

## Acknowledgement

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## LIST OF ACRONYMS

Property Tax	PT
Octroi	OCT
<b>Total Tax Receipts</b>	TTAX
Municipal Properties	MPROP (fees)
MRTP Act	MRTP
Public Health	IPHLTH
Water Supply	IWATER
Drainage	IDRAIN
<b>Total Non Tax Receipts</b>	NTAX
Govt. Grants	GRANT
Plan Grants	PGRANT
<b>Revenue Receipts</b>	RRC
Loans	LOAN
Capital Receipts	CRC
Suspense	SUS
Opening Balance	OPBAL
<b>Total Receipts</b>	TRC
General admin - HRD/Salaries/Pension	XADMIN
Education	XEDU
Sanitation, Drainage	XSANI
Conservancy	XCON
Museum and Gardens	XMU
Public Health	XPHLTH
Fire Fighting	XFIRE
Water supply	XWATER
Street Lighting	XSTREET
Public Works	XPWORK
Revenue Expenditure	RX
Capital Expenditure	CX
Total Expenditure	TX
Public Goods (Core)	PUG1: This Includes sanitation (XSANI), conservancy (XCON), museums (XMU), fire (XFIRE), streets (XSTREET), public works (XPWORK).
Public Goods (extended)	PUG2: This includes in addition to PUG1, public health (XPHLTH), water (XWATER) and education (XEDU).

**A REPORT ON THE LOCAL GOVERNMENT FINANCES IN MMR REGION  
(Study commissioned by MTSU on advice of the World Bank)**

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**0. Preamble: City Regions as Economic Drivers:**

The approach in this study is informed by two points of departure. The process of globalization has, in its wake, brought about many changes in the way in which we conceptualize and model economic processes (at least we should!). This is true especially in an emerging knowledge economy like India, pivoted by the surge in services' sector. What this has meant is that the old nation states and their derivatives, the state level economies no longer completely capture the essence and hence are not the most useful primary economic entities to be considered when one sits down to theorize and design appropriate policy responses. Cities and towns are the primary drivers of modern economies and need to find a suitable place in our schema. Again, the city and town boundaries as defined for the purposes of administration may not be quite so useful and the regions surrounding them, forming a meaningful agglomeration, may be rather more useful as primary focus of any study. Whilst this sentiment is likely to evoke a positive response amongst most, the needed changes – not very evident – indeed are far from easy. One of the chief stumbling blocks – *pons asinorum* – is the unavailability of relevant data. One has cried hoarse about this major lacuna and argued for a data warehouse and indeed an urban observatory. The reconciliation of scattered (over place and time) data as are available presents a daunting task that will unnerve even the most lion hearted. Matters are not helped by the fact that the Municipal Councils report to Directorate of Municipal Administration (DMA) whereas the Municipal Corporations are *supposed* to report to Urban Development Ministry (UDM (II)).

The second point of departure is provided by the third tier of government as enunciated by the 74<sup>th</sup> Constitutional Amendment (CA) promulgated some fifteen years ago. The 74<sup>th</sup> CA was almost an afterthought to the 73<sup>rd</sup>, supposedly giving teeth to the famous Lord Rippon dictum of '*power to the people*'. The local governments were expected to govern with arms length understanding and perform various crucial functions. However, as is well known, the transfer of functions was not matched with commensurate transfer of either the resources or sufficient legislative power (including that required to raise resources on their own).

In the current context, with all the efforts to transform Mumbai, the region – Urban Agglomeration (UA) – that immediately comes to mind is MMR (Mumbai Metropolitan Region). Why MMR is so crucial in more ways than one to the Economy of Maharashtra State will become quite evident from the brief sketch of the MMR region provided elsewhere in the study. Suffice it to say that it contributes overwhelmingly to the state and nation's economy and has been a major growth story in recent times. The

advantages in terms of revenues to the exchequer, of both the state and the nation need to be underlined. Indeed this provides substance to the argument that both the state and the central government should be investing very heavily so as to ensure a stream of attractive returns in the immediate future. We now turn to MMR.

### **I. MMR: Some Basic Facts**

The Mumbai Metropolitan Region (MMR) extends over an area of 4355 sq.km. and comprises 13 municipal councils, 7 municipal corporations and 982 villages. There are 40 planning authorities in the region that are responsible for the micro-level planning of the different areas. Within the MMR region there are 1273 sq. km of urban area of which Greater Mumbai covers 468 sq.km and the other corporations and councils cover 805 sq. km. Rural areas of MMR cover 2614 sq. km. Total population of MMR is 17.81 million. Of this Mumbai alone is home to 11.91 million. Thus, Mumbai which comprises a mere 10.7% area of the MMR region provides shelter to 67% of the population of MMR. From a world-wide list of 13 Municipalities which have population above 7 million, Mumbai ranks 4<sup>th</sup> and from among them has the *highest* population density <http://www.demographia.com/db-world-muni.htm>

Economic activity of any country or region can be gauged from the growth and levels of income. An accurate estimate of the income level in MMR region however, is not directly available from the existing database. The Directorate of Economics and Statistics, Government of Maharashtra collects and compiles Net State Domestic Product (NSDP) figures. There are certain methodological problems regarding allocation of NSDP to individual districts or smaller areas. However, district-wise estimation of District Domestic Product (DDP) under some assumptions was made available by the Government of Maharashtra (GOM, 1984). Since the MMR boundaries do not coincide with the district boundaries, the existing data base necessitates that the total District Domestic Product (DDP) of Greater Mumbai, Thane and Raigad be treated as the income of MMR. Using the district level information, we find that *the annual per capita income in real terms stood at Rs.44816 in 2004-05. The total income in the region accounts for almost 40% of the GSDP of Maharashtra. In fact Mumbai alone accounts for 27% of Maharashtra's GSDP.*

To get some fix on the extent of over estimation due to the fact that we are using district level incomes instead of income of the local bodies we use the proximate measure of population distribution. The total population of the districts of Thane, Raigad and Mumbai Municipal Corporation is 22.25 lakhs. The population of ULBs that fall in the geographical territory of MMR is seen to be 79.57% of the combined population (urban + rural) of Mumbai, Thane and Raigad districts. Now rural incomes are by and large much lower than urban incomes. In MMR however the contiguity aspect means that this differential would be somewhat subdued. If we consider that these villages are predominantly in Raigad and Thane districts (with most of them in Raigad) then considering the average per capita incomes in those two districts and assuming that the populations are samples from the same general population, we solved a simple simultaneous equation system. This gave us the average per capita income for rural and urban population in these districts. By subtracting the incomes so attributable to the rural population we estimated the income for MMR. This turns out to be 88% of the total income gotten by adding the individual districts. Of course this is still a rough guess

estimate. A rigorous procedure would require the MMRDA and Bureau of Economics and Statistics to work together for an exact estimation of MMR income. They would need to identify the codes of the villages in the source data that has been compiled to get the aggregate. For our part, we merely mention this up front and let it be! This is clearly an example of a situation arising because of the fact that our institutions and the data sets are not geared to responding in terms of newer emerging – economically relevant entities – categories such as regions.

Administratively the urban local bodies (ULBs) are under the Urban Development Department (II) but many of their functions happen via quasi-government agencies. The Municipal councils are all under the Directorate of Municipal Administration (DMA) while Municipal Corporations are directly under Urban Development Department (UDD) some of the important state level quasi government agencies that function include: Under the Urban Development Department (I) we have Directorate of Town Planning, Mumbai Metropolitan Regional Development Authority (MMRDA), City and Industrial Development Corporation (CIDCO). Water supply and Sanitation work happens via Maharashtra Jeevan Pradhikaran (MJP). The Maharashtra State Road Development Corporation (MSRDC) functions under the Public Works Department. Maharashtra Housing and Area Development Authority (MHADA), Regional Boards for Mumbai and Konkan and Mumbai Slum Improvement Board, the Slum Rehabilitation Authority (SRA) all function under the Housing Department. In addition to these state level agencies there are also central level agencies that play a development al and regulatory role. Important among them are: Airports Authority of India, National Highway Authority of India, Mumbai Railway Vikas Corporation, Railway Boards.

The large number of parastatal agencies listed out above clearly are a huge logistical challenge when it come to coordination and governance, but they are also a pointer to the fact that finances and activities of the ULBs form only a fraction of the activity and finances of the entire MMR region. To get a holistic picture one would have to understand the functioning of all these agencies and the finances that they bring to the MMR region. While a detailed analysis of each of these parastatal agencies is beyond the scope of this study, the present study attempts to *touch* upon some of the important parastatal agencies. The focus of this paper is on the finances of the ULBs that were sought to be strengthened and empowered by the 74th Constitutional Amendment, which was supposed to have transformed India from a *quasi*-federal to a federal setup proper.

## **II. ULB Finances of MMR Region: A Snapshot Picture**

For purpose of our study we have categorized the urban section of MMR region which we analyse into three sub-groups: The Municipal Corporation of Greater Mumbai (MCGM); the other Municipal Corporations (OMC) and the Municipal Councils (CO). In our study the MMR region as a whole is effectively a sum of MCGM, OMC and CO. As was mandated we have conducted our exercise with the ‘actuals’ rather than budgeted magnitudes. This has meant that we could not go beyond 2004-05. One more year could have been added – using a different sources – but reconciliation with earlier series would have been a major exercise and in our view nothing substantial would have been gained.

On the receipts front we analyse the trend in tax and non-tax revenues. From among the tax revenues we focus on property tax and octroi. We also examine receipts in the form of grants, loans and borrowings (capital receipts). On the expenditure front it is

important to look at the shares of revenue and capital expenditures and within revenue expenditures we identify those categories of expenditure that could be termed as ‘public goods’ where local government intervention is desirable. We have *two definitions of public goods: PUG1 are the core public goods where government intervention is a must. It includes expenditure on Sanitation, Drainage, Conservancy, Museums, Fire, Street Lighting and Public Works. PUG2 includes those goods where private participation can be introduced but government intervention is still justifiable. This is the extended definition of public goods, which in addition to core services includes water, education and health.*

Relative significance of our three sub-groups viz, MCGM, OMCs and COs can be gauged from the share of each of these sub-groups in the receipts and expenditure of the MMR region. These shares for the year 2004-05 in real terms (figures have been deflated using District Domestic Product deflators) are tabulated in table 1 below:

**Table 1**  
**Share of MCGM, OMC and CO in Receipts/Expenditure of MMR in 2004-05**  
**(1993/94 prices: DDP Deflator)**

	(%)		
	share of MCGM in MMR	Share of Corpns Excl. Mumbai (OMC)	Share of Councils (CO)
<b>Receipts</b>			
Property Tax	81.8	15.09	3.11
Octroi	78.2	21.59	0.19
Other Tax (minor taxes like show tax etc.)	78.7	11.13	10.20
Total Tax Receipts	79.6	18.79	1.58
Municipal Properties (fees)	82.9	13.73	3.40
MRTTP Act	53.9	43.08	3.03
Public Health	75.9	21.86	2.23
Water Supply	76.4	22.34	1.22
Drainage	91.7	8.09	0.19
Total Non Tax Receipts	80.9	17.49	1.60
Govt. Grants	11.1	53.23	35.64
Plan Grants	17.1	57.80	25.08
Other Income (minor sources of income primarily interest from invest.)	79.3	18.83	1.92
Revenue Receipts	78.2	18.95	2.84
Loans	33.6	57.95	8.43
Capital Receipts	82.0	15.69	2.26
Total Receipts	75.2	21.50	3.35
<b>Expenditure</b>			
Revenue Expenditure	74.2	22.49	4.67
Capital Expenditure	56.9	37.68	7.58
Total Expenditure	72.9	23.46	5.12
PUG1 (core)	77.9	18.48	5.11
PUG2 (extended)	75.3	21.66	4.21

It is no surprise that the lion’s share in the receipts and expenditure (75%) of MMR is claimed by MCGM.. Looking at specific taxes we find that MCGM contributes

81% of property taxes, 78% of Octroi and 78% of the other taxes like show tax, advertisement tax, tree plantation tax etc. which have been clubbed together under the head of 'other taxes'. MCGM also contributes 80% of non-tax revenues.

MCGMs share in MMR region of revenue and capital expenditures are 74% and 57% respectively. MCGM spends 78% of the MMR's income on core public goods (PUG1) and its share is 75% for PUG2. Thus the influence of MCGM on MMRs' budget is overpowering - to the extent of 75%.

The average share of OMCs in spending and receipts is seen to be about 20%. There is some variation in this category of OMCs. Individual contribution ranges from a maximum of 6.6% for Thane to 1.6% for Ulhasnagar. Table 2 below lists the shares in total receipts for each of the seven corporations in the MMR region.

**Table 2**  
**Share of Total Receipts of Corporations in MMR region in 2004-05**  
**(1993/94 prices: DDP Deflator) (%)**

Corporations	Share in Total Receipts
Mumbai (MCGM)	72.88
Thane	6.64
Navi Mumbai	5.33
Kalyan - Dombivali	4.66
Ulhasnagar	1.62
Bhiwandi-Nizampur	2.63
Mira Bhayandar	2.58

Clearly, MCGM with 72.8% share in MMR's receipts stands out as distinct from the other municipal corporations in MMR region.

The third sub-group of urban MMR is the municipal councils. The aggregate share of expenditures and receipts of councils (CO) in the MMR region, as seen from table 1, is 5%. A listing of the shares of the individual councils in the total receipts of MMR is provided in Table 3.

**Table 3**  
**Share of Total Receipts of Councils in MMR region in 2004-05**  
**(1993/94 prices: DDP Deflator) (%)**

Councils	Share in Total Receipts
Ambernath	0.54
Virar	0.34
Nalasopara	0.48
Navgarh - Manikpur	0.53
Panvel	0.52
Kulgaon-Badlapur	0.42
Vasai	0.11
Khopoli	0.28
Pen	0.08
Uran	0.11
Alibagh	0.15
Matheran	0.06
Karjat	0.05

Individual share of total revenue collections in the councils vary from a maximum of 0.54% in Ambernath to a minimum of 0.05% in Karjat. The above reveals a picture along

expected lines, with MCGM predominant (even within corporations) except in case of grants, where there is a slight inversion – one would expect grants to the weakest to form the highest share – with the share of the OMCs being greater than Cos.

We examine the dynamic picture – trends and key ratios - how they have evolved over the last five years and the signals that they send out. We look at the broad picture for the MMR region as a whole and for the three sub-groups that we have identified above (MCGM, OMC and CO).

### III.0. ULB Finances of MMR Region: The Dynamic Overview

Table 4 below gives us a picture of the significance of the various revenue sources in MMR region and how their significance has undergone a change during the last five years.

**Table 4**  
**Composition of Receipts: MMR Region (%)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
PT/OWN	23.38	19.96	18.25	18.83	19.03
OCT/OWN	38.34	37.21	40.76	40.62	40.78
NTAX/TRC	27.90	30.36	29.00	27.09	26.13
TTAX/TRC	56.88	52.33	54.56	52.69	50.92
OWN/TRC	84.78	82.68	83.56	79.78	77.05
GRANTS/TRC	1.23	1.29	1.06	1.17	1.41
LOANS/TRC	5.79	6.30	1.43	1.06	1.20
CRC/TRC	0.65	1.39	5.03	6.85	7.55

Own sources of revenue, both tax and non-tax together (OWN/TRC) constituted 85% of total receipts in 2000/01. This share has reduced by 8 percentage points to reach 77% in 2004/05. Looking at specific taxes, the share of Property Tax (PT/TRC) in own receipts shows a reduction of 4 percentage points while the share of Octroi (OCT/TRC) has in fact increased from 38% to 40%. The share of non-tax revenues had increased to reach 30% in 2001/02 but since then it has shown a steady decline. However, non-tax revenues by nature are not progressive and hence expected to show a declining share. The reduction in the share of property taxes is a cause for concern. We shall look at this tax in some detail later, but we must mention here that one would expect property tax to become a dominant source of local body revenues. That it is not so is a pointer that much needed rationalization is called for, especially in the context of booming real estate prices. Also the fact that a ‘bad’ tax like octroi is increasing in importance is worrying to say the least. The share of CRC in total receipts (CRC/TRC) has risen from a mere 0.65% in 2000/01 to 7.25% in 2004/05. This clearly points to the fact that own sources of revenue have proved to be inadequate to meet growing expenditure needs.

The growth rates and buoyancy for the various components of revenue have been tabulated in Table 5 below.

**Table 5**  
**Growth Rate and Buoyancy of Receipts of MMR Region (urban)**

(93-94 prices: DDP deflator)

	<b>Growth Rate (%)</b> (2000/01 to 2004/05)	<b>Buoyancy (%)</b> (2000/01 to 2004/05)
PT	-0.06	0.07
OCT	6.0	0.68
TTAX	6.0	0.72
MPROP (fees)	10.0	1.12
MRTP	19.0	2.13
IPHLTH	11.0	1.16
IWATER	4.0	0.44
IDRAIN	-0.80	-0.04
NTAX	5.0	0.53
GRANT	9.0	1.12
PGRANT	8.0	1.10
RRC	6.0	0.74
LOAN	-39.0	-4.10
CRC	70.0	7.54
SUS	6.0	0.70
OPBAL	27.0	3.19
TRC	7.8	0.90

Revenue from non-tax sources (NTAX) has recorded a growth rate of 5% and a buoyancy of 0.53. Low growth rate and buoyancy are to be expected in case of non-tax revenues due to their intrinsic nature. However, the major taxes i.e. property tax and octroi have recorded a growth rate of -0.06% and 6% respectively over the last five year period. The buoyancy of both these taxes are under unity, with that of property taxes being as low as 0.07. Clearly, revenue collection from property tax is well below potential.

From among the external sources of revenue, loans have shown a negative growth rate, grants a growth rate of 9% and capital receipts (CRC) has shown a very high growth rate of 70%. Attention was drawn to this increase in borrowings even previously when discussing the revenue composition. *Borrowings, if used for infrastructure and other capital investments is justifiable. However, if they are used for revenue expenditures it would soon lead to spiraling debt payments.* A fair idea of where these borrowings are being directed will be obtained when we look at the expenditure side of the balance sheet.

Two interesting, but worrying figures to note from the table 5 above are the growth rate of suspense accounts (SUS) and that of opening balance (OPBAL). Suspense accounts are *ad hoc* in nature and funds are deposited in this account till their specific heads are located. Best public finance practices require that there are processes in place that are efficient so that these funds are kept to the minimum. A growth rate of 6% for SUS shows that at the end of the financial year the ULBs have funds with them, which they are unable to identify the use of. This calls for a functional review of inter and intra departmental processes to instill some efficiency and accountability. Also, a growth rate of 27% of the opening balance – i.e. unspent funds which are carried over from the previous year - is a pointer to the poor absorptive capacity of the ULBs.

Having obtained a fair idea of the receipts side of the budget we turn to the expenditure side where we examine the shares of revenue and capital expenditures. Table 6 below lists these shares:

**Table 6**  
**Composition of Expenditure of MMR Region (%)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
RX/TX	61.25	62.33	61.61	57.82	54.92
CX/TX	31.23	22.43	17.40	18.36	19.27
RX/RRC	71.70	73.88	71.83	71.19	67.90
PUG1/TX	24.18	24.33	23.25	23.03	21.47
PUG2/TX	50.28	50.01	48.56	47.85	44.04

The share of revenue expenditure in total expenditures (RX/TX) was as high as 61% in 2000/01. Its share continued to remain at this level till 2002/03. Since 2003/04 the share has seen a reduction (a welcome sign), but continues to remain as high as 55% in 2004/05. The share of capital expenditure (CX/TX) has shown a sharp decline from 31% in 2000/01 to 19% in 2004/05 i.e. a decline of 12 percentage points. This is certainly worrying. The share of revenue expenditure in revenue receipts (RX/RRC) indicates the extent of revenue expenditure that is being funded from revenue receipts i.e. without recourse to borrowing. This ratio has declined from 71.7% in 2000/01 to 67.9% thus indicating that there has been a shift towards using borrowings to fund the revenue expenditure. This pointer is worrying – markets can and should be accessed for purposes of capital expenditures and not for spending on revenue expenditures. What further adds to our worry is that the share of spending on public goods both, core and extended (PUG1 and PUG2), show a declining trend. Table 7 below reports the growth rate of various expenditure categories and their buoyancy:

**Table 7**  
**Growth Rate and Buoyancy of Expenditure of MMR Region (urban)**  
(93-94 prices: DDP deflator)

	<b>Growth Rate (%)</b> (2000/01 to 2004/05)	<b>Elasticity (%)</b> (2000/01 to 2004/05)
XADMIN	3.7	0.39
XEDU	7.0	0.81
XSANI	8.0	1.00
XCON	4.0	0.48
XMU	2.0	0.25
XPHLTH	0.3	0.05
XFIRE	3.0	0.36
XWATER	6.0	0.74
XSTREET	0.9	0.16
XPWORK	4.9	0.55
RX	5.0	0.58
CX	-2.7	-0.16
TX	7.8	0.90
PUG1	5.1	0.59
PUG2	4.9	0.57

Aggregate expenditures (TX) show a growth rate of 7.8% with revenue expenditures (RX) showing a growth rate of 5% and capital expenditures -2.7%. A negative buoyancy of -0.16% shows that the spending on capital expenditures have in fact been axed with rising incomes. The elasticity of the two categories of public goods that we have defined (PUG1 and PUG2) show a buoyancy of only 0.6 thus pointing out that even within revenue expenditures, the spending on public goods has not kept pace with their rising incomes. To get some impression of the actual amounts that are being diverted to these functions we tabulate the expenditure in per capita real terms. The figures have been deflated using the DDP deflator (Table 8).

**Table 8**  
**Per Capita Expenditure of MMR Region (urban)**  
(93-94 prices: DDP deflator) (Rs.)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
XADMIN	169	175	188	176	203
XEDU	152	146	172	198	189
XSANI	119	109	123	134	166
XCON	179	168	176	187	208
XMU	16	16	15	17	17
XPHLTH	183	173	174	177	183
XFIRE	18	18	18	19	20
XWATER	235	232	242	276	297
XSTREET	45	42	39	43	46
XPWORK	148	166	163	201	173
XMISC	75	91	117	88	121
RX	1340	1335	1427	1516	1623
CX	686	491	422	503	590
XSUS	146	201	284	401	633
CBALANCE	-6	94	184	188	81
TX	2210	2163	2346	2641	2963
PUG1	525	518	535	601	630
PUG2	1096	1069	1122	1252	1299

Table 8 shows that in real per capita terms the local governments in MMR region show total expenditure (TX) ranging from Rs.2000 to Rs.3000. TX has shown a rise of Rs. 750 per capita in the five year period under study. Revenue expenditures (RX) per capita have shown an increase of Rs. 283 and capital expenditures (CX) a reduction of almost Rs.100.

Undoubtedly the reduction in per capita spending on capital expenditures in absolute terms is a matter of concern. However, while reading these numbers we need to bear in mind that ULBs are not the only route of capital expenditures in MMR. In fact much of the capital expenditures in MCGM in particular are routed via parastatal agencies of the state and the central government which were referred to earlier in the study. Of course, whilst major capital expenses could be funded by 'others' it is expected that small expenditures of 'capital' nature, especially with regards to PUG1 and PUG2 should be borne by ULBs. This is clearly not happening and to the extent the hindrance comes from scarcity of revenues, efforts to raise revenues deserve serious attention and action. One general caveat needs to be entered though - these are per capita magnitudes and so a critique about their movement over time has to be with reference to some

benchmarks that themselves are based on the absolute size. After all, scale economies are involved that should not be lost sight of.

Having obtained a birds eye view of aggregate finances of the MMR region as a whole, we turn to the three sub-groups or components that we identified viz., Municipal Corporation of Greater Mumbai (MCGM), Other Municipal Corporations (OMC) and Municipal Councils (CO).

### III.I. Fiscal Scenario: MCGM

Mumbai Municipal Corporation is the largest contributor to revenues of MMR region. In Table 1 above we saw that that MCGM alone constituted as much as 75% of the receipts and expenditure that was incurred in the MMR region. In this sub-section we delve a little further and look at the various components of receipts and expenditure of MCGM.

#### *MCGM Receipts*

Some key ratios pertaining to MCGM similar to those that were computed for MMR region in the previous section and the various revenue sources in real per capita terms are tabulated in Table 9 below:

**Table 9**  
**Composition of Receipts: Mumbai Municipal Corporation (MCGM) (%)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
PT/OWN	24.65	20.47	18.77	19.28	19.38
OCT/OWN	35.32	34.14	38.94	39.30	39.97
OWN/TRC	89.57	86.60	87.81	84.84	81.30
NTAX/TRC	31.15	33.97	31.50	29.56	27.82
TTAX/TRC	58.42	52.62	56.31	55.28	53.48
CRC/TRC	0.51	1.50	5.97	7.05	8.14
GRANTS/TRC	0.61	0.80	0.51	0.38	0.26
LOANS/TRC	5.93	6.99	1.24	0.52	0.58
<b>Per Capita (1993/94 prices: DDP Deflator)</b>					
PT	638	479	476	527	569
OCT	914	799	987	1074	1173
OTHTAX	136	144	163	180	189
TTAX	1687	1423	1626	1780	1931
MPROP	175	201	219	220	255
IPHLTH	14	16	17	21	18
IWATER	399	398	403	418	421
IDRAIN	299	291	256	273	283
NTAX	900	918	909	952	1004
GRANT	11	18	13	9	7
PGRANT	6	4	1	3	3
OTHINC	32	45	52	37	139
RRC	2637	2408	2602	2781	3084
LOAN	171	189	36	17	21
CRC	15	40	172	227	294
SUS	0	0	0	0	0
OPBAL	0	4	34	146	157
TRC	2889	2703	2887	3220	3611

Table 9 shows that MCGMs dependence on Octroi, a source of revenue that is widely accepted to be problematic and a source of corruption and delays, continues. Its share has in fact increased. To repeat, this implies difficulty in removal of this tax, which by consensus is deemed to be a 'bad' one. The share of Octroi in own receipts of MCGM has risen from 35% in 2000/01 to 40% in 2004/05. In per capita terms it has risen by Rs. 260 from Rs. 914 to Rs.1173.

The share of own receipts of MCGM (i.e. tax and non-tax sources) in total receipts has shown considerable decline from 89% to 81%. Of the components of own revenues we are not surprised at the reduction in the share of non-tax revenue from 31% to 28% as these sources of revenue i.e. fees etc. are not progressive by nature and hence their share is not expected to show much of an increase. However, the reduction in the share of total tax revenues in total receipts (TTAX/TRC) from 58% in 2002/03 to 53% in 2004/05 is disturbing.

Yet another worrying feature that is noticed is that the share of capital receipts in total receipts (CRC/TRC) has grown from a mere 0.5% to 8%. In real per capita terms it has grown from a mere Rs.15 to Rs.294. As mentioned previously, accessing the capital markets has become a necessity to fund the large infrastructure projects. However, one must not lose sight of the fact that these funds do add to the debt liability and hence its usage must be closely monitored. *The temptation to use some proportion of these borrowed funds for meeting the escalating revenue expenditures is very strong. The untapped potential in tax sources due to loopholes in the system and collection inefficiencies must not be lost sight of. One such tax where collections are well below potential in MCGM are property taxes and it is to some facts and figures pertaining to property tax that we now turn.*

#### *Property Tax*

Property taxes are based on the Annual Rateable Value (ARV). A study by Karnik et. al, (2001) pointed out the benefit of moving over to the capital value based system. It is known that theoretically – under competitive conditions and flex markets – both capital and annual value bases are equivalent but differences do arise as each system has its own quirks and idiosyncrasies. The rental value system places considerable amount of discretionary powers in the hands of the assessing officers which results in a lack of transparency. Revenue collections have been adversely affected because of the rent control restrictions. Table 9 above shows that property taxes constituted only 25% of own source revenue of MCGM in 2000/01. Due to the well known problems of the Rent Control Act even this share has further declined to less than 20% in 2004-05.

Table 10 below shows the growth rate in number of properties and in the rateable values in the island city of Mumbai and the Western and Eastern suburbs.

**Table 10**  
**Annual Growth Rate in the Annual Rateable Value (ARV) in City and Suburbs of Mumbai**

City	No.of Properties	Residential ARV	Non-Residential ARV	Exempted ARV	Total ARV
2002-03	0.21	12.27	2.66	41.42	5.76
2003-04	0.33	9.13	6.00	4.10	6.73
2004-05	0.23	10.85	-14.29	45.86	-6.15
<i>Average</i>	<i>0.25</i>	<i>10.75</i>	<i>-1.88</i>	<i>30.46</i>	<i>2.11</i>
<b>Western Suburbs</b>					
2002-03	10.48	13.43	6.49	6.10	10.46
2003-04	4.08	9.44	20.59	-4.81	13.70
2004-05	-8.16	12.35	8.07	20.22	10.63
<i>Average</i>	<i>2.13</i>	<i>11.74</i>	<i>11.72</i>	<i>7.17</i>	<i>11.59</i>
<b>Eastern Suburbs</b>					
2002-03	0.77	10.77	7.31	10.61	9.20
2003-04	6.09	11.28	12.85	6.40	11.87
2004-05	-3.77	15.31	9.52	3.41	12.46
<i>Average</i>	<i>1.03</i>	<i>12.45</i>	<i>9.89</i>	<i>6.81</i>	<i>11.18</i>

The annual rateable value is a combination of two factors: number of properties and the market rent. In the City, the rents are more or less fixed at very low levels and also not too many new properties are coming up there. This is reflected in the low rate of growth of properties (0.25%). The growth rate of rateable value for all properties in the city is fairly low at 2.11%. In contrast new properties in the suburbs are taxed at the currently prevailing "market" rents. Hence the rate of growth of rateable value is much higher. The growth rate of rateable value is 11% in the Western and Eastern suburbs. The growth rate of rateable value is seen to be higher in the eastern suburbs for residential properties and in the western suburbs for non-residential properties. These are clearly not in sync with the real estate prices that the rateable values are supposed to capture. The negative rates in some cases and the large number of exemptions are also problematic to explain. The only rationalization we can offer is to say that some modifications in the rent control act have affected some persons who have lobbied to get themselves be exempted. This tax we may say is another illustration of how a complicated tax is an avoidable way of doing things.

In addition to the flaw in the system of property tax assessment, there is the added problem of collection inefficiency. The share of collection vis-à-vis the demand provides us with a proximate measure of efficiency. The trend pattern of this measure of efficiency (inefficiency) has been listed in Table 11A.

**Table 11A**  
**Property Tax: Collection Efficiency**

	Demand (Lakhs)	Collection (Lakhs)	Efficiency (%) (collection/demand)
2001-02	240985.51	103289.26	48.36
2002-03	253889.67	122784.88	48.36
2003-04	297081.82	128198.23	43.15
2004-05	334679.90	141460.55	42.27

Table 11A shows that the ratio of collections to total demand (i.e. the assessment) was as low as 48% in 2001-02. This has further declined to 42% in 2004-05. A back of the envelope calculation shows that even if collection efficiency were maintained at the 2001/02 level of 48% collections would be Rs. 160646 lakhs i.e higher by Rs. 19186 lakhs i.e. 3% of total receipts of MCGM!

Thus the receipts side of the MCGM budget shows a declining trend in tax collections and greater focus on borrowings i.e. capital receipts. Just to provide some background as to where the property tax is emanating from (various user categories) we give below a table as an aside, without comment.

**Table 11B**

**Distribution of Properties by Number, Carpet Area and Tax Paid According Use Categories (2001)**

User category	Number of Properties	Total Carpet Area (in sq. mt.)	Annual Property Tax (in Rs.)
Residential (U2)	64247 (65.8%)	23970912 (69.2%)	1,32,92,55,434 (67.6%)
Industries/Factories (U3)	11738 (12.0%)	7046827 (20.3%)	36,52,06,796 (18.6%)
Shops (U4)	19410 (19.9%)	1650524 (4.8%)	8,57,69,698 (4.4%)
Offices (U5)	1704 (1.8%)	656422 (1.9%)	5,70,66,402 (2.9%)
Hotels (4 Star or lower) and Offices (U6)	426 (0.4%)	880007 (2.5%)	8,05,09,518 (4.1%)
Hotels (5 star) (U7)	68 (0.1%)	435204 (1.3%)	4,72,64,180 (2.4%)
<b>Total</b>	<b>97593 (100.0%)</b>	<b>34639896 (100%)</b>	<b>1,96,50,72,028 (100%)</b>

Source: Karnik et. al. (2001): Rationalisation of Property Tax in Mumbai Municipal Corporation". Final Report submitted to the Brihanmumbai Municipal Corporation

As pointed out previously, judicious use of borrowings is essential. A scrutiny of the expenditure side of the MCGM budget would enable us to judge how prudently the government has utilized its resources. The broad share of revenue and capital expenditures in total expenditures are tabulated in Table 12.

**Table 12**

**Composition of Expenditure: Mumbai Municipal Corporation (MCGM) (%)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
RX/TX	63.91	64.83	65.07	60.14	55.75
KX/TX	32.01	21.36	14.80	14.59	15.54
RX/RRC	57.60	63.33	64.04	61.63	58.01
XADMIN/RX	12.29	13.02	13.01	11.09	12.32
PUG1/TX	25.87	25.95	25.31	24.60	22.72
PUG2/TX	53.17	52.44	51.78	50.27	45.30

With all the qualifications, the trends in all the cases are clearly in the wrong direction and call for a reversal, if better quality and magnitude of civic services are to be provided to the citizens. Table 12 shows that the share of revenue expenditures in total expenditures (RX/TX) rose till 2002-03 when it crossed the 65%. Since 2003-04 a significant reduction of 5 percentage points every year has been noticed in the last two

years. This is certainly a move in the right direction. However, the share of revenue expenditure in revenue receipts (RX/RRC) shows a declining trend, thus indicating that less of revenue expenditures is being funded from revenue receipts. In other words more of it is being funded from borrowings or capital receipts. This is a worrying statistic.

Further, with the share of revenue expenditures declining one would have expected capital expenditures to show a rising trend. This, however, is not to be seen. In fact the share of capital expenditures in 2004/05 at 15.5% is less than half of its share in 2000/01 (32%).

What is even more disconcerting is the share of suspense accounts in total expenditures. As was mentioned previously, these suspense accounts refer to funds which have been kept – in an ad-hoc manner – under this account due to uncertainty about where it is to be directed or expenditures which are *under* process. In 2004/05 as much as 25% of the total expenditure was recorded as being under suspense accounts. Clearly, such *ad hocism* reflects poorly on the efficiency of the administrative processes. There is a further problem that in presence of such a large amount in suspense account, our comments on the ‘other’ ratios and trends may be incorrect to some extent.

Having obtained the broad picture we took a closer look at the functional categories of expenditure. The share of each of these constituents in total expenditure have been tabulated in Table 13 below.

**Table 13**  
**Composition of Total Expenditure (MCGM) (%)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
XADMIN	7.86	8.44	8.46	6.67	6.87
XEDU	8.40	8.05	8.97	8.97	7.17
XSANI	6.79	6.28	6.76	6.55	7.29
XCON	8.34	7.73	7.46	6.95	6.62
XMU	0.74	0.75	0.70	0.62	0.52
XPHLTH	10.25	9.74	9.02	8.19	7.32
XFIRE	0.88	0.91	0.85	0.78	0.70
XWATER	8.65	8.70	8.47	8.51	8.09
XSTREET	1.49	1.48	1.28	1.33	1.30
XPWORK	7.62	8.79	8.26	8.37	6.29
PUG1/TX	25.87	25.95	25.31	24.60	22.72
PUG2/TX	53.17	52.44	51.78	50.27	45.30

As stated previously the various expenditure heads have been grouped together as core public goods and services (PUG1) and the extended version (PUG2). We find that the share of core services (PUG1/TX) has remained more or less stable till 2002-03. In 2003-04 there was a one percentage point cut and in 2004-05 there has been a two percentage point reduction.

When we consider the share of the extended definition of public goods (PUG2/TX) i.e. including education, health and water in addition to the core services, we find that its share has consistently reduced by one percentage point every year till 2003/04. In the last year i.e. 2004-05 there has been the sharpest dip with its share reducing by 5 percentage points. The expenditure on various functional categories in per capita (real) terms is tabulated in Table 14 below:

**Table 14**  
**Per Capita Real Expenditures: MCGM**  
(1993/94 prices: DDP Deflator) (in Rs)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
XADMIN	187	199	217	190	220
XEDU	200	189	230	256	230
XSANI	161	148	173	187	234
XCON	198	182	191	198	212
XMU	18	18	18	18	17
XPHLTH	244	229	231	233	235
XFIRE	21	21	22	22	23
XWATER	206	205	217	242	260
XSTREET	35	35	33	38	42
XPWORK	181	207	212	239	202
XMISC	68	93	124	91	115
RX	1519	1525	1666	1714	1789
CX	761	503	379	416	499
XSUS	149	227	326	508	834
CBALANCE	-118	36	147	163	32
TX	2376	2352	2561	2849	3209
PUG1	615	610	648	701	729
PUG2	1264	1234	1326	1432	1454

A couple of interesting points that the above table makes is that (1) expenditure under suspense accounts i.e. funds that have been kept *ad hoc* have increased from Rs.149 in 2000/01 in per capita real terms to Rs. 834 in 2004/05 i.e. a 5 fold increase (2) expenditure on health (XPHLTH) has reduced in per capita real terms from Rs. 244 in 2000/01 to Rs. 235 in 2004/05 (3) per capita expenditure in real terms on capital expenditure shows a reduction in absolute terms from Rs. 761 in 2000/01 to Rs. 499 in 2004/05. As an aside, we may mention here that whereas we have said enough about (1) and (3) elsewhere, as far as (2) goes, we believe, that there is a greater need to reorganize the health care system – along the lines of NHS in UK – rather than merely increase the expenditure on this count.

Given that MCGM constitutes as much as 75%-80% of MMRs receipts and expenditures, it was to be expected that receipts and expenditure pattern of MMR is replicated when we analyse that of MCGM. It would, however, be interesting to note the difference, if any, in the expenditure and receipts pattern of the other municipal corporations (OMC) and municipal councils (COs) to which we now turn.

### III.2 Other Municipal Corporations (OMCs)

Municipal Corporations other than MCGM have been clubbed together as group - Other Municipal Corporations (OMCs). The share of various components of receipts for OMCs as has been computed for MCGM, have been tabulated in Table 15. It would be interesting to see if there is any difference in composition vis-à-vis the MCGM.

**Table 15**  
**Composition of Receipts: Other Municipal Corporation (OMC) (%)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
PT/OWN REC.	14.30	15.61	13.79	15.07	15.60
OCT/OWN REC	60.54	58.27	54.45	51.55	48.16
OWN REC./TRC	67.80	70.41	70.64	64.43	65.11
NTAX/TRC	14.93	16.28	20.43	19.41	21.01
TTAX/TRC	52.88	54.13	50.20	45.01	44.10
CRC/TRC	0.85	0.97	1.10	6.25	5.44
GRANTS/TRC	2.75	1.88	2.70	2.93	4.05
LOANS/TRC	5.40	3.96	2.49	3.05	3.52
<b>Per Capita (1993/94 prices: DDP Deflator) (in Rs.)</b>					
PT	193	206	196	226	263
OCT	819	768	772	772	812
OTHTAX	43	40	40	49	67
TTAX	1055	1013	1008	1047	1143
MPROP	53	54	86	93	106
IPHLTH	7	7	9	11	13
IWATER	176	179	220	244	309
IDRAIN	39	40	46	53	63
NTAX	298	305	410	451	544
GRANT	47	24	39	52	83
PGRANT	7	12	15	16	21
OTHINC	24	26	61	77	83
RRC	1432	1379	1533	1643	1874
LOAN	108	74	50	71	91
CRC	17	18	22	145	141
SUS	216	187	213	235	278
OPBAL	223	214	190	230	206
TRC	1995	1872	2007	2325	2591

The share of property tax in own receipts has shown an increase of one percentage point in the last two years. The share of Octroi on the other hand has reduced significantly from over 60% in 2000/01 to 48% in 2004/05. This pattern is in contrast to that of MCGM whose share of property tax in own receipts has declined and that of octroi has increased. However the 'largeness' of MCGM means that this trend is simply overpowered by when it comes to the overall effect in MMR.

Conforming to pattern observed for the MMR region and MCGM we find that the share of tax revenues in total receipts show a declining trend. However, in contrast to MCGM, finances of OMCs show an increasing trend in the share of non-tax receipts. For OMCs, the share of own tax revenues in total receipts has shown a fall of 6 percentage points in 2003/04. In 2004/05 it has been able to regain its share by only one percentage point. A common feature between the revenue composition of MCGM and OMC that comes across very noticeably is the significant rise in the share of capital receipts. The share of capital receipts (CRC/TRC) for OMCs has risen significantly from a mere 0.85% in 2000/01 to 5.44% in 2004/05.

Having obtained a fair idea of the receipts, we now turn to the expenditure side of the budget for OMCs.

**Table 16**  
**Composition of Expenditure: Other Municipal Corporation (OMC) (%)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
RX/TX	52.58	53.79	49.88	51.04	52.50
KX/TX	29.33	27.73	27.91	31.64	31.95
RX/RRC	73.28	73.01	65.33	72.22	72.56
XADMIN/RX	13.01	13.01	13.49	13.25	12.97
PUG1/TX	17.79	17.73	15.20	17.52	16.75
PUG2/TX	40.95	41.96	37.81	41.09	40.45

Even a cursory look at Table 16 above suggests that OMCs as a group have maintained a fairly stable composition of their expenditures. In contrast to MCGM, which showed a sharp cut in the share of capital expenditure, the share of capital expenditures for OMC has in fact shown a small improvement of two percentage points. In case of core public goods, the share of total expenditure OMCs record a much smaller cut in the share of PUG1. In case of PUG2 the share has in fact been maintained by OMCs.

A clearer and a more complete picture necessitates that we take a look at the levels of expenditure on various functional categories. Table 17 below looks at the expenditures on various functional categories in real per capita terms.

**Table 17**  
**Per Capita Real Expenditures in 2004-05: OMCs**  
(1993/94 prices: DDP Deflator) (in Rs.)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
XADMIN	137	131	135	157	176
XEDU	63	66	61	90	117
XSANI	37	34	22	27	30
XCON	145	141	148	169	204
XMU	14	12	10	16	18
XPHLTH	65	63	62	70	84
XFIRE	11	11	12	14	16
XWATER	335	324	331	389	414
XSTREET	66	59	52	53	54
XPWORK	81	75	61	129	112
XMISC.	96	90	107	74	136
RX	1049	1007	1001	1187	1360
CX	585	519	560	736	828
XSUS	136	153	206	187	204
CBALANCE	225	193	240	216	199
TX	1995	1872	2007	2325	2591
PUG1	355	332	305	407	434
PUG2	817	786	759	955	1048

Table 17 shows that per capita real expenditure on administration has risen by Rs. 39. While this may not be a very sharp hike but it certainly stands in contrast to the reduction on sanitation which shows a reduction in the already low level of expenditure from Rs.37 in 2000/01 to Rs.30 in 2004/05. The expenditure on streets too has shown a reduction from Rs.66 per capita to Rs.54 during the five year period.

The expenditure categories on which there has been a significant hike include education (XEDU), conservancy (XCON), water (XWATER) and public work (XPWORK). Per capita expenditure on public health (XPHLTH) has increased from Rs. 65 in 2000/01 to Rs.84 in 2004/05. However, the amount which is a mere 3% of the total expenditure certainly requires to be hiked further.

The broad categories of revenue expenditure shows a hike in per capita terms of Rs.311 and that of capital expenditures a hike of Rs.243. *Prima facie* these statistics are certainly better than that of MCGM, which has registered a decline in absolute terms. However, as mentioned previously, capital expenditure in MCGM happens via many external agencies/programs like MUTP, MHADA, SRA, MMRDA etc.

During the five year period under consideration the other municipal corporations (OMCs) on the receipts side show a lower share of octroi and no significant hike in property taxes leading to a fall in the share of total tax revenues in total receipts. While the share of non-tax revenues and grants has increased, these revenue sources have proved to be inadequate for OMCs for meeting the growing expenditure demands leading to a hike in the share of capital receipts. On the expenditure side, the share of core public services in total expenditures has shown a marginal reduction where sanitation and streets are the two categories that have suffered most. The share of the extended definition of public goods (PUG2) has been maintained essentially due to increase in expenditure on education and water. Expenditure on public health services has shown some increase but it continues to be at a very low level.

Finally, we analyze the budget of Municipal Councils (COs) within the MMR region along similar lines as was attempted for MCGM and Other Municipal Corporations (OMC).

### **III. 3 Municipal Councils (CO)**

Municipal councils form the smallest administrative unit within the MMR region. Financially they are more dependent on the state government than the municipal corporations. Octroi which forms an important source of revenue for local bodies has been banned for municipal councils who receive Octroi grants in lieu of this tax from the state government. Along the lines of our analysis above for municipal corporations we analyse the sources of revenue and expenditure for municipal councils.

**Table 18**  
**Receipts: Municipal Councils (CO) (%)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
PT/OWN	59.24	58.11	57.56	55.29	48.88
OCT grants/OWN	132.60	129.66	125.69	137.68	86.35
OWN/TRC	24.44	24.07	23.41	21.74	27.54
NTAX/TRC	8.64	8.72	8.15	8.08	12.28
TTAX/TRC	15.81	15.36	15.26	13.66	15.26
CRC/TRC	4.22	0.78	1.79	4.92	4.98
GRANTS/TRC	11.65	12.70	7.49	11.69	16.15
LOANS/TRC	3.98	0.12	0.43	3.16	3.25
<b>Per Capita (1993/94 prices: DDP Deflator) (in Rs.)</b>					
PT	186	185	193	203	248
OTHTAX	17	18	26	28	33
TTAX	203	203	219	231	281
OCT grants	417	412	423	507	439
MPROP (fees)	31	36	37	49	120
IPHLTH	3	4	4	4	6
IWATER	56	52	58	66	77
IDRAIN	5	6	5	2	7
NTAX	111	115	117	137	228
GRANT	137	144	95	172	256
PGRANT	13	24	13	26	43
OTHINC	28	32	45	48	38
RRC	910	930	912	1120	1285
LOAN	52	2	6	54	61
CRC	55	10	26	83	93
SUS	142	172	200	158	132
OPBAL	181	209	299	331	336
TRC	1288	1321	1436	1693	1846

Property taxes comprise almost 50% of the own source revenue for COs. Its share has reduced by almost 10 percentage points in the five years. This clearly shows that the system of property taxes is plagued with problems and needs an overhaul. Although in absolute real per capita terms there has been an increase of Rs 60 in the five year period (Table 18).

The share of octroi grants in own receipts has reduced from 132% of own receipts to 86%. In real per capita terms Octroi grants have shown a sudden hike in 2003/04 but has fallen back to its previous level in 2004/05. Since these are in-lieu grants, the responsibility of this drop has to be squarely blamed on the State government, which must compensate the councils fully. Of course, given the fiscal stress that the state government itself is facing, it would appear that, unless made mandatory, the state government will continue to cut corners and try to pass on as little as possible.

The share of non-tax revenue in total receipts has risen from 8% to 12%. This has occurred primarily on account of the increase in fees from municipal properties

(MPROP) which in real per capita terms has risen from Rs.31 in 2000/01 to Rs.120 in 2004/05.

Having looked at the receipts side of the budget of Councils (CO) we take a look at the expenditure side.

**Table 19**  
**Expenditure: Municipal Councils (CO)**

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
RX/TX	47.79	50.05	44.09	44.31	49.97
KX/TX	22.81	16.91	19.75	25.93	29.48
RX/RRC	67.59	71.12	69.47	66.94	71.86
XADMIN/RX	19.34	16.29	16.57	14.21	13.71
PUG1/TX	21.83	23.13	19.48	19.80	21.23
PUG2/TX	34.76	36.15	31.13	31.93	36.05

The share of revenue expenditure in total expenditure has risen from 47.7% to 49.9% during the five years. The share of capital expenditure has increased more than that of revenue expenditure (from 22.8% to 29.4%). The ratio RX/RRC points out that almost 71% of the revenue expenditure is funded from revenue receipts while 30% of it is funded from borrowings. This proportion is similar to that of the other corporations and that of MCGM. A clearer picture would emerge when we look at the levels in per capita (real) terms.

**Table 20**  
**Per Capita Expenditures: Councils (CO)**  
(1993/94 prices: DDP Deflator) (in Rs.)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
XADMIN	119	108	105	107	127
XEDU	19	15	15	25	43
XSANI	11	8	13	14	17
XCON	117	123	126	144	167
XMU	7	8	10	12	17
XPHLTH	27	28	27	30	40
XFIRE	10	11	10	11	11
XWATER	121	130	126	151	191
XSTREET	52	48	46	60	62
XPWORK	83	108	77	94	118
XMISC	49	76	81	103	131
RX	616	663	634	750	924
CX	294	223	283	439	541
XSUS	153	120	169	152	279
CBALANCE	226	316	350	352	101
TX	1288	1321	1436	1693	1846
PUG1	281	306	280	335	392
PUG2	448	478	448	541	667

The expenditure in real per capita terms has increased for all categories. However, the amounts are extremely small. The per capita expenditure on education has increased to reach only Rs.43 and Rs.40 on health. The entire expenditure on core public goods (PUG1) is Rs. 392 and Rs. 667 for the broader definition of public goods (PUG2). The

expenditure on PUG2 is less than 50% of the expenditure incurred by MCGM in real per capita terms and 60% of the expenditure by OMCs

Having analysed the pattern of receipts and expenditure over the five year period we finally examine a comparative static picture of the MCGM, OMC and Councils for the last year of our study on both the receipts and expenditure side of the budget.

**Table 21**  
**Receipts: MCGM, OMC and CO**  
2004/05

	MCGM	OMC	Councils
PT/OWN	19.38	15.60	48.88
OCT/OWN	39.97	48.16	86.35
OWN./TRC	81.30	65.11	27.54
NTAX/TRC	27.82	21.01	12.28
TTAX/TRC	53.48	44.10	15.26
CRC/TRC	8.14	5.44	4.98
GRANTS/TRC	0.26	4.05	16.15
LOANS/TRC	0.58	3.52	3.25
<b>Per Capita (1993/94 prices: DDP Deflator) (in Rs.)</b>			
PT	569	263	248
OCT	1173	812	33
OTHTAX	189	67	281
TTAX	1931	1143	439
MPROP	255	106	120
IPHLTH	18	13	6
IWATER	421	309	77
IDRAIN	283	63	7
NTAX	1004	544	228
GRANT	7	83	256
PGRANT	3	21	43
OTHINC	139	83	38
RRC	3084	1874	1285
LOAN	21	91	61
CRC	294	141	93
SUS	0	278	132
OPBAL	157	206	336
TRC	3611	2591	1846

The own source revenue of municipal councils is only 27% of their total receipts. Hence the large share of property tax and in own source revenue octroi (PT/OWN and OCT/OWN) must not be interpreted as better performance on the part of the councils. The high ratio is on account of the denominator i.e. own source revenue being small. Tax and Non-tax revenue together constitute own source revenue. In real per capita terms councils receive Rs.439 as total tax revenue vis-à-vis Rs.1931 collected by MCGM. As non-tax revenue, councils collect Rs.228 vis-à-vis Rs.1004 collected by MCGM.

Municipal Councils are heavily dependent on grants and loans. They receive 16% of their total receipts by way of grants while MCGM receives a mere 0.26% and OMCs receive 4%. This is a financing pattern that is expected, and as it should be, since municipal corporations in general, and MCGM in particular, have many outside sources of funding while municipal councils are largely dependent on the state and central level of government.

Having analysed the difference in the three groups of local bodies we turn our attention to the expenditure side of the budget.

**Table 22**  
**Expenditure: MCGM, OMC and CO**  
2004/05

	MCGM	OMC	CO
RX/TX	55.75	52.50	49.97
KX/TX	15.54	31.95	29.48
RX/RRC	58.01	72.56	71.86
XADMIN/RX	12.32	12.97	13.71
PUG1/TX	22.72	16.75	21.23
PUG2/TX	45.30	40.45	36.05
<b>Per Capita (1993/94 prices: DDP Deflator) (in Rs)</b>			
XADMIN	220	176	127
XEDU	230	117	43
XSANI	234	30	17
XCON	212	204	167
XMU	17	18	17
XPHLTH	235	84	40
XFIRE	23	16	11
XWATER	260	414	191
XSTREET	42	54	62
XPWORK	202	112	118
XMISC	115	136	131
RX	1789	1360	924
CX	499	828	541
XSUS	834	204	279
CBALANCE	32	199	101
TX	3209	2591	1846
PUG1	729	434	392
PUG2	1454	1048	667

We find that the share of revenue expenditure in total expenditure (RX/TX) for municipal councils is 50%. This is not too far away from the shares of MCGM and OMCs (55% and 52% respectively). The share of capital expenditure in total expenditure (CX/TX) for municipal councils is 30%. This is close to the proportion spent by the OMCs (32%) but almost double the share of MCGM which spends only 15%. In real per capita terms too we find that capital expenditure is Rs.541 for councils and Rs.499 in MCGM.

As regards core public goods we find that the proportion spent by COs exceeds that of OMCs and is only one percentage point behind MCGM. If the definition of public goods is extended i.e. PUG2, then the share of spending on this category by councils falls significantly short of the share of MCGM and OMC. In real per capita terms the spending by councils on education is 1/5<sup>th</sup> that of MCGM and 1/3<sup>rd</sup> of OMC. In case of public health, the real per capita spending is 1/5<sup>th</sup> of spending by MCGM and half of that spent by OMCs. We wish to stress that the type of work undertaken as well as the incremental nature of these works not to speak about the benchmarks for what is expected to be delivered and hence the 'optimal' levels will have to be considered for a fuller critique of what is happening. This will involve case by case, micro field study and is clearly beyond the scope of our paper which seeks to provide a rather more macro perspective.

#### **IV. Investment (Borrowing) Capacity of ULBs**

The size of the local government is of the order of approximately 6-7% of the local economy in case of MMR. This naturally delimits the availability and capability of ULBs to make capital investments of any significant magnitude. However there are a host of parastatals that are in operation in the region that do undertake major investment projects and then hand over the assets for purposes of maintenance to the ULBs. Thus, although these numbers do not appear currently on the books of the ULBs, in the near future they have the potential (like the off-budget items) will cause budgetary stress and the ULBs need to be prepared for this. The plethora of such parastatals do bring in their wake a host of governance hindrances and conundrums, but these need not detain us here.

The parastatals of which MMRDA, MSRDC and MJP are the main ones have on going projects worth 65,000 crores rupees in the region (around 10,000 crores on roads and rest on others). These are large projects with MUTP being the kingpin. These projects are part financed by international agencies, central and state governments and the public. The assets that will be created under these projects will be reflected in the budgets later on when they are taken over for maintenance by the ULBs.

Apart from the public domain, clearly the investment is happening in the private sector (where large growth is taking place). Different estimates, reflecting partial reality are available but it is a matter of some concern (embarrassment) that one cannot find available a figure that could work as a bench mark for total investment happening in the region. Clearly such an estimate is important but equally clearly, it is a matter for an entirely different (full-fledged) study. Let us now turn to estimating the borrowing capacity of the ULBs. For, they will be called upon to make large investment as a part of the overall growth strategy planned for the MMR region.

Given that the ULBs are bestowed with limited resource raising powers and overburdened with expenditure responsibilities, market borrowings have become a necessity. Borrowings if channelized in the right direction and its usage monitored would provide the necessary impetus for the growing need for infrastructure investments.

We calculated the borrowing capacity of ULBs as the annuity or net present value (NPV) of 50% of the latest Revenue Balance (Revenue receipts - Revenue expenditures), which is presumed to be repaid over 15 years at an assumed interest rate of 12 percent. This is a fairly standard methodology that we had used whilst doing a World Bank consultancy at an earlier time. These NPVs for the various ULBs in MMR have been tabulated in Table 23 below:

**Table 23**  
**Borrowing Capacity of Urban Local Bodies (2004-05)**  
(in Lakhs)

ULB	District	Class	RX	RRC	Revenue Surplus (RRC-RX)	NPV
Mumbai (MCGM)	Mumbai	E	370799	555844	185045	<b>630158</b>
Thane	Thane	E	30915	40430	9515	<b>32403</b>
Navi Mumbai	Thane	E	16317	25447	9130	<b>31092</b>
Kalyan - Dombivali	Thane	E	16876	20671	3795	<b>12924</b>
Ulhasnagar	Thane	E	9807	11074	1267	<b>4315</b>
Bhiwandi-Nizampur	Thane	E	9546	15500	5954	<b>20276</b>
Mira Bhayandar	Thane	E	7837	12700	4863	<b>16561</b>
Ambernath	Thane	A	2238	3276	1038	<b>3535</b>
Virar	Thane	A	1365	1798	433	<b>1475</b>
Nalasopara	Thane	A	1205	1559	354	<b>1206</b>
Navgarh - Manikpur	Thane	A	1712	2022	310	<b>1056</b>
Panvel	Raigad	A	1973	2879	906	<b>3085</b>
Kulgaon-Badlapur	Thane	B	753	2514	1761	<b>5997</b>
Vasai	Thane	B	614	675	61	<b>208</b>
Khopoli	Raigad	B	1386	1573	187	<b>637</b>
Pen	Raigad	C	360	449	89	<b>303</b>
Uran	Raigad	C	599	637	38	<b>129</b>
Alibagh	Raigad	C	818	635	-183	<b>-623</b>
Matheran	Raigad	C	209	416	207	<b>705</b>
Karjat	Raigad	C	186	240	54	<b>184</b>
<b>MMR Region</b>			<b>475515</b>	<b>700339</b>	<b>224824</b>	<b>765623</b>
<i>Note: Calculated as the annuity or net present value of 50 percent the latest Revenue A/C Balance (Revenue receipts - Revenue expenditures), presumed to repay debt over 15 years, at an assumed interest rate of 12 percent</i>						

Table 23 tells us that urban MMR as a whole has a borrowing capacity of Rs.765623 lakhs. Of this as much as 82% is the borrowing capacity of MCGM alone. From among the OMCs, Thane municipal corporation has the highest capacity to borrow. Among the councils Alibagh is the only council which has a negative NPV. *It is seen from the above that the ULBs in MMR have an overall capacity to borrow about 7,656 crore rupees. This needs to be juxtaposed with the current capital expenditure that the ULBs are incurring which is pathetically low at Rs. 1668 crore rupees. The borrowings (capital receipts) are currently at Rs. 717 crores. These numbers perhaps needs to be compared to the estimated investment of Rs. 65,000 crore rupees through the parastatals that is happening in the region. If one adds the huge private investment that is happening in the region, the starkly small fraction of investment that is taking place through the ULBs is quite apparent. Thus, there is a huge borrowing capacity available with the ULBs that can be put to good use, provided that good bankable infrastructure projects are formulated. This augers well, for the overall investment strategy in the region that*

*will call upon the ULBs to jointly invest some amount in order to provide the infrastructure for basic amenities that would be increasingly required in the context of an ambitious growth scenario.* Thus, rationalization of user charges along with improvement of collection efficiency and a viable program for borrowing would seem to impart feasibility to the overall growth strategy in the region, at least as far as the economic aspect of ULBs is concerned. Perhaps equally important from the point of view of dynamic feasibility is the intrinsic capacity building both from the human and system point of view. This crucial aspect may be correctly seen as a governance related issue to which we now turn.

## **V. Capacity Building: A Crucial Link**

To recap, MMR is extremely crucial for the Economy of Maharashtra State and indeed that of India. It contributes overwhelmingly to the state and nation's economy and has been a major growth story in recent times. The advantages in terms of revenues to the exchequer, of both the state and the nation need to be underlined (these have been amply stressed in the internal papers circulated by Prof. Remy Prudhomme and need not be gone into here). Indeed this provides the basis for a strategy of heavy investments at the national and metropolitan level ensuring attractive returns in the immediate future.

However, quantum of finance and financing strategies apart, there are some crucial issues of systemic and procedural nature as also capacity building of human agents that are embedded in the delivery agencies assume critical importance and can be ignored only at peril to the entire scheme/project. Some of the tasks transferred under the twelfth schedule involve strategic tasks to be carried out by the ULBs. These involve integrated development planning, promoting economic growth and employment. This apart, it involves inculcating best practices in governance so as to impart transparency, accountability and efficiency to the processes so as to improve mechanisms and quality of service delivery. Finally, it also involves capacity building for enhanced revenue generation and process reengineering in both administrative and financial sections. Clearly then, for this to become a reality, HRD in ULBs must provide for structures and systems that will enable ULBs to address these strategic tasks and thus to advance organizational effectiveness. Let us dwell on the HR tasks (that are not recognized leave alone undertaken) that confront the ULBs in some detail. The observations are based on informal discussions and observations with the relevant stakeholders and officers.

The ultimate clients in our set up are the citizens. The way persons are hired, their qualifications and the filtering and selection process is non-descript and without any explicit or implicit thought to the job and performance expectations. The task orientation of the persons working within the ULBs is the first essential requirement. There are two caveats that need to be entered, one, that this recognition and focus can come about if it is ingrained in the workers in the ULBs upfront and right at the beginning when they are hired. Second the present situation of ULBs is such that the ULBs have extremely limited autonomy, if any, in their functioning. This implies that the state level institutions must be brought within the ambit of our considerations especially in areas where they exert major influence, if the interventions are to be meaningful. There is also a need to evolve institutional mechanisms that would allow interactions between the ULBs and other stakeholders viz., the civil society agencies represented by NGOs and CBOs on a continuing and structured basis. Of course all this clearly means that the malaise has to be treated in a deep and fundamental way. Two most important points here have to do with the hiring

policies at the level of inception (with a backdrop of the strategic vision for the ULBs and their role) and the way wage contracts are designed (they must importantly have an element of incentive compatibility) so as to instill a sense of responsibility and accountability. The later will instill accountability and create a stake for the workers.

The above will make it amply clear that there is a huge scope of capacity building (in many cases it would have to be termed capacity *creation!*). There is much discussion about this in the literature on governance but there seems to be a bias in favor of *institutional level processes* rather than human resource training which needs to be rectified. Thus, IT enablement (e-governance) or financial and audit processes (international standards) are talked about with scant regard or discussion about skill sets required and training there of for the persons who will ‘man’ these systems once they are in place. Also, there is very little discussion about process reengineering. It might be pertinent to note here that there are no process manuals available within the system that could be invaluable to the new recruits to work efficiently. This is an area where ‘insiders’ and ‘outsiders’ (management/ system experts) must synergistically come together and create workable manuals mapping the systems. Of course, it is well known that legacy systems need to be optimally changed so that the efficiency is truly enhanced. It is also common knowledge that ERP solutions fail, not because of hardware or technical software issues but because of non-acceptance by the agents ‘manning’ the agencies. Some sense of participation and stakeholding has to be created by working on the mindsets (always a difficult intangible thing to do!). True, these are not fancy things but we believe rather crucial if change is to come about successfully.

The situation is a result of non-existence of systemic features and structures (as reflected in practices, posts and processes). This has resulted in individuals holding general positions without knowing what is actually expected of them. It is no surprise that assessing their performance is a practice in ad-hocism. This obviously has meant that this has led to (among other things) arbitrary promotions with much heartburning. For example there are no posts for infrastructure/ socio-economic development/performance or Human resources planning personnel. For greater details and analysis refer to: Feedback Reach Report on HRD Policies & Strategies for ULBs, Commissioned by USAID.

The actual capacities (based on our impression through casual empiricism) with the ULBs in MMR follow expected pattern with Municipal Corporations having the best capacities and going down with the size of the ULB. Amongst Corporations the capacities seem to depend on the particular Commissioner in charge (the systems are unfortunately not in place). In particular, NMMC shows much better work ethic compared to others followed by Thane and then Mumbai. Mumbai has the potential (in terms of skilled persons) which is greater than that seen from the level of actual delivery. Navi Mumbai and Thane are impressive because the employees up to reasonably lower levels seem to take pride in the initiatives they undertake. Mumbai on the other hand is peopled with disinterest and the lack of information coordination being blatant (of course the size is huge). Navi Mumbai seems much better managed but it could be explained by the fact that there are very few (historic) legacy systems to deal with or fall back upon. It had the fortune of clean slate having been handed over as a well planned turn key project by CIDCO.

Given the expanding need of personnel in ULBs with certain level and type of skill set, it is perhaps time to set up a board for conducting common test professionally. This will improve the quality and entry level caliber of prospective employees leading to a special cadre. A proper analysis has to be conducted to identify the needs based on tasks to be performed and *suitable numbers of employees (section wise) have to be identified and recruited*. This need to be mentioned especially because experience shows that expenditure management in government at all levels is often achieved by the easy route of sending disinterested persons on deputation and leaving the vacancies unfilled.

Properly vetted training (entry level and mid-course/refresher) programs have to be put in place and administered in a better way than is the current practice. Currently AILSG and YASHADA are the only two institutes that can do this work. The general impression is that the ‘fits and starts’ approach wherein different courses and workshops are conducted is not very useful. Some of the courses make a routine appearance on yearly calendar and yet others cater to the ‘flavor of the season’. There is no rigorous evaluation of programs. There is lack of proper incentive mechanism for the participants with participatory enthusiasm being the casualty. All too often, the participants treat these as a paid holiday. On their part the institutes lack a well articulated long term mandate, sufficient human power as well as strong networking with other institutions, (especially in case of YASHADA). It is common knowledge that such training institutes are looked upon as punishment transfers by the top echelons in the bureaucracy who then are unable to be inspiring! Thus, such places are treated as waiting rooms by the ambitious bureaucrats. Indeed we find the most active members often being the retired persons who in many cases continue to do stellar job! These observations are based on what one picked up through extended discussions with several stake holders and the purpose is not to be critical of persons (who by and large do seem to be diligent enough) but rather to make the point that one needs to signal seriousness through having efficient systems in place and through liberal resource backing (good things cost good money).

## **VI. A Comparable Study**

There is a clear dearth of studies that look at regions which has, amongst other things, to do with the mind sets of researchers and policy makers. The reason for such studies has to spring from the recognition that the effectiveness of cities and city regions performing as ‘engines of growth’ depend largely on the capacities of *empowered* municipal governments to mobilize local resources and provide at least basic infrastructure in order to ensure quality in service delivery. It is obvious that resource mobilization involves expanding the range of technical, administrative and financial alternatives. The presumption here is that such an activity by the local governments is supported by strengthening the power vested in them by higher level governments.

We did come across one study of close relevance Kulwant Singh, Behnam Ta’i and Shipra Mitra who tangentially look at the Delhi UA in a paper titled: ‘Financing Urban Infrastructure in India – A Case Study of Municipal Corporation of Delhi (MCD)’. The paper is based on the premise that the rate of urbanization affects the revenue and expenditure structure of the concerned local bodies through the strengthening of the economic base on one hand and through the increase in demand for urban services. The objective of the paper is to find out whether some of the richest local bodies in the country have been able to internalize the gains from expanding urbanization through the

changing concept of governance by the 74<sup>th</sup> CAA. It is recognized that high population density in cities generates externalities which need to be addressed through public regulation and involvement in service provision (such as transport, sanitation, health and other infrastructural facilities at increased levels). The paper correctly notes that the tax revenue of a local authority is determined by (a) the size of the economic base (b) the relationship between various tax bases and economic base (c) the statutory tax base for each relevant tax and (d) the collection efficiency. The paper also identifies that usual revenue raising instruments to be rationalization of user charges; local taxes and tax sharing (through inter governmental transfers). It makes the crucial point about the administrative capacities and political support as being the prerequisites for any successful resource mobilization program. The study – although conducted over six years ago – has findings that are painfully similar to our experience with MMR!

The area that one is talking about is around 1400 square km with a population density of around 6000 persons/sq.kms., in 1991. The strength of Delhi economy consists of large formal sector and even larger informal sector with the growth of the economy largely reflected in tertiary sector all of which is not unlike MMR. There are two master plans the sole authority of which vests with DDA (quite like MMRDA in case of MMR). The finances of the local bodies are normally strained and so generally it is the para-statal agencies that build up the capital infrastructure and hand over to the local bodies for maintenance. This means that capital investment shows up to very small extent in the local body budgets, this is again like in MMR case. The ULBs in the region show a large gap between the physical targets that were set as a part of the planning exercise and the actual achievements. This is true almost for every item, whether it is roads or sanitation or water or education or electricity. Thus, commensurate level of investment and capacity creation is called for to fill these gaps.

The internal resources and external resources are seen to be broken up in the proportion of 80:20 with the taxes around 50% of the revenues. In case of MMR the figures are more or less comparable. The study notes that Delhi's per capita income is over twice that of the national average and has shown further strong growth. This however has translated into ever increasing demand for quality services and civic amenities without the process contributing significantly to the kitty of the local bodies. This picture is similar (albeit to a varying extent) to the one we find in MMR. The experience of decentralization – post CAA – is universal, in that, the discretion and powers of the state government – to the detriment of the autonomy of ULBs – as exercised over the local bodies is overwhelming. Urban planning and town planning, listed under the schedule remain very much outside the jurisdiction of MCD (and other ULBs). Physical development with any perspective remains the sole responsibility of DDA with the involvement of ULBs is marginal in roads and slums. Indeed, even in MCD (the largest amongst the ULBs in the region) does not even have a separate Planning Department.

As far as the finances are concerned the ULBs in the region are very much dependent of the state government. The study points out that the allocation of funds does not follow any pattern or priority. This lack of adequacy as well as certainty is a problem generic to most states and ULBs including those in MMR. This leads to inability to service and maintain the various capital projects that are handed over by the Development Authorities. Over successive plans Delhi government has been reducing its

plan outlays to MCD and other ULBs in the region and yet it is around 22-25% of the state plan outlay (probably because of the peculiar nature of Delhi) which is significantly higher than what is available to the ULBs in Maharashtra. The study reiterates that not only revenues but even revenue raising *efforts* by ULBs are heavily dependent on the state. The efforts on the part of the ULBs of course leave much to be desired but what we are referring to here has to do with the regulatory constraints and approvals required at every stage that limit the ability to charge. Apart from this, the *distribution* of grants does not necessarily match with the felt needs (largely the obligatory functions) of the ULBs but rather are determined by the convenience of the state priorities. This is *not* just a matter of coordination!

There is another important issue which has to do with the ULBs getting what is its rightful due. This again is a phenomenon generic to most regions including MMR. The governments and other semi-government agencies simply allow the arrears to accumulate (in some cases refuse to pay up in an outright manner leading to litigation!). For example the arrears of this type – in case of Delhi – amount more than half the revenue of the annual budget of the ULBs in the year 1998-99. The collection efficiency is another cause of concern which is common to MMR region. This is crucial because the rate of growth in property tax collections, even in MMR – as reported earlier – is lagging behind a ‘bad tax’ like the octroi (with the practical implication that there is no way that one can get rid of it). The study – about Delhi – observes that even a reasonable level of efficiency in collection of property tax will enable the ULBs in the region to raise additional resources to the tune of 40 to 50 thousand million Rupees for investment. This is indeed a huge opportunity cost.

In its rather dismal conclusion, the study notes that ‘the ULBs are not even capable of utilizing the existing instruments, let alone exploring new sources’. The regulatory and administrative inefficiencies are the cause. Thus, despite there being enough economic activity in the region, it is not being translated into revenue generation. The non-mandatory nature of 74<sup>th</sup> CAA clause, dealing with State Finance Commission’s Award, does not help matters either. Development –by the ULBs – of innovative resource raising techniques as well contractual innovations in public private partnership are still a far cry.

## **VII. Conclusion**

The big picture here is fairly clear. India finds herself at a crucial juncture wherein a sustained high growth strategy (which alone will allow her to accomplish proper development of her people) is within the realm of possibility. For this to happen, MMR has a very important role to play. Transformation of MMR clearly requires huge investment. It is also equally obvious that such an endeavor would require massive support at the Metropolitan (State) as well as the Central level. The incentive for such an investment comes from the fact that MMR is like the goose that lays golden eggs. The tax revenue enhancement from growth in MMR will be of a magnitude that will easily justify the levels of investment called for. The governments at these levels then need to be convinced of their enlightened self interest!

The ULBs will be called upon to do a lot more if the growth trajectory is to be achieved. The extra services that will be called for will naturally lead to further hike in expenditure. Our analysis suggests that historically, revenues do not keep up with the

expenditures and the level of public goods' provision has suffered in the recent past. There is a need for rationalization of user charges /taxes as well as better collection efficiency on the part of ULBs if they have to deliver. The borrowing capacity will have to be put to good use through setting up of bankable projects and in conjunction with private players. Whilst in the realm of possibility, serious efforts at revenue enhancement as well as capacity building and incremental outsourcing will have to be the order of the day if service delivery (with reasonable quality) is to be ensured.

Building castles in the air is sometimes a contentious point that lends itself to criticism. What we don't realize is that the castles are where they should be. The point is to get down to the drawing board and build a strong foundational structure!

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