Municipalities in a Decentralized Framework

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1 INTRODUCTION

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Preface

The decade of 1990s has seen important changes in the role of municipal governments in India's federal structure. Largely emanating from the incorporation of Part IX A on Municipalities, i.e., the Constitution (seventy-fourth) Amendment Act, 1992 and amendment of Article 280 to insert (3)(c) into the Constitution of India, municipalities in India are acquiring recognition as a third tier of government, and are entering a phase where new relationships are being forged, on the one hand, between municipalities and higher governmental levels and, on the other hand, between municipalities and the private sector and community groups. The former, i.e., the vertical relationships show themselves, among others, in transfers from the central and state governments to municipalities, while the latter, the horizontal relations, are best exemplified in private sector participation in municipal affairs and activities.

This study entitled Municipalities in a Decentralized Framework captures and analyses the temporal changes in the fiscal relationships between municipalities and the higher tiers of government, as also the functional and financial arrangements between municipalities and the private sector. Data from seventeen (17) municipal corporations in three states, namely, Karnataka, Maharasthra and Punjab have been used to assess the changes.

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At the National Institute of Public Finance and Policy, the responsibility for conducting the field work and preparing the drafts was borne by a team consisting of Mr. Sandeep Thakur, Dr. Kakoli Singh, Mr. Anik Bhaduri and Ms. Kankana Mukhopadhyay. Professor Om Prakash Mathur has prepared the final report. I thank all of them for their efforts.

As is the practice, the Governing Body of the Institute does not bear any responsibility in respect of either the findings of the report or its recommendations.

M. Govinda Rao
Director

INTRODUCTION

Following the passage of the Constitution (seventy-fourth) Act, 1992 and amendment of Article 280 to insert (3)(c) into the Constitution of India, wide-ranging changes have takes place and are continuing to take place in the functional and fiscal relations between the municipalities and the higher tiers of government. The changes relate to the procedures for constituting and grading municipalities, the laying down the composition of municipalities including the representation of the hitherto unrepresented groups, allocation of functions and fiscal powers, and mechanisms of coordination between municipalities and their rural counterparts for planning and developmental purposes. Three such changes in the context of this study need to be underlined. **First**: the incorporation of Schedule 12 into the Constitution which lists out 18 subjects and functions that the Constitution considers appropriate for municipalities. According to Schedule 12, municipalities in India are an appropriate tier for such subjects as urban planning including town planning, planning for economic and social development, urban forestry and protection of the environment and promotion of ecological aspects, slum improvement and upgrading, and urban poverty alleviation. Schedule 12, annexed with this chapter, has made a major impact on the functional profile of municipalities and their role in the country's socioeconomic development.

Second: Article 243 Y of the Constitution under which the state governments are required to constitute, once every five years, a Finance Commission. The Finance Commission constituted under Article 243 is required to: "review the financial position of the Municipalities and make recommendations to the Governor as to:

(a) the principles which should govern:

(i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Municipalities at all levels of their respective shares of such proceeds;

(ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Municipalities;

(iii) the grants-in-aid to the Municipalities from the Consolidated Fund of the State;

(b) the measures needed to improve the financial position of the Municipalities; and

(c) any other matter referred to the Finance Commission by the Governor in the interest of the sound finance of the Municipalities".

This provision of the Constitution which has been incorporated into the state municipal statues alters the fiscal relations between the municipalities and state governments. A few features of this provision are worth nothing: (a) it provides a review of the financial position of municipalities once every five years, (b) it recognizes the need for and provides for of a revenue-sharing arrangement between the municipalities and state governments, and (c) it gives options to municipalities to explore and experiment with measures that would improve their finances.

Third: the amendment of Article 280 and the insertion of a sub-clause (3)(c) which requires the Finance Commission, set up under the provisions of Article 280, to recommend "measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State". The significance of this provision lies in the fact that the Central government which had thus far channelled assistance to municipalities only *via* the centrally sponsored schemes and related development programmes and which had rarely made any direct assessment of the finances of municipalities has, under the Constitution, been permitted to provide supplementary assistance for municipalities over and above what the Finance Commission of States might recommend. Pursuant to this provision, the Tenth Finance Commission (TFC) recommended for the period 1996-2001, a sum of Rs. 1,000 crore for municipalities; the Eleventh Finance Commission (EFC) covering a five year period beginning 2001 have recommended an amount of Rs. 2,000 crore, and allocated the same between states on the basis of a five-fold criteria. Details in respect of the criteria are elaborated later in the report.

Over the past decade, these provisions have been implemented in varying degrees by the Central government and state governments. While a fuller investigation of the impact of the provisions on the finances and functioning of municipalities is called for, this study focuses on two issues:

(i) transfers from the higher tiers of government to the municipalities - in what way have 243 Y(a)(i) and (iii) and 280 (3)(c) affected the nature of transfers to municipalities, and more broadly, changed the vertical relations between the municipalities and higher tiers of government; and

(ii) public-private arrangements in municipal service delivery and management, taking advantage of the provision 243 Y(b). Several municipalities have in recent years, entered into partnerships with the private sector in the provision and management of municipal services. This study aims at investigating the nature of partnership between municipalities and the private sector, particularly the contractual arrangements that have been forged between municipalities and the private sector.

This study has looked at these aspects by undertaking a survey of seventeen (17) municipal corporations in three states namely, Karnataka (5), Maharashtra (10), and Punjab (2). Basic details in respect of these corporations are given in Table 1.1 below.

Table 1:1
Sampled Municipal Corporations

Municipal Corporation	Population (million)		Annual growth rate %	Estimated population (million)	
	1981	1991		1997	1998
Karnataka					
Bangalore	24.73	26.60	0.73	27.79	27.99
Hubli-Dharwar	5.27	6.48	2.08	7.33	7.48
Mysore	4.42	4.81	0.85	5.06	5.10
Belgaum	2.74	3.26	1.75	3.62	3.68
Gulbarga	2.21	3.04	3.22	3.68	3.80
Maharashtra					
Pune	12.03	15.67	2.68	18.36	18.86
Kalyan	4.40	10.15	8.71	16.75	18.21
Thane	4.32	8.03	6.40	11.65	12.39
Nashik	3.64	6.57	6.08	9.36	9.93
Aurangabad	2.99	5.73	6.72	8.47	9.03
Pimpri-Chinchwad	2.33	5.17	8.30	8.34	9.03
Amravati	2.94	4.22	3.68	5.24	5.43
Kolhapur	3.41	4.06	1.76	4.51	4.59
Ulhasnagar	2.74	3.69	3.04	4.42	4.55
Navi Mumbai	N.A.	3.08	1.87	3.44	3.51
Punjab					
Ludhiana	6.07	10.43	5.56	14.43	15.23
Patiala	2.05	2.38	1.50	2.60	2.64

The approach to the study on transfers consisted of an analysis of municipal budgets with a view to understand the changing role of transfers in the post-1992 period. In addition, this study looked at, albiet briefly, the transfers recommended by the Finance Commission of States (SFCs) constituted in pursuance of Article 243 (Y) and transfers recommended by the Central Finance Commission under Article 280(3)(c) of the Constitution. As a post-script, reference is made of the new central government initiatives under which the municipalities are allowed access to funds upon fulfillment of certain conditions. On the public-private arrangements, the study focused on the following sets of questions:

(a) Which of the urban services have been privatized? What is the nature and extent of private sector participation?

(b) What are the stated objectives of private sector participation?

(c) What are the terms of agreement or contract between municipalities and the private sector?

(d) What has been the impact of private sector participation on service delivery and management, levels of municipal expenditure, and cost to users of services that have been privatized?

In addressing these questions, brief case histories of the public-private arrangements in the spheres of (i) conservancy and sanitation, (ii) solid waste management, (iii) water supply, (iv) street lights, and (v) miscellaneous activities are provided as a back drop to looking at the terms of contract by municipalities with the private sector.

The report is laid out in several sections. Section 2 presents the results of the study on transfers. Section 3 provides the results of the study on public-private partnership in municipal service delivery and management. Concluding remarks are provided in Section 4 which includes developments in the area of state-local fiscal relations that have taken place since the field work for the study was conducted in 1999/2000.

Annexe 1

Twelfth Schedule
(Article 243W)

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

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EXECUTIVE SUMMARY

Transfers from the higher tiers of government have been and continue to be an important source of revenue for municipal governments. Transfers have been and are used to bridge the gap between what the municipalities are able to raise and what they require for meeting their spending responsibilities. Transfers have also helped the higher levels of government in fulfilling their own mandate which, in their view, has large regional or national interest.

While the need for transfers to municipalities has rarely been questioned, questions have, however, arisen with regard to the form in which transfers accrue, the purposes for which they are made, the conditions that are attached to them, and the manner in which transfers are actually effected. The transfer system has also been found vulnerable on other grounds as well, e.g.:

(i) Excessively large number of transfers on different accounts, making it costly to administer;
(ii) Leading to substitution of local revenue-raising efforts; and
(iii) Overloading of the municipal system with specific-purpose grants in which municipalities have, at best, peripheral interest.

The Constitution (seventy-fourth) Amendment Act, 1992 aimed at strengthening local governments has, inter-alia, focused, on correcting the deficiencies of the erstwhile system by requiring the finance commission of states to lay down the principles that should govern the transfer of funds to municipalities. The Constitutional amendment has raised expectations that the new system of transfers that will come in place will be:

(i) guided by certain principles which will eliminate ad-hocism that had characterized the erstwhile system;

(ii) designed in ways that will promote and strengthen the autonomy of municipalities; and

(iii) predictable and lead to stability in the resource base of municipalities.

The issue of transfers to local governments has been the subject of several studies as well as the subject of examination by several commissions and committees. The NIPFP's study has been undertaken in a different context when most state governments have set up, as provided for under the Constitution and state statutes, finance commissions who, inter-alia, have made recommendations on the principles for the distribution between the states and municipalities of the net proceeds of taxes, duties, tolls and fees leviable by the states as also the principles for grants-in-aid for municipalities. The context is also different on account of Article 280 (3)(c), which requires the central finance commissions to suggest measures that may be needed to augment the consolidated fund of the state to supplement the resources of the municipalities. These changes point towards a major overhauling of the fiscal relations between the three tiers of government; the NIPFP's study has attempted to capture the emerging fiscal relations that impinge on the finances of municipalities. More specifically, it is designed to ascertain the extent to which the expectations from the Constitutional amendment and the consequential changes in the state statutes have been realized.

One general point needs to be noted at the outset: the system of transfers to municipalities differs **vastly** from the transfer system that exists between the Centre and states in that the transfers to municipalities are not a **statutory obligation** of the state government[1]. Transfers to municipalities are at the discretion of state governments, as provided for in some of the Articles of state statutes or in the Grants-in-Code that have been formulated in states. This difference in the transfer system at the different tiers of government explains why the system of transfers at the level of municipalities is so complex, and often even clumsy to be adequately understood. Transfers in the case of municipalities comprise assigned revenues, shared revenues, grants-in-aid (a group which includes grants for general as well as specific purposes and other forms of grants), transfers under centrally-sponsored schemes, and more recently, the transfers recommended under Article 280 (3)(c).

Field level evidence shows several important features of the system of transfers in the post-1992 period:

[1] There are statutory grants in a few states.

(i) Estimates of transfers to municipalities continue to be – as earlier – tentative, and no improvement in the accounting system that would permit a better estimate of transfers has taken place. Assessment of the volume of transfers is complex on account of the direct absorption by states of expenditures that are attributably to municipalities as also the adjustments that are made at the level of state governments.

(ii) The revenue significance of transfers i.e., transfers as a % of total municipal revenues has changed little in the post-1992 period; although no generalization is possible, transfers as a percentage of municipal revenues have registered an appreciable increase in recent years. Clearly, on account of the variations in the tax domain of municipalities, its importance in the finances of municipalities varies. It is also affected directly by the efficiency with which the tax domain is used, and of course, the buoyancy of the local tax domain.

(iii) Changes of far-reaching importance have come about in two areas, **possibly** as a result of the 1992 amendment:

(a) introduction of a revenue pool-sharing arrangement between the state governments and municipalities; this arrangement is a new phenomenon, reflecting the broader concerns that the transfer system at sub-state levels should have a level of predictability and stability that had been missing in the erstwhile system. The new arrangement has replaced, in several states, the earlier system where either the revenues of specific taxes were assigned to municipalities or where a share of the revenues of certain taxes was transferred to municipalities. The new system has meant creating a **pool of resources** at the level of states and determining a share of the pool that should be earmarked for municipalities. It has brought in a concept what might loosely be described as **entitlement** of municipalities in the resources of the states, signaling a major shift in the state-local fiscal relations. The introduction of the revenue-sharing arrangement also suggests that there are two systems of transfers in parallel: (a) revenue pool-sharing arrangement[2], and (b) sharing of individual taxes.

(b) Use and application of multiple criteria for allocation of shared revenues among municipalities. What is important is that unlike earlier when allocation of grants to municipalities was made on the basis of population, in the new system, such criteria consist of not only the size of municipality (as indicated by population or area), but also the level of development of municipalities. The level of development is measured by such criteria as levels of literacy, road length and hospital beds.

(iv) The importance of general purpose grants has declined in the finances of municipalities in the post-amendment period. The main objective that underlay general purpose grants which was to bridge the resource gap is now being served by revenue-sharing arrangements. No noticeable change, however, has come about in the number of other forms of grants, like specific-purpose grants, compensatory grants and the like.

(v) Transfers from the Central government for municipalities have witnessed a major spurt in recent years. They accrue firstly and mainly on account of the centrally sponsored schemes (IDSMT, Mega-City, poverty alleviation), and in the post-amendment period, on account of the grants under Article 280 (3)(c). While transfers under the centrally sponsored schemes have grown in number, these are used not for improving civic services but for the construction of infrastructure including commercial complexes, bus stands, slaughter houses, hawkers markets and the like.

(vi) Mention should be made here of the transfers recommended for municipalities under Article 280 (3)(c) of the Constitution. The Tenth Finance Commission (TFC) recommended a sum of Rs.1000 crore for municipalities, and suggested that it be allocated to the states on the basis of the 1971 ratio of the inter-state slum population. The release of the recommended amount to municipalities was conditional upon provision by municipalities of a **matching contribution** and

[2] The composition of the 'pool' differs between states.

was useable for identified projects. The Eleventh Finance Commission (EFC) has recommended a grant of Rs.2000 crore for municipalities, and is dedicated to improving the maintenance of civic services such as primary education, primary health care, safe drinking water, street lighting, sanitation, maintenance of conveniences and other common property resources. The Eleventh Finance Commission has established a comprehensive framework for the allocation of grant to states to municipalities. The framework consists of a set of multiple criteria (urban population, urban geographical area, efficiency and equity factors, and index of decentralization), with each criterion assigned a weight which would determine the allocation for each state. For allocation of funds to municipalities, the EFC has recommended that it be done on the basis of the criteria recommended by the state finance commissions.

As a part of urban sector reform, the Central government have announced the creation of three Funds, namely, Urban Reform Incentive Fund (URIF), City Challenge fund (CCF), and Pooled Financing Fund to assist state governments and municipalities initiate measures that would allow application of market principles to land and housing, improve accountability and responsiveness, and enhance the financial viability of municipalities. The Funds are expected to make a major change in the functioning of municipalities.

Limited evidence from the field suggests that the frameworks recommended by the central finance commissions have proved to be complex and often vague to be effectively utilized by the state governments. Even the relevance of the criteria has been questioned.

Transfers to municipalities have acquired a far greater complexity over the past 7-8 years or so. While on the one hand, efforts have being made to bring greater stability and order into the system by moving towards a revenue-sharing arrangement, the complexity has arisen on account of continuing dominance of centrally sponsored schemes and dispensations that have been recommended under Article 280 (3)(c) of the Constitution. Efficient management of transfers appears to be emerging as a major issue at the level of municipalities.

TRANSFERS TO MUNICIPALITIES

MACROCONTEXT

Transfers from the higher tiers of government have been and continue to be an important source of revenue for municipalities and other forms of local governments in most developed and developing countries, India being no exception to this rule. The role and importance of transfers, however, vary between countries. As a proportion of the total revenues, transfers including grants are as high as over 80 percent in Albania and Botswana and could be as low as 6 percent as it is in the case of Bolivia, New Zealand, and Nicaragua. On an average, transfers account for 34 percent of local government revenues (Ebel and Vaillancount: 1999).

In India too, the importance and role of transfers in the finances of municipal governments vary between states and often even between municipalities falling within the same state. Transfers as a proportion of the revenues of municipal governments are high or low, depending on their revenue-raising powers, the efficiency with which these are used, and of course, the spending responsibilities of municipal governments. A tax on the entry of goods into a local area for consumption, use or sale therein exercises a phenomenal difference to the role of transfers in the finances of municipalities. A study on the finances of municipalities in India in 1998/99 showed that transfers to the extent these are possible to be identified and accounted, accounted for 8 percent to 65 percent of municipal governments revenues. Many of the transfers are not possible to be separately accounted as these are absorbed directly into state government expenditures.

An important feature of transfers to municipalities is its discretionary nature. Unlike the Constitutional provisions that lay down the revenue-sharing arrangement between the central government and state governments, there exist no statutory provisions in the state municipal acts which define the conditions under which transfers should take place from the state governments to municipalities. Since local government (Entry 5 in the State List) is a state subject and spending responsibilities and taxation powers of municipalities are determined by state governments, it is assumed that state governments have the obligation of bridging the gap between what the municipalities are able to raise by way of taxes, charges, levies etc. and what they need to fulfill their spending responsibilities. The balancing of the budget at municipal levels is achieved via the transfers made by state governments. Moreover, it is not only the volume of transfers that is discretionary; also discretionary are the nature of transfers, i.e., whether the funds flow as grants-in-aid or in the form of sharing of revenue proceeds of taxes levied by the state governments and the like. There are several variants of transfers that are used by state governments.

The entire gamut of local government finance is thus loose and fuzzy. In a formal sense, there may not exist a local government sector which is managed by municipalities in an unrestricted manner. Local government activities have no autonomous identity and recognition. These are carved out of the state list and are thus subject to change by state governments; for this reason, transfers too remain a state of flux.

The Constitution (seventy-fourth) Amendment Act, 1992 together with the broadening of the scope of Article 280 constitute a major step towards redesigning the central-state-municipal fiscal relations in the country. Under the seventy-fourth Constitutional amendment, each state government is required to set up once every five years a finance commission which is mandated to assess the finances of municipalities, and to make recommendations on the taxes, duties and levies that should be assigned to municipalities, which should be shared between the state government and municipalities, and the amounts which should be extended to them as grants-in-aid.

Following the Constitution (seventy-fourth) Amendment Act, 1992, the state governments set up, under provisions of Article 243 I and Y, finance commissions which made wide-ranging recommendations comprising the revenue sources that may be appropriated by the municipalities and those that may be shared between the state governments and municipalities. The following table gives, in a summary form, the recommendations of the various state finance commissions on devolution.

Table 2:1
Share of Municipalities in State's Resources as Recommended by the first Finance Commission of States

States	Recommended Shares
Andhra Pradesh	39.24% of state tax and non-tax revenue to all local bodies.
Assam	2% of State tax for local bodies, both rural and urban. (The share of urban local bodies has not been specified).
Himachal Pradesh	An amount equal to Rs. 12.2 crore as grants in lieu of octroi for 1996/97, to rise to Rs. 17.9 crore in 2000/01 and CSS grants to accrue to municipalities.
Karnataka	5.4% of the total non-loan gross own revenue receipts for meeting the plan and non-plan requirements.
Kerala	1% of State revenues (excluding from certain sources) be transferred to local bodies as non-statutory non-plan grants distributed between the rural and urban local bodies in proportion to their population.
Madhya Pradesh	8.67% of the tax and non-tax revenues of State government.
Maharashtra	25% to 100% of entertainment taxes collected from municipalities of different grades, 25% of vehicle tax and 10% of profession tax are recommended shares for local bodies.
Manipur	Maintenance grant equal to Rs. 88.3 lakh to accrue to municipalities in 1996/97, which varies in subsequent years.
Orissa	Rs. 179.5 crores is the projected transfer (grant) to urban local bodies between 1998/99 and 2004/05. (The deficit of Rs. 1,378 crores between the estimated income and expenditure and an additional requirement of Rs. 381.48 crore for improvement of core civic services should be met by the Eleventh Finance Commission).
Punjab	20% of the net proceed for five taxes namely, stamp duty, motor vehicle tax, electricity duty, entertainment tax, and cinematograph shows should be transferred to municipalities, and the projected gap of Rs. 322 crore should be met by the Central Finance Commission.
Rajasthan	21.8% the net proceeds of State taxes should be devolved on the local bodies; the division of these proceeds between rural and urban should be in the ratio of 3.4:1.
Tamil Nadu	8% of the State's net tax revenue should be devolved on to the local bodies in 1997/98; this percentage should gradually increase in successive years to 9%, 10%, 11% and reaching 12% in 2001/02. The division of this amount between rural and urban should be on the basis of population as in the last Census.
Uttar Pradesh	7% of the net proceeds of State's total tax revenue should be transferred to urban local bodies.
West Bengal	16% of the net proceeds of all taxes collected by the State should be transferred to local bodies. Such funds should be released to the Districts. These proceeds should be divided between urban and rural based on population.

Source: Reports of the Finance Commission of States.

Although restricted in scope, the amended Article 280 has, for the first time, permitted the participation of the central government in the fiscal affairs of the municipalities. Under this provision which hitherto dealt with the sharing of revenues between the central government and state governments, the central finance commission is mandated to suggest measures for the augmentation of the Consolidated Fund of the States for supplementing the resources of the municipalities. The Tenth Finance Commission recommended a sum of Rs. 1,000 crore for municipalities, and allocated the same on the basis of the inter-state 1971 slum population in each state. The Eleventh Finance Commission (EFC) recommended a sum of Rs. 2,000 crore for municipalities, and allocated the same among states on the basis of a five fold criteria. The allocation for each state are shown in **Table 2:2** below:

Table 2:2
Share of States in Allocation for Municipalities

(Rs. lakh)

States	Total for the state	Normal areas	Excluded areas
Andhra Pradesh	3293.14	3293.14	0.00
Arunachal Pradesh	13.67	13.67	0.00
Assam	430.84	412.66	18.18
Bihar	1877.94	1520.97	356.96
Goa	92.73	92.73	0.00
Gujarat	2650.46	2626.46	24.00
Haryana	732.80	732.80	0.00
Himachal Pradesh	77.84	77.84	0.00
Jammu & Kashmir	313.16	313.16	0.00
Karnataka	2496.39	2496.39	0.00
Kerala	1504.91	1504.91	0.00
Madhya Pradesh	3120.22	2898.90	221.32
Maharashtra	6325.09	6270.83	54.26
Manipur	87.92	80.38	7.54
Meghalaya	53.98	3.59	50.39
Mizoram	76.89	73.58	3.31
Nagaland	35.72	35.72	0.00
Orissa	799.20	639.74	159.46
Punjab	1094.53	1094.53	0.00
Rajasthan	1988.32	1943.46	44.86
Sikkim	4.16	4.16	0.00
Tamil Nadu	3867.34	3867.34	0.00
Tripura	80.32	80.32	0.00
Uttar Pradesh	5032.64	5032.64	0.00
West Bengal	3949.78	3949.78	0.00
Total	40000.00	39059.73	940.27

Thus, the entire framework within which transfers are made for municipalities by the central government and state governments has undergone a major shift over the past decade or so. In part, the mode of transfers to municipalities has changed. The purpose of this study is to look at the changes that have come about in the system of transfers to municipalities, and the impact that these have had on the finances of municipals. The study conducted in 17 municipal corporations of three states, namely, Karnataka, Maharashtra and Punjab has especially looked at (i) the system of transfers, (ii) the temporal behaviour of transfers, and (iii) impact of transfers on the finances of municipalities.

CASE PROFILES

Using the data of Municipal corporations in three States, this section examines the shifts that have taken place in the role of transfers in the finances of municipalities. Transfers, as has been stated earlier, are an important constituent of the revenue base of municipalities in India. Transfers accure to them for various purposes, ranging from the most direct one of bridging the gap between what the municipalities need for meeting their spending responsibilities and what they have by way of resources, to transfers for compensating municipalities for revenue sources that are either abolished or taken away from them, to transfer for meeting the higher-level mandates. Apart from the purposes, the form in which the transfers accrue to them also varies; there are general-purpose untied grants to grants that are specific-purpose. Likewise, there is a large variation in the revenue-sharing arrangement between the state governments and municipalities. A greater part of the transfers, as well be seen later, is supply-determined, rather than determined by demand considerations although in a general sense, part of the reasons underlying transfers is to enable municipalities provide a minimum level of services.

The case profiles on transfers focus on three aspects: (i) system of transfers, (ii) temporal behavior of transfers in the post-1992 amendment period, and (iii) transfers in the context of the state finances. As a preface to the case profiles, it needs to stated that the three states under study have incorporated the mandatory features of the Constitution (seventy-fourth) Amendment Act, 1992 by amending their municipal legislations. The pre-and-post amendment legislations are listed below:

Pre-amendment	*Post-amendment*	*Effective from*
Karnataka		
The Karnataka Municipal Act, 1994	*The Karnataka Municipalities Amendment) Act, 1994 (Act 36 of 1994)*	*1 June 1994*
The Karnataka Municipal Corporation Act, 1976	*The Karnataka Municipal Corporation (Amendment) Act, 1994 (Act 35 of 1994)*	*1 June 1994*
Maharashtra		
Bombay Municipal Corporation Act, 1888	*Maharasthra Municipal Corporation and Municipal Councils (Amendment) Act, 1994 (Act XLI of 1994)*	*31 May 1994*
The City of Nagpur Corporation Act, 1948	*Maharasthra Municipal Corporation and Municipal Councils (Amendment) Act, 1994 (Act XLI of 1994)*	*31 May 1994*
The Bombay Provincial Municipal Corporation Act, 1949	*Maharasthra Municipal Corporation and Municipal Councils (Amendment) Act, 1994 (Act XLI of 1994)*	*31 May 1994*
The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965	*Maharasthra Municipal Corporation and Municipal Councils (Amendment) Act, 1994 (Act XLI of 1994)*	*31 May 1994*
Punjab		
The Punjab Municipal Act, 1911	*Punjab Municipal (Amendment) Act 1994 (Act 11 of 1994)*	*31 May 1994*
The Punjab Municipal Corporation Act, 1976	*Punjab Municipal (Amendment) Act 1994 (Act 12 of 1994)*	*31 May 1994*

The Government of Punjab has drafted a new Act for governing municipalities which has been passed by the state legislature and is awaiting Presidential assent.

Many of the Schedule 12 functions have been incorporated into the amended state municipal legislations. The position with regard to Schedule 12 functions in the three states is in table below:

Table 2:3
Incorporation of Schedule 12 Functions into the amended State Municipal Legislations

Functions	Karnataka	Maharashtra	Punjab
Urban planning including town planning.	✓	×	✓
Regulation of land-use and construction of buildings.	✓	×	✓
Planning for economic and social development.	×	×	✓
Roads and bridges.	✓	✓	✓
Water supply for domestic, industrial and commercial purposes.	✓	✓	✓
Public health, sanitation conservancy and solid waste management.	✓	✓	✓
Fire services.	×	✓	✓
Urban forestry, protection of the environment and promotion of ecological aspects.	✓	×	✓
Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.	✓	×	✓
Slum improvement and upgradation.	✓	×	✓
Urban poverty alleviation.	✓	×	✓
Provision of urban amenities and facilities such as parks, gardens, playgrounds.	✓	✓	✓
Promotion of cultural, educational and aesthetic aspects.	✓	✓	✓
Burials and burial grounds: cremations, cremation grounds and electric crematoriums.	✓	✓	✓
Cattle pounds; prevention of cruelty to animals.	✓	✓	✓
Vital statistics including registration of births and deaths.	✓	✓	✓
Public amenities including street lighting, parking lots, bus stops and public conveniences.	✓	✓	✓
Regulation of slaughter houses and tanneries.	✓	✓	✓

Karnataka

Under the Municipalities and Municipal Corporation Acts, the municipalities are performing a large array of functions, with revenues raised from such sources as property taxes, several non-tax sources of revenues, assigned revenues, grants-in-aid, grants recommended by the State Finance Commission (SFC), funds accruing to municipalities under the centrally sponsored schemes, and loans from the government and other financing institutions. Own sources constitute anywhere between 28-67 percent of the total revenue receipts of municipal corporation. Transfers account for 33-72 percent of their revenues. The following table gives the position in respect of the six corporations.

Table 2:4
Percentage Composition of Revenue Receipts:
Municipal Corporations in Karnataka

Municipal Corporation	Transfers as a percentage of revenue receipts				Own Resources as a percentage of revenue receipts			
	1996/97	1997/98	1998/99	1999/00	1996/97	1997/98	1998/99	1999/00
Bangalore	44.19	40.14	33.25	41.21	55.81	59.86	66.75	58.79
Belgaum	53.68	54.31	57.84	58.90	46.32	45.69	42.16	41.10
Dharwar	61.84	58.94	70.18	59.20	38.16	41.06	29.82	40.80
Gulbarga	75.08	71.26	77.38	64.89	24.92	28.74	22.62	35.11
Mangalore	47.25	39.16	42.54	38.08	52.75	60.84	57.46	61.92
Mysore	65.65	53.48	68.85	72.59	34.35	46.52	31.15	27.41

Source: Budgets Papers of Karnataka

Several observations are possible. First: the dependence of municipalities on transfers continues to be high among municipal corporations. In 1996/97, transfers as a percent of revenues accounted for 44 percent of total revenue receipts in Bangalore (lowest among the six corporations) and 75 percent in Gulbarga. In 1999/00, the share of transfers was 72.6 percent in Mysore, followed by 64.9 percent in Gulbarga and 58-59 percent in Bharwar and Belgaum. Second, in four out of the six corporations namely: Belgaum, Dharwar, Gulbarga and Mysore, more than 50 percent of the revenues of municipal corporations are externally provided. Third, the dependence of municipal corporations on transfers has risen from 53.7 to 58.9 percent in the case of Belgaum and 65.6 to 72.6 percent in the case of Mysore over the period 1996/97 and 1999/2000.

The system of transfers to municipalities and municipal corporations in Karnataka has changed in the post-1992 period. Under the new system which follows the acceptance of the recommendations of the State Finance Commission, grants-in-aid that was extended earlier under such heads as octroi compensation and shared revenues from motor vehicle tax and entertainment tax has been jettisoned in favour of a pool-sharing arrangement. In moving on to the pool-sharing system, the State Finance Commission reviewed the merits and demerits of (i) transferring shares of the yields from specific taxes levied by the state government, and (ii) transferring one consolidated share of the entire non-loan gross own revenue receipts of the state government. It recommended replacement of the earlier system of sharing a portion of specific taxes levied by the state government like motor vehicle tax, entertainment tax, stamp duties, and octroi compensation grant by sharing the total non-loan gross own revenue receipts of the state government. The non-loan gross own revenue receipts comprise (i) all taxes levied, collected and appropriated by the state government, (ii) interest receipts, and (iii) all duties, fees and other non-loan non-tax receipts levied and collected by the state government under different budget heads. This does not include grants-in-aid from the Central government or the state's share in the net yield from income-tax and common excise duties, and also excludes state's share of the grant in lieu of tax on railway fare, central grants for natural calamity fund and other grants under Article 275 and 282. The recommendation of the State Finance Commission was that 5.4 percent of the non-loan gross own revenues should be given to municipalities for meeting the plan and non-plan requirements. In determining the financial share of urban local bodies, four factors were considered, namely, proportion of urban population (10.3%), proportion of urban area (0.74%), road length per s.q. km (2.78%), and illiteracy rate and number of persons per hospital bed (1.88%).

In addition, transfers have accrued to municipal corporations under (i) the Swarna Jayanti Shahari Rojgar Yojna (SJSRY) which is a scheme to provide gainful employment to the urban umemployed or to help setting up self-employment ventures, and (ii) Integrated Development of Small and Medium Sized Towns (IDGMT).

Maharashtra

Until the passage of the Constitution (Seventy-fourth) Amendment Act, 1992, municipalities in Maharashtra wee regulated and governed by four different Acts namely - Bombay Municipal Corporation Act, 1888; The City of Nagpur Corporation Act, 1948; The Bombay Provincial Municipal Corporation Act, 1949; and the Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. These have been replaced by one single consolidated Act, called the Maharashtra Municipal Corporation and Municipal Councils (Amendment) Act, 1994, and is effective from 31 May, 1994.

Transfers to municipalities in Maharashtra are characterized by two important features. One: the system of transfers has no statutory recognition. In the absence of a well-defined grants-in-aid code, transfers to municipalities accrue on an ad-hoc basis. Also, there is a lack of a proper system of assessing the financial needs of municipalities, with the result that transfers are often subjective. Two: municipalities in Maharashtra are eligible for grants only when their establishment expenditure does not exceed 42 percent of the total expenditure. This has encouraged the municipalities to impose discipline on establishment expenditures. Three: municipalities in Maharashtra are neither extended a per capita grant nor a gap-filling grant for bridging the revenues deficits.

Table 2:5
Income from Own Sources (% to the total revenue income)

Octroi	Property tax	Water charges	Conservancy and sanitation	Licence fees and ent.	Building rents	Other income	Income
45.97	16.15	9.79	0.53	0.69	0.53	16.5	90.16
43.88	17.03	11.73	0.58	0.68	0.44	14.64	88.87
42.17	18.37	12.84	0.59	0.58	0.45	13.28	88.25
40.09	18.18	11.67	0.53	0.53	0.43	13.95	85.37
39.78	17.63	11.19	0.56	0.62	0.41	13.17	88.36
42.38	17.47	11.45	0.56	0.59	0.45	14.31	87.2

Table 2:6
Receipts from Transfers (% to the total revenue income)

Years	Income from Grants, Grant-in-aid, Loans, etc				
	Grants from State Government			Loans	Total
	Plan	Non-Plan	Total		
1995/96	2.4	2.69	5.09	4.75	9.84
1996/97	3.14	2.08	5.21	5.91	11.13
1997/98	2.64	2.12	4.76	6.99	11.75
1998/99	1.99	2.81	4.8	9.83	14.63
1999/2000	2.6	2.32	4.92	11.73	16.65
AVERAGE	2.55	2.48	4.96	7.34	12.8

Unlike Karnataka, municipal corporations in Maharashtra are only marginally dependent on transfers for meeting their revenue and related expenditures. According to the table below, own account revenues account for 87 percent of the total revenue income of municipal corporations in Maharashtra. This percentage comprises income from octroi (42.3%), property taxes (17.5%), charges from water conservancy and sanitation (12%), and about 1 % from various fees, rents etc. Miscellaneous income accounts for 14 percent of their revenues. Over the period 1995/96 and 1999/2000, own resources have maintained an extraordinary level of stability - ranging between 85 and 90 percent.

Transfers account for 12.8 percent of the financial requirements of municipal corporations. It comprises grants from the state government (2.48% for plan purposes and 2.48% for non-plan purposes), and a loan component accounting for 7.34%. An important feature of the transfers is an increase in the loan component of transfers, from 4.7 percent in 1995/96 to 11.7 percent in 1999/00. Transfers include assigned taxes, which consist of mainly entertainment and motor vehicle taxes. A grant is given to municipalities in lieu of the levy of stamp duty on transfer of immovable properties as also in lieu of pilgrim tax which was abolished by the state government. In sum, the transfers to municipal corporations in Maharasthra comprise land revenue and non-agricultural grant, profession tax grant, primary education grant, and an incentive grant for meeting revenue expenditure on operation and maintenance of water supply through water tax. The position in the pre-and-post-amendment period is given in below:

Item	*Pre-amendment (Rs crore)*	*Post-amendment (Rs. crore) (recommended)*	
	1996/97	*1997/98*	*2000/01*
Own income	*3342.15*	*3952.41*	*6502.64*
Existing grant	*139.88*	*149.67*	*183.36*
Additional funds (sfc)	-	*41.89*	*60.35*
Total	*3482.03*	*4143.97*	*6736.35*

Entertainment tax which is collected by the state government forms a major part of the transfers (21%) of all general purpose transfers. Receipts from entertainment taxes are allocated to different grades of municipalities, on the basis of actual collections within each municipality. The shares of different grades of municipalities are as under:

Table 2:7
Share of Different Grades of Municipalities in Entertainment Tax

Grade	Share of tax collected and deposited with the state treasury
Municipal Corporation	10%
A Class municipalities	30%
B Class municipalities	35%
C Class municipalities	40%

The shares of municipalities on the basis of the above table are shown below.

Table 2:8
Share of Municipalities in Entertainment Taxes (Rs. lakh)

Year	Total revenue collected from entertainment tax	Share of municipalities
1995/96	1860.98	605.69
1996/97	1986.08	416.84
1997/98	2116.78	503.16
1998/99 (R.E.)	2664.30	601.08
1999/2000 (B.E.)	2787.01	631.13

Municipal Corporations also receive 15% of land revenue and 75% of non-agricultural assessment tax. Similarly, municipal councils receive 75% of both land revenue and non-agricultural assessment tax realised within the municipal limits as grants. The grant-in-aid in lieu of land revenue and non-agriculture assessment is given to the Municipal Councils and Corporations, which are having a population of 15,000, and above. Municipal councils with less than 15,000 population receive land revenue as 100% of levy or Re.1 per capita whichever amount turns out to be higher as grant. Disbursement of this grant, however, is conditional and is related to achievement of target in tree plantation.

A fixed amount by way of compensation is given to those municipalities which were levying a profession that was abolished under the Professions, Trade, Calling and Employment Act 1975.

The Bombay Motor Vehicle Act 1958 prohibits municipal bodies from levying a motor vehicle tax. In order to compensate the loss, municipal councils which were levying this tax in 1958, are paid a fixed sum as tax grant. The grant amount equals to three years average collection before its takeover in 1958. No change has been made to the amount of this grant thereafter.

From the year 1977/78, the government has abolished the levy of pilgrim tax. Compensation is given to municipalities in lieu of abolition of pilgrim tax.

One of the primary tasks of municipalities in Maharashtra is to run primary schools and to provide assistance to institutions, which impart primary education. This is one area of duties and responsibilities, which entails heavy financial expenditure. The Government of Maharasthra gives to municipalities a grant as per the table below.

Table 2:9
Grants for Primary Education

Municipal Councils	Scale of grant as % of expenditure on primary education
A class	80% of expenditure
B class	90% of expenditure
C class	100% of expenditure

Excluding the Mumbai Municipal Corporation, other municipal corporations are given a grant equal for primary education to 50% of the expenditure incurred by them in the last financial year. Grant equal to 20% of the expenditure on primary education is given to the Mumbai Municipal Corporation.

Punjab

Since 31, May 1994, Municipalities in Punjab are regulated and government by the Punjab Municipal (Amendment) Act, 1994 which has replaced the erstwhile Punjab Municipal Act, 1911 and the Punjab Municipal Act, 1976. The 1994 Act has been substantially revised and adopted by the state legislature. It is awaiting Presidential assent.

Recent years have seen increasing demographic pressures on municipalities in Punjab. Nearly 45 percent of state's urban population is said to be without access to drinking water and 62 percent without sewerage facilities. The condition of roads and streets is unsatisfactory, with about 40 percent of them needing extensive repairs.

Octroi is the principal source of revenue for municipalities, forming about 58-60 percent of their total income. Other sources of income are house tax, water rates and sewerage charges, advertisement taxes, and grants from the central finance commission. The position in respect of revenues is in table below.

Table 2:10
Income Profile of Municipalities in Punjab

(Rs. crore)

Items	1996/97	1997/98	1998/99
Octroi	229.29	243.91	268.49
House Tax	33.52	37.65	40.73
Water rates and sewerage charges	32.30	35.32	37.89
Advertisements	11.43	12.29	14.32
Grants (Including TFC grants)	38.74	33.39	33.97
Others	86.50	103.60	85.13
Total	**431.78**	**466.16**	**480.53**

Expenditure on wages and salaries is the single most important component of municipal expenditure. Other expenditure components include maintenance of assets, roads, street lighting, and sanitation, besides meeting other liabilities such as pension contribution etc.

Following the recommendations of the State Finance Commission, 20 percent of stamp duty, electricity duty, motor vehicle tax, entertainment taxes and cinematographic shows are given as grants-in-aid to municipalities. The recommended amounts are shown in tables below.

Table 2:11
Estimates of Devolution to Municipalities

(Rs. crore)

Heads	1996/97	1997/98	1998/99	1999/00	2000/01
Land revenue					
Stamp duty	3.02	12.7	13.33	14	14.7
Electricity duty	2.4	10.58	11.64	12.8	14.08
Motor vehicle tax	6.2	26.55	28.4	30.39	32.52
Entertainment and show tax	0.27	1.14	1.2	1.26	1.32
Total	**11.89**	**50.97**	**54.57**	**58.45**	**62.62**

Between 1996/97 and 2000/01, transfers on these counts have risen from about Rs. 12 crore to Rs. 62.6 crore, a significant increase by most counts. As regards individual municipal corporations the position is that their own revenues account for anywhere between 80 and 90 percent. Transfers as such play a relatively small part in the finances of municipalities.

CONCLUSIONS

Estimates of transfers to municipalities continue to be – as earlier – tentative, and no improvement in the accounting system that would permit a better estimate of transfers has taken place. Assessment of the volume of transfers is complex on account of the direct absorption by states of expenditures that are attributably to municipalities as also the adjustments that are made at the level of state governments.

The revenue significance of transfers i.e., transfers as a % of total municipal revenues has changed little in the post-1992 period; although no generalization is possible, transfers as a percentage of municipal revenues have registered an appreciable increase in recent years. Clearly, on account of the variations in the tax domain of municipalities, its importance in the finances of municipalities varies. In Maharashtra and Punjab, e.g., transfers do not exercize any significant influence in the finances of municipalities. Its importance is also affected directly by the efficiency with which the tax domain is used, and of course, the buoyancy of the local tax domain.

Changes of far-reaching importance have come about in two areas, as a result of the 1992 amendment:

(a) introduction of a revenue pool-sharing arrangement between the state governments and municipalities; this arrangement is a new phenomenon, reflecting the broader concerns that the transfer system at sub-state levels should have a level of predictability and stability that had been missing in the erstwhile system. The new arrangement has replaced, e.g. in Karnataka (and in several other states) the earlier system where either the revenues of specific taxes were assigned to municipalities or where a share of the revenues of certain taxes was transferred to municipalities. The new system has meant creating a **pool of resources** at the level of states and determining a share of the pool that should be earmarked for municipalities. It has brought in a concept what might loosely be described as **entitlement** of municipalities in the resources of the states, signaling a major shift in the state-local fiscal relations. The introduction of the revenue-sharing arrangement also suggests that there are two systems of transfers in parallel: (a) revenue pool-sharing arrangement[3], and (b) sharing of individual taxes.

(b) Use and application of multiple criteria for allocation of shared revenues among municipalities. What is important is that unlike earlier when allocation of grants to municipalities was made on the basis of population, in the new system, such criteria consist of not only the size of municipality (as indicated by population or area), but also the level of development of municipalities. The level of development is measured by such criteria as levels of literacy, road length and hospital beds.

The importance of general purpose grants has declined in the finances of municipalities in the post-amendment period. The main objective that underlay general

[3] The composition of the 'pool' differs between states.

purpose grants which was to bridge the resource gap is now being served by revenue-sharing arrangements. No noticeable change, however, has come about in the number of other forms of grants, like specific-purpose grants, compensatory grants and the like.

Transfers from the Central government for municipalities have witnessed a major spurt in recent years. They accrue firstly and mainly on account of the centrally sponsored schemes (IDSMT, Mega-City, poverty alleviation), and in the post-amendment period, on account of the grants under Article 280 (3)(c). While transfers under the centrally sponsored schemes have grown in number, these are used not for improving civic services but for the construction of infrastructure including commercial complexes, bus stands, slaughter houses, hawkers markets and the like.

Mention should be made here of the transfers recommended for municipalities under Article 280 (3)(c) of the Constitution. The Tenth Finance Commission (TFC) recommended a sum of Rs.1000 crore for municipalities, and suggested that it be allocated to the states on the basis of the 1971 ratio of the inter-state slum population. The release of the recommended amount to municipalities was conditional upon provision by municipalities of a **matching contribution** and was useable for identified projects. The Eleventh Finance Commission (EFC) has recommended a grant of Rs.2000 crore for municipalities, and is dedicated to improving the maintenance of civic services such as primary education, primary health care, safe drinking water, street lighting, sanitation, maintenance of conveniences and other common property resources. The Eleventh Finance Commission has established a comprehensive framework for the allocation of grant to states to municipalities. The framework consists of a set of multiple criteria (urban population, urban geographical area, efficiency and equity factors, and index of decentralization), with each criterion assigned a weight which would determine the allocation for each state. For allocation of funds to municipalities, the EFC has recommended that it be done on the basis of the criteria recommended by the state finance commissions.

3 PUBLIC-PRIVATE SECTOR PARTICIPATION IN MUNICIPAL SERVICE DELIVERY AND MANAGEMENT

… …

EXECUTIVE SUMMARY

Private sector participation (PSP) in urban service delivery and management is a relatively **recent** development in India. Over the years, participation of the private sector which was initially observed in solid waste management services has gradually expanded to cover other urban services; the number of cities and towns that have experimented with private sector participation, however, continues to be small.

This study on Private Sector in Urban Service Delivery and Management has attempted to capture the limited experience of private sector participation with the objective of assessing-

(i) the impact of private sector participation on the delivery and management of urban services;

(ii) its effect on the level of municipal expenditure; and

(iii) its effect on cost to users of services that have been privatized.

It has simultaneously looked at the **nature** of private sector participation in urban service delivery and management, in particular, the nature of contractual arrangements between municipalities and the private sector, together with the strengths and weaknesses of such arrangements. The study has also attempted to consider the sustainability of such arrangements.

The taking up of the study by NIPFP was motivated by several factors—

(a) ***Confusing signals with respect to the impact of private sector participation in urban services:*** on the positive side, it was alleged that private sector participation had improved service delivery, injected some efficiency, and reduced corruption. On the negative side, claims were made that improvements were a temporary phenomenon, and that private sector participation had resulted in increased cost of services which, when seen in relation to service improvements, were unjustifiable. The study aimed to collect evidence from the field in respect of the impact of private sector on urban services.

(b) *Test out the application of the principle of subsidiarity in urban services:* while the principle of subsidiarity was well understood in fiscal federalism literature, its application to urban services was unclear on account of the character of urban services which, in many ways, could neither be categorized as "pure public goods" nor "pure private goods". The criterion of exclusion - often used to distinguish public goods from private goods, did not always make an urban service like water supply, a pure private good for reasons of merit, externalities etc. Given this, the study was undertaken to seek some understanding on the role that markets could play in the delivery and management of services which were characterized by **externalities**, and services which were in the nature of **collective goods**.

(c) *Coming to grips with the new institutional arrangements that had come in place following the Constitution (seventy-fourth) Amendment Act, 1992:* another motivating factor was the larger interest of NIPFP to better understand the changes that had occurred in the relationship of municipalities with the private sector on the one hand (horizontal) and with the higher levels of government (vertical) on the other.

The NIPFP's study centres around the following key five questions—

(a) Which of the urban services have been privatized? What is the nature and extent of private sector participation?

(b) What are the stated objectives of private sector participation?

(c) What are the terms of agreement or contract between municipalities and the private sector?

(d) What has been the impact of private sector participation on service delivery and management, levels of municipal expenditure, and cost to users of services that have been privatized?

(e) What are the key messages of the study?

Evidence on these questions has been collected from seventeen (17) municipal corporations in three states, namely, Karnataka, Maharashtra, and Punjab.

The scope of functions and responsibilities of municipal corporations is complex and wide-ranging, encompassing services in the sphere of public health, public safety, public works, and often primary education. It also includes regulation of a large number of activities and in many municipal corporations, developmental activities as well. Over the past decade, private sector which was initially tried out in solid waste management has slowly found a niche for itself in activities that include provision of conservancy and sanitation services, operation and maintenance of street lighting system, construction of market and commercial complexes, establishment of management information system, management of municipal asset, and the like. In a limited way, private sector participation is observed in activities relating to revenue raising as well. The sphere of private sector participation has grown noticeably.

What needs to be especially noted is private sector participation in a large number of micro activities: thus, within the sphere of solid waste management, private sector participation is observed in (a) leveling of the landfills and maintenance of environmental hygiene around the landfills, (b) transportation of garbage from primary collection points, (c) conversion of waste into energy and compost, and (d) solid waste collection, treatment and management. Similarly, as a part of conservancy and sanitation, private sector participation is observed in road sweeping, gutter cleaning, maintenance of public toilets, rodent control, malaria eradication etc., often as discrete activities.

Three observations are important with respect to private sector participation in urban services:

(i) Municipalities have, interestingly, contracted out those services which have large externalities, as also those services which are in the nature of collective goods;

(ii) **'unbundling'** of services has made it possible for the private sector to engage in the provision of a variety of services. Unbundling has meant reduction of risks for private sector involvement in urban services; and

(iii) declining significance of scale economies in the provision of public services. Small scale operations have not been an impediment to private sector participation.

There is vast literature on the objectives of private sector participation in urban services. Limited evidence from the sampled municipal corporations suggests that private sector participation has come into urban services for a number of reasons, these being-

(i) to eliminate the inadequacies in public provision of urban services;

(ii) to provide expertise and competence unpossessed by municipalities;

(iii) to reduce procedural delays (e.g., procurement) which are implicit under municipal management;

(iv) to reduce or share the burden of municipalities in meeting their mandate; and

(v) to reduce corruption and leakages (specific to octroi collection).

Underlying in the stated objectives is admittance of the fact that there are serious deficiencies in public provision of services. Private sector participation is a reaction to the failure of public provision.

The nature of contracts or agreements between municipalities and the private sector is of vital significance, expectations being that the benefits derived from a contract would exceed the costs that may be incurred or that the concessions that municipalities may grant to the private sector will generate benefits which will be equal to or greater than the money value of the concessions. Evidence from the field presents some interesting features:

(i) Contracting is the principal mode of private sector participation in urban service delivery and management. It is a mode under which a municipality enters into a contract or agreement with the private sector, specifying the quantum, quality and nature of the tasks to be performed; period for which a contract is held valid; obligations of the municipality and that of the private sector; and the financial terms of the contract. The contract document contains clauses in respect of the non-fulfillment of the tasks and obligations, the quantum of penalties or compensation, arbitration in case of lack of agreement, and the like. In addition to contracting, other forms of private sector participation include build, operate and transfer (BOT), and community participation and management. BOT in sampled municipalities is still in an infant stage.

(ii) A key point in contracting is the concession that is granted by a municipality and the return on the concession that it receives from the private sector. In most solid waste management contracts, the obligations of the municipalities include giving to the private sector a parcel of land (to be used as landfills, or land used for setting up a plant for conversion of waste into compost and energy); delivery of assured quantity of garbage; and making available to the private sector the required quantities of water and energy at prevailing rates. The returns on this concession comprise lease rent for lands and a royalty which is nothing but a share in the sale of compost/energy. Several features of such contracts need to be noted:

   (a) Responsibility for making capital investment e.g., in setting up a plant for converting the waste into energy and running the plant rests with the private sector. However, in at least one municipality, the municipality while retaining the ownership of land has granted permission to the private sector to raise loans by mortgaging the lands.

(b) Inverse correlation between land lease rents and royalty payable by the private sector; higher the land lease rents, lower is the royalty payable. Provisions exist in most contracts for enhancing land lease rent as well as royalty on the sale of energy/compost etc.

(c) Land leases are for periods ranging between ten to thirty years.

(iii) In the sphere of sanitation, contracts under which the private sector is obliged to undertake maintenance of drains, gutter cleaning, maintenance of public toilets, pipelines etc. and where no capital investments of the type needed in setting up a plant for conversion of waste are required to be made by the private sector, are for a shorter duration, mostly for a period of one year, with provisions for renewal.

(iv) Private sector participation in revenue collection from octroi levies has been experimented with in a limited number of cities, with the specific objective of neutralizing the widely prevalent rent seeking element in this activity. Contracts in this activity are awarded on the basis of the amount of the quotes of the bidder, wherein the private sector agrees to remit, at specific intervals, an amount agreed to under the contract. The key obligations of the municipalities comprise, among others, determining the entry points (octroi posts), while that of the private sector, of payment to the police force etc.

What difference has private sector participation made to the quality of service provision? Has it led to improved environmental hygiene, better street lighting system, higher revenues and the like? Has the engagement of the private sector meant reduced expenditure on the part of municipalities? Has it meant in increase in the cost of services? Field evidence on these questions is far from conclusive for several reasons:

(i) private sector has participated in activities that were earlier not being carried out by municipalities (e.g., conversion of waste into energy/compost).

(ii) private sector is operating in areas where public sector facilities were not available or had not been extended.

(iii) cost estimates of public provision of such discrete activities (e.g., maintenance of handpumps or pipelines, transportation of garbage, leveling of landfills and spraying of germicide etc.) are not possible to be separated from the sectoral expenditures, making it difficult to compare the performance of the private sector vis-à-vis the public sector.

Notwithstanding those limitations, some important insights are available:

(i) private sector participation has meant extension of services to areas which were unserved by public provision.

(ii) private sector participation has resulted in improved services (e.g., street lighting) and improved environmental hygiene in those cities where the private sector has taken to conversion of solid waste into energy or compost.

(iii) private sector participation in collection of octroi levies which resulted in extraordinary improvements in revenue collection has reached a plateau, with the result that this function has reverted to the public domain.

In none of the services that have been privatized has the private sector been involved in price setting, except in the case of energy production from waste. Price setting has continued to be the responsibility of the public sector.

What are the key messages from this study?

(i) Private sector participation in urban services, notwithstanding its spread is insignificant. As a proportion of the municipal budget, private sector component is very small. Barring a few examples of BOT which are in an infant stage and where private sector investments are alleged to be substantial, other activities are characterized by low scale of operations, low investments (mostly working capital), and low level of technologies.

(ii) Private sector participation is in the nature of supplementing the services that are offered by the public sector.

(iii) Private sector participation is explained more by the inadequacies of the public provision and less by any intrinsic advantage of the private sector in urban services.

(iv) Contracting is a weak link in private sector participation. No attempt has been made to estimate the present value of long term concessions. It is questionable if the contracts are yielding a win-win situation for the private sector and municipalities, and it is arguable if an annual contracting system can bring about sustainable improvement in urban service delivery and management.

The study shows that there exist alternatives to public provision of urban services, and the conventional proposition that public provision is the most appropriate mode for services that carry externalities is gradually losing its context and relevance.

PUBLIC-PRIVATE SECTOR PARTICIPATION IN MUNICIPAL SERVICE DELIVERY AND MANAGEMENT

MACROCONTEXT

This study on the emergence of public-private partnership as a possible mode of delivering and managing municipal level services owes itself, in part, to the worldwide trends towards downsizing and restructuring of the public sector, and in part, to the locally evolving environment wherein the municipal governments have begun to look beyond their administrative apparatus for discharging the numerous functions and responsibilities that they are responsible for. Although its recent growth is rooted in the United Kingdom during Margret Thacher's tenure, several developing countries have taken to privatization and public-private participation as a way to deal with mounting fiscal crises and fiscal mismanagement. Within a short period, by most standards, this movement of involving the private sector in various activities has spread out geographically to many developing countries, including even which that had grown with certain ideological beliefs and dispositions. As a result, the rigidity associated with the term privatization has diminished; also, the resistance to private sector participation in municipal services on grounds that these services are characterized by externalities and have a merit goods character, has weakened considerably.

Several issues with regard to privatization require attention and consideration. First, what is privatization? In other words, what is involved in the process of change from public to private control? The next step is to look at the objectives of privatization or the why of privatization? What objectives underlie the process of privatization? Is it more efficient compared to the efficiency of the public sector? Do consumers benefit from privatization?

Privatization, it needs to be stated at the outset, has come to mean different things to different people. In its broadest sense, privatization has been referred to as a process to enhance efficiency in service delivery and management. On the other hand, privatization has been viewed very narrowly, only referring to the sale of a part or all of a public enterprise to the private sector.

Why are governments privatizing? There are a number of reasons for privatization depending on the level of development and social goals. There exists wide variation in the privatization objectives but the main theme of all privatization efforts, however, is to promote the private sector as an engine of growth and to increase efficiency and productivity in the economy. Five generic reasons are advanced for privatization: (i) downsizing; (ii) fiscal relief or reducing budget deficits; (iii) fostering competition and improved efficiency; (iv) depoliticization, and (v) wider ownership.

Privatization is pursued in number of ways. The methods through which privatization is implemented can be classified into five broad areas.

- First, the government retains the ownership of the enterprise but allows the private sector to take over the responsibility for maintaining it. Since such activities involve substantial externalities, appropriate changes in the regulatory framework are instituted to ensure private sector response to this measure.

- Second, the government may promote joint ventures with the private sector. An existing public enterprise can also be turned into a joint venture by a partial sale of government shareholdings or by issuing shares to a new partner. This scheme has major benefits: (i) introduction of private capital reduces the risk of operations and may contribute to improved performance; (ii) the government can retain its interests in areas it considers strategic for national, economic or security reasons and, at the same time, allow private sector participation and dynamism in promoting these areas.

- Third, the sale or divestment of public sector, completely or in part, is most often considered when referring to privatization.

- Fourth, liquidation is a method through which government can withdraw from an activity and allow private sector to fill the gap if it so desires.

- Fifth, there are many other privatization measures that could be designed to increase competition and lessen the burden on public sector activities. Some of this could be franchising, repealing monopoly, reducing entry and exit barriers, contracting out, vouchers, leasing etc.

The other most common form of privatization is long term concession, also known as Build-Own-Transfers (BOT). The state typically defines the need for an infrastructure facility and makes known its intention to grant a long-term concession. With due processes of bidding, it selects the most attractive proposal and negotiates a long-term agreement. At the end of the concession period, the firm agrees to turn the facility over to the state, free of debt, at which point the state may either take over the operations or hold a fresh competition for a subsequent concession. Some of the advantages of the BOT are: (i) new source of capital, (ii) reduced risk of bad investments, (iii) time and cost savings, and (iv) innovation and new tax revenues.

A major, indeed a central issue that confronts Indian cities and towns is how to meet the growing demand for urban services comprising water supply, sewerage and sewage disposal, solid waste management, street lights, road maintenance, and a host of other social facilities. Municipal governments which are endowed with statutory powers to provide these services have reached a point where they are unable to do so for reasons that are traceable to their narrow revenue base, institutional and procedural inefficiencies, and limited staff capacities. Studies have shown that the municipal system is deficient on at least five counts: (I) declining population coverage, (ii) inability to provide services at prescribed norms, (iii) inefficiencies in resource raising, (iv) ineffective use of human capital, and (v) inability to reach out to the low-income and poor households.

What should the public sector do to eliminate these deficiencies in service provision and delivery? When viewed in a larger context this question alludes to exploring the feasibility of alternative institutional arrangement, including public private partnership in service provision, delivery, and management. As pointed out earlier, there are unmistakable trends towards this alternative. The case for private sector partnership (PSP) is that it enables the public sector to draw on the financial, managerial and technical capabilities of the private sector by placing decision-making with the private sector who have the incentives to maximize efficiency. This form of private sector engagement is not conventional divestment; indeed, in many ways, it is at best informal. In many developing countries, as Richard Batley pointed out, their has probably been faster progress in informal than in programmed privatization. The informal privatization is defined *as a state where the failure of public services leads private firms, communities or households to step in to make up the deficiency.* Where there has been a movement from public sector supply to the involvement of the private and community sectors, it has been for purely pragmatic reasons. Most developing countries are under pressure to privatize due to the scarcity of government resources or the influence of aid donors.

Delivery of urban services through involvement of private sector enterprises has been taking place in India over the past decade or so. Although it is not well documented, their involvement is either due to the explicit initiatives of municipal governments or due to the absence of municipal services. Private sector partnership at municipal level is most observed in the following spheres:

- Large scale public-private partnership in land development.
- In the fringe areas of metropolitan cities, private sector developers have been active in creating "townships" with all facilities.
- Contracting out of municipal tax collection like octroi and water charges.
- Contracting out of garbage collection, treatment and disposal.
- Contracting out of solid waste management projects by making agreements on a BOT basis.
- Contracting out of the operation and maintenance of tube-wells for water supply.
- Maintenance of traffic island and parks and its extension to the maintenance of streets and street lights in lieu of advertisement rights.

This survey conducted in seventeen (17) municipal corporations of Karnataka, Maharashtra, and Punjab has attempted to analyse the role of the private sector in the delivery and management of municipal services. An important aspect that forms the centre piece of this analysis is the nature of arrangement between the municipalities and the private sector in service provision. Next section provides, by way of a backdrop, brief profiles of private sector participation, which is followed by an examination of the contracts and terms of agreement. Conclusions are given in the final section of this part, and implications presented in a subsequent section of this report.

Table 3:1
Private Sector Participation - Municipal Services

Municipal Service/Activity	Cites
Sanitation/conservancy	Thane, Navi Mumbai, Ludhiana, Bangalore, Calcutta, Ulhasnagar, Amravati.
Solid waste management	Aurangabad, Nashik, Thane, Kolhapur, Pune, Pimpri-Chinchwad, Navi Mumbai, Mysore, Bangalore, Ludhiana, Calcutta.
Rodent and malaria control	Navi Mumbai
Street lights	Bangalore, Mysore, Hubli-Dharwad, Gulbarga, Belgam
Octroi collections	Amravati, Kalyan, Ulhasnagar, Patiala, Jalandhar, Ludhiana
Water supply	Ludhiana, Amravati, Bangalore.
Computerization of municipal accounts	Ludhiana
Billings-water, property tax, staff salary etc.	Ludhiana, Ulhasnagar
Courier system	Ludhiana
Park committees	Ludhiana
Roads and bridges	Kolhapur
Commercial complexes and market complexes	Kolhapur, Bangalore.
Beautification of city	Kolhapur, Bangalore
Others	Bangalore

CASE PROFILES

SOLID WASTE MANAGEMENT

Municipal corporations by virtue of their duties, responsibilities and powers are responsible for providing basic amenities such as water, roads, sewers, transportation, collection of solid and organic waste and many other services within their territorial limits. They are also responsible for the management of solid and organic waste as well as other type of waste. Considering issues relating to environmental and man-power requirements involved in collecting, transporting and managing solid and organic waste, several municipal corporations have encouraged a transition to a new technological system for effective collection and disposal of solid and organic waste, as also for conversion of such waste into bio-organic soil enricher or even for generation of electric power. Municipal corporations have begun to see the positive aspects of technological transition in the management of waste and elimination of physical health hazards.

Of the sample, seven municipal corporations are reported to have involved the private sector in solid waste management services. These are Aurangabad, Kolhapur, Nashik, Pimpri-Chinchwad, Pune and Thane Municipal Corporations from Maharashtra, and Mysore Municipal Corporations from Karnataka. The municipal budgets of these cities do not contain a separate head for solid waste management.

Table 3:2
Finances of Municipal Corporations

Municipal Corporation	Own resources as a % of revenue expenditure		Per capita own resources (Rs.)	
	1997/98	1998/99	1997/98	1998/99
Mysore	55.02	64.62	269.17	473.03
Pune	87.92	78.68	1531.70	1758.35
Thane	137.62	136.69	1451.18	1543.50
Nashik	198.12	158.18	1644.34	1415.63
Aurangabad	144.31	129.39	703.69	774.94
Pimpri-Chinchwad	209.57	178.88	2229.59	2050.37
Kolhapur	93.16	97.49	1249.39	1347.90

Pune Municipal Corporation (PMC)

The city of Pune generates about 800 metric tones of solid waste every day, excluding the debris and rubble. At present collection of refuse, its transportation, and disposal are the exclusive responsibility of the Pune Municipal Corporation. For the collection of solid waste various iron containers are placed at convenient locations, which are lifted mechanically by vehicles known as dumper placers. The number of such containers is around 1400 and the capacity of each container is about 1.5 metric tonnes. Where the dumper placer operation is not possible, dustbins are constructed and refuse is collected and transported through either trucks or tippers.

Sixty dumper placers, ten trucks, forty tippers and one compactor are being used by PMC for the transportation of solid wastes.

Table 3:3
Resources used for Solid Waste Transportation

Type of the vehicle	Number of vehicles	Capacity of vehicles in m tonnes	Solid waste transported In m tonnes	Number of workers per vehicle	Total number of workers
Dumper placer	60	7	420	1	60
Trucks	10	7	70	7	70
Tippers	40	8	320	7	280
Compactors	1	10	10	1	1
Total	-	-	**820**	-	**411**

For disposal of solid waste, there are two sites, namely at Paud road with 27 acre of land, and Uruli Devachi with 44 acres of land. Solid waste is brought to these sites, and converted into compost manure which is distributed at no cost to the farmers. There is no segregation of earth, small stone etc. from the refuse. The Pune Municipal Corporation (PMC) had experimented with mechanical composting, but the experiment collapsed within two years. At other site i.e. Uruli Devachi, the PMC is looking for private sector participation for a scientific and eco-friendly disposal of solid waste.

Ludhiana Municipal Corporation (LMC)

About 800 metric tonnes of garbage is generated daily within the jurisdiction of Ludhiana Municipal Corporation (LMC). The garbage is collected by municipal staff and transported to the main garbage dumps. The lifting of garbage from a part of the city has been given out on a contract which has twin advantages: (i) it is cheaper compared to municipal lifting, and (ii) since it is being carried out after sun set, it helps to avoid congestion during the day and results in easier movement of goods and services. Dumping ground site of garbage is a source of environmental pollution; to overcome this problem, the LMC is in the process of acquiring a piece of land for setting up a garbage treatment plant with the collaboration of EXCEL Company, which will produce manure from garbage. The capacity of the plant is expected to process 650 metric tonnes of garbage. The EXCEL company, in return, will pay royalty to the LMC, which will be add to the revenue receipts of LMC.

Kolhapur Municipal Corporation (KMC)

Kolhapur Municipal Corporation (KMC) has prepared a long term (upto 2021 AD) integrated project for the environment upgradation for the city of Kolahapur. The KMC intends to implement this project through private sector participation with a view to bring in private finance and modern technology, ensuring timely completion, efficiency in operation and maintenance and improvement in the quality of service. This project, claimed as a new generation project, with private sector participation consists of four parts:

- Water supply
- First-stage sewerage project
- Second-stage sewerage project
- Municipal solid waste treatment and disposal component

Approximately 60% of solid waste generated in Kolhapur is reported to be collected and transported to the disposal sites. The remaining waste is dumped or burnt. Waste is collected and loaded manually from storage bins and transported on municipal trucks. In all, 16 trucks and one mobile refuse collector are used for transportation. Solid waste generated in Kolhapur is about 155 TPD or 0.35 kg/capita/day. Solid waste generated at Kolhapur is mixed, consisting of organic food and vegetable waste, paper and cardboard products, plastics, waste rubber, rags and textile material, broken glass and crockery, metallic inerts, stones, clay and building material, and dead animals, bones and leaves.

A project has been undertaken by KMC which involves solid waste management through composting. The project implementation has been entrusted to Zoom Developers Ltd. on a BOT basis for a period of thirty years.

According to the contract, the KMC has to provide on a daily basis, 115 metric tonnes of unseggregated solid waste at the site of the plant. If the amount proposed is not supplied, then the contract requires payment of compensation at the rate of Rs. 50 per m tonnes. The annual fee payable to the Corporation for garbage is Rs. 4,75,000. This will increase by 8% every year. The period of lease is 30 years. The total area of land provided to the private contractor is 38,800 sq. m. for which an annual rent or fee of Re 1 per sq.m is payable to the KMC. The contractor is required to start the project within 1 year of the agreement, and has to deposit a bank guarantee of Rs. 30 lakh. Electricity and water to be supplied till the boundary of the site for which payment is to be made to the corporation. After 30 years, the plant is proposed to be handed over to the corporation in good condition.

CONSERVANCY AND SANITATION

Ludhiana Municipal Corporation (LMC)

Ludhiana has, in recent years, grown manifolds in terms of population and area and is characterised by moderate to high density. Provision of sanitation services to citizens is one of the most challenging tasks for LMC as it is for other municipal authorities. According to the estimates, until recently, sixty percent of the municipal area was unserviced in respect of sanitation services. To remedy this situation, and without adding to the staff or creating pressure on revenues, the LMC formulated a scheme to meet the increasing demand for sanitation services with public participation at the municipal level. In this scheme, a sanitation committee was formed for each block level called, as Mohalla Sanitation Committee. The Municipal Corporation, according to the area of that block, sanctions a certain number of sweepers. These sweepers are to be hired by the Committees, and are to be under their control and are not deemed to the employees of the Municipal Corporation. Fifty percent of the salaries of the sweepers are paid by the Municipal Corporation as a grant-in-aid to the Committees, and the balance of fifty percent are to be paid by the Committees. The Committees collect the same on a pro rata basis from each household. The sanctioned grant-in-aid amount per sweeper per month is Rs.1,200; in addition, there is also a grant of Rs.2,500 per year per beat for sweeping equipment from the Municipal Corporation.

The Mohalla Sanitation Committees are a concrete example of successful implementation of privatization with community participation. In fact, community participation is a step ahead of even privatization as the stakes of the community are greater in keeping their surroundings clean, whereas the stakes of the private operator/contractors in privatization are mostly financial. At present, 60 percent of the municipal area of LMC is being managed by the Mohalla Sanitation Committees, who are able to provide the sanitation services at a lower cost and achieve better customer response. This scheme has yielded encouraging results and is being transferred to other municipal corporations, councils and nagar panchayats in the state of Punjab. Important attributes of this scheme are as under:

(a) Low cost staff in comparison with the existing sanitation staff,
(b) Reduced financial load on the LMC as 50% of salaries are payable by the households,
(c) Increased consciousness of cleanliness among the residents,
(d) Direct control of the Mohalla Sanitation Committees on the newly hired sweepers, and
(e) Avoidance of the problems presented by staff unions.

Navi Mumbai Municipal Corporation (NMMC)

At the time of the upgradation of the Navi Mumbai Gram Panchayat to Navi Mumbai Municipal Corporation (NMMC) in 1992, most services including sanitation in the NMMC area were carried on a contract basis. CIDCO which was responsible for the development of this area had no staff of its own to manage or maintain sanitation works like road sweeping, public toilet cleaning, gutter cleaning and other public health related works. In 1995, CIDCO transferred the nodal area (city/urban) to NMMC for the purpose of service provision. Since there was no staff with NMMC, NMMC continued the earlier practice of contracting out of these services. Currently, the NMMC has contracted out road sweeping, public toilet cleaning, gutter cleaning, transportation of garbage, disposal of garbage by sanitary land filling method, malaria eradication, rodent control service, and house keeping services in hospitals.

Amravati Municipal Corporation (AMRMC)

Amravati Municipal Corporation (AMRMC) is among the earliest in the country to have experimented with private sector participation in solid waste management. In 1985/86 it invited tenders from private parties for the transportation of garbage from primary collection points to the dumping depots. In 1994/95, it contracted out daily cleanings on a contract basis in 40 percent of the municipal area and extended the coverage in the subsequent period. In 1998/99, it assigned the work of maintenance of public toilets to a private enterprise.

Service /Activity	*Annual contract amount (1999/2000)*
Transportation of the garbage	*Rs.47 lakh*
Daily Cleaning	*Rs.72 lakh*
Maintenance of Public Toilets	*Rs.11 lakh*

Mysore Municipal Corporation (MMC)

The Mysore Municipal Corporation (MMC) has undertaken partial privatization of sanitation services i.e. street cleaning and sweeping and garbage collection and transportation and dumping of garbage. There are sixty-five wards and four market complexes in the municipal limits of the Corporation. In 1998/99, MMC decided to privatize sanitation services, and works of sanitation services in 18 out of 65 wards were given on a contract. The number of contractors hired for this purpose were eight. With this, there is an extra burden of Rs.75 lakh per year on MMC. Payment is made to the contractors on a monthly basis. The municipal senior staff is responsible for the supervision of contractors' staff. If the work is not found satisfactory, there is a provision of penalty on the contractor. In addition to these 18 wards, the work of sweeping, garbage collection, transporting and dumping of garbage from the main roads of MMC is also being given on a contract as night sweeping contract.

The MMC rules have laid down staff norms for sanitation services, which is one sweeper for 500 persons; the numbers in the field are less than the norm. The privatization option was preferred by MMC instead of appointing new sweepers or other related staff. The term of these contracts is one year with provision for extension, if the work is considered satisfactory. The staff hired by the contractors numbers 343. Engagement of this level of staff would have meant for municipalities on annual wage bill of Rs. 2 crore. The performance of contractors is reported to be satisfactory.

Municipal Bond: The Case of Bangalore

The Bangalore Municipal Corporation has mobilized Rs.125 crore through the floating of secured non-convertible, redeemable, private placement,"Bangalore City Development Bonds" with a CRISIL ratin of A (SO). The main objective of this bond is to invest in the improvement of nearly 200 km of city roads, arterial pathways, side drains, street lighting, etc. in Bangalore city. Interest on bond is payable at the coupo rate of 13% on a half-yearly basis through out the tenor of the bonds. The bonds will be redeemed at par i four instalments of 20%, 25%, 25% and 30% at the end of the years 4, 5, 6, and 7 respectively, from the date of allotment. The bond was issued in 31.12.1997.

The bond issued by the Corporation, interest thereon, trustee's remuneration and all other monies relating thereto are secured by way of a structured payment mechanism and unconditional and irrevocable guarantee of the Government of Karnataka for the payment of interest and repayment of principal. Thi guarantee is contained in Government notification No. UDD 363 MNY 97 dated 21-11-97. The bon payment will be serviced from the general municipal revenues and Government grants received by th Corporation. The property tax collection during the lien period are to be pooled into a Central Property Ta Collection Account and the funds required for interest and principal repayment are to be transferred fro this account to the designated Escrow account. In addition, the signing of the Tripartite Agreement betwee the Government of Karnataka, the Trustees and the Corporation would support the structured paymen mechanism of the bond issues.

Table 3:4
Public-Private Partnership in Bangalore Municipal Corporation (BMC)

Items	Years		
	1997/98	1998/99	1999/2000
Bangalore Municipal Corporation (BMC)			
Area (sq.km)	101.77	101.77	101.77
Number of staff members	5947	5896	5740
Wages and salaries (Rs. lakh)	2179.15	2201.76	3230.98
Sanitary material (Rs. lakh)	84.78	72.59	43.00
Total (Rs. lakh)	2263.93	2274.35	3273.98
Covered by Contract system			
Area (sq.km)	124.39	124.39	124.39
Number of staff members	5435	5435	6885
Amount of the contract (Rs. lakh)	1,875.00	1,979.25	2,172.00
Total (Rs. lakh)	1,875.00	1,979.25	2,172.00
Actual (Rs.Lakh)			
Total sanitation expenditure	4,138.93	4,253.60	5,445.98
Total revenue expenditure	26,179.11	27,593.88	N.A.
Per capital (Rupees)			
Total sanitation expenditure	148.94	151.95	N.A.
Total revenue expenditure	942.06	985.76	N.A.
Percentage			
Sanitation by BMC/sanitation expenditure	54.70	53.47	60.12
Sanitation contract/sanitation expenditure	45.30	46.53	39.88
Sanitation expenditure/revenue expenditure	15.81	15.42	N.A.

Swabhiman movement- a citizen-government initiative in Bangalore:

Swabhimaan, a citizen initiative in Bangalore launched in 1995, motivates and facilitates organization of resident groups to address neighborhood problems and offers a platform for civic authorities, NGOs, resident groups and public service agencies to share information and work together to improve services, environment and planning and management systems. Swabhimaan operates at two levels: at the city level where a stakeholder committee works as a core group to develop broad strategy and plans for joint action; and at the neighborhood level where resident groups identify, prioritize and seek people's participation to address local problems. Overall activities of Swabhimaan comprises solid waste management projects in 35 localities, evaluation of city-level development plans, consultations on investment decisions, demonstration projects, and performance monitoring of authorities and service provider agencies.

WATER SUPPLY

Amravati municipal corporation (AMRMC)

The Amravati Municipal Corporation initiated the process of involving the private sector in the provision of water supply in 1994/95. There are several components in water supply services the AMRMC invited separate tenders for the different components and has given work on a contract basis in the following areas:

- Maintenance of hand pumps
- Maintenance of P.V.C pipe lines
- Maintenance of submersible pumps
- Maintenance of monoblock, jet, patel pump
- Maintenance of T.C.L dozers
- Maintenance of public stands

These contracts are on an annual basis. Contracts for the maintenance of monoblock, jet and pumps were signed in 1997/98. Maintenance of hand pumps and public stands is given for the entire municipal area of Amravati, whereas the contracts for the remaining works like maintenance of P.V.C pipe line etc. is covering only ten percent of the municipal area. The total contractual amount is Rs.26 lakh for 1999/2000. The breakup of this amount is given in the following table.

Table 3:5
Private Sector Component in Amravati

Components of water supply service	Annual contract amount	Coverage in municipal area
Maintenance of hand pumps	Rs.7.8 lakh	100%
Maintenance of public stands	Rs.3.04 lakh	100%
Maintenance of T.C.L Dozers	Rs.6.86 lakh	10%
Maintenance of submersible pumps	Rs.2.46 lakh	(-)
Maintenance of P.V.C pipe lines	Rs.2.41 lakh	10%
Maintenance of monoblock, jet, patel pumps	Rs.2.13 lakh	(-)
Maintenance of Robert	Rs.1.29 lakh	10%

STREET LIGHTS

Amravati Municipal Corporation (AMRMC)

The Amravati Municipal Corporation (AMRMC) contracted out the operation and maintenance work of street lights in 1995/96, which has since been extended on an annual basis. The work of operation and maintenance of street lights covers 60% of the municipal area. The contract works include

(i) identification of non-functioning street lights and collection of complaints from the Amravati Municipal Corporation and

(ii) repair and maintenance of non-functioning street lights..

The annual amount of the contract for 1999/2000 is Rs.48 lakh. Private sector participation in street lighting maintenance has distinctly improved the service. The AMRMC attributes the improvement to the terms of contract.

Patiala Municipal Corporation (PMC)

The Patiala Municipal Corporation has engaged a private contractor for the operation and maintenance of street lighting system. The annual contract amount is Rs.21.70 lakh with the following break-up:

Tube fittings 40w	*6,782*
Tube fittings 20w	*3,018*
Mercury light fittings 400w	*225*
Sodium light fittings 125w	*350*
Sodium lamp fittings 150w	*900*
Tube fittings 250w	*824*

Initiatives are being taken to contract out the maintenance of street lights in the municipal area of Ludhiana, as a response to the regular complaints regarding improper functioning of streetlights.

ROADS AND BRIDGES

Kolhapur Municipal Corporation (KMC)

The Kolapur Municipal Corporation (KMC) has contracted out the reconstruction of a section of S-shapes 600 m road from Pune to Kolhapur. The project has been prepared at the municipal corporation level. The road has 2 carriage space. It is proposed to be widened into 4 legs, and there will also be a bridge and box culvert. The project involves the reconstruction, involving straightening of the road link, widening of the road, construction of bridges and culvert, central electrification and plantation and footpaths with MS railing.

At the time of the proposal of this project, the cost was estimated was Rs. 2.5 crore which subsequently escalated to Rs. 3.41 crore. Since the Corporation was unable to take on the financial burden, it decided to engage a private contractor, who is to recover the investment by imposing a toll. It is a build, operate and transfer (BOT) project.

The Corporation has fixed the toll amount. It has undertaken surveys of the volume of traffic, and accordingly fixed a toll of Rs. 4 for light vehicles (one way), and Rs. 8 for heavy vehicles (one way). Two wheelers and three wheelers are permitted toll-free passage. Toll-free vehicles also include government (Central, State and KMC) vehicles.

COMMERCIAL COMPLEXES/MARKET COMPLEXES

Kolhapur Municipal Corporation (KMC)

The Central Bus Station is the property of Kolhapur Municipal Corporation. A project within the bus station complex is under negotiation with private groups who have submitted architectural designs and cost estimates. Upon completion, it will have an area of approximately 130,000 square feet. The private groups will recover the cost, estimated at Rs. 7.5 crore, by leasing out shops and other facilities. All of these will be on the ground floor and the second and third floors will have offices and consultant agencies.

RECOVERY OF OCTROI

Patiala, Jalandhar and Ludhiana municipal corporations have also invited private participation for the recovery of octroi. In Jalandhar, the year of commencement of private sector participation is 16 May 1999 and the estimated realization amount is Rs.46 crore i.e. this amount has to be transferred by the private contractor on a weekly basis to the municipal corporation. There is a provision of bank guarantee of Rs.4.61 crore for this contract from the private contractor.

TERMS AND CONDITIONS IN PUBLIC-PRIVATE PARTNERSHIP

Public-private partnerships and privatization options are important institutional instruments not only for accelerating investment flows but for incorporating the management capabilities of the private sector into projects. An important feature of the emerging public-private arrangement is efficient project contracting and monitoring system at the municipal level. A large percentage of municipal bodies are weak in these spheres. The technical capacities to formulate and regulate concessions, contracting and project control mechanisms are critical for improving the fund absorptive capacity of municipal bodies.

In this section, the terms and conditions of contract are analyzed. What are the methods of inviting bids or tenders? What is the selection process involved in deciding the private sector for the concerned work? What are the obligations of the Municipal Corporations? What kinds of concessions are given to the private bidders? What responsibility lies with the bidder or the private sector? Are there technical conditions mentioned in the contracts? What are the financial commitments under the contract? What is the nature of the defaults in such contracts?

Project Contracting Process

The preparation of a contract which states the project objectives, input and output specifications and responsibilities of the contractor and contractee, is perhaps the most engaging phase in the project implementation process. Even though a generic framework is possible to be proposed for structuring this process, it is necessarily to be adjusted according to local conditions. The contract preparation process entails four stages: (a) tender conditions, (b) contract conditions, (c) specifications, and (d) tender documents.

The tender conditions or instructions to tender are standard conditions, and are organized as follows:

- Prescribe the tender format.
- List the documents and background information, to be returned with the tender by the closing date.
- Lay down the conditions under which tenders could be held void.
- Specify the tenure of the project.
- Details of additional information.

The tender documents are designed to allow the contractor to submit the bid. Generally, the bids are invited on the basis of one of the following methods, viz: (a) lump sum participation, (b) franchise, (c) concession fee, (d) bill of quantities, (e) schedule of rates, and (f) cost reimbursement.

Selection of contractors which is based on technical and financial pre-qualification is recommended as an efficient procedure. The procedure is aimed to ensure that the pre-qualified contractors are capable of implementing the project, and to avoid the possibility where project may be rejected on account of the lack of credibility of the bidder. One of the best contracting practices is to issue a request for proposal (RFP) only to the pre-qualified contractors. The minimum number of contractors to be invited to present the final bid depends upon the nature and size of the project. It is generally recommended to invite between four and eight bids to ensure reasonable competition.

The period of preparing the bid is central to the contracting process; as a general rule tenderers are allowed about four weeks to prepare their bids although it is not uncommon to fix a maximum period of eight weeks for submitting the final bid. Since contractors aim to secure commercial advantages over their competitors by gaining additional information from municipal agencies, the following safeguards are used: (a) impose a time limit for entertaining clarifications, (b) provide clarifications in writing to all tenderers, preferably in group meetings, (c) list one contact person from each tenderer and communicate all correspondence through the listed individual, and (d) document all communications and clarifications, and (e) provide a general bid evaluation format.

Following the receipt of tenders, evaluation of tenders focuses on three key aspects, viz: (a) contractual compliance, (b) service delivery, and (c) financial assessment. One of the best contracting practices is to provide a list of the evaluation criteria along with the respective weights to the bidder in advance and make the tender evaluation transparent and fair. It is also common that in the absence of adequate technical capability to evaluate the technical bids, the public agency constitutes a technical evaluation committee or even contract out the evaluation task to qualified consultants.

Project Development

The process of developing urban projects in commercial format is a recent phenomenon in India. Unlike conventional projects, this type of project development requires considerable effort in preparing project documentation, developing institutional arrangements for project structuring, getting approvals, financial structuring, selection of contractors, and management of project implementation. Detailed risk assessment and mitigation measures form a part of the project development process. This procedure is time-consuming and expensive. Municipal authorities often do not have the necessary human resources to carry out these tasks. It is in recognition of this problem that several state governments have set up dedicated funds with a discrete institutional set-up for ensuring development of appropriate projects. The State government of Gujarat has set up a Gujarat Infrastructure Development Board and project development fund, and adopted a legal framework for infrastructure investment. Utilization of this framework and the fund for development of urban infrastructure projects is poised to increase as the state's water supply and sanitation sector moves towards commercial viability. The Governments of Rajasthan and Andhra Pradesh have also set up infrastructure project development funds.

Project Control Mechanism

The focus of project implementation process is on questions such as who does what and when. No sooner the project is launched, control becomes the dominant concern of the implementing agency. Project control involves a regular comparison of performance against targets, quality control, and search for the causes of deviation, and a commitment to undertake mid-course correction, should there be a need for correction. In practice tools such as PERT, CPM and others are used for project monitoring and management. In the absence of adequate technical capacity at the level of municipalities to design and implement project control tools, this activity has been increasingly contracted out to project management consultants.

Solid Waste Management Projects

The method of inviting bids or proposals is through advertisements in leading newspapers of the city. Qualification or the eligibility of the bidder varies from project to project or from city to city's requirements; for example, in Thane Municipal Corporation the project was for the conversion of solid and organic waste into bio-chemical or soil enricher. This requirement was identical to that in Aurangabad, Nashik and Mysore Municipal Corporations. In Pune and Pimpri-Chicnhwad Municipal Corporations, the requirement of the project was to convert solid and organic waste into bio-gas whereas bio-gas, as a by-product was to be used to generate electrical power. The required capacities to deal with garbage or solid waste is 300 metric ton per day for Thane, Aurangabad and Nashik Municipal Corporations and 200, 250 and 400 metric tonnes per day respectively for Mysore, Pimpri-Chinchwad and Pune Municipal Corporations. The responsibility of setting up solid and organic waste treatment plants rests with the bidder, including the responsibility of meeting the capital and recurring costs. The estimated investments needed for these projects are Rs.3.65 crore and Rs.3.98 crore respectively in Aurangabad and Mysore Municipal Corporations. It does not include the cost of land on which the project site is developed. A part of the investment is on land development, for example, in Aurangabad Municipal Corporation, Rs.1.09 crore out of Rs.3.65 crore has been expended on land development, factory buildings and godown, Rs 2.12 crore on plant and machinery, and Rs.0.44 crore on vehicles and others. In other cases, the estimated cost of projects is not available.

In solid waste management contracts, there is a clear stipulation that bidders will not assume the cost of collection, transportation and disposal of garbage from the municipal area. In other words, the expenditure on collection, transportation and disposal of garbage lies with the municipal authority itself, suggesting that private sector participation has made no difference to municipal expenditure on cleaning of streets, and collection, disposal and transportation of solid waste. All contracts require a minimum quantity of solid waste to reach the project sites, failing which there is a penalty on the municipal authorities.

A major requirement for solid waste projects is land for disposal and treatment. The municipalities make available the required quantity of land, on a lease rent basis whose terms and conditions vary between projects. In case of Pune, Nashik and Pimpri-Chinchwad Municipal Corporations, seven acres of land were made available on a lease basis for 29-30 years to the private contractors. In the case of Aurangabad and Thane Municipal Corporations, land area measuring 6-7 hectares was leased for a period of 30 years. The Mysore Municipal Corporation has a contract period of 10 years, where land has been given on a lease-to-operate basis.

Rentals for leased lands vary between cities. Thane and Nashik Municipal Corporations charge Rs.1 per acre per year as lease rent; and Aurangabad has a lease rent of Rs.1/ per hectare per annum. Pimpri-Chinchwad has Rs.1 per square meter per annum or Rs.10 lakh per annum as lease rent for the first year; thereafter the Contractor is to pay a lump sum of Rs.10 lakh per annum which is to be used for environment protection purposes. Mysore has asked for a lease fee of Rs.90 lakh for a 10 year period for using the land for fixing a composting plant and other facilities. Pune Municipal Corporation has laid down a set of different conditions, whereunder the contractor is to pay a consolidated lease rent of Rs.7 lakh for the first 18 months and thereafter Rs.1.25 lakh per annum per acre for the next five years. For every successive five year period, there is to be an increase of 20 percent on the previous lease rent. In other words, Rs.7 lakh for the first 18 months, Rs.8.75 lakh for the next five years, and an increase of 20 percent on the previous year lease rent. The Pune Municipal Corporation is getting the highest lease rent from the private party, but is not entitled to any royalty from contractor for the output generated from the garbage. In other contractual arrangements, municipal corporations receive a share of profit or royalty from the contractors.

Table 3:6
Land Lease Rent and Royalty: Comparative Profile

City/Municipal Corporation	Land lease rent per annum	Royalty amount per annum (approx.)
Thane	Rs.9 per annum. @ Rs.1 per acre per annum.	Royalty minimum amount to be Rs.6.13 lakh per annum or a royalty of 2% of total sale turnover annually. No increase in this amount for thirty years.
Pune	Rs.7 lakh for first 18 months, Rs.8.75 annually for next five years and increment of 20% for every successive five years.	No royalty.
Nashik	Rs.9 per annum. @ Rs.1 per acre per annum. Octroi and other taxes to be paid to state/central government.	Rs.7.67 lakh per annum for the next thirty years in other words royalty @ 2% of total sale turnover.
Aurangabad	Rs.6 per annum. @ Rs.1 per hectare per annum	Royalty of 5% of total sale turnover annually.
Mysore	A fixed (guaranteed) lease fee for use of land of amounts Rs. 90 lakh for ten years.	A minimum guaranteed royalty amount of Rs.94.50 lakh over a period of ten years or royalty of 2% annual sale turnover for first three years, 3% and 4% for next three and four years respectively.
Pimpri-Chicnhwad	Rs.10 lakh per year approx. Rs.1 per square meter per annum.	No mention of any royalty.

The following table presents a comparative view of royalty and lease rents.

Lease Rent	*Royalty*		
	Low or Nil	*Medium*	*High*
Low or Nil		*Thane, Nashik*	*Aurangabad*
Medium			
High	*Pune, Pimpri-Chicnhwad*		*Mysore*

There are other obligations which are supposed to be met by municipal authorities. These include making available equipment such as bulldozers, fronted loaders and other automobiles for day to day use at project plant sites. The PMC is committed to provide 150 cubic meters of potable water per day at project site on commercial charges; the Pimpri-Chinchwad Municipal Corporation is supposed to arrange for supply of water and electricity at project site at domestic rates by installing distribution lines at its own cost. No objection certificates for water and electricity connections are also to be provided by municipal corporations.

Royalty Versus Penalty

Municipal Corporations provide land on a lease basis; they also provide fixed quantities of garbage at project sites. The private sector, in return, shares with the municipal corporations its profits called royalty, or gives to corporations lease rent which is sufficiently high. In case of Thane and Nashik, the contractor is to give to the municipal body a royalty of 2 percent of the sales turnover of the final product from garbage. In the case of Mysore Municipal Corporation, a structured royalty fee of 2 percent on the sales turnover of the final product is to be paid for the first three years, thereafter at the rate of 4 percent in the 4^{th}, 5^{th}, 6^{th} and 7^{th} years, then at the rate of 5 percent in the remaining years of the contract. The minimum guaranteed amount in Mysore Municipal Corporation is be Rs.94.50 lakh over a period of ten years under standard conditions. In Pune and Pimpri-Chinchwad, in the absence of any provision for royalty, there is a high land lease rent as pointed out earlier. Note should be made of the fact that these conditions are to be met only if municipalities provide the agreed-upon quantity of garbage at the project sites. A penalty is provided for non-supply of solid waste at the sites.

There is no penalty on the contractor if the commencement of the project is delayed on account of technical, financial or other reasons. For instance, in Pune, the

WPIL operated for one year, after which they discontinued the operations on account of the non-profitability of the project. Similarly, in PCMC the private company named as GENL could not start the project on account of financial problems, but lost the earnest amount to the Corporation.

A royalty of 2 percent of the sales turnover is modest, very low and raises questions about the conditions of the agreement. In Mysore, the contract appears to be better formulated as it has options for high lease rent as well as the option for royalty. Moreover, royalty has been structured in a way that it provides for inflation as well.

In the contracts that are analysed here, it is found that out of the sales of Rs.100, Rs.2 are being passed on to the Municipal Corporations. Sufficient data are not available to determine the level of profits of the private contractors, but prime facie, it appears that their operations are profitable. The following tables places light on this issue-

Table 3:7
Comparative view of annual sale turnover and royalty

Municipal Corporation	Minimum input m tonnes	Minimum output as a % of input	Minimum output in m tonnes	Min. rate of output generated per tonnes	Minimum sale turn over per day Rs.	Annual Sale turnover Rs.crore	Royalty @ 2% of sale turnover
Thane	300	20%	60	1400	84,000	3.07	Rs.0.06
Nashik	300	20%	60	1400	84,000	3.07	Rs.0.77

Aurangabad is a special case as it is a joint venture between AMC and Satyam Bio-Fertilizer Private Limited. There is a royalty of 5 percent on the total sales turnover and also a land lease rent of Rs.6 per year for thirty years. In addition, the private contractor has the flexibility of mortgage the leased land along with the building of the project, and hypothecation of the plant and machinery at factory site to raise loans from a Bank. Moreover, this project has the support of the Central government with a Central government grant of Rs.50 lakh and a State government grant of Rs.70 lakh.

Navi Mumbai Municipal Corporation (NMMC) has awarded contracts to private agencies in a different manner. Since NMMC does not have sufficient land for solid waste management projects, NMMC has adhered to the old practice of handling solid waste. The terms and conditions of the contract requires the private contractor to level the new solid waste collected; put the earth layer of standard earth on the waste; and to spread the germicides on the same.

This work is undertaken by the Public Health department of NMMC, with the selection and rejection of private contractors being done by the Medical Officer and Municipal Commissioner of NMMC. The duration of these contracts is short, usually for one year. The last contract amounting to Rs. 47.27 lakh was implemented on 8 May, 2000. Security deposits and bank solvency are a major requirement from the private contractor, in addition to a technical and price bid for the project. Subcontracting or transfer of any part of the work is not permitted under the contract. The NMMC staff carries out the supervision work. Regular random visits are made to the project site, and in case of any dissatisfaction with the quality of work, the NMMC has the power to impose a penalty of Rs.500 per day. Other requirements from the private party at the time of applications are experience certificate, income tax clearance certificate, and valid shop and establishment registration of the concerned private agency. In addition, NMMC also gives out other various public health departmental works on a contract basis.

Contractors are given land on a lease basis at nominal prices. In addition, they receive 200 to 400 tonnes of garbage of solid waste at the project site with cost borne by the municipality, besides facilities such as water and electricity at prices fixed for domestic consumers even when these projects are of a commercial nature.

Present status

Solid waste management projects at Aurangabad, Nashik, Thane and Navi-Mumbai Municipal Corporations are in different stages of implementation. Mysore was expected to commence operations in 2000. Solid waste management project at Pune Municipal Corporation functioned for one year, and suspended its operation on account of its inability to secure the required finance from financial institutions. However, similar kind of trials are under experimentation with fresh beginning of new solid waste projects. In case of Pimpri-Chinchwad, the Global Environmental Engineering Limited (GENL) was selected for managing solid waste management. GENL submitted the tender with proper technical and financial specifications with an earnest money of Rs.10 lakh;

however, it could not be started on account of difficulties in obtaining clearance and certificates, the required finance and the GENL lost it earnest money to PCMC.

The following features of the public-private partnership in solid waste management are to be especially noted:

1. There is no uniformity in the nature of the terms of contracts between municipalities and the private sector. There exists no guidance from either the Central government or State governments on what the terms of conditions should contain or be formulated.

2. A key feature in most arrangement is emphasis on `environmental improvement'; the private sector's participation is expected to and is designed to improve environmental sanitation.

3. The principal concession to private contractors in solid waste management projects is **land** which is made available to them by the municipal corporations on lease - both short and long term, often even with the flexibility of using the lease lands as mortgage for raising funds. The returns to municipal corporations are in the form of lease rents which, in some cases, provide for periodic adjustment to allow for inflation, and also a royalty or a share in projects. Although a balance sheet is not possible to be constructed (land values and price data are not available), it is generally assumed that such arrangements are a profit-making venture for the private contractors.

4. Public-private sector participation in solid waste management does not result in any savings for the municipal corporations as they continue to hold responsibility for the collection and transportation of waste from their jurisdiction.

5. There are few, if any, clauses in the contract that aim at imposing a penalty on the private contractors in case of delays or non-fulfillment of the obligations. On the other hand, specific clauses exist to impose a penalty on the municipalities if they are unable to supply waste at the sites.

BOT Projects under Pune Municipal Corporation

Privatization and public participation in planning and development process is the current trend all over the world. The Pune Municipal Corporation (PMC) has in recent years, opted to involve private enterprise in a various development works. The BOT projects enable the PMC to develop various amenities without incurring expenditure from its annual budget. It also helps save operation and maintenance costs of such amenities which otherwise would have to be borne by the PMC. Approximately 67 projects are identified by the PMC and are classified in 19 different groups, depending upon their functions under the BOT scheme. According to the PMC, there are 40 projects approved by PMC and are in the pipeline for execution with an estimated cost of Rs.3.2 crore.

The BOT projects are broadly classified in two categories:

(a) projects wherein PMC has to neither bear any financial liability nor has to convey its property to anybody for the development of amenities and assets, and

(b) projects wherein PMC needs to either incur expenditure or to lease out or sell the property or do both.

In case of category (a), the Standing Committee can confirm the contract with the private party. Some of the projects which fall in this category are: island and road beautification, garden and nallah improvement works, and development and maintenance works of civic amenities such as roads, parking lots, schools and hospitals. This arrangement does not, in any way reduce the rights of the PMC over its movable or immovable assets by way of any conveyance or lease or sale or otherwise that such contracts may entail.

In the case of projects in category (b) an appropriate body of the PMC other than the municipal commissioner has to approve each project as per the enabling provisions of the Bombay Provincial Municipal Corporation, Act 1949, before executing any agreement with the private party. One of the projects included in this category is the development of commercial complexes wherein lease of assets of the PMC may be needed.

Sanitation Services

Private sector participation has taken place in several other municipal activities. These activities which are the responsibility of public health department of the concerned municipal corporations comprise:

- cleaning of the roads and streets
- collection and disposal of garbage
- cleaning of drains and gutters and road side gutters
- cleaning, maintaining, and supervising public toilets
- malaria eradication and rodent control
- control of stray dogs and other animals

Initiatives have been taken to privatise and seek the participation of private parties in the administration of many of the municipal services and activities, which fall within the purview of the Public Health Department. For example, in Navi Mumbai, Thane, Bangalore, and Ludhiana, the responsibility of road and street cleaning, collection and disposal of the garbage has been entrusted to private parties on an annual contract basis. Mosquito control and rodent control have been contracted out by the NMMC and Thane Municipal Corporation.

Private participation in activities in those municipal corporations which are governed by the BPMC ACT 1949 has been facilitated by the addition of Section 66A Act. The Minimum Wages Act and the rules and regulations of the Contract Labor Act 1970 are binding on private agencies. There is a provision of penalty of Rs.250 to Rs.500 per day if the work is not found satisfactory during the visits by municipal authorities, although this condition is vague on account of the absence of a clear definition of the term 'satisfactory work'.

Street Light Project

A major initiative regarding the privatization of the operation and maintenance of streetlights has been taken in several cities of Karnataka. In 1999, five municipal corporations invited the private sector to operate and maintain street lights within the municipal limits of Bangalore, Mysore, Hubli-Dharwar, Gulbarga and Belgaum. The factors that led to the involvement of the private sector are:

- unsatisfactory performance of street lights owing to the absence of proper maintenance,
- shortage of street light material,
- lengthy procedures to get sanctions for damaged or non-functioning electrical material, and
- delayed payments to the companies who supplies electrical fittings.

Operation and maintenance of street lights is an obligatory function of the municipal corporations in Karnataka. Being confronted with these complaints, in 1999, municipal corporations in the State decided to give the work of operation and maintenance of street lights to private contractors. The contracts covered the cost of street light material, cost of ladders and vehicles, cost of staff salaries, and cost of office infrastructure. According to the terms and conditions, the work to be carried out included one-time replacement of non-functioning street lights and annual maintenance of all street lights

The cost of contracts depends upon the number of street lights in the municipal area. The rates quoted for the different types of street lights also vary from city to city. The total contract amount for Bangalore Municipal Corporation is Rs.525 lakh per annum. For Hubli-Dharwar, Belgaum and Gulbarga Municipal Corporations, the amounts are Rs.68.28 lakh, Rs.58.24 lakh and Rs.40.49 lakh annually.

The breakup of price or rates quoted for street lights for Bangalore Municipal Corporation is given below.

Type of street light	*Per street light (Rs)*		
	Annual maintenance expenditure	*Annual establishment expenditure*	*Total expenditure per streetlight*
Tube lights	*84.54*	*189.06*	*273.60*
Sodium lights	*542.98*	*283.59*	*826.57*
Mercury lights	*312.00*	*283.50*	*595.59*
Ordinary Bulbs	*134.00*	*31.50*	*165.50*

The most important feature of the contracts is that all complaints which are registered with the concerned office has to be attended within 48 hours by the private contractor. The private contractor is to use his own material, and the old material is to be returned to the Municipal Corporation. In case of the non-attendance of complaint within 48 hours, the contract provides for the recovery of 5% of total expenses per pole per year from the private contractor. This penalty amount increases to 10% in the next 48 hours, and to 15% thereafter as a flat rate.

These initiatives have led to a marked improvement in the maintenance of street lighting system. There is no increase in annual expenditure on street light after privatisation.

Recovery of Octroi through private sector participation

Octroi is a main source of income for municipal corporations and municipal councils in the octroi-levying States such as Punjab and Maharashtra. Large resources are assigned for the collection and supervision and maintenance of octroi records. To maximize the yield from octroi and to bring down the establishment costs, initiatives have been taken in Maharashtra and Punjab to involve the private sector in octroi collection. Provisions have been made in the Maharashtra Municipal Councils Act, 1965 for the appointment of private parties for the collection of octroi. A new section 143-A has been added and the procedure and other relevant guidelines have been laid down under the rules.

Octroi is an indirect tax, and municipal bodies earn about three-fourths of their total income from this tax in Maharashtra and Punjab where substantial income accrues to municipalities from octroi levies. At the same time, the Octroi departments are characterised by corruption, affecting the actual octroi collections. A number of municipalities in Maharashtra and Punjab have entrusted the work of recovery of octroi to private parties.

Survey results show that Amravati was the first municipal corporation that privatized the work of octroi recovery, which was followed, by other municipal corporations. The agreement, terms and conditions of these contracts are in the same direction. Some of the common points of the contracts are as under:

- Contracts are for the duration of one year
- Advertisements are made in newspapers, and tenders are invited for the task.
- Rates (Octroi rates on different items) are fixed by the municipal bodies, and the private parties are required to make payments to municipalities on a weekly basis.
- Estimated realization from octroi varies from city to city and is fixed through mutual understanding and negotiations between the municipalities and the private party.
- There is a provision of earnest money and security deposits in each contract.
- The private contractors have the liberty to appoint their own employees for octroi recovery; municipal staff can be made available to them for this work upon payment by the private contractors
- Entrance and exit check posts are pre-decided, and payments for police force at these check posts are to be paid for by the private contractors.
- Contractor is required to bear the office establishment cost including the cost of electricity, telephone charges etc.
- The private contractors have to maintain registers and receipt book accounts as provided for in the Municipal Account Code 1971.
- No sub-contracting is allowed.
- 20% interest per annum is to be paid to municipalities in case of delayed payments.

Privatisation of octroi levies, as the municipal budgets show, led to a spurt in incomes from these levies in the initial years, only to taper off subsequently. Several municipalities have reverted to recovery through their own staff, after they found that acceptable offers were not being received from private agents. Of the 53 municipal councils, thirty municipal councils had entrusted the octroi recovery work to private agents in 1994/95; out of this, recovery through private agents was continuing only in twelve municipal council's 1996/97.

Complaints against the private contractors are commonly observed. These indicate that:

- private agents check the entire consignment of goods and insist upon goods being brought in open and loose condition to facilitate inspections, and
- private agents insist upon 'pucca' receipts of goods failing which they charge higher octroi.

However, these complaints are possible to be minimized with better supervision and control by municipal authorities. Other hindrances have also been noted, particularly in respect of the non-deposit of octroi receipts. A sum of Rs. 314 lakh is due from the private agents in the Marathwada region, which is 30 percent of the tender amount of the defaulted private agents. In order to recover the arrears, the municipal councils have the flexibility of encashing the bank guarantees but as the reports suggest, the banks have refused to pay the amount of bank guarantees to the municipal councils, and municipal councils have had to approach the Courts.

Findings of the first Maharashtra state finance commission on the privatisation of recovery of octroi:

It is a long-standing demand of the traders and transporters that octroi tax should be abolished. However, in all the municipal corporations and councils visited by the Commission, the unanimous view expressed was that octroi being the most important source of income should continue till an equally productive source is made available.

It is true that there are complaints of corruption and leakages. The commission recommends that to raise octroi income, increase in the rates is not the only alternative. Emphasis should lie in better management, supervision and control, prevention of leakage and corruption and exemplary action against defaulting persons and municipal employees. It should be possible to compare the merits and demerits of octroi collections through municipal agencies and through private agencies and the better and more effective alternative should be adopted.

It was the objective of privatisation that octroi recovery would increase, however, this objective does not appear to have been achieved. The main reasons and findings by the First Finance Commission are as follows-

- In the beginning the idea of privatization being new, there was a good response from the private agents. However, subsequently the same competitive spirit was not available. As a result, there was a fall in the subsequent offers. There is reason to suspect that the private parties formed rings and made low offers to catch the municipal body in a vulnerable position.
- It was expected that after adopting this procedure there would be decline in staff expenditure. However, it has not happened in reality, the octroi staff had to be absorbed for some other municipal jobs.
- Because of privatization, a certain degree of complacency was created in some municipal council, leading to inadequate and slack supervision over the private agents and their machinery.

Observation made by the Second Finance Commission of Punjab on the privatization of recovery of Octroi-

Octroi should continue as it is a major source of revenue of urban local bodies of Punjab and there is no equally buoyant and flexible tax. Privatization of octroi should also continue as this has resulted in considerable increase in the revenue income of urban local bodies.

CONCLUSIONS

Contracting is the principal mode of private sector participation in urban service delivery and management. It is a mode under which a municipality enters into a contract or agreement with the private sector, specifying the quantum, quality and nature of the tasks to be performed; period for which a contract is held valid; obligations of the municipality and that of the private sector; and the financial terms of the contract. The contract document contains clauses in respect of the non-fulfillment of the tasks and obligations, the quantum of penalties or compensation, arbitration in case of lack of agreement, and the like. In addition to contracting, other forms of private sector participation include build, operate and transfer (BOT), and community participation and management. BOT in sampled municipalities is still in an infant stage.

A key point in contracting is the concession that is granted by a municipality and the return on the concession that it receives from the private sector. In most solid waste management contracts, the obligations of the municipalities include giving to the private sector a parcel of land (to be used as landfills, or land used for setting up a plant for conversion of waste into compost and energy); delivery of assured quantity of garbage; and making available to the private sector the required quantities of water and energy at prevailing rates. The returns on this concession comprise lease rent for lands and a royalty which is nothing but a share in the sale of compost/energy. Several features of such contracts need to be noted:

(a) Responsibility for making capital investment e.g., in setting up a plant for converting the waste into energy and running the plant rests with the private sector. However, in at least one municipality, the municipality while retaining the ownership of land has granted permission to the private sector to raise loans by mortgaging the lands.

(b) Inverse correlation between land lease rents and royalty payable by the private sector; higher the land lease rents, lower is the royalty payable. Provisions exist in most contracts for enhancing land lease rent as well as royalty on the sale of energy/compost etc.

(c) Land leases are for periods ranging between ten to thirty years.

In the sphere of sanitation, contracts under which the private sector is obliged to undertake maintenance of drains, gutter cleaning, maintenance of public toilets, pipelines etc. and where no capital investments of the type needed in setting up a plant for conversion of waste are required to be made by the private sector, are for a shorter duration, mostly for a period of one year, with provisions for renewal.

Private sector participation in revenue collection from octroi levies has been experimented with in a limited number of cities, with the specific objective of neutralizing the widely prevalent rent seeking element in this activity. Contracts in this activity are awarded on the basis of the amount of the quotes of the bidder, wherein the private sector agrees to remit, at specific intervals, an amount agreed to under the contract. The key obligations of the municipalities comprise, among others, determining the entry points (octroi posts), while that of the private sector, of payment to the police force etc.

What difference has private sector participation made to the quality of service provision? Has it led to improved environmental hygiene, better street lighting system, higher revenues and the like? Has the engagement of the private sector meant reduced expenditure on the part of municipalities? Has it meant in increase in the cost of services? Field evidence on these questions is far from conclusive for several reasons:

(a) private sector has participated in activities that were earlier not being carried out by municipalities (e.g., conversion of waste into energy/compost).

(b) private sector is operating in areas where public sector facilities were not available or had not been extended.

(c) cost estimates of public provision of such discrete activities (e.g., maintenance of handpumps or pipelines, transportation of garbage, leveling of landfills and spraying of germicide etc.) are not possible to be separated from the sectoral expenditures, making it difficult to compare the performance of the private sector vis-a-vis the public sector.

SOLID WASTE MANAGEMENT

Agreement/Terms and Conditions	Thane Municipal Corporation (TMC)	Pune Municipal Corporation (PMC)
1. Method of inviting bids	Advertisement in leading newspapers.	Advertisement in leading newspapers.
2. Qualification of the bidder	With ability to set up Solid and Organic Waste Treatment Plant of capacity 300 ton per day at their own cost including sheds, building and structures as per requirement of the aforesaid Plant.	With ability to set up the plant of capacity 300 to 400 ton per day and power plant at their own cost including sheds, building and structures, machinery as per requirement of the aforesaid Plant.
3. Selection process	Open Tender and acceptance by TMC followed by mutual consent for certain modifications in the said proposal.	Open Tender and acceptance by PMC followed by mutual consent for certain modifications in the said proposal.
4. Name of the selected party	LEAF BIOTECH PVT.LTD.BOMBAY.	WESTERN PAQUES INDIA LIMITED, PUNE (WPIL)
5. Date of agreement	20 December 1995. Joint venture of TMC and Leaf BioTech Pvt. Ltd.	16 September 1996. Joint venture of PMC and Western Paques India Ltd.
6. Date of effective start		Not later than 24 months from the date of land hand over by PMC. Full Load capacity has to be achieved within six months from the above date.
7. Coverage	To convert solid and organic waste into bio-chemical or soil enricher by using the said technology developed by EXCEL Industries of Bombay.	To convert municipal solid waste into biogas, which WPIL may employ for generating power by constructing, installing and operating a Power Plant based partly or fully on such biogas.
8. Obligations of Municipal Corporation	Collection, transportation and disposal of minimum 300 ton of the garbage to the project site.	Seven acre of land reasonably leveled, without any material, trees, shrubs, structures etc. to be handed over to WPIL. PMC shall provide 150 cubic meters of potable water per day at site on commercial charges to WPIL.

9. **Concessions to the bidder** Land on lease basis/permission for Plant Rent/land lease rent Solid waste at project site No objection certificates	Seven hectares of land for thirty years. Total Rs.9/ per annum, @ lease rent Rs1/-per acre. TMC gives permission to set up the said plant on the lease land. Minimum Input of 300 tons of solid waste at the project site. TMC shall provide no objection certificates for water, electricity connection.	Seven acre of land on lease for a period of 29 years. Consolidated lease rent for first eighteen months is Rs.7 lakh and thereafter for next five years Rs.1.25 lakh per annum per acre which equals to Rs.8.75 lakh per annum. Every successive 5-year period there will be an increase of 20% on the previous rent. Input of 300 to 400 tons of solid waste by PMC at its own cost to the MSW receipt point. WPIL shall be at liberty to operate the plant or power plant by using any other raw material as may be deemed fit and proper by WPIL.
10. **Responsibility of the bidder** Capital costs Recurring costs Protection of municipal land Permissions Creating a green belt Upgrade the technology Others	Capital costs to be met by the said party to set up the solid and organic waste treatment plant by using the said technology. The party shall be liable for recurring cost for the smooth running of the plant, for minimizing foul smell, odor and with due control of pathogens, flies etc. at the process site. The party shall be liable to protect the land for any encroachments. The party shall create a green belt around the processing plant to maintain a good environment. The party shall upgrade the said technology with whatever new developments take place. The party shall supply innocculum mixture for spraying over the city garbage provided the costs of the same are paid by the TMC.	Capital costs to be met by the said party to set up the plant and power plant. The party shall be liable for recurring cost for the smooth running of the plant. WPIL shall be deemed to be in absolute control of the same. WPIL shall be liable to fulfill all requirements and obligations towards its workmen/staff enactment. WPIL will make a compound on all sides of land at its own cost. WPIL shall take necessary permissions under various Acts for the setting up of these plants. WPIL cannot use this land for any other purpose than that of "Plant' and 'Power Plant'.

11. Technical conditions	Bio-Organic-Soil-Enricher Plant same as that of Excel Industries Limited of Bombay of capacity to treat 300 tons of solid waste per day.	WPIL shall undertake this project on 'Build-Own-Operate-Maintain' basis. Two separate operations are to be taken care of by WPIL - one for the treatment of solid waste known as 'Plant' and other for power generation known as 'Power plant'. Targeted capacity of Plant is to treat 400 tons of municipal solid waste per day. WPIL and PMC will arrive at terms and conditions for the purpose of collection, transportation and handling of municipal solid waste.
12. Financial conditions Sale price of final product/production Royalty to Municipal Corporation Right to fix price and selling of final product	Actual price or Rs.1400/per ton (minimum) Actual production or 20% of the input (minimum). Royalty equal to 2% of the sale turnover, half-yearly basis. The party shall be absolutely free to sell the finished goods to any party in India or abroad on any terms and conditions. TMC shall have absolutely no role or participation in any manner.	The party shall be absolutely free to sell electric energy to any person, authority and state electricity board on any terms and conditions. PMC shall have absolutely no role or participation in any manner.
13. Default of the bidder	If royalty is not paid to TMC, TMC shall charge 18% interest on delayed payments or TMC may cancel the contract with the party.	Rs.100 per ton per day or actual cost of transportation of MSW at receipt point whichever is more will be charged from WPIL in case WPIL does not accept the MSW. The said cumulative amount per annum should not exceed Rs.8.75 lakh.
14. Default of the Municipal Corporation		Rs.100 per ton per day shall be charged from PMC on failure to provide 300 tons of solid waste at receipt point. This default amount should not be more than the lease rent of that year. In addition to it in case of default of PMC, collection, transportation and handling of MSW shall be recovered from PMC by WPIL.

15. Jurisdiction Sub leasing/mortgage	The party cannot sublease the land and cannot mortgage the land for loan purposes etc.	The party has the right to pledge or hypothecate to obtain any kind of loans advances etc. from any bank or leasing companies in respect of the plant or power plant but the period for such loans should not be more than the term of agreement. PMC shall not be responsible for such liabilities.
Right to obtain loans/subcontract	The party has the right to obtain any kind of loans advances etc. from any bank or financial institution against the mortgage of plant, machinery, stock in trade, finished goods and not the project land. TMC shall not be responsible for such liabilities.	The party has the right to nominate, appoint and constitute any kind of sub-contractor/s for the purpose of any/all steps necessary to be executed in connection with the work of WPIL but there shall not be any **privity** of contract between sub-contractor and PMC nor shall there be any actionable claim against PMC. The sub-contractor shall not be given any power of attorney or assignment of any nature of WPIL.
Pollution laws		WPIL shall observe and perform all norms/rules regulations imposed by Pollution Control Board.
Disputes	In case of dispute arising between the parties, the decision of municipal commissioner shall be final for both the parties.	Only the courts in Pune shall have the jurisdiction to try all the disputes and matters arising out of and under the contract.

Agreement/Terms and Conditions	Aurangabad Municipal Corporation (AMC)	Nashik Municipal Corporation (NMC)
1. Method of inviting bids	Advertisement in leading newspapers.	Advertisement in leading newspapers.
2. Qualification of the bidder	With ability to set up Solid and Organic Waste Treatment Plant of capacity 300 ton per day at own costs (Capital and Recurring). Estimated Investment for the project is Rs.3.65 crore.	With ability to set up Solid and Organic Waste Treatment Plant of capacity 300 ton per day at own costs (capital and recurring).
3. Selection process	Open tender and acceptance by AMC followed by mutual consent for certain modifications.	Open tender and acceptance by NMC followed by mutual consent for certain modifications.
4. Name of the selected party	M/s SATYAM BIO-FERTILIZERS PVT. LTD., AURANGABAD.	LEAF BIOTECH PVT.LTD.BOMBAY (LEAF)
5. Date of agreement	17 July 1998. Joint venture of AMC and Satyam Bio-Fertilizers Pvt. Ltd.	28 March 1996.
6. Date of effective start		Project should be commissioned within 12 months after handing over the site to LEAF.
7. Coverage	To convert solid and organic waste into bio-chemical organic soil enricher or organic manure of certain capacity.	LEAF shall setup a solid and organic waste treatment plant for conversion into bio-chemical-organic-soil-enricher. Capacity is to treat 300 ton per day of solid and organic waste and shall be modified up to the capacity of 500 ton per day.
8. Obligations of Municipal Corporation	AMC shall be responsible to collect and deliver 150 to 200 ton of garbage per day at project site.	Six to seven hectares of land in the present capacity and thirteen to fifteen hectares in increased capacity. Delivery of solid and organic waste at project site including loading, unloading and transportation expenditure to be met by NMC.
9. Concessions to the bidder Land on lease basis/permission for Plant Rent/land lease rent Solid waste at project site No objection certificates	AMC shall provide 6 hectare of land on lease basis for a period of 30 years. Total Rs.6/-per annum, @ lease rent Rs.1/-per hectare. AMC shall provide electricity connection, water facilities, roads, and land development infrastructure. AMC shall provide bulldozers; proclain fronted loaders and other automobiles for	Lease rent at the rate of Rs.1/- per acre per annum. NMC shall provide no objection certificates for water and electricity connection. 300 ton per day of solid and organic waste at project site except in case of strike natural calamities or force majeure.

Central Government Grant	day to day use at plant site. The party has got a loan of Rs1.72 crore from a Bank at Aurangabad by **mortgaging leased land** along with building, hypothecation of plant and machinery at factory site. Central grant of Rs.50 lakh for this project against the Rs.70 lakh of subsidy by state government.	
10. **Responsibility of the bidder** Capital costs Recurring costs Protection of municipal land Permissions Creating a green belt Upgrade the technology Others	The party has established itself by investing Rs.3.65 crore. Out of this Rs.1.09 crore has been expended on land development, factory building and godown and Rs.2.12 crore expended on plant and machinery and Rs.0.44 crore is invested on vehicles and others.	Capital costs to be met by the said party to set up the solid and organic waste treatment plant by using the said technology. The party shall be liable for recurring cost for the smooth running of the plant. The party shall be liable to protect the leased land for any encroachments. No subleasing, mortgage of leased land without the permission of NMC. LEAF shall pay water charges as per non-domestic rates fixed by NMC. LEAF shall follow the instructions from pollution control board to maintain the site hygienically in good condition with due and effective control of pathogens, flies and birds. LEAF cannot use the project site for any other purpose.
11. **Technical conditions**	Excel technology (CELRICH TECHNOLOGY OF EXCEL) developed by Excel Industries Ltd. Of Bombay to be used for bio conversion of urban solid waste with mutual understanding between Satyam Industries and Excel Industries Ltd.	Technology developed by LEAF for conversion of solid and organic waste into bio-organic-soil-enricher.
12. **Financial conditions** Sale price of final product/production Royalty to Municipal Corporation Right to fix price and selling of final product	Royalty of 5% of total sale turnover annually.	Final production of organic manure shall be taken as equivalent to actual production or average of 20% input whichever is higher. Royalty shall be equal to 2% of the sale turnover or at the rate of Rs.35/- per ton or whichever is higher and payment shall be paid on half yearly basis. All State Govt./Central Govt./Octroi and other taxes shall be paid by LEAF. LEAF shall be absolutely free to sell the finished goods to any party in

		India or abroad on any terms and conditions. NMC shall have absolutely no role or participation in any manner.
13. **Default of the bidder**		If royalty is not paid to NMC, NMC shall charge 18% interest on delayed payments or NMC may cancel the contract with the party. If LEAF fails to commission the plant within 12 months, it has to pay the penalty at the rate of Rs.5000/- per month for the delayed period.
14. **Default of the Municipal Corporation**		
15. **Jurisdiction** Sub leasing/mortgage Right to obtain loans/subcontract Pollution laws Disputes	 AMC shall provide no objection certificate to obtain loans by mortgaging the lease hold rights, the building, plant and machinery standing on demised land.	If plant is found not to be running satisfactorily, NMC has the right to stop delivery of organic waste, water supply, electricity supply to LEAF. The party has the right to obtain any kind of loans advances etc. from any bank or financial institution against the mortgage of plant, machinery, stock in trade, finished goods and not the project land. NMC shall not be responsible for such liabilities. In case of dispute arising between the parties, the decision of municipal commissioner shall be final for both the parties.

Agreement/Terms and Conditions	Mysore Municipal Corporation (MMC)	Pimpri-Chinchwad Municipal Corporation (PCMC)
1. Method of inviting bids		Advertisement in leading newspapers.
2. Qualification of the bidder	Designing, constructing, testing and commissioning a 200 metric ton per day Solid Waste Composting Plant in Mysore on a turnkey basis, including managing, operating and maintaining the plant for ten years.	Construct, install and operate Solid Waste Treatment Plant for treatment and processing of municipal solid wastes with commercial application of bio-methanation and other techniques. Bio-gas, as a by-product shall in turn to generate electrical power by constructing, installing, and commissioning a power plant. This project will be on Build-Own Operate-Transfer (BOOT) basis.
3. Selection process	Open tender and acceptance by MMC followed by mutual consent for certain modifications.	Open tender and acceptance by PCMC followed by mutual consent for certain modifications.
4. Name of the selected party	EXCEL INDUSTRIES LIMITED, BOMBAY.	Global Environmental Engineering Limited, PUNE. (GEEL)
5. Date of agreement	27 February 1999. Joint venture of MMC and EXCEL Industries Ltd., Bombay.	July 1997. An earnest money deposit of Rs.10 lakh is submitted with the tender.
6. Date of effective start	Within 150 days of signed agreement.	GEEL will complete the preliminary work and documentation including finance arrangements within eight months from the date of obtaining letter of intent. GENL will complete construction and installation erection work of municipal solid waste treatment plant within maximum eighteen months thereafter the lapse of above specified period of eight months. GEEL will commission the plant and will process the msw within twelve months thereafter the lapse of above specified period of eighteen months.
7. Coverage		GEEL shall setup a municipal solid waste plant of capacity to treat 250 ton per day.
8. Obligations of Municipal Corporation	Collection, transportation and disposal of minimum average 200 ton of the garbage to the project site free of cost.	

9. **Concessions to the bidder** Land on lease basis/permission for plant Rent/land lease rent Solid waste at project site No objection certificates	Lease-to-operate basis for a period of ten years. A fixed (guaranteed) lease fee for the use of the land, composting plant and facilities in the amount totaling Rs.90 lakh over the 10 years lease period.	Seven acres of land on lease basis without any obstruction and with reasonable leveling etc. The term for lease shall be for 29 years and lease rent shall be **Rs.1/-per square meter per annum.** PCMC will provide GEEL between 200 to 250 ton of municipal solid waste per day with minimum volatile solids of 22.5% on weight. This solid waste shall be supplied, delivered and unloaded by PCMC at its own cost. PCMC shall arrange to supply electricity and water by installing distribution line etc. at its own cost. GEEL shall pay for electricity and water consumed at domestic rates to PCMC. PCMC shall also construct appropriate municipal sewers for GEEL. GEEL is allowed to use any other raw material provided municipal solid waste is treated effectively everyday.
10. **Responsibility of the bidder** Capital costs Recurring costs Protection of municipal land	The party has agreed for the fixed lump sum amount of Rs.3.98 crore.	Capital costs to be met by the said party to set up the solid and organic waste treatment plant by using the said technology. The party shall be liable for recurring cost for the smooth running of the plant. GEEL shall maintain the site hygienically upgraded condition and create a green belt around the plant.
11. **Technical conditions**		In certain events a notice has to be provided by either party to the other within 21 days of the event. The events could be delayed because of war, hostilities, acts of public enemies, civil commotion, sabotage, fire, flood, explosions, earthquakes, epidemics, quarantine restrictions, strikes, lockouts, breakdown and /or maintenance of plant and machinery, Acts and orders of Governments, Rules and regulations etc.

12. **Financial conditions** Sale price of final Product/production Royalty to Municipal Corporation Right to fix price and selling of final product	A structured royalty fee of 2% the for first three years of ex-factory sale price of the actual production of the organic manure produced. The royalty shall increase to 4% in the fourth, fifth, sixth and seventh years and to 5% in the eight, nine and tenth years respectively. The minimum guaranteed amount should be Rs.94.50 lakh over the period of ten years in the standard conditions of receiving garbage average of 200 ton per day. In case of any change in input of garbage, these conditions will change slightly. For example in case of increased input of solid and organic waste, the royalty shall increase by the same percentage points as of increased input. In case of decreased input there are two changes, first, there shall be a reduction in royalty payments and second, there shall be a reduction in lease fee. Both will be reduced by the same percentage as that of reduction in input of 200 ton per day of solid and organic waste.	GEEL shall provide the lease rent for the entire year at the time of execution. GEEL will pay the lump sum amount of Rs. 10 lakh per year as a donation to PCMC, which it will use only for environment protection purpose. GEEL will provide 500 ton of organic manure free of cost on site per annum for the development of green belt to PCMC.
13. **Default of the bidder**		In case the construction and installation work is delayed beyond the specified period of eighteen months, GEEL has to pay a penalty of Rs.10 lakh per year on pro-rata basis.
14. **Default of the Municipal Corporation**		PCMC shall provide a penalty of Rs.100/- for every ton of solid waste; so, falling deficient on a daily basis and there will be an increase of 10% on these rates.
15. **Jurisdiction** Sub leasing/mortgage Right to obtain loans/subcontract		GEEL can transfer the plant to any third party or it can sublease the site with the prior approval of PCMC. PCMC shall be responsible for facing public interest litigation cases on behalf of this project. In case of relocation of the site PCMC shall provide compensation

Pollution laws Disputes		for the entire relocation of the plant and the power plant at new site. All **matters** related to disputes will be settled by high courts. During the subsistence of agreement GEEL shall be within its right to nominate, appoint and constitute any sub-contractor for the purpose of any or all steps necessary to be executed in connection with the work of GEEL. GEEL shall be within its right to raise loans, advances, or finance from banks or leasing companies in respect of plant or power plant i.e. it shall have the right to charge, pledge, hypothecate, mortgage or otherwise encumber the same in respect of such loans, advances or finances but the period of mortgage etc. should not run beyond the term of agreement. PCMC agrees and undertakes not to cause restraint or attach any assets, plant or machinery of GEEL for non-payment of donation or lease rent or any other defaults.

SANITATION AND OTHERS

Terms and Conditions	Navi Mumbai Municipal Corporation (NMMC)	Navi Mumbai Municipal Corporation (NMMC)	Navi Mumbai Municipal Corporation (NMMC)
1. Method of inviting bids	General advertisement in local newspapers.	General advertisement in local newspapers.	General advertisement in local newspapers.
2. Description of the work	Malaria vector/Mosquito control strategy combining larvicide biological method, adulticide and source reduction measures in NMMC area.	Various works to be carried out on contract basis at the dumping ground of NMMC, to level the new solid waste collected, and to put the earth layer of standard earth on the waste and spread the germicides supplied by NMMC (everyday).	To clean and collect garbage, dust, plastic, papers, debris, fallen trees, tree leaves etc. and put in to the dustbins. Also to clean gutters, and carry out the dead animals to designated places and destroy them properly. From six nodes village, wadis, slums bazaar, common roads, footpaths, gutters etc.
Control officer	Medical Officer, Health Department/Municipal Commissioner.	Medical Officer, Health Department/Municipal Commissioner	Medical Officer, Health Department/Municipal Commissioner
3. Period of contract	Twelve months.	One year. Commencement date 8 May 2000.	One year.
4. Amount of the contract	A party with least quoted amount.	Yearly combined cost Rs.47.27 lakh.	
5. Tender conditions	Tender should contain two separate envelopes one as 'technical bid' and other as 'price bid'. Valid income tax clearance certificate, valid shop and establishment registration of agency, pest control license, certificate of technical staff education (B.Sc. biology), experience certificate at least one year and other important documents.	Tender should contain two separate envelopes one as 'technical bid' and other as 'price bid'. Valid income tax clearance certificate, valid shop and establishment registration of agency. Other certificates needed are experience certificates, registration certificate, income tax clearance etc.	Tender should contain two separate envelopes one as 'technical bid' and other as 'price bid'. Valid income tax clearance certificate, valid shop and establishment registration of agency. Others certificates needed are experience certificates, registration certificate, income tax clearance etc.

6.Earnest money deposit	Rs.25000/- with valid bank solvency certificate equivalent to Rs.2 lakh. A security deposit of 5% of contract amount shall be kept of the contractor whom the work is allotted.	Rs.50000/- with valid bank solvency certificate equivalent to Rs.1 crore. A security deposit of 5% of contract amount shall be kept of the contractor whom the work is allotted.	Rs.20000/- with valid bank solvency certificate equivalent to Rs.15 lakh to Rs.20 lakh. A security deposit of 5% of contract amount shall be kept of the contractor whom the work is allotted.
7. Responsibility of bidder Payments to workers	Minimum Wages Act and rules and regulations of 'Contract Labor Act 1970' are binding on the agency. The selected agency should provide facility under 46%[1] levy to workers. After submission of valid proofs the amount will be reimbursed by NMMC. Responsibility of any accident/mishap during the course of assignment lies with the bidder. Fogging machines should be procured and provided by the agency. The agency should organize meetings of local residents to increase community awareness and motivation.	The agency is responsible for supply of water tankers, at time of accidental fire, at the dumping ground. The agency must own bulldozers, poklers, JCB and dumpers. Minimum Wages Act and rules and regulations of 'Contract Labor Act 1970' are binding on the agency. The selected agency should provide facility under 46% levy to workers. After submission of valid proofs the amount will be reimbursed by NMMC.	These jobs have to be performed from 7 a.m. to 3 p.m. daily for 365 days. Second agency will take the garbage with the help of compactor to the particular destination. There must be co-ordination in both the agencies. Minimum Wages Act and rules and regulations of 'Contract Labor Act 1970' are binding on the agency. The selected agency should provide facility under 46% levy to workers. After submission of valid proofs the amount will be reimbursed by NMMC.
8. Obligations of Municipal Corporation Supply of Equipment	Spray pumps and other equipment will be supplied by NMMC.		10 refuge compactors and 8 dumpers will be provided by NMMC for the transport of collected garbage etc.

[1] Provident fund 12%, ex-gratia 8.33%, gratuity 4%, leave with wages 6%, casual leave 1%, esi scheme 4%, uniform/raincoat/gumboot 4%, administrative charges 5%, miscellaneous charges 1.67%, all combined equals to 46%.

9. Default of the bidder	Not more than 10% of the breeding places checked should show more than 5 live larvae per dip. During random inspection if operations have not been taken properly Rs.300/-per day will be fined.	During random inspection if operations have not been taken properly Rs.500/-per day will be fined on ward level.	During random inspection if operations have not been taken properly Rs.300/-per day will be fined on ward level.
10.Jurisdiction	Subcontracting or transfer of any part of the contract to others is not allowed. If work not found to be satisfactory NMMC will have the right to terminate the contract and forfeit part or whole of security deposits. In case of any dispute the commissioner of NMMC will be the mediator and whatever decision he make, will be final and binding on both the parties.	Subcontracting or transfer of any part of the contract to others is not allowed. If work not found to be satisfactory NMMC will have the right to terminate the contract and forfeit part or whole of security deposits. In case of any dispute the commissioner of NMMC will be the mediator and whatever decision he makes, will be final and binding on both the parties.	Subcontracting or transfer of any part of the contract to others is not allowed. If work not found to be satisfactory NMMC will have the right to terminate the contract and forfeit part or whole of security deposits. In case of any dispute the commissioner of NMMC will be the mediator and whatever decision he makes, will be final and binding on both the parties.

Terms and conditions	Thane Municipal Corporation (TMC)	Thane Municipal Corporation (TMC)	Bangalore Municipal corporation (BMC)
1. Method of inviting bids	General advertisement in local newspapers.	General advertisement in local newspapers.	General advertisement in local newspapers.
2. Description of the work	To clean and collect garbage, mud, plastic, papers, debris, fallen trees, tree leaves etc. from the roads including mud and waste material from road side gutters and put in to the dustbins.	Cleaning, maintaining and supervision of public Toilets.	Sweeping and cleaning of entire area under schedule B and transportation of all kind of rubbish and removal thereafter in own vehicle to the compost plant.
Control officer	Medical Officer, Health Department/Municipal Commissioner.	Medical Officer, Health Department/Municipal Commissioner	Medical Officer, Health Department/Municipal Commissioner
3. Period of contract	One year. Private contracts to carry out the cleaning, maintenance and supervision of 50 km. - long roads measuring 1204831sq.meter area[2].	One year.	One year.
4. Amount of the contract	Minimum quoted amount from the tenders.	Minimum quoted amount from the tenders.	Minimum quoted amount from the tenders.
5. Tender conditions	Tender should contain two separate envelopes one as 'technical bid' and other as 'price bid'. Valid income tax clearance certificate, valid shop and establishment registration of agency. Other	Tender should contain two separate envelopes one as 'technical bid' and other as 'price bid'. Valid income tax clearance certificate, valid shop and establishment registration of agency. Other certificates needed are experience certificate, registration certificate, income tax	

[2] Area of Thane Municipal corporation is 145 sq.kms. and population is more than 13 lacs. Total waste generation from residential, industrial area, bazaars, mandi areas is about 750 ton per day.

	certificates needed are experience certificate, registration certificate, income tax clearance etc.	clearance etc.	
6.Earnest money deposit	Rs.20000/- with valid bank solvency certificate equivalent to Rs.15 lakh to Rs.20 lakh for each part. A security deposit of 5% of contract amount shall be kept of the contractor whom the work is allotted. The rates given in various tender collectively assessed to Rs.1.46 crore[3] for the whole year.	A security deposit of 5% of contract amount shall be kept of the contractor whom the work is allotted. In addition to the contract money, the contractor may charge Rs.10/-per family per day for using these toilets.	A security deposit of 5% of contract amount shall be kept of the contractor whom the work is allotted.
7. Responsibility of bidder Payments to workers	These jobs have to be performed from 7 a.m. to 3 p.m. daily for 365 days. The roads are to be cleaned twice. Minimum Wages Act and rules and regulations of 'Contract Labor Act 1970' are binding on the agency.	These jobs have to be performed from 8 a.m. to 3 p.m. and 4 p.m. to 11 p.m. daily for 365 days. Minimum Wages Act and rules and regulations of 'Contract Labor Act 1970' are binding on the agency. Contractor must keep the surrounding area of toilets neat and clean including gutters etc.	The contractor should maintain 5% of additional staff of total labor force as reserve to compensate any obscenities. The lorries carrying refuse to the dumping place should be covered with thick tarpaulin.

[3] The proposed expenditure can be seen under the budget head 'common cleanliness' in 1998-99 budget.

8. Obligations of Municipal Corporation			
9. Default of the bidder		If found charging more than Rs.10/-per family per day his contract can be terminated.	If found streets not swept, a fine of 10% daily value and in case of major roads a fine of 20% of daily contract value is to be levied. On not clearing the garbage from dustbins a fine of Rs.100/-, Rs.250/-, Rs.300/- per day will be imposed depending upon the size of the dustbins. If the work found is unsatisfactory 5% of the monthly contract amount for each day will be deducted. In case of absence of vehicles heavy penalties will be imposed such as three times the hire charges etc. If lorries carrying refuse are uncovered, penalty of Rs.250/-per event shall be levied.
10.Jurisdiction	Following B.P.M.C Act 1949 sec.66A.. Subcontracting or transfer of any part of the contract to others is not allowed. If work not found to be satisfactory, TMC will have the right to terminate the contract and forfeit part or whole of security deposits.	Following B.P.M.C Act 1949 sec.66A. Subcontracting or transfer of any part of the contract to others is not allowed. If work not found to be satisfactory, TMC will have the right to terminate the contract and forfeit part or whole of security deposits.	The contractor shall be responsible for all compensations to workers under the workmen's compensation Act 1923(vii of 1923)

OCTROI COLLECTION

Agreement/Terms and Conditions	Ulhasnagar Municipal Corporation (UMC)	Kalyan Dombivli Municipal Corporation (KDMC)
1. Method of inviting tenders	Advertisement in leading newspapers.	Advertisement in leading newspapers.
2. Qualification of the bidder	Minimum amount of collection of Octroi for 11 months is Rs.34 crore. On provision of necessary documents like Income tax clearance certificate, Advance tax certificates, Audited Balance sheet etc.	Minimum amount of collection of Octroi for 12 months is Rs.34 crore. On provision of necessary documents like Income tax clearance certificate, Advance tax certificates, Audited Balance sheet etc.
3. Selection process	Open tender method. The Commissioner with the approval of Standing Committee may accept or reject any proposal.	Open tender method. The Commissioner with the approval of Standing Committee may accept or reject any proposal.
4. Name of the selected party		Ms.Omjee Finance Pvt. Ltd., Kalyan.
5. Period of collection of Octroi	1.5.2000 to 31.3.2001 (11 months). , Estimated realized amount for eleven months is Rs.33 crore.	1.4.2000 to 31.3.2001 (12 months) Estimated realization amount is Rs.6.32 crore.
6. Earnest money	Rs.1.70 crore.	4% of the estimated realization
7. Security deposits	Rs.5.44 crore in four bank guarantees.	9% of the estimated realization in four bank guarantees.
8. Rates of Octroi/payments	Rates are to be fixed by the UMC. Payments to be made to UMC in 46 equal installments.	Rates are to be fixed by the KDMC. Payments to be made to KDMC in 50 equal installments whereas each installment amounts shall be equal to 2% of the estimated realization.
9. Commission of the agent	The agent is entitled to a commission, equal to the exceeded amount than the quoted annual amount, but after the final payments equals to the quoted annual amount. On falling short of the weekly installment amount the party have to **submit** the remaining amount also.	The agent is entitled to a commission, equal to the exceeded amount than the quoted annual amount, but after the final payments equals to the quoted annual amount. On falling short of the weekly installment amount the party have to **submit** the remaining amount also.
10. Responsibility of the agent Employee liberty Bills payments Maintenance of Registers/books No teenager employee	The party shall be at liberty to appoint his own employees or of the UMC but on payment of separate charges to UMC. There are 14 entrance and exit check posts, the agent has to pay the charges of telephone, electricity bills etc. Any	The party shall be at liberty to appoint his own employees or of the KDMC but on payment of separate charges to KDMC. There are 22 entrance and exit check posts, the agent has to pay the charges of telephone, electricity bills etc. Any police force used at these check

Accidents on works	police force used at these check posts, payment has to be paid by the agent. The agent can increase the number of check posts at his own costs. The agent has to maintain the registers, receipt books etc. The agent shall not employ any person who has not completed 18 years of age. It shall be the responsibility of the agent to protect against accidents on works.	posts payment has to be paid by the agent. The agent can increase the number of check posts at his own costs. The agent has to maintain the registers, receipt books etc. as provided in the municipal accounts code, 1971 and directed by Municipal Commissioner. The agent shall not employ any person who has not completed 18 years of age. It shall be the responsibility of the agent to protect against accidents on works.
11. **Default of the bidder** Not following Octroi rates of UMC Default to pay installment	If it is found that the agent is collecting octroi from the importers beyond the rates fixed by UMC or collecting octroi in contravention of the provisions of the Bombay Provincial Municipal Act 1949, rules thereunder, UMC octroi rules 1996 would apply. If the agent makes default to pay any of the weekly installments the agreement can be terminated. On delayed payments, the agent shall have to pay 20% interest per annum on discretion of the Commissioner of UMC.	If it is found that the agent is collecting octroi from the importers beyond the rates fixed by KDMC or collecting octroi in contravention of the provisions of the Bombay Provincial Municipal Act 1949, rules thereunder, KDMC octroi rules 1995 would apply. If the agent makes default to pay any of the weekly installments the agreement can be terminated. On delayed payments, the agent shall have to pay 20% interest per annum on discretion of the Commissioner of KDMC.
12. **Jurisdiction** Sub letting Disputes	The agent shall not enter into partnership or sub let, transfer, assign the contract or any part thereof in any manner without the previous written approval of the UMC. In case of any disputes, the same shall be referred to the Municipal Commissioner of UMC and the decision shall be final and binding on the agent.	The agent shall not enter into partnership or sub let, transfer, assign the contract or any part thereof in any manner without the previous written approval of the KDMC. In case of any disputes, the same shall be referred to the Municipal Commissioner of KDMC and the decision shall be final and binding on the agent.

OCTROI COLLECTION

Agreement/Terms and Conditions	Amravati Municipal Corporation (AMC)
1. Method of inviting tenders	Advertisement in leading newspapers.
2. Qualification of the bidder	Minimum amount of collection of Octroi for 12 months is Rs.34 crore. On provision of necessary documents like Income tax clearance certificate, Advance tax certificates, Audited Balance sheet etc.
3. Selection process	Open tender method. The Commissioner with the approval of Standing Committee may accept or reject any proposal.
4. Name of the selected party	
5. Period of collection of Octroi	3.7.1999 to 3.7.2000 (12 months) Estimated realization amount is Rs.19.30 crore.
6. Earnest money	Rs.1.00 crore.
7. Security deposits	Rs.3.10 crore in seven bank guarantees, six of Rs.50 lakh and one of Rs.10lakh in nationalized banks.
8. Rates of Octroi/payments	Rates are to be fixed by the AMC. Payments to be made to AMC in 50 equal installments whereas each installment amounts shall be equal to 2% of the estimated realization.
9. Commission of the agent	The agent is entitled to a commission, equal to the exceeded amount than the quoted annual amount, but after the final payments equals to the quoted annual amount. On falling short of the weekly installment amount the party have to submit the remaining amount also.
10. Responsibility of the agent Employee liberty Bills payments Maintenance of Registers/books No teenager employee Accidents on works Insurance	The party shall be at liberty to appoint its own employees or of the AMC but on payment of separate charges to AMC, Contractor has to pay their salaries and other emoluments in advance to AMC. There are 17 entrance and exit check posts, the agent has to pay the charges of telephone, electricity bills etc. Any police force used at these check posts payment has to be paid by the agent. The agent can increase the number of check posts at his own costs. The agent has to maintain the registers, receipt books etc. as provided in the municipal accounts code, 1971 and directed by Municipal Commissioner. The agent shall not employ any person who has not completed 18 years of age. It shall be the responsibility of the agent to protect against accidents on works. The agent shall take out insurance on all the check post buildings, offices, godowns of octroi for total amount of not less than Rs.50 lakh.

11. Default of the bidder Not following Octroi rates of UMC Default to pay installment	If it is found that the agent is collecting octroi from the importers beyond the rates fixed by AMC or as collecting octroi in contravention of the provisions of the Bombay Provincial Municipal Act 1949, rules thereunder, Maharashtra Municipalities (Octroi) Rules, 1968 and bylaws and resolutions passed by AMC would apply. If the agent makes default to pay any of the weekly installments the agreement can be terminated. On delayed payments, the agent shall have to pay 24% interest per annum on discretion of the Commissioner of AMC.
12. Jurisdiction Sub letting Overall supervision Disputes Abolition of Octroi	The agent shall not enter into partnership or sub let, transfer, assign the contract or any part thereof in any manner without the previous written approval of the AMC. Control and supervision work on recovery of octroi to be done by the Municipal Commissioner or any other officer appointed by AMC. In case of any disputes, the same shall be referred to the Municipal Commissioner of AMC and the decision shall be final and binding on the agent. In case the rights of Octroi are abolished by the State Govt., the agent shall not be entitled to any compensation, damages or any other amount and up to the date of abolition the agent has to clear all the weekly installments.

STREET LIGHTING

Agreement/Terms and Conditions	Gulbarga Municipal Corporation (GMC)	Belgaum Municipal Corporation (BMC)
1. Selection process	By calling tenders and detailed discussion thereafter.	By calling tenders and detailed discussion thereafter.
2. Name of the selected party	Mysore Lamp Works Ltd. Bangalore (A Govt. Organisation) (MLW)	Mysore Lamp Works Ltd. Bangalore (A Govt. Organisation) (MLW)
3. Date of agreement	5 November 1999, between Municipal Commissioner and The Mysore Lamp Works Limited, Bangalore.	22 April 1999, between Municipal Commissioner and The Mysore Lamp Works Limited, Bangalore.
4. Coverage	Entire area of City Corporation of Gulbarga with 11289 street lights. The work is to be carried out in two phases- one time replacement and annual maintenance. The Party shall carry out the work in accordance with the provisions of Indian Electricity Acts and Rules.	Entire area of City Corporation of Belgaum with 16105 street lights. The work is to be carried out in two phases- one time replacement and annual maintenance, The Party shall carry out the work in accordance with the provisions of Indian Electricity Acts and Rules.
5. Total amount of the contract	Rs.40.49 lakh which includes cost of the street light material, cost of the ladders and vehicles, cost of staff, cost of office accommodation and telephone etc. MLW shall be entitled to receive the 1/12th payment of the estimated amount per month.	Rs.58.24 lakh which includes cost of the street light material, cost of the ladders and vehicles, cost of staff, cost of office accommodation and telephone etc. MLW shall be entitled to receive the 1/12th payment of the estimated amount per month.
6. Rates FTL tube lights Sodium lamps Mercury lamps Ordinary bulbs	These rates are inclusive of sales tax and excise duty. Rs.273.60 yearly Rs.826.57 yearly Rs.605.59 yearly Rs.165.50 yearly	These rates are inclusive of sales tax and excise duty.
7. Advance paid to the party	Rs.10 lakh on 3 January 2000.	Rs.10 lakh on 1 May 1999.
8. Date of commencement	3 January 2000. The work should be completed in 90 days.	1 May 1999. One time replacement work to be achieved within 45 days of the date of commencement.

9. **Municipal Corporation coordination**	Municipal Corporation shall help Mysore Lamp Works Ltd. To carry out smooth maintenance, repair works by coordinating with other Govt. agencies like Karnataka Electricity Board and other agencies. GMC shall provide an office having telephone facility to MLW.	Municipal Corporation shall help Mysore Lamp Works Ltd. To carry out smooth maintenance, repairs works by coordinating with other Govt. agencies like Karnataka Electricity Board and other agencies. BMC shall provide an office having telephone facility to MLW.
10. **Responsibility of the agent within 48 hours**	All complaints are to be attended to by MLW within 48 hours of the complaint is recorded by MLW. MLW shall use its own material, and old materials removed from streetlights shall be returned to GMC.	All complaints are to be attended to MLW within 48 hours of the complaint is recorded by MLW. MLW shall use its own material and old materials removed from streetlights shall be returned to BMC.
11. **Default of the bidder**	If the complaint is not attended to within 48 hours, 5% of total expenses per pole per year for maintenance of street light will be recovered from MLW for the first 48 hours and after the first 48 hours, 10% flat thereafter will be recovered from the unit cost.	If the complaint is not attended to within 48 hours, 5% of total expenses per pole per year for maintenance of street light will be recovered from MLW for the first 48 hours and after the first 48 hours 10% for 24 hours and 15% flat thereafter will be recovered from the unit cost.
12. **Contract termination**	Both the parties have the right to terminate the contract with a notice of one-month period. MLW shall be under no liability under any contract for hindrance by war, strikes, lockouts, civil commotion, fire, accidents, epidemics, failure of electricity and orders of Government.	Both the parties have the right to terminate the contract with a notice of one-month period. MLW shall be under no liability under any contract for hindrance by war, strikes, lockouts, civil commotion, fire, accidents, epidemics, failure of electricity and orders of Government.

STREET LIGHTING

Agreement/Terms and Conditions	Hubli-Dharwad Municipal Corporation (HDMC)	Bangalore Municipal Corporation[4] (BMC)
1. Selection process	By calling tenders and detailed discussion thereafter.	By calling tenders and detailed discussion thereafter.
2. Name of the selected party	Bajaj Electricals Ltd. Mumbai (BEL)	Crompton Greaves Ltd. Gujarat, Mysore Lamp Works, Philips, Bajaj Electricals Ltd.
3. Date of agreement	20 December 1999, between Municipal Commissioner and The Bajaj Electricals Limited, Mumbai.	25 October 1999, between Chief Engineer BMC and The Crompton Greaves Limited and the other three parties as mentioned above.
4. Coverage	Entire area of City Corporation of Hubli-Dharwad with 20365 street lights. The work is to be carried out in two phases- one time replacement and annual maintenance, The Party shall carry out the work in accordance with the provisions of Indian Electricity Acts and Rules.	In newly added area and also in old area of BMC with 131600 streetlights. The work is to be carried out in two phases- one time replacement and annual maintenance, The Parties will carry out the work in accordance with the provisions of Indian Electricity Acts and Rules.
5. Total amount of the contract	Rs.68.28 lakh which includes cost of the street light material, cost of the ladders and vehicles, cost of staff, cost of office accommodation and telephone etc. BEL shall be entitled to receive the 1/12th payment of the estimated amount per month.	Rs.525.00 lakh (approx.), which includes cost of the street light material, cost of ladders and vehicles, cost of staff, cost of office accommodation and telephone etc. The parties will be entitled to receive the 1/12th payment of the estimated amount per month.
6. Rates	These rates are inclusive of sales tax and excise duty.	These rates are inclusive of sales tax and excise duty.
FTL tube lights	Rs.220 yearly per light	Rs.273.60 yearly per tube light (Rs.84.54[5]+Rs.189.06[6])
Sodium lamps	Rs.700 yearly per light	Rs.826.57 yearly per sodium light (Rs.542.98+Rs.283.59)
Mercury lamps	Rs.525 yearly per light	Rs.595.59 yearly per mercury light (Rs.312.00+Rs.283.50)
Ordinary bulbs	Rs.25 yearly per light (For marking and surveying)	Rs.165.50 yearly per ordinary bulb (Rs.134.00+Rs.31.50)
7. Advance paid to the party	Rs.10 lakh on 3 January 2000.	

[4] Maintenance of street lights is an obligatory function and it is left to the authorities at municipal level, how they maintain street lights. So the Bangalore Mahanagar Palika has decided to go for privatization. The performance of street light maintenance by the private sector is improved because of no staff problems, no shortage of material, no lack of coordination between municipal and state level authorities, no lengthy procedures to get sanctions, payments, fittings etc.

[5] Rs.84.54 is the annual expenditure per light.

[6] Rs.189.06 is the annual expenditure on establishment per light.

8. Date of commencement	1 May 2000. The period of contract for one year from 1 May 2000 to 28 February 2001.	
9. Municipal Corporation coordination	Municipal Corporation shall help Bajaj Electricals Ltd. To carry out smooth maintenance, repair works by coordinating with other Govt. agencies like Karnataka Electricity Board and other agencies. HDMC shall provide an office having telephone facility to BEL.	Municipal Corporation shall help the private parties to carry out smooth maintenance, repairs works by coordinating with other Govt. agencies like Karnataka Electricity Board and other agencies. BMC shall provide an office having telephone facility to the parties.
10. Responsibility of the agent within 48 hours	All complaints are to be attended by BEL within 48 hours of the complaint is recorded by BEL. BEL shall use its own material and old materials removed from streetlights shall be returned to HDMC.	All complaints are to be attended by the party within 48 hours of the complaint is recorded by the parties. The parties will use its own material and old materials removed from streetlights shall be returned to BMC.
11. Default of the bidder	If the complaint is not attended to within 48 hours, 5% of total expenses per pole per year for maintenance of street light will be recovered from BEL for the first 48 hours and after the first 48 hours 10% for 24 hours and 15% flat thereafter will be recovered from the unit cost.	If the complaint is not attended to within 48 hours, 5% of total expenses per pole per year for maintenance of street light will be recovered from the parties for the first 48 hours and after the first 48 hours 10% for 24 hours and 15% flat thereafter will be recovered from the unit cost.
12. Contract termination	Both the parties have the right to terminate the contract with a notice of one-month period. BEL shall be under no liability under any contract for hindrance by war, strikes, lockouts, civil commotion, fire, accidents, epidemics, failure of electricity and orders of Government.	Both the parties have the right to terminate the contract with a notice of one-month period. The parties shall be under no liability under any contract for hindrance by war, strikes, lockouts, civil commotion, fire, accidents, epidemics, failure of electricity and orders of Government.

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4 DIRECTIONS OF CHANGE

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From a broader perspective, the Constitution (seventy-fourth) Act, 1992 on Municipalities aims at introducing a change in the relationship on the one hand, between the three tiers of government and on the other hand, between the governmental tiers and other stakeholders, principally the private sector. The amendment is founded on the premise that the lower tiers of government have far greater potential than they have so far been able to realize, and is consequently focused on such questions as: what functions are better performed at the lowest tier, i.e., municipalities? What instruments and mechanisms should be in place for financing lower order, municipal services and activities? What new institutional arrangements and partnerships should be forged for improving municipal service delivery and management?

This study conducted in the municipal corporations of three states, Karnataka, Maharashtra, and Punjab has thrown interesting evidence showing, at the outset, wide variations. For instance:

(i) The dependence of municipalities on transfers is largely a function of whether or not the municipalities have access to octroi. In Octroi-levying states, it is invariably low.

(ii) Ad-hocism in transfers is explained by the fact that there is no proper system of assessing the financial needs of municipalities.

(iii) There are two parallel systems of revenue-sharing arrangements between the states and municipalities: (i) sharing of the revenue of individual state-level taxes, and (ii) sharing of a pool of state revenues. In Karnataka, the pool was defined in terms of revenues from all taxes levied, collected and appropriated by the state government, interest receipts, and all duties, fees and other non-loan non-tax receipts levied and collected by the state government under different budget heads.

(iv) Maintenance of fiscal discipline and prudence has emerged as one of the conditions for extending grants to municipalities.

(v) Transfers from central government to municipalities have risen on account of the centrally sponsored schemes such as the Integrated Development of Small and Medium Towns (IDSMT), Mega City, and poverty alleviation programmes, and grants under Article 280(3).

In recent years, the Central government has announced the creation of Urban Reform Incentive Fund (URIF), City Challenge Fund (CCF), and Pooled Financing Fund to assist the state governments and municipalities initiative steps for improving the efficiency of municipal activities which have changed the profile of revenues that municipalities can gain access to.

On public-private partnership arrangements too, interesting facts have emerged from the study of municipal corporations. For one thing, the private sector participation is noted in such activities as sanitation and conservancy, solid waste management, rodent and malaria control, maintenance of street lighting system, computerization of municipal accounts, tax billing, commercial and market complexes, city beautification, and octroi collections. The range of activities suggest that there are no impediments to private-sector participation even in such activities as tax collection, city beautification, and sanitation and conservancy which have large externalities. The field evidence from the three corporations, however, suggests that:

(i) The mechanism for drawing up contracts between municipalities and the private sector are in an infant stage; apart from the absence of uniformity in the nature of the terms of contract, it is far from clear if the contracts are balanced, with both sides being in a win-win situation.

(ii) The principal concession to private contractors in solid waste management project is land which is made available to them on a short or long term lease, often even with the flexibility of using the lease lands as collaterals. The returns to municipal corporations are in the nature of lease rents which, in some cases, provide for periodic adjustment to allow for inflation and a royalty on profits. Although a balance sheet is not possible to be constructed, it is generally assumed that such arrangements are a profit-making venture for the private contractors.

(iii) Public-private sector participation in solid waste management has not resulted in any savings for the municipal corporations as they continue to hold responsibility for the collection and transportation of waste from their jurisdiction.

(iv) In the sphere of tax collection (octroi), the contracts are generally for the duration of one year, where the municipalities (a) fix the rates of octroi on different commodities, (b) determine the exit points, where the private party is required to (a) provide a security deposit, (b) pay for the police force at the check posts, and (c) maintain registers and receipt books as provided for in the Municipal Account Code. A key point is that the estimated realization from octroi varies from city to city and is fixed through negotiations, making inter-city comparisons extremely difficult.

The Central government have announced the creation of three Funds, namely, Urban Reform Incentive Fund (URIF), City Challenge Fund (CCF), and Pooled Finance Fund to assist state governments and municipalities initiate measures that would allow the land and housing to operate on market principles, improve accountability and responsiveness, and enhance the financial viability of municipalities. The Funds are expected to make a major change in the functioning of municipalities.

As for the directions of change, there are several issues. The first issue relates to the overall consideration that *willy nilly* enter into designing any system of intergovernmental transfers. Here, two points must be noted. One: the subject pertaining to municipalities and the related subject of urban development are state subjects in the allocation of subjects between the centre and the states, and it is within the jurisdiction of states to assign to or share with the municipal governments such functional responsibilities and fiscal powers as the states may consider appropriate. The Constitutional Amendment does not alter this fundamental position. Given this, the role of transfers will remain crucially dependent on and linked to the functions and powers that the state government may assign to municipalities. It follows that (a) the role of transfers will vary between states, and (b) the role of transfers will change from time to time, depending on the proclivity of states to alter the nature and extent of the functional and financial domain of municipalities.

Two: The Constitution (seventy-fourth) Amendment Act, 1992 has, in different ways, shaken up the state-municipal functional relation. A point of departure here is the incorporation of three functions in Schedule 12, namely: (a) planning for economic and social development, (b) urban poverty alleviation and (c) urban forestry, protection of the environment and promotion of ecological aspects. Incorporating these functions which have redistributional attributes and intergovernmental spillover effects into the municipal domain is a significant departure from the general fiscal federalism principles and procedures, and consequently has important implications for revenue sharing, grants-in-aid, and revenue assignment arrangements.

As a result, transfers to municipalities have acquired far greater complexity. How to deal with transfers on so many counts together with the introduction of Funds without violating the principles that are implicit in designing an intergovernmental transfer system, viz, equity, predictability, efficiency, and simplicity is a major issue confronting municipalities.

Important lessons have emerged on public-private participation in municipal services. These are:

(i) private sector participation has meant extension of services to areas which were unserved by public provision.

(ii) private sector participation has resulted in improved services (e.g., street lighting) and improved environmental hygiene in those cities where the private sector has taken to conversion of solid waste into energy or compost.

(iii) private sector participation in collection of octroi levies which resulted in extraordinary improvements in revenue collection has reached a plateau, with the result that this function has reverted to the public domain.

(iv) private sector participation in urban services, notwithstanding its spread, is insignificant. As a proportion of the municipal budget, private sector component is very small. Barring a few examples of BOT which are in an infant stage and where private sector investments are alleged to be substantial, other activities are characterized by low scale of operations, low investment (mostly working capital), and low level of technologies.

(v) private sector participation is in the nature of supplementing the services that are offered by the public sector.

(vi) private sector participation is explained more by the inadequacies of the public provision and less by any intrinsic advantage of the private sector in urban services.

(vii) Contracting is a weak link in private sector participation. No attempt has been made to estimate the present value of long term concessions. It is questionable if the contracts are yielding a win-win situation for the private sector and municipalities, and it is arguable if an annual contracting system can bring about sustainable improvement in urban service delivery and management.

The study shows that there exist alternatives to public provision of urban services, and the conventional proposition that public provision is the most appropriate mode for services that carry externalities is gradually losing its context and relevance.

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