorities are well aware of the fact that in order to be able to collect user charges, they will first have to improve their performance with regard to their major responsibilities such as provision of civic amenities. Once this is done, the next step would be to develop an efficient system of monitoring and charging for consumption of these services. For instance, in Siliguri there are problems in household connection of water supply while in Jalpaiguri where the municipal authorities have recently taken over the responsibility of supplying water, there is as yet no system of charging for its use. (This problem will be taken up in detail in a later chapter). Similarly, there is no proper system for collection and disposal of garbage and hence no charges can be recovered for this.

Fees and fines are a regular source of non-tax revenue for ULBs. With the amendment of the Municipal Act (1980) which empowers municipalities in West Bengal to impose a Building fee and Parking fee, revenue from fees was expected to increase. But this source is still not significant as a non-tax revenue earner and part of the blame rests on the inefficient and non-uniform system of levy and collection in most ULBs. There should be periodic revision of the fees and fines and systematic attempts should be made to plug loopholes in the collection machinery.

Another common problem at the municipal level is lack of sufficiently trained manpower to introduce and operate non-tax schemes. For instance, dealings in real estate or sale of manure are two areas where municipalities could earn substantial amounts of non-tax revenue if they are well versed with the ways of managing these schemes. Hardly any ULB in West Bengal has opted for real estate activities and sale of manure etc. is still not popular as a non-tax revenue earning scheme. Trained efficient and innovative personnel can have a significant impact on improving the financial status of ULBs.

Other problems include locational disadvantages, which make certain non-tax projects unfeasible. Here again, the management capabilities of the municipal authorities are crucial. An example is the town of Raniganj. This is in a mining area and therefore it is difficult to set up large commercial complexes or carry on much construction activity and this reduces the non-tax revenue potential. However, the authorities have now started building light weight structure for stalls to overcome this problem and it is hoped that markets will develop well in this town.

#### IX. Summary of Results and Suggestions

1. There is not much of a difference (in terms of internal revenue generation) between CMA and non-CMA municipalities. Both depend on revenue transfers for well over 50% of their total revenue income, which implies an increasing trend of dependence on outside sources of funds.
2. Among own sources of revenue, Property tax is the only significant revenue source and contributes over three times as much as non-tax revenue in both CMA and non-CMA, though in per capita terms Property tax collection is slightly higher in CMA. Too much dependence on a single source of revenue is not advisable, specially since this tax source can be exploited only upto a limited extent.
3. Other taxes are insignificant in their contribution to the revenue income of ULBs in West Bengal. This could perhaps be attributed to the unusually heavy concentration on Property tax, which has led to neglect of other tax sources.
4. Non-tax revenue has throughout been a small and relatively unimportant proportion of total income in CMA and non-CMA municipalities. Non-tax earnings are, surprisingly, higher in non-CMA ULBs than in CMA ones but they are abysmally low in general. This in fact is an important result which municipal authorities need to give due

consideration. If non-CMA municipalities which are generally considered less developed in terms of infrastructure, can earn a certain amount of non-tax revenue then CMA ULBs definitely be able to do the same if not better. The lower percentage contribution of non-tax revenue to total revenue also points to the need to exploit this source more efficiently and fully, specially since most ULBs suffer from a chronic paucity of funds.

5. An interesting result that emerges from our analysis is that city-size and performance on the financial front have no clear relationship. Some of the smaller ULBs have better tax as well as non-tax earnings than towns of a larger size. This relationship (city size and revenue status) is particularly not true for non-tax revenue. We have taken class averages to single out the 'good' and 'bad' cases of non-tax revenue generation but it must also be kept in mind that these class averages are themselves quite low for West Bengal and are therefore not the normative levels of non-tax revenue.

6. Revenue transfers are the largest component of revenue income in all ULBs in West Bengal and they help to make up for the scarcity of revenue that is needed to carry out the responsibilities of ULBs. But apart from the issue of financial autonomy (which gets reduced as dependence on grants increases), it has been shown that in most cases, a grant to initiate developmental work and revenue-raising ventures often does not provide the solution. This is also true for the IDSMT project, which we have discussed in the last section.

Appendix Table

Frequency Distribution Of ULRs - Per Capita Revenue Transfers

Class Intervals	1985-86		1986-87		1987-88		1988-89		1989-90	
	CHA	NonCHA	CHA	NonCHA	CHA	NonCHA	CHA	NonCHA	CHA	NonCHA
Rs. 0-10	1	8	1	4	1	4	0	3	1	4
Rs. 10-20	1	9	0	4	0	3	1	1	0	4
Rs. 20-30	8	27	2	11	0	6	0	7	0	6
Rs. 30-40	11	6	3	22	3	10	2	15	6	14
Rs. 40-50	5	5	10	7	5	14	3	10	3	16
Rs. 50-60	2	4	8	2	12	10	10	10	10	5
Rs. 60-70	0	1	3	7	6	8	7	4	6	2
Above Rs. 70	1	2	2	5	2	7	6	12	3	11

## Appendix Table

## Frequency Distribution Of W.Ls - Per Capita Property Tax Revenue

Class Intervals	1985-86		1986-87		1987-88		1988-89		1989-90	
	CMA	NonCMA	CMA	NonCMA	CMA	NonCMA	CMA	NonCMA	CMA	NonCMA
	Rs. 0-10	6	37	6	30	5	29	5	22	4
Rs. 10-15	7	14	4	17	5	19	6	14	4	15
Rs. 15-20	3	5	6	8	6	5	6	8	8	6
Rs. 20-25	4	2	5	2	5	4	4	4	1	2
Rs. 25-30	6	3	4	3	5	3	4	3	4	3
Rs. 30-35	0	0	2	1	2	2	3	2	5	3
Rs. 35-40	2	1	1	0	0	0	0	2	2	1
Above Rs. 40	1	0	1	1	1	0	1	1	1	3

Appendix

YEAR	BUY.FEE	BLD.PLAN	PARKING		HH CORN.	RENT FR.	INC.FE.	FEES FR.	OTHERS		TOTAL
			FEE	TOLLS					WTR.FEE	PROPERTY	
-----											
CMA CLASS A	1985-86	0.14	0.03	0.15	0.54	0.96	0.34	0.00	0.34	1.97	4.47
	1986-87	0.17	0.04	0.13	0.04	1.38	0.44	0.00	0.39	1.68	4.29
	1987-88	0.23	0.05	0.06	0.02	0.98	0.64	0.00	0.53	2.25	4.75
	1988-89	0.28	0.06	0.14	0.04	1.11	0.61	0.00	0.78	2.69	5.69
	1989-90	0.22	0.05	0.12	0.07	1.01	0.70	0.00	0.91	2.92	6.00
-----											
CMA CLASS B	1985-86	0.13	1.13	0.03	0.09	1.04	0.37	0.00	1.96	1.74	6.50
	1986-87	0.20	0.40	0.03	0.10	1.15	0.43	0.00	2.49	1.42	6.22
	1987-88	0.27	0.46	0.12	0.11	0.67	0.64	0.02	1.80	2.23	6.32
	1988-89	0.30	0.73	0.38	0.12	1.09	0.60	0.01	1.44	2.23	6.90
	1989-90	0.28	0.72	0.03	0.11	0.71	0.82	0.02	2.17	1.64	6.50
-----											
CMA CLASS C	1985-86	0.09	0.14	0.09	0.00	0.81	0.45	0.00	0.23	1.15	2.96
	1986-87	0.22	0.19	0.09	0.00	0.55	0.32	0.00	0.56	1.32	3.26
	1987-88	0.27	0.20	0.12	0.00	0.90	0.41	0.04	0.59	1.63	4.17
	1988-89	0.33	0.20	0.13	0.00	1.04	0.29	0.00	0.90	2.34	5.83
	1989-90	0.28	0.29	0.12	0.01	1.13	0.82	0.00	0.92	1.96	5.54
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CMA TOTAL	1985-86	0.13	0.40	0.10	0.34	0.97	0.36	0.00	0.86	1.82	4.99
CLASS A+B+C	1986-87	0.19	0.17	0.10	0.05	1.23	0.43	0.00	1.09	1.56	4.81
	1987-88	0.25	0.20	0.09	0.05	0.87	0.61	0.01	0.95	2.18	5.20
	1988-89	0.29	0.29	0.21	0.06	1.10	0.57	0.00	1.01	2.57	6.10
	1989-90	0.25	0.29	0.09	0.07	0.93	0.75	0.01	1.32	2.40	6.11

## PER CAPITA NON TAX REVENUE IN NON CMA CLASS A , B , C &amp; NON CMA A+B+C

YEAR	MUT. FEE	BLD. PLAN FEE	PARKING FEE	HH CONN. TOLLS	RENT FR. WTR. FEE	INC. FR. PROPERTY	FEEES FR. BOS STD.	OTHERS SERVY	TOTAL	NON-TAX	
NONCMA CLASS A	1985-86	0.37	0.16	0.00	0.01	0.25	0.64	0.00	0.10	6.50	8.03
	1986-87	0.02	0.15	0.00	0.04	0.26	0.81	0.00	0.16	6.09	7.53
	1987-88	0.03	0.22	0.09	0.02	0.31	0.93	0.00	0.52	1.61	3.74
	1988-89	0.52	0.39	0.00	0.02	0.66	1.10	0.00	0.32	2.40	5.54
	1989-90	0.17	0.33	0.11	0.04	0.42	1.30	0.07	0.47	4.45	7.36
NONCMA CLASS B	1985-86	0.07	0.06	0.01	0.01	0.41	2.12	0.02	0.37	1.81	4.87
	1986-87	0.13	0.10	0.00	0.00	0.94	2.46	0.01	0.39	1.89	5.92
	1987-88	0.17	0.11	0.01	0.01	0.66	3.05	0.02	0.41	2.57	7.01
	1988-89	0.26	0.13	0.02	0.15	0.73	5.28	0.05	0.46	2.49	9.56
	1989-90	0.22	0.17	0.02	0.19	1.38	4.81	0.12	0.42	2.53	9.85
NONCMA CLASS C	1985-86	0.08	0.08	0.02	0.63	0.08	0.54	0.01	0.35	2.66	4.44
	1986-87	0.09	0.08	0.40	0.06	0.20	0.75	0.32	0.36	1.84	4.11
	1987-88	0.13	0.14	0.29	0.06	0.10	0.76	0.06	0.49	1.51	3.53
	1988-89	0.13	0.16	0.04	0.49	0.09	1.10	0.06	0.45	2.55	5.06
	1989-90	0.14	0.17	0.02	0.67	0.36	1.49	0.11	0.56	3.19	6.72
NONCMA A+B+C		0.19	0.11	0.01	0.20	0.24	1.04	0.01	0.25	3.95	6.01
		0.07	0.11	0.13	0.04	0.44	1.27	0.10	0.29	3.54	6.00
		0.10	0.16	0.13	0.03	0.35	1.49	0.02	0.43	1.86	4.62
		0.34	0.24	0.02	0.21	0.50	2.31	0.03	0.43	2.48	6.55
		0.17	0.23	0.06	0.29	0.68	2.38	0.10	0.49	3.48	7.87



## Composition Of Own Source Revenue-CMA &amp; NON CMA Municipalities

		Property Tax/ OwnSource Rev.	Other Taxes/ OwnSource Rev.	Tot.Tax Rev/ OwnSource Rev.	Non Tax Rev/ OwnSource Rev.	
CMA Class A	1985-86	73.22	4.95	78.17	21.83	100.00
	1986-87	76.08	4.77	80.84	19.16	100.00
	1987-88	76.10	4.63	80.73	19.27	100.00
	1988-89	73.06	4.52	77.57	22.43	100.00
	1989-90	72.64	4.59	77.24	22.76	100.00
CMA Class B	1985-86	75.79	2.58	78.37	21.63	100.00
	1986-87	73.08	4.24	77.32	22.68	100.00
	1987-88	70.96	5.30	76.26	23.74	100.00
	1988-89	69.23	5.47	74.70	25.30	100.00
	1989-90	73.75	4.71	78.46	21.54	100.00
CMA Class C	1985-86	77.92	5.50	83.42	16.58	100.00
	1986-87	81.77	4.20	85.97	14.03	100.00
	1987-88	75.05	5.06	80.12	19.88	100.00
	1988-89	69.13	4.53	73.67	26.33	100.00
	1989-90	72.07	4.39	76.46	23.55	100.00
CMA Total Class A+B+C	1985-86	74.64	4.00	78.64	21.36	100.00
	1986-87	75.52	4.52	80.04	19.96	100.00
	1987-88	74.23	4.90	79.13	20.87	100.00
	1988-89	71.37	4.85	76.22	23.78	100.00
	1989-90	72.98	4.61	77.59	22.41	100.00
NONCMA Class A	1985-86	61.12	6.12	67.24	32.76	100.00
	1986-87	67.27	6.05	73.32	26.68	100.00
	1987-88	76.39	8.71	85.10	14.90	100.00
	1988-89	73.11	8.00	81.11	18.89	100.00
	1989-90	66.56	8.56	75.12	24.88	100.00
NONCMA Class B	1985-86	69.39	6.28	75.68	24.32	100.00
	1986-87	66.73	6.33	73.06	26.94	100.00
	1987-88	65.38	6.33	71.72	28.28	100.00
	1988-89	62.55	5.35	67.90	32.09	100.00
	1989-90	68.40	4.81	73.22	26.78	100.00
NONCMA Class C	1985-86	61.90	7.48	69.38	30.62	100.00
	1986-87	66.70	7.09	73.79	26.22	100.00
	1987-88	68.70	8.10	76.80	23.19	100.00
	1988-89	63.01	8.01	71.02	28.97	100.00
	1989-90	57.47	7.58	65.06	34.97	100.00
NONCMA Class A+B+C	1985-86	63.69	6.47	70.16	29.84	100.00
	1986-87	66.99	6.36	73.35	26.65	100.00
	1987-88	71.08	7.79	78.87	21.13	100.00
	1988-89	67.35	7.11	74.46	25.54	100.00
	1989-90	65.24	6.94	72.17	27.82	100.00

## CHAPTER V

### FINANCING OF URBAN SERVICES

#### I. Introduction

Analysis in the preceding chapter has revealed that the growth in own source revenues of the local bodies is not commensurate with the growth in their current expenditure requirements. The failure of revenue receipts to cover even revenue spending of local bodies has resulted in deterioration of services. When grants are included, however, local bodies achieve budgetary balance or surplus.

As it is noted earlier, the mismatch between expenditure responsibilities and own source revenue need not wholly be on account of inadequate resource mobilisation efforts at the local level but equally on account of factors such as: provincialisation of local tax base and excessive regulation on revenue raising powers of local bodies. The practice of taking over local tax jurisdictions by the State governments is now common in most States in India. What is more, the revenue sources that are taken away are generally the more buoyant ones. This has resulted in increasing the dependence of local bodies on revenue transfers from the States.

The reasons for shifting revenue powers from local bodies to the States seem to lie in the reservations about the capabilities of local bodies in exercising revenue raising powers already with them (Sagohi 1991). It is alleged that local bodies have failed to exploit their existing sources of revenue to the full extent so as to prove that they are capable of managing increased resources effectively.

Low and unrevised rates and huge arrears of Municipal taxes seem to strengthen this view (N.R. Rao 1986). This is particularly true in the case of West Bengal (T.K. Banerjee, 1989). The West Bengal study revealed that "most of the sample local bodies were generating grossly inadequate internal resources though there were considerable avenues available for exploitation. There was gross undervaluation of properties and collection efforts were often lagging; user charges had not been levied and many schemes with revenue earning potential such as markets and slaughter houses were losing money".

Broadly speaking, there are two types of instruments for mobilising revenue internally viz; taxation and non-tax charges. The former has generally been more frequently used particularly in developing countries while the latter remains relatively unexplored. As has been mentioned earlier in Chapter 3, in the face of growing rigidity in the tax revenues it is imperative to explore alternative sources of revenue to supplement the own source income of local bodies. One such, often suggested, revenue source is user charge.

The present chapter attempts the following;

- i. To examine the appropriateness of user charges at financing local services,
- ii. To examine the existing mechanisms and systems of charging for certain local services, and
- iii. To examine the scope for rationalising cost recovery of services with a view to improve financial viability of local bodies.

## II. Options for Mobilising Revenue

Broadly, there may be two ways of increasing internal revenues of local bodies; one, by rationalising the existing sources of revenue and two, by tapping new sources of revenue.

A more efficient use of existing sources of revenue rather than seeking new sources of revenue is often argued especially in the case of developing countries (R.S. Smith 1974). However, one may take a position that reliance on the latter may be inevitable due to factors such as growth of cities in the long-run, changing consumer preferences and political compulsions in not fully exploiting the available sources of revenue. But, it is unlikely that a uniform prescription can be contemplated which would fit equally well for local bodies in a country or even within a region. The scope and success of these two methods in various Municipal bodies would largely be determined by the local circumstances. For instance, while it may be too hard for a local body to start charging for something which is once given away almost free or even rationalise the present base on which a charge is imposed, there may be prospects of success in imposing rational prices for new services, though initially on a limited scale.

## III. Equity, Efficiency and Revenue Potential of User charges

A revenue raising instrument may be evaluated against one or more of the following considerations; the ability to raise revenue, efficiency, equity and administrative feasibility. These are discussed in the context of appropriateness of user charges at financing expenditure.

While equity, efficiency and management of revenue instruments are important issues, their ability to raise funds is often a major concern of local bodies. Ability to raise revenue may be interpreted in terms of both potential for mobilising resources at any given point of

time and the elasticity of charge with respect to changing economic conditions. So far as revenue potential is concerned, user charges have the potential to develop as an important source of local revenue. Because (i) in India, local bodies generally enjoy greater autonomy in respect of levying and fixing user charges than that of taxes and (ii) it is viewed that beneficiaries would often be more willing to pay user charges if they are assured of corresponding improvement in access and quality of services.

As it is known, inflation and/or demand for service puts pressure on the expenditure needs of local bodies. Since user charges are generally tied to the quality and quantity of service consumed, any increase in demand for services is likely to result in enlarging the revenue base. Income elasticity of demand<sup>11</sup> for a particular service would determine the responsiveness of user charges with respect to changes in income. However, to protect user charges against inflation, periodic revisions in user charges may be required.

User charges besides being a potential source of revenue can also play an important role in ensuring efficient use of services. Unlike taxes, user charges would generally offer more scope for checking excess demand for services as they are tied to the quantity of services, consumed.

It is often argued that charges based on benefit principle may not be desirable when redistribution is a policy objective. However, contrary to these contentions it is viewed that charges may actually help achieve distribution objectives in the case of certain under priced services which disproportionately benefit the rich and thus stimulate inequity. As Netzer noted;

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11. Consequent upon either increase in number of consumers or income.

"It is often objected that rationing by price is specially hard on low income people. This is not always the case. Often the heavy users of public facilities amenable to pricing are not the poor. The poor do not drive cars to work, nor do they have large lawns to water; they tend not to be users of golf courses, or the predominant consumers of higher education. When such services are subsidized middle-income households are often being subsidised, from taxes paid in good measure by low income people. Moreover, if there are alternatives to the services for which a high price is being charged, it is difficult to agree that the poor are really being heavily burdened. Finally, there are better ways to help the poor than by failing to charge adequately for services they consume in miniscule quantities" (Quoted in R.M. Bird 1976).

There is also a reason to think that if supply of a service lags behind the demand for it, rationing is inevitable. If demand is not rationed by adjustments in price, it is the influential who are more likely to gain access to the limited supply of services. In this situation, the defeat of redistribution objective would clearly be attributable to the failure to levy user charges. Subsidy may not, however, be ruled out in the case of certain services where it is feared that user charges would force people to consume less of these services than considered desirable. What follows from above is, that the basic issues in user charges would be to: (i) identify services for which user charges can be levied, (ii) identify services where subsidy would be necessary and (iii) to examine the ways of targeting subsidies to the poor.

In this context, observations of R.M. Bird are worth noting "The distributional aspect of pricing gives rise to a practical question of identification of public goods where under-pricing would be necessary. One may wish to use the pricing of water as part of a distribution policy, the same case can, however, be made for subsidising sanitation, transport, milk etc.. Further, if free access to water can be a basic

human right, then a similar case can be made with regard to other basics such as food, clothing and shelter. It follows from this that though there is a scope for under-pricing in the case of merit goods, there should not be any presumption that all public goods should be under-priced. Some subsidies are likely to remain but these need to be targeted primarily to the poor rather than dispersed across the entire population", (R.M. Bird 1976)

Unlike taxes, user charges are easy to administer in principle. Public resistance towards user charges is said to be the real obstacle to increased reliance on the same. However, contrary to this contention, it has been held that it is the inadequate level of services rather than user charges which leads to the refusal of consumers to pay for the services. Public attitude towards user charges is expected to improve further provided there is gradual improvement in the quality of services and also a commitment to cut costs.<sup>12</sup> In the absence of competition, performance obligation on public providers will have strong positive effects on efficiency. Also, keeping the public informed about the management of their own money would help in winning their confidence and thus their co-operation. Public involvement and participation can be instrumental in the success of various schemes of local bodies. Additional benefits of this would be efficient use of publicly supplied goods, as then, people will have a feeling of ownership. However, the transitional phase of changing from one system to another cannot obviously be free of problems. To patiently bear with these problems, an environment of mutual understanding, sharing and winning confidence would be most essential.

In this context, politicians assume an important role. The usual reason given by them for departing from user charges is distributional aspect. In this context, as indicated earlier, it may be pointed out that the tendency on the part of politicians to provide

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12. Cost inefficiency is a common feature of most public utilities in India.

services free in the name of distributional objectives may actually result in worsening the distribution that would otherwise take place. Therefore, there is a need to adopt a policy with regard to introducing distributional dimension in the pricing of public goods. "Though it is a matter of debate as to which of the two; in-kind subsidy or cash subsidy is more desirable over another for income distribution goals, but for obvious reasons underpricing of service or providing free services is easier to attain politically than an explicit redistribution of income" (R.M. Bird 1976). Perhaps for this reason there is a tendency among the local bodies to opt for the former.

"Highly visible improvements in the quality of services, publicity campaigns, and gradual rather than sudden increases in user charges have been found to reduce political inertia". These contributed to a large extent in achieving increase in water revenue in Bangkok (World Development Report, 1988). It may be worth drawing upon the Bangkok experience.

#### IV. Issues in Application of User Charges

The introduction of user charges raises the following practical questions; (i) how to identify services which are more appropriate for application of user charges? (ii) what price should the local bodies charge for the services provided by them?

It is often suggested that application of user charges is desirable in the case of services which can be divided into purchasable units and where the individual user can be identified (World Development Report, 1988). These services can be both merit goods such as, water supply, sewerage, solid waste disposal, health and education, and others, like electricity, transport, markets, and parking facility.



In India, Task Force (1983) has identified certain services for which application of user charges is considered to be easy and gainful. These services include; water supply, sewerage, solid waste disposal, area development, shelter and urban renewal. Success in charging users for these services would, however, depend on the economic and social characteristics of the users. Elasticities of demand for services with respect to income and prices will indicate the extent to which local bodies can rely on user charges for financing services. Since no worthwhile estimates on income and price elasticities are available for India, to begin with the experiences of some local bodies in India and other countries may be taken to serve as a guide.

The determination of price depends on the choice of both recoverable cost and pricing policy. So far as the determination of recoverable cost is concerned, practically, there is no clear cut policy in India. It is viewed that the nature of service should be a major consideration in determining the cost to be recovered from local population. For instance, since benefits of water supply spill over to the floating population especially in large cities, distribution of the total cost of water supply among local population may not be justified.

The choice of pricing policy would depend on the objectives pursued. In literature, various methods of pricing are discussed. If full recovery of all costs is desired, average cost pricing must be followed. However, average cost pricing is not consistent with efficiency considerations, thus for achieving the same, it would be required to set prices at marginal cost. As elegant as marginal cost pricing would appear in theory, its design and application in practice has proved difficult. It leaves open two important questions: First, how to handle pricing of services which have externalities? Second, how to determine the correct price when production of services faces either economies or diseconomies of scale? Efficiency would require variation

in price when changes in cost occur: This would lead to unstable prices, which on the one hand may be inconvenient for consumers and on the other not feasible administratively.

In India, there is no clear-cut policy on user charges. Charges for most of the services provided are based on the rateable value of properties. Probably water supply is the only service for which charges are somewhat based on the quantity of water consumed. Existing practices in the pricing of three services namely: water supply, sewerage, and solid waste disposal are illustrated below:

#### **V. Water Supply**

Provision of water supply is one of the obligatory functions of urban local bodies in India. Until early 60's the provision of water supply was completely in the hands of local bodies. However in mid 60's, a change in the institutional arrangement of water supply was witnessed. In some States, the State level autonomous bodies were established to undertake both production and supply of water for instance, the Jal Nigam and Jal Sansthan in Uttar Pradesh. In other States, such bodies only shared the responsibility of providing water. In general, these State level bodies undertook the planning, designing and construction of capital works while the task of distribution of water, maintenance of the system and collection of water charges remained with Municipal bodies, barring a few Municipal corporations in Maharashtra and Gujarat which undertake the capital works also.

So far as the financing of water supply projects is concerned, it has been noticed that finance for capital works of water system is provided by the State agencies. Of which about one third or more is constituted by the grant while the remaining is loan. Consequently, the responsibility of local bodies is restricted only to debt servicing.

Thus, in general, the expenditure incurred on water supply by the local bodies may be divided into two broad categories, namely; (i) the operation and maintenance expenditure and (ii) the repayment of loan and interest on the same.

However, it has been found that in the case of most local bodies in India, the receipts from water supply are not adequate to meet even operation and maintenance expenditure. Only in rare cases, local bodies were able to generate funds internally to repay capital loans (NIUA 1981 and NIPFP 1990). It is probably due to this reason that, in India, cost recovery through direct charges on consumers has generally been visualised with respect to operation and maintenance costs, barring a few World Bank assisted Water supply projects, where the emphasis has been also to recover the part of capital expenditure.

As regards charging for water supply, both a flat rate and a rising block rate (which increases with the increase in quantity of water consumed) charge is used. While the former raises efficiency issues, the latter violates equity principle especially when the demand for water is more sensitive to household size than income.

Measurement of consumption of water has taken mainly three forms in India. First, is based on the rateable value of property. The second method is based on either the number of taps or ferrule size while the third is based on the actual consumption as recorded in water meters. Water connections in India are usually unmetered resulting in greater dependence on the first two methods for measuring water consumption.

In the case of non-metered water supplies, a fixed charge based on either rateable value of properties or ferrule size/number of taps is levied. Charges for metered supply of water generally comprise of two parts: a) meter tax and b) water charge. Besides these charges, there

are some one time charges viz., water connection fee, installation charges etc., which are common to both metered and non-metered water supply.

Fixing water rates is perhaps the most difficult task which water supply bodies face. In India, there is no uniform and/or established method for calculating water rates. Water rates operating in various local bodies seem to be governed more by political convenience than socio-economic considerations.

In an exercise for the fixation of price of water, the first stage invariably is the estimation of recoverable costs. As indicated earlier, water supply bodies/agencies in India differ greatly in their policies in respect of determining the costs which is to be recovered. No sound principle seem to be followed in this regard.

It must be pointed out that the reasons for the gap between receipts and expenditure on water supply lies not only in the inability of local bodies, to be able to establish adequate water rates but it could equally be on account of poor collection mechanism, wastage of water as a consequence of poor maintenance of the system, high and rising costs, poor base of charge and poor level of service which could be a result of either lax administration or lack of funds for proper maintenance or both.

The next section first examines these in the context of water supply in the Calcutta Municipal Corporation - and particularly in the Calcutta city - and focuses on areas in which water supply system faces problems and finally, suggests changes for improving the financial viability of the same.

## VI. Water Supply in the Calcutta Municipal Corporation

### (i) Introduction

In Calcutta Municipal Corporation, the average water supply has been around 210 million gallons per day (mgd) over the last few years. The population of CMC is 43.88 lakhs<sup>13</sup>, therefore, the present per capita water supply comes to about 211 litres (inclusive of losses) daily. This may be considered reasonably high when compared to the per capita water supply in other big cities of India; Delhi (160), Bombay (150), Bangalore (90), and Lucknow (90), (Government of West Bengal, 1991).

Of the total water supplied, 90% is generated by the CMC and the remaining is purchased from other water works. However, the task of distribution of water lies with the Calcutta Municipal Corporation (hereafter referred as CMC).

The CMC is characterised by three features as far as water supply is concerned.

- a. supply of both filtered and unfiltered water;
- b. supplies through street taps; and
- c. a large number of street hand pumps.

One of the interesting features of water supply in Calcutta is provision of unfiltered water for privy flushing, car washing, fire fighting and watering the lawns, etc. Unfiltered water is reported to be provided in all areas West of college street at very nominal charges (see Table 5.1). The quantum of unfiltered water supplied is about 75-80

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13. 1991 Census.

mgd. which is directly pumped from the river. Besides unfiltered water, there is a filtered water supply. To provide filtered water, raw water is drawn from three main sources.

- a. from Talla and Palta; about 160 mgd;
- b. from garden reach, about 35 mgd; and
- c. about 25 mgd from ground water.

(ii) Coverage and the Standard of Water Supply

The filtered water supply is reported to cover the entire population of Calcutta city. However, informal enquiries revealed that many colonies, particularly many of the slums, have not been covered with filtered water supply. Therefore, people are using either unfiltered water supplied by the CMC (this water is not fit for drinking) or other public sources like wells, ponds. In general, the standard of water supply is considered to be poor. This has led people to look for alternatives. Many households have installed their own bore wells, tube wells, etc. Those, who cannot afford these expensive alternatives, still depend on the water supplied by the Corporation except for drinking which is drawn from street handpumps maintained by the Corporation.

There does not seem to be any practice of maintaining any record of quantum of water supplied through standposts and in-house connections; distribution of water between domestic and non-domestic uses; and population dependent on private bore wells etc. In the absence of the above information, it is difficult to evaluate a general impression which has built up over time that in Calcutta, the dependence of population on Corporation water has been declining over time. This trend is said to be more pervasive in new colonies, among high income groups and non-domestic users.

The picture that emerges from the above discussion is that while per capita water supply is adequate, the standard of service is generally poor. Consumer dissatisfaction from water supply is stemming due to both low water pressure and poor quality of water. The practice of drawing drinking water from street handpumps and low height of in-house water taps provides good evidence in favour of the above.

Though low water pressure is quite an irritant but what causes serious concern is the poor quality of water which cannot be compromised. At the level of the generation of water, it is generally expected that the quality of water is regularly checked and adequate measures are taken to match it with the standards prescribed, before pumping it into the distribution network. Then the possibility of deterioration in the quality of water is only at the distribution level. Which is likely to be due to leakage in piping network carrying water. In the case of leakage, there is a possibility of sewerage water, rain water or unfiltered water finding its way through filtered water pipes, thus affecting the quality of water. It is a common knowledge that water supply system in Calcutta suffers badly from lack of maintenance. A study by Nagpur Environmental Research Institute in the mid 70s also reports that in Calcutta, 30 per cent of the water supplied is wasted through leakage and other deficiencies in the distribution mechanism, which causes both loss of water and deterioration in the quality of water.

(iii) Trends in Revenue Receipts and Expenditure on Water Supply

The table given below presents revenue receipts and expenditure on water supply in the CMC.

Table V.1

(Rs. lakhs)

Year	Receipts	Expenditure	Deficit (-)	Revenue as % of Expenditure
1987-88	392.71	3028	2635	13
1988-89	423.1	3127.4	2704	13.5
1989-90	446.10	3526.65	3080.5	13
1990-91	-	-	-	-
1991-92	451.25	4198.54	3747.29	11

It is apparent in the above table that the CMC is suffering a loss, as the receipts on account of water have fallen far short of the expenditure over the years under study. What is more, the imbalance between revenue and expenditure has grown over time. For, the deficit has increased from Rs.2,635 lakhs in 1987-88 to Rs.3747.29 lakhs in 1991-92. Receipts from water supply as a proportion of expenditure remained steady at about 13% during 1987 to 90. It has however, fallen to 11 per cent in 1991-92. Evidently, a large subsidy is provided in making water supply available.

(iv) Factors Underlying Poor Revenue from Water Supply

The growth of receipt from water supply may suffer as a result of, among other causes, either one or more of the following.

- a. poor collection of the demand,
- b. poor growth of the demand itself because of lack of growth in the base,
- c. low rates of tariff, and
- d. lack of periodic revision in the tariff.



**a. Decline in Collection Efficiency**

To form an idea about collection efficiency, information regarding collections made in a year out of current demand is required. Unfortunately these data are neither published in any of the official publications of the CMC nor was it available with Water supply department of the same. Given a functionally neutral reporting system, it is difficult either to keep a check over collecting staff or ensure adequate enforcement.

Further, under the law, permission of the Corporation has to be obtained for each tube well sunk by private individuals/industry, etc. which runs by power. A license fees has to be paid annually (see Table V.3) as prescribed in the CMC Act. The failure to obtain permission regarding the above entails a fine. The permission is however, rarely taken. The Corporation seldom impose any fine for this default. In fact no attempts are made to catch those evading the law. The department does not seem to be maintaining a record of those tubewells for which permission is obtained. What follows from above is that on the score of efficiency in enforcement and collection of water charge, the performance of CMC is particularly weak.

**b. The Base of Water Charge in the CMC**

In CMC, unlike in most parts of India, the base on which the water charge is levied is determined in two stages. In the first stage the base determination seems to be guided by the principle of the ability to pay, which is measured in terms of the annual letting value of the property. With a view to introduce a measure of progressivity, the CMC decided to impose water fee only on holdings with an annual valuation above Rs. 2,999 (as on 31 August, 1986) in the Calcutta city, the rest were exempted on the plea of exempting the economically weaker

sections from paying water charges used for domestic purposes. Following this method only 41,669 holdings (27.3% of total holdings) in the Calcutta city were liable to pay water charges.

In the second stage, the degree of progression was increased. For, of the 41,669 holdings only those holdings which had above 15mm diameter ferrule connections were liable for water charge and the rest were exempted. This further reduced the base to 16.5% of the total holdings in the Calcutta city.

Any property with an in-house connection should be brought into the water charge net. The exemption first on the basis of the annual letting value and then on the size of the ferrule makes charging for water highly progressive, which may be undesirable in view of its ill-effects especially on the growth of revenue. As the size of the ferrule which controls the volume of water supply to a premises is linked to the annual letting value, a greater quantity of water is supplied to holdings with large annual value. A progressive water rate structure based on the size of the ferrule should be able to take care of the distribution objective.

#### c. Lack of Periodic Revisions in the Water Rates

What affects the level of revenue from water supply is not merely the laxity in collection or poor base but also the lack of revision in water rates. In Calcutta, roughly about 10-15% of the total quantity of water supplied is charged by metering. Water is metered only in the case of supply to some institutions, industries, etc. Water supplied to domestic category of users is totally unmetered. At present, the domestic consumers are charged for consumption of water on the basis of the size of ferrule. Though this system provides for charging higher water rates for a larger volume of water supply, it offers a low potential for growth as unlike consolidated rate it is not

tied to the base which would respond to the increase in income or inflation. Therefore to protect receipts from water supply against inflation, periodic revisions are necessary.

The imposition of water charge on domestic non-metered supply has a brief history. Prior to the 1980 amendment of the CMC Act, the corporation was not empowered to directly realise any charge or fee for the domestic non-metered supply of water. The CMDA in 1982 approved the imposition of water rates as a measure of cost recovery for water supply. It was agreed upon that by 1st November 1983, the CMC would increase the rates for metered non-domestic users from Rs.5 per thousand gallons to Rs.11, introduce a graduated rate for domestic unmetered connections based on ferrule sizes, and start annual licensing for all new private tube wells. Some positive actions were taken by the CMC on the above lines. For instance, an annual fee for domestic consumers was introduced in January 1986. Rates for metered non-domestic users were revised and an annual license fee for private tube wells was introduced (for rate structure see Table V.3 and V.4). It must however, be noted that since then no revision in these rate has been made. Clearly, this has had an effect on the growth of revenue from water supply.

#### d. Water Rates

What should be the level of water rates? What should be the degree of progressivity in water rates? In India, answers to these questions are generally a matter of political judgement. However, in principle, fixing of water rates ought to be governed by the following considerations; a) cost recovery, b) encouraging economy in the use of water and c) discouraging the use of contaminated water.

In order to achieve these objectives, it would be appropriate to introduce progression in the rate structure and charge a low rate for water from poor people who need to be subsidized. The cost of water per unit would, however, have a bearing on the level of water rates. A

comparison of water rates in the CMC and other Municipal bodies gives an idea of the level of tariff in the CMC. Water rates given in Table V.4 reveal that when compared with the water rates in other Municipalities, the CMC has relatively higher water rates for both domestic and non-domestic users<sup>14</sup>. Now, it is important to note that even with higher water rate structure, the performance of CMC in terms of recovery ratio (revenue as % of expenditure) is disappointing with about 13% recovery which is lowest in the list of 15 local bodies (see Table V.5).

Thus, it may be seen from above, that the problem of low level of revenue from water supply in Calcutta is more due to inefficient recovery mechanism and poor revenue base rather than low rates of water tariff.

#### VII. Cost of Water Supply

The causes of rising gap between revenue and expenditure may not only lie in the inability of water bodies to raise adequate revenue but it may equally be due to financial inefficiencies resulting in high costs. In this prospective, this section focuses on the following:-

- (i) cost of per unit of water in the CMC, vis-a-vis, some other local bodies.
- (ii) revenue from per unit of water in the CMC, vis-a-vis, some other local bodies.

As is apparent in Table 5.6, in the CMC the cost of supplying 1,000 litres of water is Rs.1.04 which is highest when compared to the cost of water in other local bodies. The table also shows that in CMC, the revenue from per unit water supply constitute only a small proportion of total expenditure on the same. What is more, revenue from

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14. Except in Pali and Sirsa where for non-domestic metered supply, water tariff is higher than that of in Calcutta.

per unit of water is lowest in the CMC resulting in a very high operating ratio. Further, in terms of population, the CMC is largest among the local bodies under consideration. Highest expenditure on per unit of water supply in the CMC indicates there are no economies of scale.

It may also be noted from Table V.6 that local bodies show significant variation in respect of per unit cost of water supply. It ranges from Rs.0.17 in Pali to Rs.0.83 in Dhoraji and Rs.1.04 in CMC which is also the highest. There is a reason to think as to why costs of water vary? There are various factors which may affect the per unit costs of water, namely; sources of water, water table, terrain, population density, quality of water, choice of technology and per capita average and peak water requirements. These factors would generally be at variance in any two towns. Thus, making a comparison of per unit costs of water is difficult.

However, many factors such as - water table, availability of water from the river, water quality, population density and per capita water demand/supply - which will have a significant effect on the cost of water supply seem to be more favourable in the case of CMC than in other local bodies for instance, Bhopal, Dhoraji and Hoshangabad<sup>15</sup>.

### VIII. Summarising

In this section, we analysed mainly, the factors affecting the financial position of water supply system in CMC. The analysis showed that -

- i. Recovery from provision of water is poor. This is mainly due to two reasons; (a) inefficient collection machinery (b) poor level of service which led to increasing public resistance to pay for the service.

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15. See NIUA, 1991 for details about Bhopal, Dhoraji and Hoshangabad.

- ii. Cost of per unit of water is rather high, causing a further increase in the gap between revenue and expenditure.

The above findings suggest that:-

- i. There is no escape from enlarging the base of water charge.
- ii. Efficiency in delivery of service and collection of revenue needs to be improved. Regular monitoring from the point of view of expenditure control and improved reporting with a view to reducing leakage of Municipal revenue will go a long way in improving the financial viability of water supply system.
- iii. Visible improvements in the quality of water supplied through in-house connections will reduce the demand for street handpumps. Maintenance of these, probably consumes a substantial share of total expenditure on water supply. However, in slums and other areas where water supply is inadequate, street handpumps will remain.
- iv. In view of the fact that about 30% of the total water supplied is wasted through leakages, etc. and also that a substantial quantity of water is consumed by the floating population and slums in Calcutta, full cost recovery from local population may not be justified. A part of the total expenditure will have to be financed either by grants or general taxes or both.

#### IX. Charging for Sewerage

There are basically two bases to determine consumption of this service (i) water consumption tags (metered or non-metered) as the case may be and (ii) water bill. Methods of charging for sewerage include

(a) a surcharge on the rate or price per unit of water (b) a surcharge on water bills and (c) consolidated rates. In West Bengal, sewerage charge or tax is combined with the general property tax which is based on the rateable value of property. In Madras and Bombay a sewerage surcharge is levied. Which is 20% of the water charges in Madras. Similar policy is regard to charging for sewerage has been adopted in many other local bodies. Often higher rates are charged from commercial and industrial users in the form of pollution abatement taxes. However, the base on which charge is levied is taken to be water intake (NIPFP 1989). In general, cost recovery from sewerage is extremely poor.

To improve the cost recovery of sewerage in West Bengal, it may be desirable to fix sewerage charges on the basis of average cost of operation and maintenance of this service, rather than on rateable value of property<sup>18</sup>. User charges for sewerage may either be linked with the actual consumption of water (for metered supply) or with the ferrule size/water bill where water supply is not metered. In the case of households who have not taken municipal water supply and thus depend on private handpumps, tubewells etc. sewerage charge may be linked to the the annual fee levied on private tubewells. However, households who do not have either in-house Municipal water connections or private electricity run borewells may be exempted.

#### X. Solid Waste Collection and Disposal

Solid Waste collection and disposal happens to be one of the very expensive items of expenditure on revenue budget of local bodies. This activity generally involves three stages; one, house-to-house collection, two, collection from primary dumping points and three, transportation and final disposal. A number of local governments in developing countries exercise their responsibility for refuse collection

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18. Problems of valuation of properties are known to have constrained the base of property taxation and many other taxes which are based on the rateable value of property.

and disposal by contracting out to private firms. However, only a few local bodies practice house-to-house collection. For instance, Bhopal Municipal Corporation does it in certain colonies. Generally, especially in large cities, households/organisations/ etc. are responsible for depositing refuse at the primary dumping points. For doing this private services have frequently been used. Private collection of refuse to primary dumping points. For doing this private services have frequently been used. Private collection of refuse involves arrangements between the consumer of the service and the provider of the service, without the mediation of the government. Such a system involves door to door private collection of refuse which is disposed off at a certain point (generally demarcated by local bodies) to be collected by the governmental unit for final disposal. Often voluntary agencies have also undertaken solid waste disposal. For instance, in some parts of Madras, a voluntary agency has undertaken sweeping of roads, solid waste collection and disposal. Private sweepers and ragpickers have been involved in this. Expenditures incurred are met by the voluntary contributions from households.

The following methods have generally used to finance solid waste collection and disposal.

1. From revenues collected through general taxes or appropriations are made from revenues obtained from property taxes.
2. Miscellaneous revenues: These may include, proceeds from sale of collection privileges, sale of garbage, sale of manure etc.
3. Container rental charges: Some Municipalities provide households with containers for collecting refuse. A rental is charged for the container, to recover the cost of emptying, servicing and replacing the containers.



Financing solid waste disposal through the property tax and other general taxes, is the most common procedure in India as well as in many other countries. In fact, in India the third method viz; Container rental charges has not been tried so far. However, sale of garbage, manure and sale of refuse collection privileges have been practiced.<sup>1</sup>

Local bodies have also adopted different methods of setting fees for refuse collection service. Some are based on the estimated or average cost of conducting the collection and disposal, others on the benefits received by the individuals or properties served. In India, charge for this service is tied to the annual value of properties. In pricing of refuse collection and disposal various methods of measuring the use/consumption of this service have been employed by the local bodies. These include:

1. Number of rooms in a building
2. Number of dwelling units or apartments in a building
3. The number of containers.
4. The size of containers
5. Floor space in the building served

For the purposes of cost recovery we suggest delinking of scavenging/conservancy tax from the property tax and imposition of a separate solid waste collection and disposal charge. The charge should be imposed on the basis of waste generation. It may be determined on the basis of floor space in the building served. Annual rental charge on municipality owned containers may also be tried. To overcome administrative problems, collection of rental charge may be delegated to individual wards.

## XI. Solid Waste Management in Calcutta

### (i). Introduction

The Calcutta city generates around 3150 MT of solid waste per day. About 18% of which constitutes industrial waste while the rest represent domestic, institutional and commercial waste. Seventy per cent of the total solid waste generated is reported to be collected and disposed of by the Calcutta Municipal Corporation, about 10% is taken away by the ragpickers and the remaining is either eaten up by animals, washed away into drains or seen floating all around. Currently, solid waste collected by the CMC is used for filling low lying areas.

### (ii). Solid Waste Management Practices

While solid waste generation in the city grows at a high rate, the space available for dumping it is shrinking even faster. It is apprehended that the CMC may not be able to continue this practice for long.

In view of this and also other considerations the CMC has tried to make use of the solid waste in a variety of ways, i.e., compositing, incineration and bio-digestion. (For details, see Government of West Bengal, 1991). However, all these methods were unsuccessful due to technical and other factors.

It is mentioned earlier that the collection and disposal of solid waste, constitutes three components namely; (1) house-to-house collection, (2) collection from primary dumping points and (3) transportation of waste to final disposal points.

In Calcutta, house-to-house collection by the Corporation is almost non-existent now. Community dustbins are also scarcely provided. As a result, households deposit refuse on the streets, footpaths or even

in front of the house, from where it is collected by street sweepers or garbage collectors, to be dumped on a dumping point which may either be a street, some open space or a service lane. At primary collection points the ragpickers (which are organised and influential) have first claim on the solid waste. Here, materials such as glass, metals, leather, paper, plastics is picked up by the rag pickers while the rest is collected by the corporation workers. However, the collection and disposal of garbage is done manually by conservancy workers.

(iii). Expenditure on Solid Waste Collection and Disposal

Solid Waste collection and disposal is a labour intensive activity, therefore, wages and salaries are expected to constitute a major share of the total expenditure. This is also revealed by the data presented in Table V.7. In the year 1989-90 Rs.1,945.19 lakh were spent on solid waste collection and disposal, of which Rs.1,486.6 (76%) were spent on street cleaning and collection of solid waste while the remaining 24% accounted for the removal of solid waste. A look at the composition of total expenditure shows that 83% of the total expenditure accounts for establishment and only 17% is spent on other aspects of this service. In per capita terms, the Calcutta city spends Rs.44.32 per annum on this service.

(iv). Revenue from Solid Waste Collection and Disposal

In CMC, like in most local bodies in India, the charge on solid waste collection and disposal is indirect in the form of conservancy or scavenging tax, which is based on the annual value of property and also collected along with the property tax. Sale of manure may be another potential source of revenue, which has not been exploited in CMC. As indicated earlier, the CMC has a compost plant with a capacity of handling 150 MT of refuse per day (4% of total refuse generated) to

produce about 50 MT of compost. But due to technical problems it is not being operated. As a result, income from sale of manure is insignificant.

Per capita revenue from solid waste collection and disposal works to Rs. 2.3 which is about 5% of the per capita expenditure on this service.

This, however, indicates a large subsidy in solid waste management, and the need to increase income from solid waste collection and disposal both by levying a direct charge and sale of refuse/compost.

(v). Approach to Improving Financial Performance of CMC in Regard to Solid Waste Collection and Disposal Service

As regards charging for solid waste collection and disposal, we suggest a direct charge on the basis of floor space/carpet area in the premises served. Information on floor space is expected to be available with the property tax department of respective local bodies. In case data problems stand in the way, to begin with, the base may be taken as: all registered shops, eating places and other establishments, institutions, hospitals, industries and households having in-house municipal water connections/private borewells/tubewells etc. Among the non-domestic category, those who do not have either Municipal water connection or private borewell etc. may be charged a flat rate ranging between Rs.20-30 per month, while for others solid waste collection and disposal charge may be linked to the ferrule size/water bill/licence fee on private borewells, as the case may be. Among the domestic category, households may be charged a solid waste collection and disposal fee on the basis of ferrule size/water bill/licence fee on private borewells. The households fully dependent on street handpumps, ponds, wells etc. for water, may be exempted from this charge.

Private participation in solid waste collection and disposal may also be considered. It is possible that this alternative approach to solid waste management may bear more fruits.

Regarding the use of garbage for production of compost, bio-gas, etc., the garbage may be sold to the private parties interested in conversion of garbage, until an economically viable technology is found for the CMC. This is successfully done in Bangalore.

## **XII. Mobilising revenue from rents and other sources**

Remunerative enterprises not only earn revenue for the local bodies but also contribute to the development of town. Among remunerative enterprises markets have an important place.

### **(i) Markets**

Rents from markets developed and maintained by municipal bodies may constitute an important source of non-tax revenue. The main factors hindering development of rents on commercial properties as a potential revenue source for local bodies are; 1. lack of funds and, 2. constraints in revision of rents.

In developing markets, availability of funds plays an important role. Support for credit may come either from state governments or by allowing the local bodies to borrow from the market. However, financial viability of markets would require adequate recoveries of rent as well as capital funds. However, the CMC has found it difficult to make proper recoveries. So far as the revision in rents is concerned, it is noticed that the local bodies often face problems in revising rents on their properties, due to either political pressures or resistance from public. In fact, in most of the markets in Calcutta, shopkeepers are paying rent as per the contract entered at the inception which did not provide for an adequate escalation clause to offset

inflation. To deal with such problems it may be desirable to consider short term leasing of properties or to provide for automatic indexation to consumer price index of urban non-manual employees. It may be specified in the contract that the lessee will be required to increase the rental every 2/3 years by a certain percentage. The leasing of markets to the private parties both for recovery of rent and maintenance may also be considered. This would ensure growth in revenue from markets.

To overcome the funds problem, new methods of funding have been innovated. For instance, Ulhasnagar municipal body which falls under Thane district in Maharashtra entered into a contract with a private developer for the development of markets. As per the contract, the market was constructed and funded by the developer, who in-turn had the right on the same for a three year period after which, the property was handed over to the municipality. Joint ventures in the development of markets have been tried in Calcutta also, but to what effect, is a rather unexplored area.

#### (ii) Other sources of revenue

1. Land development is an important activity in which local governments may find lot of potential for raising revenue. This has been extensively and successfully used in Korea to develop new areas at the fringe of cities and towns. The main benefits of such programs included; (i) increased supply of developed land. Which on the one hand, helped to keep the land prices and rents lower (than what they would be in the absence of it) and on the other, reduced congestion in the cities and towns under check, and (ii) additional funds for local bodies. However, with the creation of Development Authorities in most cities in India land development has been taken over by these independent bodies. As a result the role of local bodies in this area has become very limited. The position of the Calcutta Municipal Corporation is no different.

2. Developing parking facility may also be considered as a potential means of generating revenue. All the public places such as cinema halls, eating places, commercial complexes, busy markets, hospitals, parks, museums, and picnic spots, are in constant need of parking facility. In the absence of proper parking facility vehicles are parked on public lands such as sides of the roads, pedestrian paths. Which causes traffic hazards and other inconvenience to public. It may be desirable to develop parking facilities paid for by the users. Local bodies may also involve private parties for maintaining them. Rights to maintain parking facilities may be auctioned for impressive fees. It may also be considered to develop community halls, marriage halls, grounds for organising pooja, fares, shows and plays etc., for public use and paid for by the public. Any substantial revenue may not be expected from these, indeed it will help in saving public parks and streets from being misused by holding these activities. Experience of NDMC is worth mentioning here (see table below).

#### Receipts

		(Rs. '000)	
Item	1988-89	1989-90	
1. Palika parking	16,00	20,00	
2. Car parking	26,50	6,50	
3. Cycle/scooter stands	26	35	
Total as % of non-plan revenue	0.191	0.22	

3. Fee for putting boards, posters etc., for the purposes of advertising, on public properties may also develop into a good source of revenue. Corporations in Delhi have successfully exploited this source. NDMC raised Rs. 21.42 lakh and Rs. 23.08 lakh from advertisement during the years 1988-89 and 1989-90 respectively. See table below.

(Rs. '000)

Item	1988-89	1989-90
1. Advertisement tax	10,00	11,00
2. Illuminating advertisement tower	50	1,08
3. Advertisement displayed on electricity poles	10,92	11,00

4. Vacant public land may be let for growing fodder, growing bidi plants, processing of bidi leaves, making of wooden spoons etc. These are profitable business and often public lands are used to carry out these activities. Ponds which are not being used in any big way and are coming to an end in the absence of maintenance may be contracted out for growing fish. The benefit of this is two fold. One, additional revenue and two, productive use which would also save ponds from dying. Further, for beautification and to maintain greenary trees are planted and grown on the sides of streets, in big parks and green belts, maintained by the local bodies. In Delhi, rows of Jamun trees are maintained on the sides of the roads in certain colonies. When season for Jamun fruits approaches these trees are auctioned for a fee to individuals who, intum, sell these fruits to make living out of it. The revenue so obtained may not be substantial but it may be enough to meet the expenditure on maintenance of these trees. NDMC experience is worth mentioning here. In the year 1988-89 and 1989-90 NDMC raised Rs.100 thousand and Rs.150 thousand respectively from sale of gardens and road side trees.

5. Ice factories are known for making sizeable profits by selling drinking water through mobile vans. These get good business in commercial places, markets, picnic spots, cinema halls etc. Local bodies may also consider raising funds from this activity<sup>17</sup>. Coin



operated machines may be used for this purpose. However, there may be arguments against charging for water. But it may be noted that in the absence of funds there may be no service at all<sup>18</sup>. In which case people may even consume unsafe water (as it may be inconvenient for most people to carry water everywhere) which is likely to cause health hazard. Further, in the absence of municipal stand posts at public places people do buy water from private vendors, then there may be little logic in discriminating against public providers when they need to charge in order to sustain themselves. Local bodies may invite people from business community who may be willing to support capital expenditure in water machines. These people may be given a right to display advertisements on such water systems.

6. It may be noted, that handling of such projects would require close monitoring. Hence, it may be desirable to delegate the responsibility of management of such projects to the area or ward committees falling under municipal jurisdictions.

(iii). Sharing of Expenditures

Besides looking for avenues which may generate additional revenues, ways must be found to cut down on various expenditures, some of which may be quite wasteful. In what follows, an attempt has been made to suggest some possible areas where local bodies are likely to achieve success in reducing their expenditure.

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17. This may not be taken as profit making activity though the objective should be to recover operation and maintenance.
  18. Stand posts are not provided everywhere. When provided they are either leaking all the time to waste lot of water or are in-operative due to lack of maintenance.

1. Local bodies may invite business houses, institutions, trusts and other organisations who would be willing to develop and maintain certain facilities such as, roads, street lights, parks, crossings, public stand posts, dispensaries and others, if these are named after these individuals or organisations. These experiments have been successful in many cities such as Kanpur, Lucknow, Ahmedabad, and Bombay.

2. Private business houses, large industries, public sector undertakings may be required to provide and maintain the following services namely, water sewerage, sanitation, garbage collection, roads, street lighting etc. in their own townships. Bhilai and Jamshedpur are examples of such townships.

3. Voluntary agencies may be involved in the provision of sanitation and scavenging. These agencies may then price these services on no-profit basis. Success of Sulabh shauchalaya in Bihar is an example of efforts made in this direction. Pay and use toilets have also been successful in Karnataka and Tamil Nadu.

4. Local bodies generally spend good amount of funds in maintaining public lawns. Grass makes good fodder for farm animals and horses etc. Those in need of fodder may be willing to cut the grass themselves and also pay a nominal amount. This would help in reducing the expenditure on maintenance of lawns.

Table V.2

Rates for Unfiltered Water for Non-Domestic Use in Calcutta

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1.	For privy flushing purposes in markets and bazaar	Rs. 0.50 per 1000 litres plus meter rent
2.	For purposes other than privy flushing	Rs.50 per month for $\frac{1}{2}$ " ferrule Rs.80-100 per month for above $\frac{1}{2}$ " ferrule depending on the size of pipe. Rs.125 per month for $\frac{3}{4}$ " ferrule Rs.335 per month for 1" ferrule.

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Source: CMC, Year Book, 1991.

Table V.3

Licence Fees for Tubewells in Calcutta

Diameter of well pipe	in Rs. per annum
2 inch	Rs.350/-
3 inch	Rs.1250/-
4 inch	Rs.1650/-
6 inch	Rs.2500/-
above 6 inch	Rs.3350/-

Source: CMC, Year Book, 1991.

Table 5.4

## Water Rates in Some Municipal Bodies in India

(in Rs.)

Municipal Bodies	Water Tax	Non-Domestic									
		Domestic Unmetered			Industrial				Commercial		
		Consumption (Rs. p.m.) 1/2" 3/4" 1"			Metered	Gometered 1/2" 3/4" 1" 2"			Metered	Gometered 1/2" 3/4" 1"	
1. Vadodara	NO	2	4.5	7.5	.50 per 1000 litres	-----	-----	-----	1 per 1000 litres	-----	-----
2. Bhopal	NO	3	6	8	.30 per 1000 litres .25 for raw water	-----	200 300	-----	0.50 per 1000 litres	115	-----
3. Tiruchirapalli	7% of the A.B.V.	Rs. 8 per connection			2 per 1000 litres	-----	-----	-----	-----	-----	-----
4. Villapura	4% of the A.B.V.	-----			1 per 1000 litres	-----	-----	-----	-----	-----	-----
5. Dhoraji	Nil	5	-	-	-----	-----	-----	10	Nil	-----	20
6. Sehore	Nil	Rs. 8 per connection			-----	-----	-----	-----	Nil	-----	20 per connecti
7. Noshangabad	Yes	3	4	6	-----	-----	6 10 12	-----	Nil	6 10 12	-----
8. Devakottai	3% of the A.B.V.	-----			1.50 per 1000 litres	-----	-----	-----	Rs. 1.50 per 1000 litres	-----	-----
9. Kadi	Yes	6	-	-	-----	-----	33	-----	Nil	10	-----
10. Pali	No	Rs. 15.4 per connection			Rs. 4/- per 1000 litres upto 15000 litres	-----	-----	-----	Rs. 2/- per 1000 litres, upto 15000 litres	-----	Rs. 15.4 per connection
11. Sirsa	No	Rs. 12/- month			Rs. 8/- per 1000 litres	-----	-----	-----	Rs. 12/- per connection per month	-----	Rs. 0.60 per litre Rs. 12 per conne tion only for domestic purpos
12. Calcutta		No	40	65	Rs. 3/- per 1000 litres plus meter rent plus initial deposit	-----	500 1000 2000	-----	Rs. 3/- per 1000 litres + meter rent	500 1200 2000	-----

Source: i. For Municipal bodies numbered 1 to 9, NIOA, 1991.  
ii. For Municipal bodies numbered 10 and 11, NIPFP, 1991.  
iii. CMC, Year Book, 1991.

Table V.5  
Cost Recovery in Water Supply

	Municipal Body	(Per cent)
		Income as % of Expenditure
1.	Vadodara	41.8
2.	Bhopal	21.6
3.	Tiruchirapalli	51.6
4.	Dhoraji	33.1
5.	Sehore	88.1
6.	Devakottai	294.0
7.	Kadi	66.6
8.	Bhopal	34.75
9.	Bali	54.49
10.	Sadri	58.3
11.	Rani	60.98
12.	Takhatgarh	65.06
13.	Samerpur	84.04
14.	Rae Bareli	64.32
15.	Calcutta Municipal Corporation (CMC)	
	(i) 1987-88	13.0
	(ii) average over 1988 to 1992	12.6

Source: (i) For Municipal bodies numbered 1 to 7, NIUA 1991.  
(ii) For Municipal bodies numbered 8 to 14, NIPFP, 1991.  
(iii) Computed on the basis of data obtained from the CMC budgets.

Table V.6

## Operating Ratio in Water Supply in Some Municipal Bodies in India

(in Rs.)

Municipal Bodies	Income per 1000 litres	Expenditure per 1000 litres	Operating ratio
1. Vadodara	.20	.48 <sup>1</sup>	1 : 1.92
2. Bhopal	.13	.58 <sup>1</sup>	1 : 4.46
3. Tiruchirapalli	.25	.48 <sup>1</sup>	1 : 1.92
4. Villupuram	.67	.24 <sup>1</sup>	1 : 0.36
5. Dhoraji	.28	.83 <sup>1</sup>	1 : 2.96
6. Sehore	.34	.39	1 : 1.15
7. Hoshangabad	.26	.60 <sup>1</sup>	1 : 2.31
8. Devakottai	.66	.22 <sup>1</sup>	1 : 0.33
9. Kadi	.20	.30 <sup>1</sup>	1 : 1.50
10. Guwahati	-	.45	-
11. Rae Bareli	-	.24	-
12. Pali	-	.26	-
13. Sirsa	-	.17	-
14. Saharsa	-	1.0*	-
15. Calcutta Municipal Corporation	.13	1.04	1 : 8

Notes : 1. \* per 1000 gallon.  
2. 1 includes loan component.

Source: (i) For Municipal bodies 1 to 9, NIUA 1991. Data pertain to 1984-85.  
(ii) For Municipal bodies 10 to 14, NIPFP, 1991.  
(iii) Computed on the basis of data obtained from the CMC budgets.

## CHAPTER VI

### Introduction

Chapter IV presented a broad picture of the financial position of a sample of local bodies in West Bengal, in terms of their total receipts and expenditure, tax revenue and non-tax revenue providing us with some basic idea about the level of NTR and its growth. However, this analysis did not give us enough insights into how some Municipalities are doing better, in regard to NTR, than others. Similarly, questions relating to the relative performance of various components of NTR remained unanswered. This chapter attempts to make an indepth examination of NTR in the two Municipalities in West Bengal.

#### I. UTTARPARA KOTRUNG

##### (i). Introduction

The West Bengal urban local structure comprises 117 urban local bodies. These local bodies are divided over two broad regions: the CMA and the non-CMA. The CMA is relatively more industrialised and prosperous area compared to the non-CMA and is spread over five districts. Uttarpara Kotrung is in the Hooghli district which falls under CMA. Being a very old municipal town (more than 100 years old) and getting the patronage of some rich zamindars, the town has had the privilege of being endowed with various urban infrastructure and facilities, organizations and institutions, different factories and establishments. No area in the town can be distinctly identified strictly as residential, commercial, industrial or administrative. It is basically a residential suburb of Calcutta and no portion or area in the town can be identified wholly as non-residential. This Municipality with a rather small geographical area (7.25 km.) had a population about 80,000 (1981 census) which has grown to nearly 1 lakh (1991 census) thus giving it a status of class A Municipality.



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(ii) Analysis of Revenue Status of Uttarpara

Although generally, there is a heavy dependence by the Municipal bodies on State transfers, the structure of revenue in Uttarpara shows greater reliance on own revenues. If the share of own source revenue (OSR) in the total revenue receipts (TR) is any indication of financial autonomy, the performance of Uttarpara may be considered relatively satisfactory. For instance, in Uttarpara, OSR formed about 44% (average during 1985-90) of total revenue, while the comparable figure for West Bengal as a whole was only 36% during the corresponding period (see table VI.1). So far as, the revenue mobilisation from non-tax sources is concerned Uttarpara performs better again with 14% share of NTR in TR. Looking at the structure of revenue for West Bengal as a whole, we find that contribution of NTR was only 7.7 per cent in TR over the reference period.

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At the per capita level also, the overall picture of finances in Uttarpara is found to be better when compared with the average figures for West Bengal as a whole. For, per capita revenue receipts in Uttarpara (average for 1985 to 1990) was Rs. 95 as against only about Rs. 77.54 average for the ULBs in West Bengal. Out of which about Rs.12 came from NTR in Uttarpara. Corresponding figure was Rs.6 for all the Municipalities (74) taken together in West Bengal.

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As mentioned earlier, Uttarpara falls under CMA and also that CMA is distinct from non-CMA in various aspects. Therefore, it would be proper to analyse the State of finances in Uttarpara vis-a-vis local bodies in the CMA region rather than local bodies in West Bengal as a whole. Looking at the figures for the CMA region as a whole, we find that the share of non-tax revenue in the OSR was about 18% (average over the 5 years from 1985-90). However, class B local bodies in CMA showed a lower share (16.4%) compared to the CMA total figure. Uttarpara which

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was also a class B Municipality during the period of study has done remarkably well with NTR at 31.2% of OSR during the corresponding period (see Table VI.1).

At per capita level also, Uttarpara differs with average per capita NTR at Rs. 12 which is more than double the per capita figure for CMA (Rs. 5.3) and for CMA class B total (Rs. 4.8).

So far we have examined the level of financial autonomy (determined by the share of OSR in TR) in Uttarpara vis-a-vis the CMA total and CMA class B total. It was found, that Uttarpara is doing relatively well in terms of mobilisation of revenue through autonomous sources. On comparing the percentage share of NTR in TR in Uttarpara with its counterparts in the CMA region and CMA as a whole we find, that Uttarpara has registered a larger proportion of NTR in the total revenue receipts (14%, compared to CMA total (6.38%) and average of class B Municipalities (6.25%) in the CMA region (see Table VI.1).

### (iii). Analysis of Non-Tax Revenue in Uttarpara

In order to examine the major revenue sources contributing to NTR, it may be useful to look at non-tax revenue in Uttarpara in more detail. This will give us an idea about some of the various resources of NTR which are doing better than others and the sources which have not been exploited at all.

Own source non-tax revenue sources include fees, charges from certain services, rents from properties owned by Municipalities, and fines. Let us now consider these sources of NTR a little further. There would always be a corresponding direct benefit to the payers with respect to all the non-tax levies except fine, which is a punishment for unlawful activities. Taking the first, the fee in Uttarpara is obtained from the following sources; (a) Warrant fees, (b) mutation fees, (c) licence fee for vehicles, shops etc., (d) building plan sanction fee.,

(e) toll (f) fee for water connection and (g) fee for electric crematorium. The second category is charges. In Uttarpara, there are four types of charges. Charges for supply of extra water (water supplied on demand on certain private celebration), for clearance of septic tanks, for road restoration, for supply of hand carts, and in respect of hospitals. Here providing service is the main objective. The third is revenue from rents. This source of revenue, in Uttarpara, comprises of rent from municipal markets, auditorium, guest house and burning ghats. Besides these, there are interest receipts on investments and defaulted taxes. Another important revenue sources in Uttarpara are donation for water, and premium on shops. These revenue receipts are rather uncommon among the urban local bodies.

Coming to revenue mobilisation through fees in Uttarpara we find, that fees is a very important source of income for this Municipality contributing about one half (on an average) of the total NTR. Though the most important source of NTR it is not freely controlled by the local bodies. The setting of rates of fee is always constrained by State government, usually by maximum tax rate ceilings that apply to all Municipalities in the State. Also, local governments do not appear to have any say in determination of rates. In the course of discussion with the Chairman of Uttarpara it was brought out that the license fee of Rs. 10 has been fixed for all kinds of trade and commerce irrespective of their location, size or level of operations. This, however, is too low a rate to cover even administrative expenses. Similarly, license fee for cycle rickshaw is only Rs. 6 per annum. In this context it may be suggested that the minimum rate of levy may be fixed statutorily giving the Municipalities some freedom to raise the fees to the levels thought appropriate by them.

Major share of fees is drawn from building plan sanction fee and in-house connection fee in Uttarpara. Parking fee which constitutes important revenue source for many Municipalities does not exist in Uttarpara. Main reason being the lack of land (owned by Municipality)

at the right places where parking facilities need to be provided. Further, it is feared that this scheme may not be cost effective. Though there is some logic in what is stated above but on the whole it appears that tapping revenue from this source is yet to be seriously considered. Municipalities in West Bengal are empowered to levy fees for the animals slaughtered in their jurisdiction. Besides being revenue earner this is also a tool for the regulation and control of this activity. In view of the fact that this activity needs strict administrative supervision it is necessary to properly monitor the activity the costs of which may be covered by charging a fee.

Charges constitute around 21 per cent (on an average) of the NTR in Uttarpara, of which about 30% was drawn from road restoration charges. Of the remaining, 90% came from charges in respect of hospitals, sale of forms and supply of hand crafts and the rest came from burning ghats and supply of extra water. Revenue from charges has remained steady except in one year (1986-87) when it declined from Rs. 238 thousand in 1985-86 to Rs. 149 thousand (see Table VI.2). This occurred due to a decrease in revenue from supply of carts etc. None of the categories of charges show any clear trend over the period under study. All the charges taken together show a poor growth rate. Among the user charges in respect of housing related public services, water supply is generally expected to be a potential source. In Uttarpara there is no direct charge on consumption of water. Only extra water supply through containers on private demand is charged for. Looking at the data we find that this activity did not yield any revenue between 1985-86 to 1988-89. It is only in 1989-90 that Rs. 9 thousand were obtained by way of extra water supply. We asked the Chairman of Uttarpara as to why water supply is not priced. His response may be summarized as follows. (1) It is felt that since the level of current water supply is not adequate ( 60,000 gallons per day<sup>19</sup>) the chargeable water supply (after allowing for free supply provided for in the B.M.

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19. About 3 litres per capita

Act) may be very low. (2) Since water is not being charged in neighbouring Municipalities consumer resistance is feared in case water pricing is introduced in Uttarpara. Nevertheless, the pricing of water is under consideration. The Chairman told that Srirampur water works is under progress which will cater to the needs to 8 Municipalities. Once it is ready the level of water supply will improve in Uttarpara. And that may be the right time to introduce user charges on water. Further, there is no fee for private hand pumps and tube wells. It may be considered to levy a charge (or licence fee renewable every year) on them.

Charging in respect of services other than water supply is never thought of in Uttarpara. They seem to be satisfied with the consolidated rate charged on the basis of rateable value. It is generally felt that a direct charge in addition to consolidated rate is not only unjust but is also bound to create resistance from public.

An interesting feature of resource mobilisation in Uttarpara is voluntary donations for supply of water. During the course of discussion it was brought out that maintenance cost of hand pumps, tube wells etc. is very high in Uttarpara. Average life of hand pumps is said to be only 5 to 6 years due to high content of iron in the water. As a result it had become difficult to sustain the water supply system unless additional resources were made available. An interesting suggestion of inviting donation from people came up. And it was tried. In 1985-86 Rs. 65,000 were obtained from donations. Though donations have declined in latter years, they constituted about 4% (per annum on an average) of NTR. Also, this indicates that people would be willing to pay if they are assured that their money would be used efficiently in improving the level of services.

Both the statistics and discussions with the officials revealed that during the last five years, between 1985-86 and 1989-90 considerable efforts have been made in respect of tapping the potential of rents from remunerative enterprises.

Before we venture into specific projects taken in Uttarpara an example of its prudent financial management is worth mentioning. Under CUDP III Uttarpara was given Rs. 1.5 crore for developmental works. Realising the limited financial capacity of the Municipality in maintaining the capital assets so created, it was decided to invest part of the total funds in financial assets. Interest incomes obtained from financial investments were used in developing infrastructure which had the potential of earning profits. This included a holiday home in Digha and a community hall which was constructed above the municipal building. It is interesting to note that the choice of constructing community hall over the municipal building saved the Municipality of huge land and other capital costs. Both community hall and holiday home together yielded about Rs. 84 thousand per annum on an average during 1986-87 to 1989-90. Both the schemes showed substantial growth potential. While revenue from community hall almost doubled from Rs. 42 thousand in 1987-88 to Rs. 83 thousand in 1988-89, revenue from holiday home has grown 6 times from 6 thousand in 1986-87 to Rs. 35 thousand in 1989-90. Although expenditure incurred on the above enterprises has also grown at a high rate yet the volume of expenditure has lagged behind the volume of revenue. Average per annum expenditure on holiday home and community hall works out to less than Rs. 11 thousand as against per annum average revenue of Rs. 84 thousand.

Revenue from rents taken together formed about 12 per cent of NTR during the 5 year period under study. Though income from remunerative enterprises constitute a small share of the total NTR but it is significant to note that there has been a substantial growth in

this over the last five year period. For instance rent constituted only about 4% of the total NTR in 1985-86 which has increased to little more than 15% in 1989-90 (see Table VI.2).

(iv). Summarising

From above we find, that though non-tax levies constitute an expanding source of revenue to the Municipality. However, there is scope for improvement. Enhancement of rates in respect to various licensing fees is called for. It is a matter of concern that some activities (which have the potential of contributing to revenue) such as slaughter houses, parking, sale of manure have not been given attention. The Municipality may also consider land development. This includes (i) renting and leasing of lands and buildings (ii) leasing of pasture lands (iii) selling produce of trees (4) leasing stadia and play grounds etc.

In the process of development increase in the rate of capital formation in the form of better and more markets, good transport network, more guest houses, auditoriums etc., become necessary. Non-availability of funds is often a major factor constraining capital formation. Local borrowings is always subject to considerable restrictions by State governments. If State government is supportive the Municipality can improve its reliance on non-tax revenue.

On the whole, the reforms required in non-tax sources are (1) enhancement in rate of various fees (2) increasing the standards of administration (3) increasing the rate of capital formation and (4) considering revenue mobilisation through sources mentioned above.

## II. KAMARHATI

### (i) Introduction

Kamarhati Municipality was established in the year 1899. It falls under the 24 Parganas (North) District which is one of the five Districts under the CMA. This Municipality has a total area of 10.96 sq. kms., and it was the fourth largest municipal body in the 24 parganas district of West Bengal, with a population of 2.4 lakhs in 1981. It is characterised by relatively high population growth rate and relatively high density of population. The decadal change in population (per cent) of the Municipality during 1971-81 was 39.05, which was highest in the district barring the Khardaha Municipality. During 1981-91 the population in Kamarhati is estimated to have grown to nearly 2.9 lakhs.

It is primarily a manufacturing and services centre. Jute, oil, pottery and match manufacturing are major industrial activities in Kamarhati. Besides, there are small scale units engaged in making pottery, powerloom, brass, jute, handicrafts, pens and bakery products.

### ii. Urban Services

The services provided by the Municipality include:

1. Provision of roads
2. Provision of educational facilities
3. Provision of medical facilities
4. Municipal markets
5. Street lighting
6. Drainage and sewerage
7. Solid waste collection and disposal, and
8. Water supply



At present the Municipality has a total road length of 195.87 kms., of which 176 kms. is metalled motorable road. The roads, however, are not well maintained except a few main roads.

The role of Municipality in the provision of educational facilities has been very limited. It runs 2 primary schools that enroll 122 students. The total number of teachers is 13. However, teacher students ratio (1:9.5) seem to be rather high.

The Municipality does not run any hospitals or dispensaries. There is only one health care unit where preventive health care facilities are provided for children, which include inoculation and other primary health care. This health care unit is housed in the Municipal office building.

Efforts of Municipality towards development of markets have been poor. It maintains only two local markets: Dakshineswar and Belghoria markets, which have 197 stalls. Besides, 600 sq. ft. open space is used by the daily vendors, which are about 25 in number. Both the markets are very congested.

Kamarhati maintains 3217 street lamp posts, of which 87 are mercury vapour lamps.

There is no sewerage system in the Municipality. About 19,000 (76%) holdings are using water closet (septic tank), 3820 (15%) holdings use well latrine, while 26.3 (1.5%) holdings have two-pit latrine. At present, sullage water in the area is drained away in open surfaces. About 213 kms. of drains are provided, of which only 4.45 km. is underground drainage. Human waste is first collected manually, and then carried in tractors for dumping/ trenching. It may be clearly seen from above that the present sewerage system is far from satisfactory. Under

GOUP III Kamarhati was provided Rs 4 crores for initiation/improvement of certain services, one of them was sewerage. But, until recently, the activities of the Municipality in this regard have been very limited.

A comprehensive solid waste management should aim at providing metal containers or well covered spaces in all the residential, commercial and other public places. Further, collection of solid waste from such points should be very frequent. However, there is no organised garbage collection system in Kamarhati. Garbage can be seen floating all around in the streets, lanes and markets. The reason being lack of primary dumping containers/points, ought to be provided by the Municipality. As a result, refuse is dumped by the sides of the roads and lanes. The Municipality gets the refuse collected on hand carts from the streets, which is dumped at several points (reported to be 250 in numbers) again on the streets forming huge heaps. From here, refuse is transported to the dumping ground, which is spread over 25 bighas. It is depressing to note, that the disposal of solid waste is done manually which exposes the conservancy workers to serious health hazard. Further, garbage is reported to be collected only once a week from the primary collection points. One can imagine the condition in rainy season especially in a situation where most of the drainage is open.

At present, Kamarhati Municipality draws its water supply from deep tube wells which are 18 in number. The total water supply is 355600 gallons per day. Piped water supply serves about 55 per cent of the population. Consequently, the per capita piped water supply works out to only about 11 litres per day, which appears very low. The analysis of water consumption pattern indicates, that about 50 per cent households have house connection and about 15 per cent take water from standposts which are 881 in number. The remaining households depend on Municipal handpumps (814 were in working order in 1989-90) and other private or public sources like well, tube well and ponds.

(iii) Analysis of Revenue Status of Kamarhati

A comparative picture of finances in Kamarhati, the CMA, CMA (class A) and West Bengal as a whole is presented in Table VI.3. The important features with regard to fiscal autonomy of the town and non-tax revenue are summarised below:

1. The revenue system of Kamarhati has been characterised by a relatively high dependence on State grants and subventions. During the period under study, own source revenue,<sup>1</sup> on an average, formed about 35 per cent of the total revenue receipts in Kamarhati which is marginally low when compared with the share of own source revenue in total revenue receipts for West Bengal sample (36.4%) and the Calcutta Metropolitan Area (35.3%). Further, in Kamarhati, the average annual growth rate of own source revenue has been at 9% which is lower than the rate of growth in total revenue receipts (13.28%), (see Table VI.4). This, however, indicates that the dependence of Kamarhati on grants and other transfers from the State has increased during the period under study.
2. Of the total own source revenue receipts more than 88 per cent is contributed by the tax revenue and the remaining 11.3 per cent came from non-tax revenue. Looking at the comparable figures (in respect of non-tax revenue) for West Bengal sample (21.2%), the CMA total 18% and the CMA class A total (17%), the performance of Kamarhati is found to be relatively poor again. However, a welcome feature of non-tax revenue in Kamarhati is that the non-tax revenue has shown a much higher growth rate than tax revenue (28% and 7.4% respectively). The most significant growth in non-tax revenue was recorded in the year 1988-89. For, non-tax revenue nearly doubled from Rs. 566 thousand in 1987-88 to

Rs. 1062 thousand in 1988-89. The most important shift is, however, seen in income from the sale of manure, from Rs. 12 thousand (1987-88) to Rs. 236 thousand (1989-90), and in miscellaneous income from other sources (details of which are not available) from Rs. 83 thousand in 1987-88 to Rs. 283 thousand in 1988-89. In general, it can be said that non-tax revenue has shown remarkable increase in the year 1988-89, and if it keeps pace with the rate of economic growth in Kamarhati it will turn into a potential source of revenue. So far as, the relatively low growth in the tax revenue is concerned, it appears that the property tax which contributed more than 90% in tax revenue, on an average, (over the five year period under study) has failed to capture the expected appreciation in land and buildings inherent in any urban development process.

At per capita level also, the overall picture of finances in Kamarhati is found to be depressing. It is a matter of concern, that a Municipality having more than 175 industrial units and commercial establishments was able to raise only Rs. 2.6 per capita from non-tax sources, while other Class A Municipalities in the CMA, on an average, raised Rs. 4.6 per capita from this source. In terms of per capita total receipts also, performance of Kamarhati is not satisfactory (Rs. 72) when compared with the average per capita total receipts of other Class A Municipalities in the CMA (Rs. 85). As mentioned earlier, the non-tax revenue has shown an impressive growth in the years 1988-89 and 1989-90, which indicates that the revenue potential of this source needs to be further explored. A more detailed analysis of this important source of revenue, particularly from the view point of future resource mobilisation efforts, has been discussed in the following sections.

(iv) Analysis of Non-Tax Revenue in Kamarhati

Own source Non-tax revenue includes the following items namely:

- a. Fees
- b. Rent
- c. User charges
- d. Interest on investment
- e. Interest on defaulted rates and taxes, and
- f. Fines.

Table 6.4 presents the structure of non-tax revenue by all major components. It is apparent in the above Table, that of the total non-tax revenue, 36 per cent is contributed by fees. Within fees, the major components are house connection fee for water supply and building plan sanction fee. If administered efficiently, license fee and registration fee may form a lucrative source of income for Municipalities. The revenue mobilisation from above sources does not seem to have received adequate attention in Kamarhati.

Another important component of NTR in Kamarhati is income from miscellaneous sources forming little more than 22%. No further details are available as to what are the miscellaneous activities which yield substantial revenue. It is, therefore, difficult to form an idea about the potential of additional resource mobilisation from this source.

Remunerative enterprises such as markets, auditoriums, guest house, land, buildings and ponds are expected to be an important source of revenue for local bodies. However, in Kamarhati revenue from this source forms only 5.6% of total NTR, which is very low for an industrialised Municipality like Kamarhati. Though it has recorded some growth in the year 1989-90, still the per capita revenue base under this head is lower than most other class A Municipalities in West Bengal. During the course of discussions with the officials of the Municipality

it was brought out, that there is a general feeling that in Kamarhati enterprises such as auditoriums, guest houses, stadia, swimming pool have very limited scope of success because; one, if these are priced on commercial basis there will be less demand than it would have been in the absence of pricing/ adequate pricing and two, there might be public resistance as for years, in West Bengal, such services are seen as a legitimate right of public. However, on the supply side, the usual problems were lack of space and lack of funds.

So far as, the demand side factors are concerned there is no evidence so far, at least in the Indian context, of the extent of use that might result from no fees or vice versa. Similarly, there is also a reason for disagreement with the supply side factors. For instance, newly built municipal office building and especially the expensive furnishing of its Committee room and the Chairman's office tell the extent of bad management of funds in Kamarhati. Clearly, it is not only the lack of funds which is deterrent to investment in such assets but also the lack of willingness and prudent financial planning.

User charges contribute about 20% of non-tax revenue. Of the user charges, more than 65% comes by way of income from sale of manure. The other important source is income from clearance of septic tanks. No user charge is levied on consumption of water. Revenue from burning ghats is negligible, and road restoration charges are nil except in one year (1987-88). Charges in respect of dispensaries, hospitals etc. have shown a decline. If income from the sale of manure is ignored, the average annual growth rate in user charges comes down to about 12 per cent per annum compared to 28% annual growth rate.

It is surprising to note, that the income from interest on financial investments is reported nil. Interest on defaulted payments formed only 6% of NTR and no fines were collected. A significant feature of resource mobilisation in Kamarhati is development charge, revenue from which is substantial forming little more than 22% of NTR.

Further, it is important to note that revenue under this head has recorded an average growth rate of 75% during 1985-90, which is remarkable by any standard.

## V. Additional Revenue Mobilisation

The preceding analysis has indicated, that in the absence of any marked changes in the base of non-tax revenue, receipts from this source have been steady over the period 1985-90, barring the years 1988-89 and 1989-90, when revenue under certain heads showed a steep rise. However, the most significant growth was seen in receipts from sale of manure and revenue from miscellaneous sources. The growth in revenue from other potential sources of non-tax revenue namely; fees, user charges and income from remunerative enterprises has lagged much behind the levels one would expect for a Municipality, which is an important manufacturing and services centre.

In Kamarhati, there seems to be good potential for additional resource mobilisation both by way of efficient exploitation of existing sources and also by providing new services and thus introducing additional charges. This is examined below by various categories of non-tax revenue.

So far as, the revenue mobilisation from fees is concerned it was seen earlier, that the performance of Kamarhati has been poor. Within fees, licence fee, registration fee, parking fee, building plan sanction fee and house connection fee for water supply are important. In the process of development growth in these is inevitable. What is perhaps needed is efficient administration and periodic revision in the rates of various fees. In Kamarhati, while revenue from building plan sanction fee has been steady, receipts from parking fee are reported nil. House connection fee for water shows a decline in the latter years. There is no clear-cut trend in receipts in respect of registration fee for cars and other vehicles. It appears, that both the rate of fee and base have

undergone no revision for a long time. This, however, shows that the fee as a source of revenue has failed to capture the effect of economic development in Kamarhati. Hoarding fee and advertisement fee (other than those which come under the purview of State government) may also be considered by the Municipality.

An analysis of revenue system would be incomplete without a review of the collection performance. It has been observed, that one of the greatest weaknesses of the urban local government finance is poor collection performance or increasing deviation between the revenue demand and actual collection. In the absence of data on current demand and actual collection of revenue for most categories of the tax and non-tax receipts, except property tax, it was not possible to work out collection performance. However, an analysis of statistics in respect of property tax demand and the tax actually collected indicates, that in Kamarhati in the year 1989-90 actual collection of property tax was only 52% of the current demand. This calls for an around improvement in collection performance so that realisation of revenue improves.

So far as, the revenue generation from markets and other remunerative enterprises is concerned, there appears to be a significant scope. In the recent years, income from market rents has recorded an increase. This is, inspite of the fact, that there has been hardly any deliberate efforts by the Municipality towards development of markets. However, considering the increasing demand for space by trading and commercial enterprises feasibility of developing such infrastructure seems to exist.

Among the user charges, water tariff is expected to be an important source of revenue. Interestingly, no water tariff is levied directly in the form of user charge. Water charge should be such as to cover the annual operation and maintenance cost of water supply system. In the absence of this, it might be difficult to sustain water supply in the long-run. For considerations of equity there should be a



progressive tariff structure in the sense that those with higher ferrule size connections would pay a higher rate and also the non-domestic sector would make a significant contribution to the revenue. An annual charge on private tube well, bore wells etc. may also be considered.

Table VI.1

Comparative Position of Finances in Uttarpara,  
CMA and West Bengal as a Whole  
(Average during 1985-86 to 1989-90)

(per cent)

Item	West Bengal Total	CMA Total	CMA (Class B) Total	Uttarpara
1. Own source revenue as % of total receipts	36	35.22	38.36	44
2. Non-tax revenue as % of total receipts	7.7	6.384	6.25	14
3. Non-tax revenue as % of own source revenue	21.23	18	16.4	31.2
4. Per capita non-tax revenue (Rs.)	6	5.3	4.8	11.8
5. Per capita total receipts (Rs.)	77.54	82.8	80.4	95

Source: Computed from the data obtained from the SMFC, West Bengal.

Table VI.2

## Non-Tax Revenue in Uttarpara Municipality

(Rs. Thousand)

Item	1985-86	1986-87	1987-88	1988-89	1989-90	Average over 1985-90	As % of average NTR	Average annual growth rate
1. Own Source Revenue	3289	3352	3619	3687	3649	3517.4		
a. Tax Revenue	2310	2380	2514	2406	2538	2429.6 (69)		2.45
b. Non-Tax Revenue	979	972	1097	1281	1111	1088 (31)		3.92
2. Non-Tax Revenue								
i) Fees	624	649	468	632	492	573	52.66	(-) 2.75
ii) Rent	41	93	157	168	173	126.4	11.61	51.5
iii) User Charges	238	149	248	264	281	236	21.69	10.5
iv) Interest on Investment	22	-	124	142.2	61	69.84	6.4	63.16
v. Interest on rates and taxes	76	81	82	74	105	83.6	7.68	8.5
vi) Fines	-	-	-	0.2	-			

Note: Figures in parenthesis represent share in own source revenue.

Source: Computed from the data obtained from the SMFC, West Bengal.

Table VI.3

Comparative Position of Finances in Kamarhati,  
the CMA and West Bengal

(Average during 1985-86 to 1989-90)

(per cent)

Item	West Bengal Total	CMA Total	CMA (Class A) Total	Kamarhati
1. Own source revenue as % of total receipts	36.4	35.3	34	35
2. Non-Tax revenue as % of total receipts	7.7	6.4	5.7	3.6
3. Non-Tax revenue as % of own source revenue	21.23	18	17	11.3
4. Per capita non-tax revenue (Rs.)	6	5.3	4.6	2.6
5. Per capita total Receipt (Rs)	77.54	8.3	85.2	72.3

Source: Computed on the basis of data obtained from the SMFC,  
West Bengal.

Table VI.4

## Non-Tax Revenue in Kamarhati Municipality

(Rs. Thousands)

Item	1985-86	1986-87	1987-88	1988-89	1989-90	Average over 1985-90	As % of aver- age NTR	Average annual growth rate
1. Own source revenue	6122	6272	6301	7754	8532	6996		9
(a) Tax revenue	5618	5576	5735	6692	7414	6207		7.4
(b) Non-tax revenue	504	696	566	1062	1118	789		29*
2. Total transfers from the State	7852	12544	14379	16267	13634	12935		
(a) Shared taxes	4169	7221	9329	10189	8214	7824		
(b) Other transfers	3683	5323	5050	6078	5420	5111		
3. Total revenue receipts	13974	18816	20680	24021	22166	19931		
4. Non-tax revenue								
(i) Fees	225	247	191	396	346	281	36	20.4
(ii) Rent	23.08	35.1	41	45	78	44	5.6	38
(iii) User charges	31.1	31.6	52.6	45.8	278	88	11	139.6**
(iv) Interest on investment	-	-	-	-	-	-	-	-
(v) Interest on rates and taxes	40	38	52	57	55	48	6	9.5
(vi) Fines	-	-	-	-	-	-	-	-
(vii) Development fees under TCP	97	125	145	235	157	152	19.2	18.5
(viii) Miscellaneous income from other sources	88	219	83	283	204	175	22.2	75

Note: \* On ignoring high miscellaneous income for the years 1989-90 growth rate comes down to 18.5 per cent.

\*\* Rate of growth of user charges is high because of a very high increase in income from sale of manure from Rs 12000 in 1987-88 to Rs 236 thousand in 1989-90.

Source: Computed on the basis of data obtained from the SMFC, West Bengal.

## CHAPTER VII

### Main Findings and Recommendations

#### I. Introduction

Adequate provision of civic services is directly related to the question of adequacy of resources at the disposal of local bodies. With most local bodies experiencing the falling incomes and rising expenditure levels, deterioration in the level of services is inevitable.

While poor growth in revenue is largely due to the rigidity in the tax revenue local bodies, constraints in the tax revenue, which form about 80-90% of own source revenue, are on account of both administrative bottlenecks and political interference at the local as well as state level.

As a result, dependence of local bodies on transfers from the state governments has increased. Increasing fiscal pressures on higher-level governments, however, make it appear unlikely that the transfers will continue to flow in similar magnitude in the future. Moreover, in view of uncertainty and irregularity of transfers it is virtually impossible to include them in budgetary plans.

It is, therefore, considered imperative to explore non-tax revenue sources for supplementing own source income of the local bodies. Thus, one of the basic issues in urban local finances seems to relate to the augmentation of non-tax revenue of the local bodies, which also focussed the major concern of this study, with a focus primarily on West Bengal.

## II. Main Findings

The salient points emerging from the analysis in preceding chapters may be listed as follows:

- i. Gravity of urban local finances is more pervasive in West Bengal when compared with other states. The performance of West Bengal in regard to non-tax revenue is even more critical, for NTR shows a negative growth in real terms.
- ii. The disparity in revenue of the urban local bodies across states is not wholly on account of inter-State disparity in delegated sources of revenue, disparate state functional and fiscal relationship, and differing levels of urban income of the States but equally on account of other factors - that is, attributable to improper pricing of various services, reluctance of local bodies to use their revenue powers to the required extent and inefficient enforcement.
- iii. Contribution of non-tax revenue to the total revenue of local bodies is extremely low (7 - 10%). What comes as a surprise is that the non-CMA Municipalities have higher non-tax revenue than CMA Municipalities.
- iv. The composition of total own source revenue, in West Bengal, shows that property tax is the major source of revenue in both CMA and non-CMA, though higher in CMA than non-CMA.
- v. Among the total revenue receipts, transfers are the most important in both CMA and non-CMA, forming about 65% and 60% of the total revenue respectively.

- vi. For most sources of revenue, there is no clear class pattern in CMA Municipalities. However, among non-CMA local bodies, Class A Municipalities perform the best in own source revenue, followed by Class B and Class C Municipalities.
- vii. There is no significant improvement in terms of per capita revenue during the years 1985 to 1990.
- viii. Among non-tax revenue source, the most important ones are the rents and fee for water connection. The rest are insignificant, and the same trends persist throughout the 5 years period under study.
- ix. The cost recovery in CMC water supply system is very poor, for water system generates only 13 per cent of the total operating expenses. Because of low operating revenues and lack of funds, maintenance of water system has suffered. The poor growth in revenue is attributed to inefficiency in production.
- x. The cost recovery in regard to solid waste collection and disposal is even more disappointing, with only Rs. 2.3 per capita revenue as against a per capita expenditure of little over Rs. 44.
- xi. The level of public satisfaction, vis-a-vis, both the water supply and the solid waste management is poor in Calcutta.
- xii. Most important of the under-used potential revenue sources are: user, charges, rents and fees.



xiii. The poor growth in non-tax revenue, vis-a-vis, the growth in expenditure is largely due to, among other causes, lack of financial planning, inadequate accounting and record keeping, laxity in enforcement and collection, non-revision of rates and virtually no efforts to control expenditures.

### III. Recommendations

On the basis of findings in this study, the following recommendations are made.

- i. More attention needs to be given for more fruitful exploitation of non-tax revenue potential in West Bengal.
- ii. To the extent possible, civic services especially, water supply, sewerage and solid waste collection and disposal should be made self-financing.

In achieving this, it would be necessary to delink service charge with the property tax and also visualise cost recovery as one of the key requirements for sustainable development of services.

- iii. The income re-distribution considerations may require differential pricing. However, modest differentials in rates for different category of users should be preferred. Further, the rates that rise with the quantity of service consumed are more desirable.
- iv. There is a general reluctance to levy direct charge/fee, and periodically revise the rates of charge/fee on the part of local bodies. State government should induce as well as assist local bodies to act in this direction.

- v. In the case of remunerative projects, urban services and various fees separate accounts should be maintained for proper monitoring and control of receipts and expenditures under each activity.
- vi. Often skilled management and man power are scarce for local bodies. It is, therefore, essential to advise local bodies on the ways and means to be adopted by them for increasing their incomes and the pattern to be followed while incurring expenditure. In this context, the Directorate of Local Bodies is required to play a more effective role.
- vii. Local bodies need to be helped in atleast 3 major areas, viz., (a) accounting methods, (b) budgeting and (c) fixing of user charges. Training programmes conducted by the Institute of Local Government and urban Studies (ILGUS) are yet to result in any significant improvement in the performance of local bodies in regard to above. It is possible that a more extensive training of the existing staff and a separate cadre of Municipal services in future may bear more fruits.

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