

**Orientation Programme on Urban Finances and Governance
for Elected Representatives and Officers of Local Government and
Provincial Councils, Sri Lanka**

15 – 21 September 2014

A Brief Report on the Program and the Way Forward



Centre for Budget & Policy Studies, Bangalore

The orientation Programme was organized by Centre for Budget and Policy Studies with support from The Asia Foundation, Colombo



The Asia Foundation

The Report presents a summary of the week long Orientation Programme that included technical sessions in class room as also field visits to Ahmadabad Municipal Corporation, Bruhat Bengaluru Mahanagar Palike (BBMP) and Maddur Municipality. Detailed Agenda of the Programme is given at the end of Report as Annexure 1.

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Report prepared by Centre for Budget and Policy Studies, Bangalore
With Financial Support from the Asia Foundation, Colombo

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A. Introduction

1. Challenges of urbanization are many and often very complex. The initial impetus, no doubt, sets urbanization or the process of agglomeration on its course. However, unless its dynamics are carefully managed, it results in incongruities such as urban prosperity and large numbers of urban poor living in slums; high productivity and incomes alongside pollution, congestion, crime, etc. Apart from inheriting cities already riddled with problems, the other major challenge of dealing with urbanization is the fact that there is no clean slate (*tabula rasa*) to start with. There already are institutions, laws, structures, etc. in place which make the best-laid plans to go astray. For instance, the Constitution (in India) mandates a division of jurisdictions between the central and state levels that leaves the states more powerful vis-à-vis the local governments. There were legislations such as Urban Land Ceilings Act of 1976 that severely restricted infrastructure development¹.
2. India faces gathering momentum of urbanization with 31 percent population living in urban areas in 2011 which is expected to grow to 40 percent by 2031. Although this is far lower compared with 45 percent of China, 54 percent of Indonesia and 85 percent of Brazil, it still poses a big challenge in terms of reforming institutions of governance and finding resources for funding the required infrastructure, estimated to be of the order of \$822 billion at 2009-10 prices².
3. There are obviously several issues in urbanization from ever increasing needs of urban infrastructure (mass rapid transport and affordable housing being high on priority) to finding finances to build and sustain them and in between a host of governance issues and challenges. Along the entire spectrum of issues, India has seen experiments in reforms in one or the other municipality over the past few decades. These provide good

¹ Urbanization in India – Challenges, Opportunities and the Way Forward ed. Isher J Ahluwalia, Ravi Kanbur and P K Mohanty

² Ibid.

learning experience for other countries similarly grappling with challenges of urbanization.

4. Sri Lanka with around 15 percent urbanization is in a far more manageable state. Sri Lanka adopted decentralization with the 13th Amendment to the Constitution in 1987. This legislation devolved considerable autonomy over several important subjects to Provincial Councils. The other legislation was the Pradeshiya Sabha Act No.15 of 1987 providing for establishment of Pradeshiya Sabhas (divisional-level councils of people's representatives) through general election. With this amendment Sri Lanka, like India, has established government in three tiers – National-Provincial-Divisional. The Sri Lankan Government plans to drive the growth in the coming years by establishing five to six centres or hubs of economic activities. These hubs are expected to evolve into new urban centres. These new urban centres and the existing ones require guidance and hand holding. It is in this context that The Asia Foundation, Colombo had approached Centre for Budget and Policy Studies, Bangalore, based on prior discussions in Sri Lanka with the various authorities concerned with municipal issues, to anchor a visit by a delegation of elected representatives and officers of Local Government and Provincial Councils for an exposure visit.
5. The week long orientation programme included technical sessions on municipal finance and governance (refer Annexure 1 for the agenda) and field visits to municipalities in the States of Gujarat and Karnataka.³ This report summarizes learning from the technical sessions, field visits and the discussions that took place. As stated earlier the challenges of urbanization are many and complex. The objective of the orientation programme was to provide a broad overview of the issues, some insights and good practices. It is seen as the first of many further interactions that TAF may organize for the Sri Lankan Government in collaboration with CBPS and others.
6. The Report broadly follows the way the programme was structured. Section B and C deal with the main focus of the Programme, that is, the Municipal Finances while Section D captures the discussions on governance issues. The last Section sums up the learning and presents the way forward. Each section is divided into four broad sub sections. The first one gives the principles followed by the challenges in that specific area and the good practices (Indian and international) that provide a credible response to the challenges and the way forward as far as Sri Lankan government is concerned. Although the orientation programme covered the subject of municipal finance and governance from the perspective of Indian experience, it has been made sure that universal principles and lessons are presented with the Indian experience serving as an illustration. The Indian

³ Both Karnataka and Gujarat constitute appropriate case studies. While the former has pioneered municipal reforms as early as 2002-03, the Ahmadabad Municipal Corporation in Gujarat was a pioneer in raising money from the markets much before any ULG in the country.

experience offers as much of what not to do (the pitfalls) as it does what do. In that sense it has been a critical assessment that brings forth important lessons.

B. Municipal Finances – Own Revenues

7. As with any government, the finances of an urban local body (ULB) fall under two broad categories i.e. revenue and capital. The revenue receipts comprising tax receipts, user charges, transfers (from the federal and provincial governments), etc. should under ideal conditions meet the ULB's expenditure obligations arising from the services it is expected to deliver. Preferably, there should be a surplus in the revenue account to invest in some capital assets. Creation of capital assets is generally funded from grants, loans and other borrowings (capital receipts).

Box 1- Categories of Receipts and Expenditure

Revenue Receipts	Revenue Expenditure
Own Taxes, Assigned Taxes	
Property Tax, Octroi, Toll Tax, Tax on Sale of Electricity, Advertisement Tax, Entertainment Tax, Profession Tax, Motor Vehicles Tax, Surcharge of Stamp Duty	Salary and Wages, Administration and General Expenses, Light & Energy, Repairs and Maintenance, Service and Programme Expense, Grant Expenses, Loan Charges and other expenses
Others	
User Charges & Fees, Inter-Governmental Grants, Sale & Hire Charges, Borrowings	
Capital Receipts	Capital Expenditure
Loans from the state government, open market borrowings, loans from financial institutions and grants and aids for specific projects	Various infrastructure projects viz. roads, bridges, water supply, sewerage, etc

8. The revenue account raises two fundamental questions – a) on the demand side, what are the services expected of ULB and b) whether the ULB has been vested with authority to raise revenues commensurate with the responsibilities cast upon it. That is, whether the revenue assignment matches with the expenditure assignment. To discuss ULBs' revenues independently of their service obligations makes little sense.
9. The Indian experience in this respect has been not so encouraging. Even so, there exist examples of creative and effective solutions and the focus was on those solutions in this programme. While the share of municipal revenues in combined state and central revenues declined from 3.7 percent in 1990-91 to 2.4 percent in 2000-01 and about 2 percent in 2011, the ratio of municipal 'Own' revenues to GDP, 'own' Taxes to GDP as

well as the share of municipal own revenues in municipal total revenues has shown a decline in the last decade or so. Similarly, the growth in municipal taxes and municipal total revenues is also lagging behind combined central and state revenues and GDP. The reasons for this are not far to seek. Urban local governments are created and governed by laws of State Government as it is a subject in the State's list. Although the 74th Constitutional Amendment in 1992-93 gave the municipalities a constitutional status, it left the devolution of taxes to be decided by the State Government. Even those taxes that are devolved cannot be varied as the tax rates are to be approved by the State Government to come into effect. This resulted in each State Government deciding on what taxes to be devolved to municipalities, while devolving functions as per 12th Schedule. A mismatch between the municipal finances and municipal functions was inevitable. Further, the municipalities governed by the State laws offer very little space for municipalities in terms of augmenting their finances. They are made to largely depend upon the largesse of the State government. The crucial aspects of running a local government such as authority to recruit personnel, decide on the use of land, obtaining a loan are not delegated to the ULBs.

10. Grants from State Government are usually the largest portion of the revenues of municipalities. The role of state in deciding the quantum of grants, timing of release, tied with conditions or purpose of use makes municipalities more agencies of the state government rather than a local governments in their own right. The State Government may decide to spend more in a municipal area by routing it through state owned agency rather than the municipality itself.
11. The State has also a large presence in municipal governance through a slew of state owned entities which deliver services that fall within the remit of the municipalities e.g. water and sewerage boards, infrastructure development corporations, urban development authorities besides state government departments which often execute development projects. These often restrict and redefine the role of the municipality and make it run the service after it is being implemented.

The challenges

12. From the discussion above, following list of challenges emerges:
 - a. There is a situation where urban centres (in India) contributed as much as 62-63 percent in 2007 to national GDP but have little resources of their own to provide adequate and good quality services resulting in what has been called a 'rich city – poor city government' syndrome. The problem essentially is one of ULBs having endowed poor capacity to raise own revenues on the one hand and multiplicity of agencies working in the urban sphere in an uncoordinated manner. While the first requires enabling legislation to free the ULBs from the stranglehold of the state governments, the second one needs reforming institutions of governance.

- b. ULBs also are often weighed down by poor human resources. Lack of competent personnel in town planning, finance and accounts, administration, etc. can deal crippling blow to any ULB.

The Response

13. Examples of various countries and international practice in general indicate higher taxation powers compared to that of Indian ULBs. One of the responses is to devolve more taxes to ULBs (see Box 2 below).

Box 2 – Taxes devolved to local bodies – International Experience

Country	Taxes devolved to ULBs
United States of America	Local Option Income taxes, General sales tax, Excise tax, Utility user tax, Transient Occupation tax, Special levies User fees such as road tolls, park admission fees, Development Exactions, Impact fees
Canada	Business tax Betterment levies Special taxes to raise revenue to pay for a specific service or purpose such as - Waterworks tax; sewer tax; boulevard tax; dust treatment tax; paving tax - to cover the cost of repair and maintenance of roads, boulevards, sewer facilities and water facilities.
Brazil	Shares in State and federal value added tax, Federal income tax, Federal financial transactions tax, State motor vehicles tax, etc.
China	Business taxes on Services, Real estate tax, Resource taxes, Urban land use tax, Land appreciation tax, Urban maintenance and construction tax, Farm land occupation tax, Deed tax, Tax on vehicles, Fixed assets capital gains tax, Share in domestic value added tax, income tax and stamp taxes, etc.

As the cities grow bigger and newer types technologies are applied, they present new opportunities for taxation. To illustrate, with massive expansion of mobile phones, there are mobile towers all over the cities. These could be brought under the tax net. Thus, it is important for the ULBs to look for newer bases for levying taxes / charging fees (see Box 3 for an illustrative list).

Box 3 – List of New Tax Bases

Property Related	Vacant Land Tax, Service Taxes, Surcharge on Land Registration Duty
Water Supply Related	Water Supply Donations, Water Supply Connection Charges, Water Benefit Tax, Water Betterment Charges, Beneficiaries Capital Contribution
Sewerage Related	Sewerage Donations, Sewerage Connection Charges, Sewerage Benefit Tax, Sewerage Betterment Charges, Beneficiary Capital Contribution
Solid Waste Management Related	Bulk Garbage Collection Charges
Public Works Related	Road Cutting Charges, Street Tax, Frontage Tax, Infrastructure Cess, e.g Cauvery Water Cess, Surcharge on Tax on Petrol and Diesel for Roads, Transport Cess
Trade Licensing Related	Business Licensing Tax
Advertisement Related	Hoarding Charges, Advertisement Placement Fees, Cable TV Fee, TV Advertisement Charges
Shops and Establishment Related	Royalty on Auctions

Similarly, town planning offers many opportunities for levying new types of charges. It is also important to incorporate the principle requiring beneficiaries to pay or those creating negative impact or externalities (those who pollute, congest, etc.) to pay.

Box 4 – List of Planning related Charges

Planning Related Charges	Agricultural Land Conversion charges Land Use Institution charges Sub-division/Layout charges/Building fees Development charges: Onsite and Offsite Betterment charges External betterment charges Open space contribution Parking fee Impact fee Floor Space Index charges Road cutting charges Storm-water drainage charges Parking facilities contribution Use of planning permission as a resource (Road-widening scheme in Hyderabad) Transferable Development Right Auctionable/Purchasable Development Right Advertisement charges
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Further, there is a need for a clear assignment of revenue and expenditure related to the functions of municipalities. If water supply is the function there must be clarity on the roles such as augmenting the water supply, which may include afforestation, improvement of water conservation structures, regulation of ground water, etc. on the one hand and distribution and maintenance of supply network on the other. While the State Government should perform former, the municipality should be vested with the

responsibility for latter. The revenue assignment should also be commensurate with the expenditure assignment for it to be effective. This calls for an activity mapping (done in case of Panchayat raj institutions - which level of Government performs what activity under given function) in case of municipalities. Dr. P K Mohanty suggests three groupings of functions viz. essentially municipal functions (e.g. urban planning, public health, sanitation, conservancy, solid waste management, public amenities, etc.), agency functions (safeguarding interests of weaker sections, slum improvement, etc.) and shared or concurrent functions (roads and bridges, water supply, fire services, etc.)⁴.



Mr. Wanasinghe Wickramasinghe, Addl. Secretary, Ministry Of Local Government and Provincial Councils and
Mr. Hewage Ariyaratne, Chairman Finance Commission presenting memento to Dr P K Mohanty

14. The other response could be to improve the yield from the existing taxes. The experience of Karnataka and BBMP is quite noteworthy in this context.

Aasthi – GIS based Self Assessment of Property Tax

In January 2009, the Greater Bengaluru Municipal Corporation introduced a Mandatory Self-Assessment of Property Tax scheme backed by new law. The Municipal Corporation issued notification determining unit area value per square foot per month adopting the following key criteria:

⁴ Ibid

- a. City was divided into six zones: A, B, C, D, E and F based on published guided value of land as was the case with the 2000 SAS.
- b. Residential use of properties was classified into five categories.
- c. Non-residential use of properties was classified into 13 categories.
- d. For residential use of building, the rate of tax was fixed at 20 per cent of the taxable annual value of building, land or both; for non-residential use buildings the rate was 25 per cent.
- e. Separate tax rates were prescribed for tenanted and owner-occupied properties, the tax rate for the later being half of that for the former.
- f. The investment in media campaign paid off very well. City's well known personalities vouched for the new transparent self assisted tax assessment and this was publicized in all the news papers and local TV channels.
- g. Property tax in Bangalore can be paid online and property-owners who make their payments in full before April 30 avail a rebate of 5 per cent.

The Corporation had also mapped properties using GIS and assigned unique property IDs to all the properties primarily with the objective of improving the monitoring of tax collection through SAS. The GIS mapping brought properties that were hitherto not in the tax net. Thus the coverage of properties improved.

In order to ensure the success of the reform, the Corporation also instituted certain measures that contributed to its success. These include establishing Help centers within the premises of the municipality, authorization of 'Bangalore-One centers (a citizen service center)' and banks to collect property tax both in cash and through credit cards. It is these measures that have enabled Bangalore to enhance its property tax collection without raising the rate of tax.

As a result of this reform revenues from property tax in Bangalore city have increased by 39 per cent between 2009-10 and 2010-11 and the trend continues.

Fund Based (Double Entry-Accrual) Accounting System (FBAS)

15. Fund Based (Double Entry-Accrual) Accounting System (FBAS) is another important accompanying reform in so far as municipal financial management is concerned. Bangalore Municipal Corporation (BBMP) has implemented FBAS on an Integrated Financial Management System (IFMS) platform in 2010. Under this system all financial activities of the municipality have been computerized with the objective of networking all payment and receipt points.
16. FBAS essentially creates funds each having a set of self-balancing accounts and key financial statements such as Balance Sheet, Revenue & Expenditure Account and Cash Flow Statement. Unlike commercial firms where the bottom line or profit is of utmost

significance, for the governments and quasi governmental entities such as urban local bodies, it is important to know how the funds meant for different purposes have been spent. There is a correspondence or mutuality between certain receipts and related expenditure within the overall receipts and expenditure. For example, all own receipts of the ULB are credited to one fund and expenditure relating to all obligatory services met from there; and, grants received from state government for specified purposes are credited to a separate fund and applied for that purpose alone.

17. For a FBAS to be successful, the key elements that need to be put in place include an enabling policy environment, an understanding of the existing processes; information flows; key issues and the process reengineering required; the organizational and institutional frameworks required to operate and manage the reform; and the kind of technology choices that are available and what would be most appropriate one for the municipality. For each of these aspects, there are key questions that need to be asked and addressed before any reform process and practice is conceived. Karnataka has introduced separate cadres of professionals like accountants, engineers, etc. and adopted of fund based accounting system, monitoring of the data and information through centralized Karnataka Municipal Data society.
18. Ahmadabad Municipal Corporation also presented a good case study of well managed financial system within the given constraints. AMC is not only able meet its long list of obligatory and non-obligatory services from its revenue sources but also leaves a small surplus to finance capitals works.

Way Forward

19. The following are some measures that can be considered in the near term:
 - a. There are actions that would lie within the competence of the federal government such as bringing about enabling legislation to devolve more financial powers to the urban local bodies and Pradeshia Sabhas. This might require some preparatory study to assess the existing distribution of functions and finances between the three tiers of government and suggest a revised devolution.
 - b. As property tax is one of the mainstays of urban finances in Sri Lanka as elsewhere, the GIS based self assessment system adopted by Karnataka and Bangalore Municipal Corporation could be attempted on a pilot basis in one of the municipalities and extended to others based on the learning from the pilot.
 - c. Independent of all other reforms, introduction of FBAS would be a useful value addition to municipal finance system. As this would take some time to be grounded, the earlier this is taken up the better it is. As a matter of fact, it would be good if FBAS is firmly established by the time other reforms take effect. FBAS requires systems study, some business process reengineering and capacity building before it is

implemented. Later on, there will be requirement of preparation of procedure manuals and application of ICT.

C. Municipal Finances – Sourcing Funds from Market

20. The important point to note is that raising funds from the market is not a substitute to strong revenue base. As mentioned in the previous section, revenue receipts and capital receipts, which form borrowing from the market, serve different purposes. The revenue receipts help ULB carry out its obligatory functions whereas capital receipts are applied to build capital assets / infrastructure.
21. Funds from the market can come in two forms viz. as simple finance or in combination with management. The latter take the shape of public-private partnership where the private player brings not only finances but also builds and operates the asset in partnership with the ULB. Sometimes, an ULB may create a special purpose vehicle (SPV) i.e. an incorporated company or a society to build and manage assets. The SPV may borrow money from the market instead of the ULB.
22. Building capital assets requires long term funds which can either be loans from the banks or through issue of bonds, which may be purchased by individuals or financial institutions. Generally, long term funds are sourced through issue of bonds. The issues and challenges of raising funds from market including PPPs were presented and discussed in three technical sessions. A brief summary of the challenges and what are the suitable mechanisms to deal with them are discussed below.

Municipal Bonds

23. Bonds are long term debt instruments evidenced by a certificate representing a direct obligation of the issuer to the holder thereof. To float municipal bonds, municipalities are required to be rated (by rating agencies) for their credit worthiness. The rating is in turn is determined by:
 - a. Service area characteristics - economic base & structure; and demographics
 - b. Level of service provisions - coverage and quality
 - c. Inter-Governmental fiscal relationship - consistency of fund transfer and overall attitude of State Government
 - d. Whether full cost recovery for services provided is achieved;
 - e. Efficiency of tax / user charge collection
 - f. Management quality, systems & control
 - g. Adequate accounting systems / MIS
 - h. Fiscal performance & flexibility - revenue sources; trends in own sources and transfers; expenditure trends; cost recovery; revenue balance

- i. Financial position – liquidity and debt burden, off-balance sheet liabilities
- j. Future cash flow adequacy/project risk - revenue and expenditure trends over an economic cycle; capital expenditure for meeting expected service levels.

The most important aspect that the rating agency looks at is the ability of the ULB to repay the dues on time. There should not be a default of even a single day or a single rupee. This criterion very much sums up the importance of the payment to investors with reference to prescribed date and amount. In case the ULB is not in a very sound financial position, there are measures to enhance its credit rating by certain support structures such as the Bond / Loan being underwritten / guaranteed by the government or a multilateral agency.

24. Besides the credit rating of the individual ULB, what is critical for this form of financing to be a credible option for ULBs is the existence of a vibrant market for bonds. A good bond market is dependent upon the regulatory framework – the laws, rules, etc. and a good enforcement body. The US has, for instance, a very large bond market which enables a lot of local governments to tap this market.



Mr. Jayanta Chatterjee making a presentation on Municipal Bonds

25. Ahmadabad is the first city in India to issue municipal bonds in 1998. Since then, there have been 25 municipal bond issues, including taxable and tax-free bonds. It shows that ULBs have not been tapping the bond market to its potential. As per a recent study by the High Powered expert Committee on Urban Infrastructure and Services ULGs in India are amongst the weakest in the world when it comes to capacity to raise resources and financial autonomy. While it is acknowledged that urban infrastructure cannot be funded by budgetary support alone (10th Five year plan), market borrowings are yet to emerge as a viable source of financing. There is recognition of need to build creditworthiness of ULBs to enhance their access to market borrowings. The RBI's policy directive that expands the coverage of infrastructure lending by banks to include segments of urban

infrastructure projects is expected to provide the much needed boost to direct lending and the bond markets. Some of the measures for increasing municipalities' access to markets include pooled funding and municipal bonds – an area where both Tamil Nadu and Karnataka have experimented extensively

Pooled Funds

26. Pooled fund financing involves a group of municipalities coming together to access the bond market. The concept is basically to pool the finances and spread the risk thereby improving creditworthiness. It is helpful for smaller ULBs with low creditworthiness to come together and raise loan from the market. Often such attempts are supported by credit enhancement provided by the state government / a multilateral agency. This way they are able to secure funds at lower cost (than would have been possible for individual urban local bodies) for financing the infrastructure. A structure is created to act on behalf of these urban local bodies to interact with funders, getting the loan, ensuring the payments, etc. The finances of the urban local bodies, especially the user charges / contributions from beneficiaries, are pooled for payment of principal and interest.
27. Pooled finance started in US during 1987 as State Revolving Fund (SRF) meant for supply of clean drinking water under Drinking Water Act. These funds were used to finance the local government requirements of infrastructure like water, waste water treatment etc. State level financial intermediaries were created to issue bonds which were guaranteed by SRF which had initial capital from Federal grants and State contributions. A market for these bonds was created by providing tax exemptions resulting in attracting investors.
28. In India similar arrangement for pooled funding started with a GOI scheme in June 2003. The scheme envisaged that each state/UT will designate either an existing state entity or create a new entity for execution of the scheme. Referred to as state pooled finance entity (SPFE), this is funded by the central government on an annual basis through a pooled finance development fund (PFDF). A token provision of Rs 5 million in 2004 and a tentative allocation of Rs 4 billion under the Tenth Five Year Plan were made by the GoI for this fund. Of the projects that the municipalities would identify as bankable under the scheme, 25 percent would be utilized for assistance for reforming the municipalities so as to increase their creditworthiness and the balance 75 percent would be utilized for contribution to the Debt Service Reserve Fund (DSRF). The broad objectives of PFDF are to
 - a. Facilitate development of bankable urban infrastructure projects through appropriate capacity building measures and financial structuring of projects.
 - b. Facilitate Urban Local Bodies to access capital and financial markets for investment in critical municipal infrastructure by providing credit enhancement grants to State Pooled Finance Entities (SPFEs) for accessing capital markets through Pooled

Financing Bonds on behalf of one or more identified ULGs for investment in identified urban infrastructure projects.

- c. Reduce the cost of borrowing to local bodies with appropriate credit enhancement measures and through restructuring of existing costly debts.
 - d. Facilitate development of Municipal Bond Market.⁵
29. In India, while a number of states have created state level pooled finance entities, debt raising is limited to two states i.e. Tamil Nadu and Karnataka, although both the States follow different models of raising funds. While Karnataka relies on state government budgetary support for debt servicing, Tamil Nadu is cited successful in raising funds from the market along with central government and multilateral donor agencies support. Tamil Nadu Urban Development Fund raised Rs. 30.4 crore from the market on behalf of 14 municipalities. A SPV 'Water & Sanitation Pooled Fund' (WSPF) was set up to issue the bonds.

Challenges

30. The raising of money from market through bonds requires an enabling financial ecosystem of laws and regulatory agencies, which takes many years to build / happen. While TN model is rated successful, the pooled finance scheme has thrown up many challenges which need to be addressed proactively. An important constraint is the ULB's revenue raising capacity. The other challenge is an active secondary market for municipal bonds – which, in turn, depends upon the regulatory quality; and availability of standardized and transparent information.

Response

31. The first of the challenges – that of weak revenue raising capacity has already been discussed in the previous Section. The government would need to ensure that:
- a. funds assigned to ULBs match functions devolved to them;
 - b. rationalization of state level entities performing the function of ULBs (e.g. water) and other agencies involved in looking after services (e.g. roads are maintained by 8 entities in Municipal Corporation of Delhi area)
 - c. devolve powers of setting tariffs for water, sanitation, etc,

ULBs on their part should improve efficiency of tax / user charge collection and ensure continued commitment to projects as infrastructure building and maintenance generally tends to be of a longer gestation (15-20 years) while the elected body remains in power for 5 years or less. They must improve their capacity all around particularly in finance and accounting; and project management.

⁵<http://moud.gov.in/pooledfinancedevelopment>

The government must introduce institutions and regulatory policy framework to support market borrowings by ULBs. It may also need to provide tax breaks to municipal bonds to incentivize subscription to them.

Way Forward

32. Following three steps are considered important to make a beginning in local bodies accessing market for funds.
 - a. Assess regulatory environment and availability of support structures such as a secondary market for bonds and rating agencies;
 - b. Develop policy framework for pooled finance in consultation with the Ministry of Local Government on the lines of Pooled Finance Development Fund; and
 - c. Lastly, build capacity of municipalities to access pooled funds / tap market through bonds.

Public Private Partnerships

33. As mentioned rising of money from market requires an enabling financial ecosystem of laws and regulatory agencies, which may take many years to build / happen. On the other hand, special purpose vehicles (Companies) / PPPs are a good way to finance infrastructure projects in the short and medium term. PPP's offer advantages to both the private and the public sector. While the state stands to gain from the enhanced access to private sector's know-how, good management practices, finance, knowledge of markets, etc. private partner, in return, gains access to land and concessions to derive income from the project once it is completed.



Members of Sri Lankan Delegation with Mrs. Minakshiben Patel, Hon'ble Mayor , Ahmadabad Municipal Corporation

Visit to Ahmadabad Municipal Corporation (AMC)

AMC organized presentations on the Corporation's Financial Management, the Ahmadabad Janmarg (BRTS), Solid Waste Management, the Sabarmati River Front Development Project and preservation of Ahmadabad's heritage.

The delegation also had an opportunity to call on the Hon'ble Mayor followed by a brief interaction with the Mayor and members of Standing Committees.

Later in the afternoon, the delegation was taken on a bus ride on the BRTS to gain first hand experience of its operations.

34. Bus Rapid Transit System (BRTS) implemented by AMC provides a good example of PPP. 'Started in October 2009, the Ahmadabad BRTS, *Janmarg*, is among the most successful solutions to the

problem of inefficient urban public transportation in India. Well functioning features of the project like median corridors, customised buses with dual-side access, state-of-the-art BRT stations and Intelligent Transportation System combine to make Janmarg successful solution to increasing congestion in the city’⁶.

35. The BRTS combines effectively the mechanism of Special Purpose Vehicle with PPP model. ‘The AMTS utilizes a unique collaboration between the public and private sectors. The supply, operation and maintenance of BRTS buses have been outsourced to the private service providers. Currently, 20 private operators run 560 CNG buses for the purpose. These private operators function under the supervision of an operating company, Ahmadabad Janmarg Limited. A well-designed incentive system has been put in place to improve service standards of bus operators. The AMC is responsible for the deployment of these buses at various schedules as well as for the collection of revenue’.⁷

Challenges

36. While PPP’s are a good way to build infrastructure projects, there can be are several challenges in the implementation.
- a. Among the significant challenges is the poor capacity of ULBs in understanding of PPP principles and absence of a dedicated legal cell to effectively negotiate the contracts. Also poor knowledge of elected representative on PPP principles and understanding of division of responsibilities between PPP operator and ULBs poses a problem.
 - b. A major input for infrastructure project is the land. The land acquisition process and systems is a major constraint; this being not under the control of municipality becomes a major dependency. Timely shifting of utilities (where required), again outside the control of municipality, can cause delays impacting financial viability of the project. This underlines the importance of ULB’s project management capacity to coordinate with different agencies – which it generally lacks.

The risks exist for both partners involved in the project. It is important to draft contracts/ partnerships agreements such that, it must be ensured that the risks and rewards are shared equitably by private and public party.

37. For success of a SPV it is required that focus must firmly be on the outcome; and all extraneous considerations must be eschewed. SPV must be created as an autonomous entity at arm’s length from the parent body.

⁶ Case Study – Ahmadabad Bus Rapid transport System, 2012, Governance Knowledge Centre, Department of Administrative Reforms and Public Grievances, Government of India

⁷ Ibid

D. Beyond finances - Issues of Governance.

38. Discussing the lessons from the Indian experience, editors of the book ‘Urbanization in India – Challenges, Opportunities and Way Forward’ observe ‘If there is one dominant message that comes out of the papers in the volume, it is that addressing the challenges of urbanization in India *is above all a question of reforming institutions of governance*’(emphasis added)⁸.
39. Karnataka was possibly the first state to adopt comprehensive municipal governance reforms in the country. It implemented the Municipal Reforms Programme - a state wide governance intervention that aims to produce well-governed and functioning cities that finance and deliver basic urban services, especially for the poor. The programme had five components that were expected to improve service delivery and enhance revenue collection through increased accountability, transparency and participation at the ULB level. These were:



Visit to Maddur Municipality

The Srilankan delegation was received by President of Maddur Town Municipal council along with Chief Officer and his staff. A presentation was made on the implementation of Property tax system. The officials of the municipality explained the process of computerizing the property details, GIS survey followed by physical verification leading to the updating of the property list

The delegation viewed the live applications of property tax, Public Grievance Redressal, Registration of Births and Deaths, etc.

a. Creation of a website for all the 213 ULBs in the state, requiring ULGs to put all information regarding their functions in the public domain. Currently all ULGs in the state have their own website;

b. Computerization of old birth and death records, registering current births and deaths online and issuing computerized birth and death certificates to citizens. To begin with, ULBs were required to computerize records of the last 10 years.⁹ The reform

⁸ Urbanization in India – Challenges, Opportunities and the Way Forward ed. Isher J Ahluwalia, Ravi Kanbur and P K Mohanty

⁹ This reform was introduced in most ULB's in 2005 and records were computerized from 1995 onwards. However, some ULGs have computerized records since 1970.

also required coordination with government hospitals and nursing homes as these are permitted to issue birth and death certificates;

- c. Public Grievance and Redressal Module (PGRM), or 'Helpline' aimed to ease the process of complaint registration and tracking. The citizen can lodge complaints pertaining to the provision and access of basic services through multiple channels i.e. the internet, phone, e-mail and paper. The GoK has facilitated the implementation of this reform by establishing a public grievance redressal cell manned by NGO's. All ULBs in Karnataka today have a PGR cell which is maintained by an NGO around the clock. Complaint redressal is tracked and the status is regularly updated in the online tool. The online tool generates bi-weekly reports on the types of complaints as well as the trends and patterns regarding the location of problems across the city.
 - d. Fund Based Double Entry Accrual Accounting System (FBDEAAS), including computerization of accounts. Switching to accrual based accounting was one of the reforms for which incentive was provided under the GoI's JnNURM program. Karnataka was one of the first few states to make this switch over and also draft an accounting manual, which later became a base for the National Municipal Model Accounting manual. This is an important reform from the stand point of ULBs' ability to access market funds as this facilitated preparation of a balance sheet of assets and liabilities which showed the financial health of the ULB.
 - e. Property Taxation Information System (PTIS), or Aasthi, computerised the functions of the revenue departments of ULBs. The main objective was to enhance revenue of ULBs through effective taxation of properties, both buildings and land, since taxes raised from property constituted the single largest source of own revenue for the ULGs. Aasthi requires property owners to file taxes using the Self-Assessment Scheme based on the Capital Value System (CVS) outlined in the Karnataka Municipalities Act, 1964. This has been discussed in detail in Section B on municipal finances.
40. Interestingly, the state also created a governance mechanism in the form of a Municipal Reforms Cell under the Department of Urban Development to steer these reforms. This has yielded good results as the State made significant progress in implementing all the above reforms. Significant achievements have been made in Aasthi, FBDEAAS and Helpline, both in Bangalore and at the state level.

Public Grievance and Redressal Mechanism – Helpline - Providing efficient and citizen centric service delivery is another area where the State has made significant progress, both through the Public Grievance and Redressal mechanisms that have been instituted in all 243 ULBs in the State as well as through a state level reform called the Sakala.

Sakala in Kannada, the local language of the State of Karnataka, means ‘in time or good time’. The first of its kind service delivery model in the country, Sakala, ensures a citizen friendly public service delivery by cutting red tape and enhancing accountability transparency and citizen participation. This backed by Karnataka Sakala Services Act, 2011 which empowers citizens to avail 669 public services from 50 departments in a **time-bound** manner and claim compensation for any delays/defaults.

Implemented as a mission mode project Sakala is based on two main foundations. Adopting the principles of citizens’ charter and Sevotham Model of excellence in service delivery, SAKALA firstly standardised workflows and schedules of services delivery. In the process where required the business processes were reengineered. The success of Sakala depended largely on the effectiveness of services delivery mechanisms that the individual departments have instituted within their respective domains. The ultimate test was to ensure that the individual departments / tiers of government were geared up to provide the service. Hence ensuring efficiency at these disaggregated levels while a challenge, has been recognised a pre-requisite for the success of an initiative at this scale. The second element was that Sakala has successfully integrated the e-governance helpline reforms of several line agencies of the GoK as well urban development agencies like the municipalities.

It is important to recognize the limitation of such attempts carried out at the level of bureaucracy. Cooption of political representatives and their cooperation, particularly at the local government level, is important as the local elected representatives depend upon the local population for their survival. Ignoring them in the complaint-redress chain has, it was seen in one study presented in the program, resulted in a parallel mechanism arising with political leader at the centre.

Challenges and Response

41. The experience of the Government of Karnataka emphasises the need to proactively address systemic issues within governments for administrative reforms to be operationalised effectively. These changes while not directly related to the reform are critical to sustain the process of municipal reforms that rely on technology and constitute pertinent learning. These are:
 - a. Creation of a human resource pool that is skilled in the use and application of IT. This is facilitated through the rationalisation of ‘cadre and recruitment rules’ of the GoK as applicable to the ULBs in Karnataka. This rationalisation allows municipalities to recruit persons with new skill-sets that are crucial to the present day functioning of municipalities i.e. technology related skills while removing some posts that are no longer needed. Furthermore, this rationalisation also facilitates inter-operability through transfers of key personnel, while enhancing options for promotions within ULBs.

- b. Instituting structures and processes to utilise technology e.g. the IT cells at the ULB level as well as the establishment of citizen service centres to enable citizens access to reforms.
- c. Standardisation of processes and procedures across the 213 ULGs, especially in the property tax assessment, enhancement and collection and in preparing accounts in FBDEAAS. Not only has the reform widened the tax net for most ULBs, standardisation of processes has reduced citizen ambiguity that prevailed prior to the introduction of the reform.
- d. These systemic changes within the ULBs have created awareness for the need for administrative reforms and associated re-engineering, and the possible ways in which technology can aid these reforms.
- e. Acknowledgement of and engaging with political representatives at the local government level, both in the conception and the implementation of reforms. This is particularly important in the case of political reforms like the Helpline and reforms pertaining to municipal finance and taxation. The experience of Helpline shows how not engaging the political representatives can undermine the success of the reform, while that of Aasthi highlights the criticality of engaging this stakeholder.

Way Forward

- 42. An important component of governance reforms is the building capacity of both the officials and elected representatives. Building institutional capacities like the e-governance initiatives (websites, computerization of accounts, grievance redress platforms, etc.) and accounting and information systems are the other areas requiring significant focus.

E. Conclusion

- 43. What the entire urban finance and governance scenario shows is that:
 - a. State of municipal finances indicates a high degree of dependency on transfers from and administrative control of higher levels of government.
 - b. Infrastructure requirements are huge and municipalities cannot fund them. There are multiple agencies involved in providing and maintaining urban infrastructure with only a small part vesting with urban local government.
 - c. Funding of municipal infrastructure projects through pooled finance and PPP have been tried in small way with support and push from State Government and GOI. These have not taken deep roots with predominant mechanism of funding coming from transfers / grants. Managing pooled financing with government supported credit enhancing / debt servicing grants is a good short term measure; but it is not a

substitute for sound municipal finances and financial management practices by the ULBs.

- d. There is a lack of backward integration of reforms; that is, some urban reforms need to be implemented in rural local bodies as today's urban local body is yesterday's rural local body. For example if property details are maintained systematically at the Gram Panchayat stage, when such gram panchayats become integrated with nearby urban agglomeration or grow into one, it would be easy to bring it under the property tax system of ULBs. Similarly the concept of paying for the services, if not nurtured in the early stages, is difficult to handle when the smaller local governments grow in size and become municipalities.
- e. While intelligent use of technology can aid the system as illustrated by the example of *Aasthi* and Helpline, it needs to be supplemented by political will for it to be effective. To illustrate, although Maddur municipality had generated demand notices, it had not served them – indicating that it is just not enough to generate notices, but serve them in order collect the tax.
- f. As was demonstrated through the documentary on Karwar Municipality, in India, more often than not, urban infrastructure projects are conceived at the higher levels



Mr. Gopa Kumar Thampi from The Asia Foundation at the debriefing session on the last day of the Programme

Debriefing session

Most of the delegates expressed satisfaction with the content of the programme. They said they felt motivated to do something on their return. While it was difficult to bring about changes quickly, it was possible to make a difference incrementally with the help of TAF and others.

One of the elected representatives felt that there was need for greater exposure and training – particularly to budget preparation.

Chairman, Finance Commission expressed confidence in being able to apportion some money for capacity building as a starting point.

and local governments are asked to rubber stamp them through resolutions. Many of ULBs are not aware of the escrowing of revenues, interception of grants, etc. Much less whether they satisfy a felt demand.

g. At the centre of all the debate and the Indian experience is the poor record of devolution of funds. As was rightly pointed out by one speaker (Dr. PK Mohanty), *solutions have to be political in order for them to be effective and sustainable*. Activity mapping of urban services should be done and accepted politically and not merely administratively

44. Strengthening ULBs is a complex process, characterised

by a range of actors and stakeholders with equally wide ranging and complex institutional and technical issues, all of which require simultaneous attention and engagement. While the week-long orientation programme provided a snapshot of the various interventions/ experiments that state and municipal governments in India have resorted to, an in-depth training and capacity enhancement programme will pave the way for learning and doing. To that extent, while in-depth case studies exploring various interventions in municipal governance and finance are a good starting point, current policy dialogues will also serve as valuable resources for Sri Lanka. For instance, the 13th Finance Commission of India has made some noteworthy recommendations on municipal finances. What these recommendations entail, how these are being operationalised and what directions these are likely to take will undoubtedly be a contributing factor to the capacity enhancement intervention. Furthermore, not all aspects of strengthening municipalities were covered in the weeklong orientation. While there were sessions on municipal finance and governance, the latter focused largely on organisational development and reforms to strengthen organisations. India has also made significant progress in as far as interventions related to institutional strengthening are concerned. These include pioneering work in formulating and adopting the more recent Community Participation Law and the Public Disclosure Law as well as the path breaking Right to Information Act, 2005. The Community Participation Law creates a new tier of decision making in each municipality called the Area Sabha. The objective is to establish appropriate political and accountability spaces to link urban governance with the people by institutionalizing citizen participation. Similarly, the Public Disclosure Law is a reform that seeks to institute transparency and accountability in the functioning of municipalities through publication of information pertaining to various facets of municipal governance. Both these reforms coupled with the Right to Information Act, 2005 have had a significant impact on the functioning of municipalities and constitute an important resource / knowledge base.

45. As a way forward, it is felt that a long term, in-depth training and capacity building programme could be useful. This could be structured (modules and innovatively illustrated case studies) around India's experience in the recent past as well the current policy and plan dialogues. Needless to say that these modules and case studies should be articulated within the Sri Lankan context, targeting practitioners, policy makers, bureaucrats / technocrats at identified levels of government as well as political leaders. Some of the themes around which the programme could be structured may include the following:
 - a. Urbanisation and urban governance (focusing on reform framework) - urbanization patterns, good urban governance, devolution of powers, urban planning and poverty, community participation in governance, state-citizen accountability.
 - b. Development – Issues and Challenges

- c. Use of technology / e-governance policies and projects – Associated issues and lessons learnt
- d. Project development, implementation and management with a focus on project identification, development, modes of financing and implementing (PPP, market tools), management (human resource and contract management)
- e. Institutional strengthening and legal frameworks covering the larger perspective of organizational and institutional frameworks that have significantly impacted the functioning of ULBs in India (Community Participation Law, 2008, Public Disclosure Law, Right to information Act, 2005)
- f. Financial Management and skills development with a focus on reforms including modern accounting, budgeting and resource mobilisation practices and processes.

The above is an indicative of a broad focus and can be modified as well as detailed, depending on the requirements.

List of Annexures

Annexure 1	Agenda and List of Resource People
Annexure	All Presentations in a separate PDF File

**Orientation Program on Urban Finances and Governance
for visiting Sri Lanka Delegation**

Le Meridian, Bangalore

Programme Schedule

15 Sep (Mon)	02:15 a.m.	Arrive in Bangalore from Colombo
	10:30 a.m.	Inauguration
	11:00 a.m. 01:00 p.m.	Municipal Finances – a macro overview of municipal finances Dr. P K Mohanty, Former Chief Secretary, GoAP
	2:00 p.m. - 3:30 p.m.	Pooled Funding – issues and challenges Dr. Devendra Pant, India Ratings & Research
	3:45 p.m. - 5:15 p.m.	Public Private Partnership in building urban infrastructure – Opportunities and Challenges Mr. Ravi Kumar, IL&FS India
	Evening	Dinner: Hosted by Director, CBPS (invitees to include eminent policy makers, academicians, CSO/NGO representatives)
16 Sep (Tue)	09:30 a.m.- 11:00 a.m.	Raising funds through Municipal Bonds – Issues and Challenges Mr. Jayanta Chatterjee, ICRA India
	11:15 a.m.- 12:45 p.m.	SAKALA (Guarantee of Services to Citizens) in the context of municipalities Ms. Shalini Rajneesh, Principal Secretary, Government of Karnataka
	After-noon	Departure for Ahmadabad by Indigo Flight 6E 166 at 1720 hours Arrive in Ahmadabad 19:20 hours <i>Check-in and Dinner at Four Points Sheraton Hotel</i>
17 Sep (Wed)		Visit to Ahmadabad Municipal Corporation (a separate programme attached)
18 Sep (Thur)	Morning	Departure from Ahmadabad 09:10 hours by Indigo Flight 6E 155 Arrival Bangalore at 11:15 hours <i>Check-in and Lunch at Le Meridien</i>
	03:00 p.m.- 05:30 p.m.	Visit to BBMP - Presentation on Property Tax Reform and Fund Based Accounting System
	Evening	Free
19 Sep (Fri)	09:30 a.m.- 11:00 a.m.	Fund Based Accounting Dr R S Murali
	11:15 a.m. 12:30 p.m.	Municipal Reforms in Karnataka – Case Studies Dr. Anjali Mohan
	02:00 p.m.- 3:30 p.m.	Municipal Reforms in Karnataka -A Presentation by Municipal Reforms Cell by Sri K. Chandrashekar Discussion moderated by Dr. Anjali Mohan
	03:45 p.m. –	Beyond finances – some governance issues

	05:15 p.m.	Dr. Vinod Vyasulu and Sri B V Madhusudhan
	Evening	Free
20 Sep (Sat)	10:30 a.m.	Departure from Bangalore [Lunch on the way to Maddur]
	02:00 a.m.- 03:30 p.m	Field visit to Maddur Town Municipality Demonstration of Aasthi and Helpline
	Evening	Check in Lalith Mahal Palace Hotel, Mysore Valediction / Discussion
21 Sep (Sun)	Morning	Free – Sightseeing Lunch at Metropole Hotel - Mysore Departure from Mysore by 14:30 hours Departure to Colombo, Sri Lanka at 20:50 hours

Programme in Ahmadabad – 17 September

10.15 AM	Arrival at Danapith Office
10.15 - 10.20 AM	Introduction and Welcome
10.20 - 12.00 PM	Presentation & Discussion on Financial Accounting System (FAS) with special emphasis on management of various grants & raising funds etc.
	Courtesy Call and interaction with Hon'ble Mayor and members of Standing Committees
12.00 - 01.00 PM	Presentation & Discussion on <ul style="list-style-type: none"> ▪ Sabarmati River Front Development ▪ Preserving Ahmadabad's Heritage ▪ Ahmadabad Janmarg Ltd. (BRTS) ▪ Solid Waste Managment.
01-00 - 03.00 PM	Lunch
03.00 - 04.00 PM	Visit to <ul style="list-style-type: none"> ▪ BRTS ride (RTO to Nehrunagar)
04.00 - 06.00 PM	Local sightseeing
08.00 PM	Dinner
