Need for Resource Mobilisation

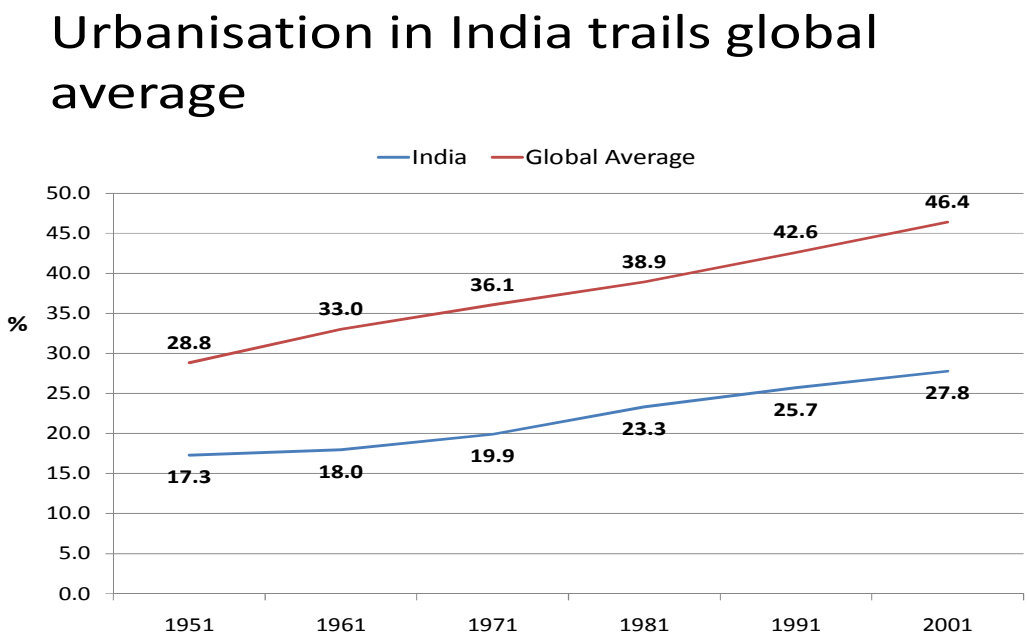
Urbanization: - An Overview

The developing world is witness to an unprecedented shift of human settlement to the cities i.e. morphology of settlements from hamlets to metropolis. India is emerging as one of the fastest urbanizing countries in the world and has reached a staggering urban population of 285 million (2001 Census). It is estimated that by the middle of this century or probably earlier, the country would be more urban than rural. The economic base of the nation through expanding industries, trade commerce and services has already shifted to the urban centres.

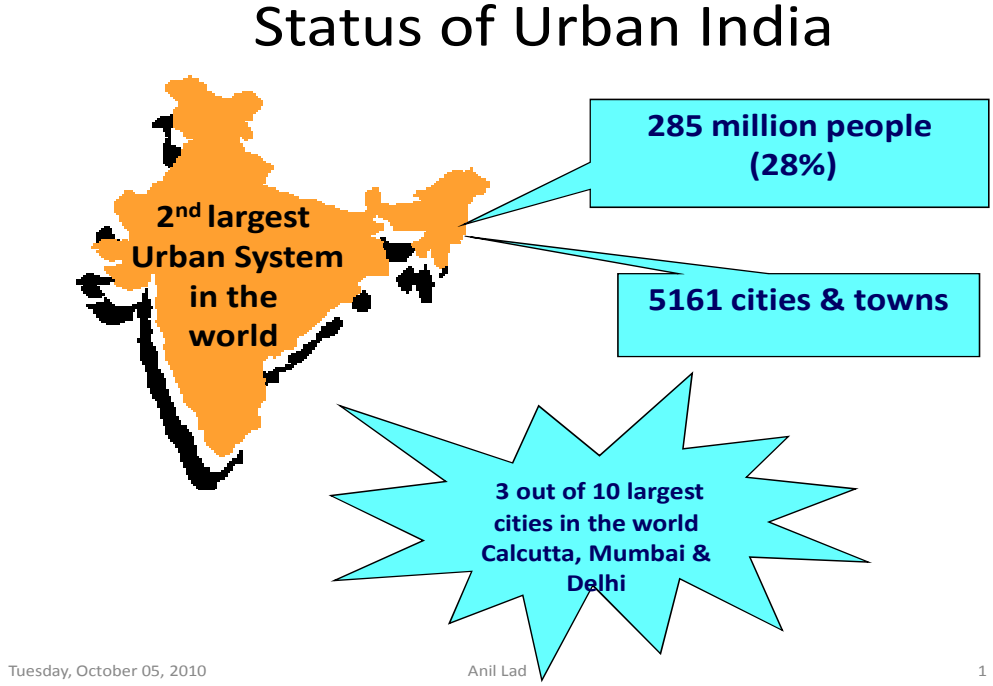
India is at a critical juncture in the process of urbanization. Only 26% of population was living in urban areas in 1991. In 2001, only one third of the country's population was living in the urban areas. The projections put urban population's share in the country's population to be at 40% by 2021. Nonetheless, even at such a low level of urbanization, the total urban population is very large. If urban India was to be considered a separate country then it would be the fourth largest country in the world.

India in a Global Context

INDICATOR	INDIA	CHINA	USA	BRAZIL
Estimated Population in millions	1060	1300	300	200
Population Density (Persons/sq km)	360	142	32	28
Annual Population Growth Rate	1.45%	0.60%	0.93%	1.12%
Population in Towns and cities	30%	38%	78%	82%
Labour Force in Agriculture	67%	48%	3%	21%
Labour Force in Industry	13%	19%	22%	20%
Labour Force in Service Sector	20%	13%	75%	59%
Population Below Poverty Line	28%	5%	0%	22%



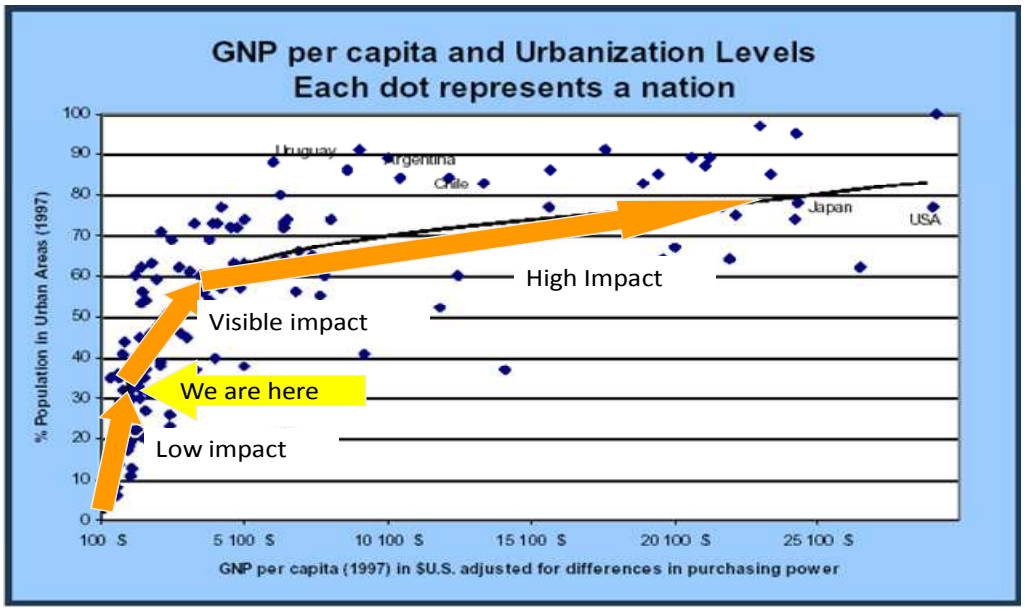
In 1991, of the 20 largest cities in the world, three (Mumbai, Calcutta and Delhi) were from India. In 2001, six of the 20 largest metropolises in the world were from India. In 1991, there were 23 million plus cities in India and their number increased from 40 in 2001 and 70 in 2021. Hence the task of urban development is daunting and requires special attention. Although India did not face an “Urban Explosion” like some other countries, the sheer magnitude of the urban population demands the attention of national authorities, especially with regard to issues of shelter, civic amenities and public health. Moreover, faster and sustainable growth of cities is imperative for faster national development.



The population share of Class I cities (population above 100,000) has increased from 26% in 1901 to 65% in 1991. The larger urban centres have experienced faster demographic growth as compared to smaller order settlements. The Class I cities, for example, have registered an average growth rate of 3.0% p.a. during 1981-91, which is higher than that of lower order towns. In the smaller towns that are mostly rooted in their regional economy, population growth is low and fluctuating over time and space. Thus, there exists a dual urban structure in India wherein the larger cities are integrated with higher order system and are part of a growth dynamics, which is, by and large, absent in smaller towns.

Even though the level of urbanisation is relatively low in India, the contribution of urban economy to national economy is significantly high. The role of urban areas as engines of growth has increased much significantly as compared to the population. For example, urban areas contributed 41 % to the national economy in the year 1981 which has gone up to 55% in 1991 and 60% in 2001. Thus, cities are emerging as engines of productivity and economic growth and it is now recognized that national economic growth and poverty reduction efforts will be increasingly determined by the productivity of towns and cities.

Increasing urbanisation can propel India's economic growth..



Source : Mario Polese, Pamela Echeverria and Mila Freire, 2002

However the ability of the Indian cities to make an impact is limited.

But ability of Indian Cities to Make an Impact is Limited

Year	Municipalities own revenue		Relative shares of own revenues (%)		
	Rs. Crores	As % of GDP	Municipalities	State governments	Central governments
1997/98	8,434.90	0.61	2.84	33.4	63.8
1998/99	9,451.70	0.59	2.97	34.3	62.7
1999/00	10,372.70	0.59	2.8	34.4	62.8
2000/01	12,018.40	0.63	2.98	35.1	61.9
2001/02	12,748.10	0.68	3.07	39.5	57.5

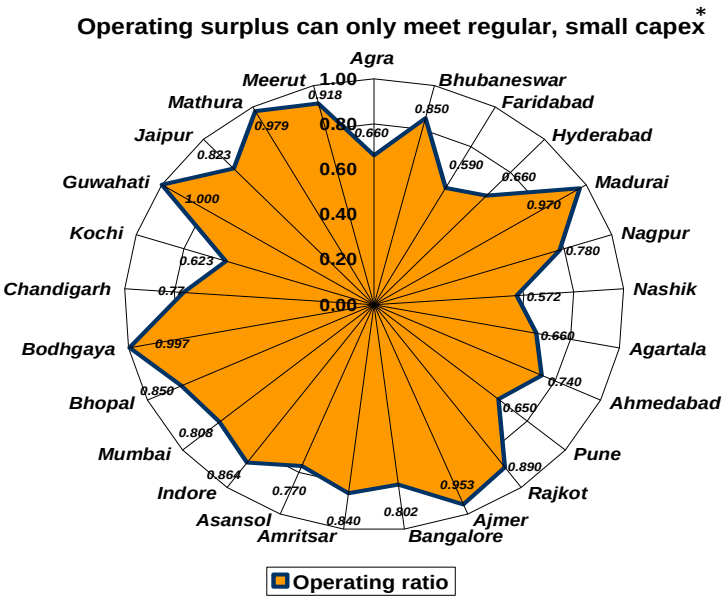
*Share of local government revenues to total publicly-raised resources is marginal**

ULBs play a limited sole vis-à-vis other large developing countries such as Brazil where 45% of the public investment in infrastructure is undertaken by municipal governments

* *Study for the Twelfth Finance Commission, Prof. O. P. Mathur and Sandeep Thakur*

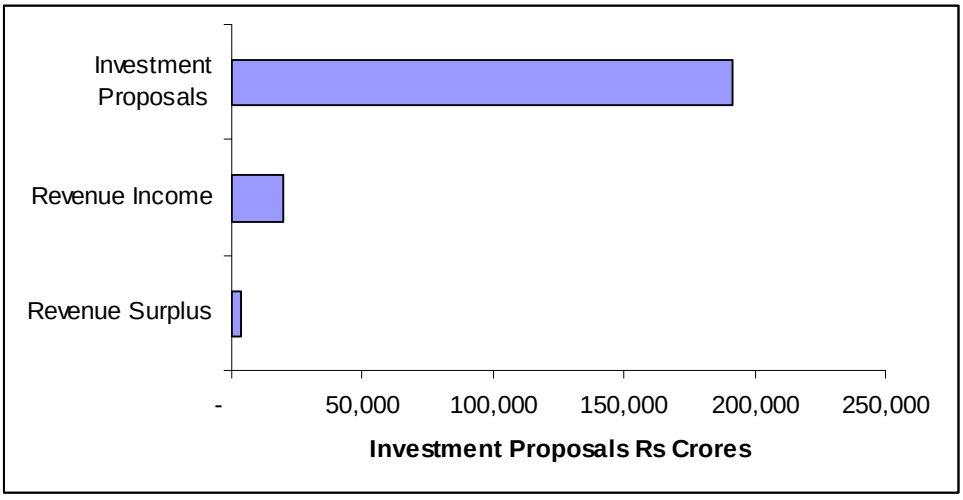
Also, the municipal revenue surplus is not adequate for large capital investments.

Municipal Revenue Surplus not adequate for Large Capital Investments



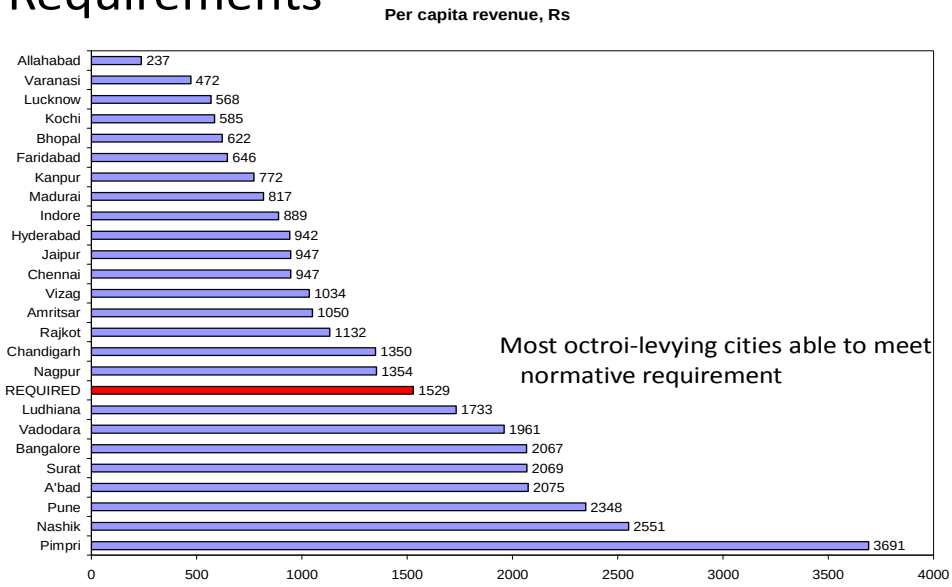
** Operating Surplus = Expenditure/ Income*

As a result, large unfunded investment needs



Source: Investment needs of 45 cities compiled from city documents

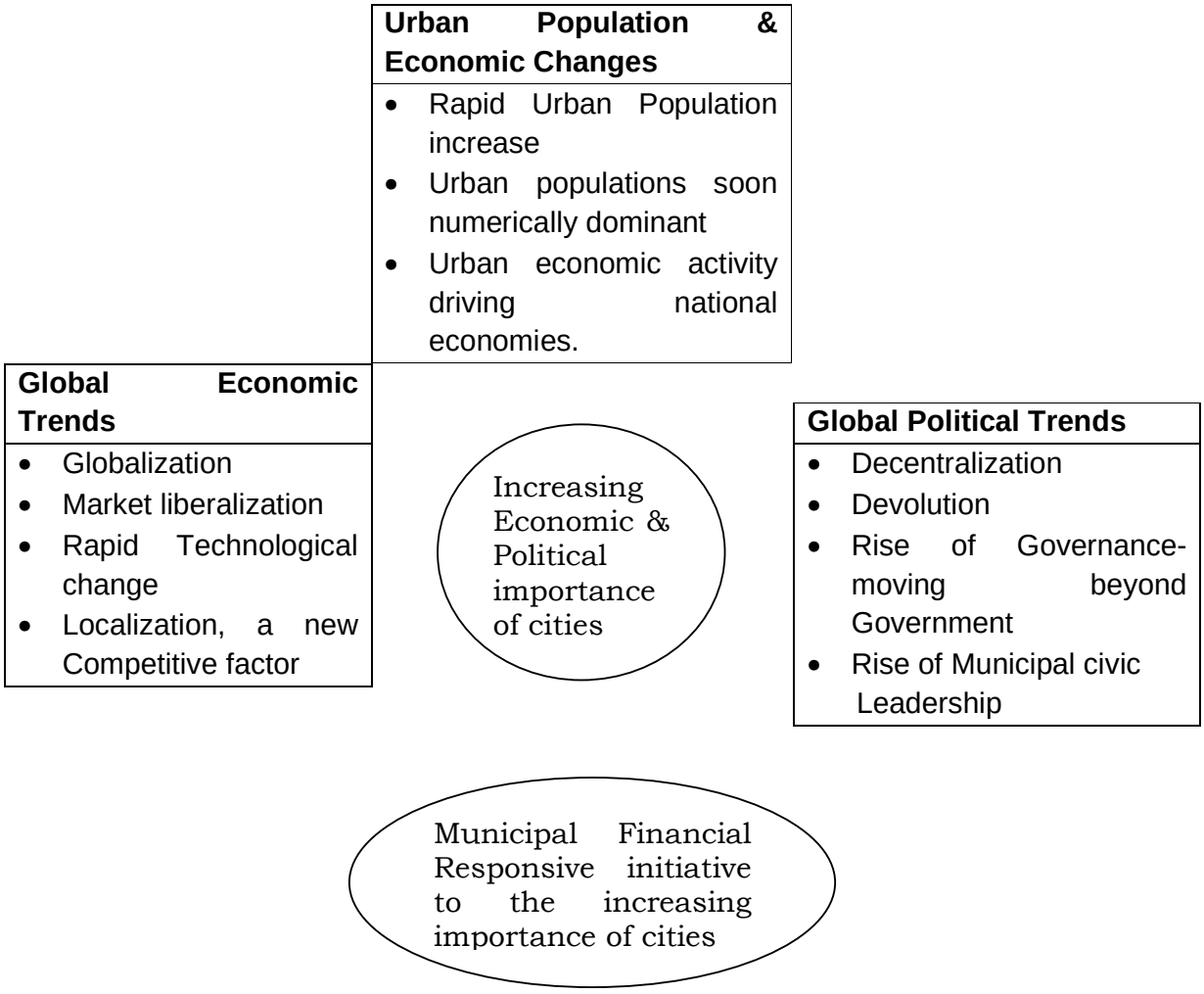
Own Revenues not adequate EVEN for O&M Requirements*



** Per capita revenue requirement for meeting O&M needs is estimated to be Rs1529 according to CRISIL Infrastructure Advisory*

Therefore, there is a need to mobilise resources. While the need of the national and urban planners to focus policy efforts on the metropolitan cities to support and accelerate the process of economic reforms is understandable, there are two major issues that have to be kept in mind. One is that there are 3,697urban centers in India as per 1991 census and their number will go up to about 5,000 in 2021. Of these only 23 urban centers have population million plus while more than 92% are small and medium towns. That is, there are large number of cities and significant population lives in small and medium towns. The other issue is, in terms of number, large population in the urban areas is below the official poverty line. In 1993-94, 76 million people in the urban areas (forming a country of the size of Mexico) were below the poverty line. The magnitude of urban poverty is quite large.

The Growing Importance of Cities



Trends in Aggregate Municipal Revenue and Expenditure: In India, the total revenue and expenditure of the municipal sector has grown at a compounded annual growth rate (CAGR) of 5.6 and 5.7% during 1998-99 to 2001-02. The year-to-year growth trends are shown in the table below. The relative share of own revenue and other revenue in the total revenue during this period have been steady at around 60 and 40%, respectively. Likewise, it can be noted that the shares of revenue and capital expenditures have been around 75 and 25%, respectively, during the same period.

Revenues and Expenditures of ULBs in India (Rs Crore)				
Item	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**
Revenue				
Total Revenue (i+ii)	11515	13173	14582	15150
(i) Own Revenue (a+b)	6874	7380	8261	8760
Share in Total Revenue (per cent)	**59.7**	**56.0**	**56.7**	**57.8**
(a) Tax Revenue	4756	5151	5618	5886
(b) Non-Tax Revenue	2118	2229	2643	2874
(ii) Other Revenue (a+b+c)	4641	5793	6321	6390
Share in Total Revenue (per cent)	**40.3**	**44.0**	**43.3**	**42.2**
(a) Assignment & Devolution	2208	2647	2982	2745
(b) Grants-in-Aid	1808	2251	2239	2672
(c) Others	625	895	1099	973
Expenditure				
Total Expenditure (i+ii)	12034	14452	15743	15915
(i) Revenue Expenditure	9059	10691	11666	12205
Share in Total Expenditre (per cent)	**75.3**	**74.0**	**74.1**	**76.7**
(ii) Capital Expenditure	2975	3761	4077	3710
Share in Total Expenditure (per cent)	**24.7**	**26.0**	**25.9**	**23.3**

Source: Report of the Twelfth Finance Commission

Urbanisation in States, Karnataka

The Censure figures show that among the States and Union Territories, the National Capital Territory of Delhi is the most urbanized with 93.0 per cent urban population followed by the Union Territories of Chandigarh (89.8 per cent) and Pondicherry (66.6 per cent). Among the major States, Tamil Nadu is the most urbanized state with 43.9 per cent of the population living in urban areas followed by Maharashtra (42.4 per cent) and Gujarat (37.4 per cent). The proportion of urban population is the lowest in Bihar with 10.5 per cent, followed by Assam (12.7 per cent) and Orissa (15.0 per cent). Understandably, the hill State of Himachal Pradesh is the least

urbanized state (9.8 per cent) among all the States and Union Territories as per Census 2001. In Karnataka it is 34%

The state has shown an increase over time, with 28.89 percent in 1981, 30.92 percent in 1991 and 34 percent in 2001.

The state's 34% of the population are living in the 214 ULBs.

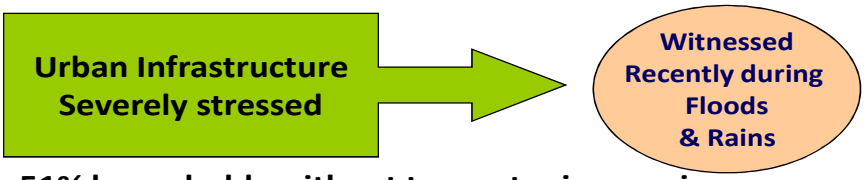
ULBs	**Population (in Lakh)**	
	number	**Population**
Corporation	8	89.45
CMC	44	42.54
TMC	94	29.27
TP	68	9.89
Total	214	171.53

Increasing urbanization and the concentration of the population are associated with increasing issues in cities and towns, such as high population density, traffic congestion, pollution, slums, rise in urban poverty, environmental degradation, shortage of housing, civic services and infrastructure etc. However, cities are also the reservoirs of skills, capital, infrastructure facilities and the preferred destinations of domestic and foreign investment. The positive role of cities has assumed more significance in this new age of globalization, liberalization and information revolution. There is a growing realization therefore, that the problems associated with urbanization emanates from poor city management and finances rather than being endemic to city growth per se. Urban poor get most affected, their access to basic services such as water and sanitation get affected.

The **p**roblems of urbanization manifest in the form of lopsided urbanization, faulty urban planning and urbanization with poor economic base and without functional categories. Hence, the problems with respect to urbanization comprise: a) housing; b) slums; c) transport; d) water supply and sanitation; e) pollution; and f) inadequate

provision of urban infrastructure (schools, hospitals etc).

The Challenges....



- **51% households without tap water in premises**
- **Several cities have only 2 – 4 hours of supply**
- **43% households without sanitation**
- **23% live in abject poverty**
- **40 million people live in slums**
- **30% households live in single room tenements**
- **30 to 50% of solid waste remains uncollected**

*Urban Decentralisation, f*unctions of the ULBs

Urban decentralization, that of devolving powers and responsibilities from the state to the Municipal bodies has become the need of the hour. Decentralisation brings with it efficient and effective management of resources, equity and transparency in administrative system and thereby ushers in good governance. The basic objective of decentralization is to devolve power to the municipal bodies both administratively as well as financially for good governance.

The 74th Constitution Amendment Act, to implement the idea of decentralized governance, amended the Constitution of India in 1994. This legislation provides Constitutional status to the urban local bodies as third tier of the government, enables participation of weaker sections and women through reservation of seats, ensures the political existence of local bodies by making it mandatory to hold elections in case of suspension or supersession within 6 months time frame and set up State Finance Commission to recommend guidelines for strengthening finances of the municipalities. The Amendment insists that there should be Specification through State laws, of the provisions for the mobilization of local finances through

taxes and revenue sharing assignment, and the statutory appointment of State Finance Commission every five years, for reviewing the financial position of the local bodies, and for making recommendations on local taxes, and transfers by way of assigned taxes, tolls and duties, as well as grants-in-aid.

Functional Domain of ULBs:

The 74th Amendment assigned enormous responsibilities to municipalities, which include:

- The preparation of plans for economic development and social justice; and
- Implementation of schemes as may be entrusted to them including those in relation to the 18 items listed in the Twelfth Schedule to the constitution.

The 74th Amendment Act adds the Twelfth Schedule to Part IX of the Constitution of India (Article 243W). This Schedule provides an illustrative list of municipal functions.

Functions listed in the 12th Schedule of the Constitution

1	Urban Planning including town planning
2	Regulation of land-use and construction of buildings
3	Planning for economic and social development
4	Roads and bridges
5	Water supply- domestic, industrial and commercial
6	Public health, sanitation, conservancy and SWM
7	Fire services
8	Urban forestry, protection of environment and ecology
9	Safeguarding the interests of weaker sections society including the handicapped and mentally retarded
10	Slum improvement and upgradation
11	Urban poverty alleviation
12	Provision of urban amenities and facilities- parks, gardens and playgrounds

13	Promotion of cultural, educational, and aesthetic aspects
14	Burials and burial grounds, cremations, cremation grounds and electric crematoriums
15	Cattle pounds, prevention of cruelty to animals
16	Vital statistics including registration of births and deaths
17	Public amenities including street lighting, parking lots, bus stops and public conveniences
18	Regulation of slaughter houses and tanneries

The State Acts define ULB powers, including revenue sources, and autonomy in taxation and expenditure priorities.

The Municipality Act (1964) in Karnataka, amended after the passing of the Constitutional Amendment has classified the functions as: (i) Obligatory functions (ii) Special functions and (iii) Discretionary Functions

The Obligatory Functions:

(Section 87 of Act, 1964)

- Lighting Public Streets, places and Buildings
- Watering Public Streets and places
- Cleaning of Public Places
- Protecting life and property from fires
- Regulating dangerous trades or practices
- Removing Obstructions in Public Places
- Securing or Removing dangerous buildings or places
- Acquiring & maintaining, changing & regulating places for the disposal of the dead
- Construction and Maintenance of Public amenities etc

Special Functions (Sections 88)

- Special Medical Aid, Prevention of the Outbreak of dangerous disease

- Giving relief during famine or scarcity

Discretionary Functions

- Laying out Public Streets
- Public Parks, Libraries, Hospitals, Choultries etc.
- Providing Shelter for destitute women
- Housing for poor and Municipal Servants
- Urban Poverty Alleviation

To carry out the functions, mobilising resources become important.

Matching Finances with Functions:

To perform the above mentioned functions, the local bodies have to be financially sound with commensurate amount of powers for raising resources. However, while the Constitution specified and listed the expenditure responsibilities, it did not specify and list the sources of revenue. It simply stated that the Legislature of a State may, by law,

- Authorize a municipality to levy, collect and appropriate such taxes, duties, tolls and fees;
- Assign to a municipality such taxes, duties, tolls and fees levied and collected by the State Government;
- Provide for making such grants-in-aid to the municipality from the Consolidated Fund of the State; and
- Provide for constitution of such funds for crediting all moneys received.

Taxes levied under the constitution

Government of India	**State Government**
Income Tax, Wealth Tax, Corporate Tax, Customs Duties and Excise Tax	State Excise, Professional Tax, Sales Tax, Entertainment Tax and Land Revenue Tax
Urban Local Bodies (ULBs) (As permitted under State Acts)	

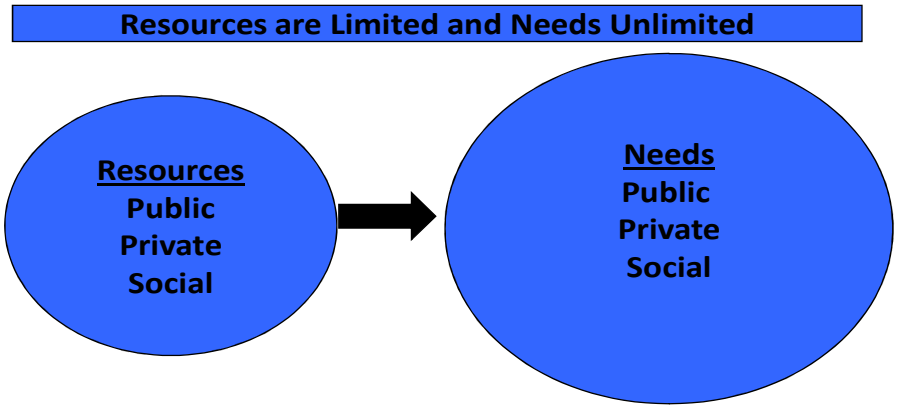
Tax on Land and Buildings, Taxes on Vehicles, Entry Tax on Goods (Octroi), Use consumption and sale, Theatre/show Tax and Tax on Advertisements other than in Newspapers.

Thus, the 74th Amendment has ignored a critical area of municipal finance i.e. the matching of resources and responsibilities. The taxes, duties, tolls and fees to be levied by the municipalities and assigned to them as also the grants-in-aid to be given to them have been left at the discretion of State Governments. This has allowed the fiscal mismatches to continue because there was not much decentralization of resources corresponding to the decentralization of expenditures that was envisaged.

Need for Resource Mobilisation

The five- fold explosive growth in urban India has resulted in serious infrastructure constraints. Infrastructure to meet the requirements for water, transport, housing, electricity, health, sanitation and education calls for huge investments. Increased urbanisation brings in fiscal strains at the State level, this gap is likely to widen over time unless ULBs contain the growth in spending or enhance their local revenue mobilization. The ULBs which bear the primary responsibility of providing basic civic amenities are experiencing a number of constraints such as poor revenues, inefficient organizational and human resources, lack of supportive environment etc. The needs are increasing but the resources are limited.

Resource – Needs Relationship



As a federation, India has important intergovernmental roles for the Central Government, states and ULBs. The Constitution demarcates functions and finances between the Central Government and state governments. The CAA clearly recognizes that ULBs are “subjects” of the states; hence state-local relations are important. The Central Government provides funding for ULBs through grants, various central schemes and the recent establishment of incentive funds.

In addition, state governments determine the number and type of ULB employees, as well as their compensation; oversee ULB budget preparation; issue guidelines and standards for service provision; and issue clearances/concurrence for various financial activities (e.g., procurement) and regulatory issues. States provide considerably more financing than the Central Government, although their flows to ULBs depend in part on their own fiscal health. Large and growing state fiscal deficits have negatively affected state -local fiscal relations.

Effort in collecting existing ULB revenues has been low. Nationwide, the central government dominates revenues, and ULBs account for less than 3 percent of total revenues of all tiers of government. The ULBS are dependent on state transfers. Most ULBs have a poor record in recovering user charges, especially for water supply, which generally do not cover operating costs, let alone the costs of needed

capital investment. Typical problems include poor administration and enforcement of charges and fees; weak information systems for proper billing and collection; political unwillingness to impose full charges; and a culture of non-payment, related in part to the poor quality of services that are provided. These challenges should be overcome.

The utility services should improve, and this can happen by creating opportunities for engaging the private sector. Private sector investment in urban infrastructure cannot take place unless a proper legal and regulatory framework for such investment is created and developed to ensure a full cost plus recovery of such investment. This calls for innovative reforms in the municipal tax structure and user charges, taking into account the poor paying capacity of a sizeable section of the urban population. A number of ULBs are experimenting with the various modes of Private-Public Partnership (PPP). Municipal Bond, Tradable Development Rights, Urban Shelter and Infrastructure Fund, Use of Land as a Resource are some of the new techniques that are being applied by city authorities.

The property tax is a key revenue source, although, at present, it is relatively underused, and has limited buoyancy relative to the overall growth in economic activity. Municipalities have adequate legal powers to collect and recover property taxes tax due. In many cases, the property tax is used to pay for *state wide* services via a cess that is surcharged to the basic property tax. These cesses lessen the link between taxes paid and (local) benefits received, and are often not collected nor remitted in full to the State.

The growth in property tax revenues has remained anaemic. Unless efforts are made to improve the situation, the gap between locale expenditure and revenues is likely to grow over time. Given the high dependence of ULBs on transfers and schemes, their lack of predictability and stability constrains rational budgeting processes at local levels. Most ULBs in Karnataka depend heavily on grants and loans from state and central agencies (many of which are intercepted or adjusted) to finance their infrastructure investments

Many reform measures have been introduced in Karnataka to improve the budgeting and accounting system. Double entry accounting system has been introduced.

Improving the quality of ULB fiscal and performance data is a high priority. The enactment of the Right to Information Act and the reform of procurement processes in Karnataka also create an enabling environment for enhancing ULB accountability and transparency.

The key messages that emerge are: the revenue bases of ULBs are not robust enough to discharge the responsibilities. The revenue sources assigned to the ULBs are not fully exploited. There is a growing need to assign higher resources to ULBs and also the need to optimise their revenues from the current sources. The need for exploring novel sources includes attracting commercial finance/ private sector participation is acutely felt.

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Sources of Revenue of Urban Local Bodies

Background:

Urban finance has a long history, dating back to the period of Chandra Gupta Maurya and Megasthenes (329 B.C). The cities during the Maurian time had 6 committees, one of which was for taxation. In 1869, taxation powers were given to the committees as the need to decentralise was felt- that is the need to relieve the strain on imperial finance in carrying out this responsibility. This would also free the district officer from day –to- day problems. The GoI Act of 1919 also reserved some taxes for local bodies. But the subsequent Act in 1935 removed them and made the local bodies' subsidiary to provincial governments.

It is with the passing of the 74th Amendment to the Constitution, in the nineties,that the issues of fiscal federalism in India derived a specific framework. One of the salient features of the Constitutional Amendment was the insistence that the States set up a Finance Commission - State Finance Commission- SFCs. Article 243 of the Constitutional Amendment (Seventy-fourth) empowers SFCs to review the financial position of Municipalities and to make recommendations to the Governor as to the principles which should govern:

- The distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the state,
- The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities.
- The grants-in-aid to the Municipalities from the Consolidated Fund of the State,
- The measures needed to improve the financial position of the Municipalities
- And Any other matter referred to the SFC by the Governor in the interest of the sound finance of the Municipalities.

25 states across the country constituted the SFCs, 23 submitted the reports and 20 states submitted the ATRs. The Second SFCs, to be constituted after five- years, had seen 19 states complying. 16 States submitted the reports and only 6 states submitted ATRs. Many of the States, including Karnataka, have

constituted the Third SFC. It has been observed that several of the States did not initiate the follow up action and the main drawback has been one of the budgetary provisions having fallen short of commitments made.

The Amendment has mainly listed the expenditure responsibilities. The States have been given the responsibility to define the sources of revenue. It has been left to the State legislature to:

- ✓ Authorise a municipality to levy. collect and appropriate such taxes, duties, tolls and fees,
- ✓ Assign to a municipality such taxes, duties, tolls and fees levied and collected by the State Government,
- ✓ Provide for making such grants-in-aid to the municipality from the Consolidated Fund of the State

Revenue Base of ULBs:

For purposes of easy understanding, the revenue base of ULBs can be categorized into two main types: External Sources and Internal Sources.

External Sources: Grants- in-aid, Plan Grants and Shared Taxes

General purpose; specific purpose; grants in lieu of taxes Animal and Vehicle Tax Compensation, Toll Compensation (Octroi Compensation), Property Tax Compensation, Per Capita Grant.

Road Grants, School Building Grants, Master Plan Grants, Integrated Development of Small and Medium Towns (IDSMT), Swarna Jayanthi Shahri Rozgar Yojana (SJSRY), National Slum Development Scheme (NSDP), Integrated Low Cost Sanitation (ILCS), Environmental Improvement of Urban Slums (EIUS), Urban Basic Services for the Poor (UBSP), etc.

Entertainment tax; motor vehicle tax; land revenue; stamp duties; profession tax; etc. Surcharge on Stamp Duty, Profession Tax, Motor Vehicles Tax, Entry Tax.

Internal (own) Sources: Tax Revenue, Non-Tax Revenue, User Charges & Fees, Sale & Hire Charges

Property taxes; tax on vehicles, animals, boats, etc.; tax on trade and callings and professions; theater tax/show tax; tax on advertisements, Octroi.

Rents from municipal assets; income from municipal undertakings; income from municipal investments; etc

Water Charges & Water Supply Donations, Trade Licensing Fee, Building Permit Fee, Development Charges/Betterment Charges, Mutation Fee, Magisterial Fines, Market Fee, Slaughter House Fee, Encroachment Fee, Parking Fee, etc.

Sale and Hire Charges: of Rubbish, of Forms, Staff Quarters Rents, Shop Room Rents.

Some of the sources mentioned above which contribute substantially to the Municipal Revenue are highlighted below.

Government Grants: The amount and nature of grants given to Urban Local Bodies by the Government differs across states, since it depends on the policy of the respective State Government. Grants can be classified into two main categories:

Tied-up Grants: The grants given by the Government for a particular purpose are called 'Tied-up Grants'. For example, Grants given by the Government for the implementation of Swarna Jayanti Sahari Rozgar Yojana is a Tied-up Grant. Such Grants cannot be used for any other purpose.

Untied Grants: These are general Grants given by the Government; Urban Local Bodies have freedom to spend those grants towards expenditures of their choice.

Property Tax: Property Tax occupies the prime position in all urban local bodies where Octroi is not in force, Property Tax contributing nearly half of the total revenue. As of the present, Property Tax is levied on the basis of "ratable" value of the property in most of the Urban Local Bodies. However, a number of ULBs have adopted different models for this purpose.

(I) Bringing Unassessed Properties into the Tax Net: As per the statutory provisions, every property whether legal or illegal situated within the municipal limit has to be assessed for Property Tax. The surveys carried out by different ULBs

revealed that large number of properties remain un-assessed for years together. The percentage of un-assessed properties is as high as 50% in some of the Urban Local Bodies. This indicates that the urban local bodies are not tapping this important subject as is warranted.

(II) Ratable Value Adopted for Assessment: In many Urban Local Bodies, the ratable value adopted for assessment is very low and does not reflect the true market position.

(III) Revision of Assessment: There are provisions within the State Acts that the taxes are revised at frequent intervals. The Karnataka Municipality Act provides for the revision of assessment. Despite this specific statutory provision, experience shows that in a large number of Urban Local Bodies, the revision is not carried out for many years, in many cases, over a period of more than 20 to 25 years.

It follows therefore that large number of unassessed properties, very low ratable value, and revision of assessment together constitute a loss of revenue to the tune of more than 100%. Revenue can be augumented through Property Tax by more than 100%, if issues pertaining to the assessment of all the properties, using proper ratable value base and carrying out revision of assessment regularly, are attended to appropriately and completely.

Advertisement Tax: Advertisement taxes are a major source of revenue. Urban areas constitute major consumer centres and, therefore, most manufacturing companies are eager to advertise their products. An Urban Local Body can exploit this situation and raise its revenue substantially by leasing out all important locations through public auction.

Trade License Fee: With greater commercialization, trade license fees can be another important source of revenue for municipalities.

Water Tax (Water Charges): The Water Tax constitutes the second most /1important source of revenue for many Urban Local Bodies. Studies conducted in many of the States reveal that the actual recovery of Water Tax is barely 40 to 50% of the total costs involved in the operation and maintenance of water supply schemes. This shows that the rate of Water Tax is not fixed with reference to users' charge. Since the supply of water is highly subsidized, Urban Local Bodies do not

generate the required revenue, which leads to the unavailability of funds for the adequate maintenance of the system. A majority of ULBs are not maintaining water supply systems appropriately and this affects the water supply to citizens. This has a circular effect, with residents being reluctant to pay the required water charges to Urban Local Bodies due to loss of faith. The situation can be described as:

- Low water charges
- Inadequate funds for maintenance
- Poor maintenance of scheme
- Low consumer satisfaction
- Reluctance on the part of the consumer to pay water charges

Unauthorized Water Use: The studies carried out with respect to a number of Urban Local Bodies show that there are large number of unauthorized water taps. In a normal course, every household must have a water tap. However, the ground situation does not support this presumption.

Meter System v/s Fix Rate System: The fixed rate system results into wastage of water. It is regressive in nature. Rich people use more water compared to the poor but both are required to pay the same charges. Wastage of water in large quantities is one of the reasons for the shortage of water and irregular supply. Every liter of water carries the cost and hence, wastage of water amounts to revenue loss to the Urban Local Body. Time has come to minimize the use of water and to eliminate water losses of all types. Every local body should, therefore, try to install Meter Systems. However, the use of a Meter System requires proper maintenance of the meters and recording of the correct readings on regular basis. To sum up, the revenue from the Water Tax can be increased substantially by charging actual user charges; detecting unauthorized water taps, discouraging public stand posts and other measures.

Rent: Every Urban Local Body whether small or big owns a large number of constructed properties. However, a majority of ULBs do not have an up to-date record of all such properties. As a result, many ULBs do not get the income by way of rent from these properties. In some cases, the rents are very low and are not revised for years on end. Further, a sizeable number of properties are in the

unauthorized occupation of politically influential individuals; therefore, the income generated by way of rent is very low in case of many Urban Local Bodies. It is absolutely necessary for every Urban Local Body to lease out all the properties owned by it through public auction and to revise the rent periodically to compensate for the loss due to inflation. In addition to constructed properties, Urban Local Bodies generally also own large number of open plots.

Fees: The income realized to ULBs from the different types of fees constitutes a small portion of the total receipt. There is tremendous scope to increase the income from different types of fees. Some of the important fees are

- Market Fees
- Parking Fees
- Entertainments / Amusements Fees

Revenue from Entertainments / Amusements parks: Every Urban Local Body has a large number of open sites as well as public gardens. Certain sections in public gardens and open sites can be identified for the development of amusement or entertainment parks. This can be conveniently done on a BOT basis. The ULB can thus raise substantial revenue through this process without making any capital investment.

The other important source of revenue is one of Borrowings.

Borrowings: Funds required for capital works can be borrowed from different sources and the financial institutions such as Nationalized Banks, HUDCO and through the process of open market borrowings. Precautions to be taken while borrowings the funds:

Borrowing should be resorted to only for capital investments and in no case should the borrowed amount be spent on operation and maintenance activities.

Borrowings should be the barest minimum and the practice should not be adopted as routine source of funding. In fact, every Urban Local Body should make all possible efforts to augment their own resources, and borrowing should be the last resort only in case it is not possible to raise the required capital.

The amount proposed to be borrowed should correspond with the repaying capacity of the Urban Local Body. Normally, the amount of loan to be raised should be fixed in a way that the cost involved on debt servicing does not exceed 40% of the Revenue Surplus.

Municipal Finance Framework:

Developing a municipal finance framework enables ULBs to act as more demand-responsive, hard budget constrained, and creditworthy financial entities, effectively catering to the basic services and infrastructure needs of citizens. Unlike the traditional project finance framework, which is limited in scope and focuses only on finances related to a specific project, an urban finance framework takes into account the totality of municipal finances, and provides policymakers, developers, potential investors and the citizens with a more comprehensive picture of the financial setting within which a project exists.

Municipal Finance-Some Basic Mathematical Expressions
Some of the expressions used in the study of urban fiscal issues as follows:
Required Expenditure= Unit Cost x Quantity of Service required to be provided per capita as per Adopted Norms x Population
Revenues = Own Taxes + User Charges and Fees + Transfers (Assigned Revenues & Grants) + Loans
Own Taxes = Collection Rate x Legal Tax Rate x Base-to-Income Ratio x Per capita Income x Population
Legal Tax Rate= Legal Liability of Tax / Base of Tax
User Charges= Unit User charge for service x Quantity of Service provided per capita x Population
Shared Revenues = Rate of Sharing x State Taxes
Grants = Per capita Grant available x Population
Fiscal Gap = Required Expenditure – Municipal Revenues

Under the constitutional scheme of arrangement, funds from the Central Government are devolved to the State Governments. Following the recommendations of the State Finance Commissions (SFCs) and taking into account the recommendations made by the Central Finance Commission (CFC), State Governments are required to devolve resources to their local bodies. However, due to endemic resource constraints, they are not in a position to devolve adequate resources to their ULBs. This is further compounded by the fact that even the existing sources of revenues are not adequately exploited by many ULBs.

State Finance Commission, Karnataka

As discussed in the preceding session, 34% of the population in Karnataka, as per 2001 Census, is urbanised. This is above the national average of 28%. There are 214 Urban Local Bodies in the State, including the city corporation. The rapid pace of urbanisation has resulted in "infrastructural deficit" in all the cities and towns.

The State's Devolution of Revenue Grants is by way of the State Finance Commission. The State constitutes SFC, as per Section 302 B of the KMA 1994. At the expiry of every five years, a new SFC is constituted. The SFCs review the financial position of all the ULBs and makes recommendation on the principles that govern the allocation of funds between the state and the municipalities. So far, Karnataka has constituted three SFCs, two have completed their reports.

The SFCs demarcate the state resources to make it available to the local governments and apply a percentage share on the amount for devolution to rural and urban local bodies. The methodologies recommended by the SFCs have been transparent and easy to calculate.

The SFC's recommendations are in place since 1997-98. The share of ULBs have increased from 2.73% (Rs.193 crore) of State's revenue receipts to 7.5% (Rs.2419 crore) in 2008-09. The SFCs have strengthened the ULBs capacity to meet the O & M costs and establishment costs. But it is strongly felt that the financial frameworks of ULBs need to be reviewed, especially given the new capacity creation under the programmes of KMRP, NKUSIP, and UIDSSMT.

The First State Finance Commission:

The First State Finance Commission in Karnataka was constituted vide Govt. order No. RDP-313 ZPS 93 dated 10-6-1994.

The terms and conditions of the First SFC:

- The distribution of the net proceeds of the taxes, duties, tolls and fees levied by the government between the State Govt. and Rural Local Bodies and Urban Local Bodies.
- The determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Local Bodies.
- The Grant-in-aid to the Local Bodies from the consolidated fund of the state.
- The measures needed to improve the financial position of the Local Bodies.
- To examine and make suggestions on the extent to which and the manner in which the resources available to the local bodies could best be utilized for meeting the expenditure of these bodies; and
- To make a detailed analysis of the repayment of loans and advances extended by the Govt. from time to time to the local bodies and make suitable recommendation for repayment of govt. dues and the possibility of adjusting these dues against future devolution of revenues from govt. to these bodies.

The First State Finance Commission submitted its report in 1996.

The First SFC Recommended transferring of one consolidated share in the entire NLGORR (Non Loan Gross Owned Revenue Receipts) of the State to ULBs and PRIs. It also recommended the-

- Replacing the system of a portion of some specific taxes of state Government by a share in the total NLGORR
- The share of ULBs and PRIs in the divisible pool is36% of NLGORR. Of the 36% the ULB share is 15% which means 5.4% of NLGORR.
- 67% of Population and 33% of illiteracy are the criteria adopted for inter-se distribution within the ULBs.

The Second State Finance Commission was set up in October 2000 vide Notification No. FD 1 ZPA 2000, dated 25.10.2000 with the same terms of reference made to the First State Finance Commission.

The Second State Finance Commission – Recommended a Balanced Financial Allocation Approach from 2003-04 to 2007-08. It retained the NLGORR concept. The Second SFC recommended 8% of NLGORR devolution to the ULBs. The Government took a decision to start with 6.0% of NLNORR in 2005-06 and enhancing this rate by 0.5% every year so as to reach the devolution level to 8.0% of NLNORR by 2009-10.

Five criteria namely Population, Area, Illiteracy, SC/ST population, Backwardness in Roads & other infrastructure and health facilities used for inter-se allocation between PRIs and ULBs . 40% devolution to PRIs + ULBs was recommended. Of this the share of ULBs is 20% = 8% of NLGORR. The Commission also recommended a Common Purpose Fund for ULBs. Rs 5 crore per year over and above the devolution was recommended. The cost of the acquisition of land for SWM also was to be over and above the devolution amounts recommended.

NLGORR to NLNORR

The basis for devolution was shifted from Non-Loan Gross Own Revenue Receipts (NLGORR) to Non-Loan Net Own Revenue Receipts (NLNORR) wherein the receipts from lotteries and cesses are taken off from NLGORR

The period of implementation of Second State Finance Commission's Recommendations is 2005-06 to 2009-10

The total amount of annual devolution are arrived as under;

Year	**% on NLNORR Amt. of Devolution**	**Year**
2005-06	6.0%	1160.00
2006-07	6.5%	1530.18
2007-08	7.0%	1904.39
2008-09	7.5%	2419.68
2009-10	8.0%	2665.00 (Estimates)

The Third SFC was Constituted in Karnataka on the 28th of August 2006. The terms and reference of the Commission has been-

1. Determination of the Principles Governing the distribution of the proceeds between ULBs & PRIs
2. Measures needed to improve the financial position of the ZP's, TPs, GP's and ULB's.
3. Examining and suggesting the best utilization of expenditure of these bodies.
4. Details analysis of repayment of loans and advances extended by Government from time to time making suitable recommendations for repayment of Government dues and the possibility of adjusting these dues against further devolution by Government to these bodies.

Inter-se devolution

Pattern in which SFC devolution is allotted to ULBs

1. Global Level Protection
2. Global Level Provisioning
3. Untied Grants

1. Global Level Protection

- Municipalities Staff Salary;
  - 100% for Municipalities
  - less than 100% for Corporations
- Pension Grant
- Deficit in repayment of loans
- Electricity Charges

2. Global Level Provisioning

- ULB share of project costs for water supply and sewerage.
- Water scarcity fund.
- Common Purpose Fund for general purpose – Rs.5.00 Crore.

- Fund for special circumstances of special events connected to development in ULBs

- Rain Water Harvesting
- Incentive money to be distributed on Monitorable Matrix to be prepared by DMA based on the following criteria.
    - Adoption of SAS
    - Actual increase in revenue recovery
    - Adoption of double entry accounting (in suggested ULBs)
    - Achievement in recovery of per capita tax & water rates
    - Adoption of e-governance system (at ULBs selected by govt.)

3. Untied Grants

Total Grant – (G.L. Protection + G.L. Provisioning) = Untied Grants

Untied grants; Based on the formula

(1) Population – 40%; (2) Area – 15%; (3) Road length – 10%; (4) Illiteracy – 15%; (5) Normative Gap of O&M and per capita property tax based on demand – 20%.

Sources of Municipal Revenue in Karnataka :

1. Own revenue – (i) Tax & (ii) Non-tax
2. Government grants
3. Debts (bonds), Loans.
4. External Financial Assistance
5. Carbon Credit
6. Public-Private-Partnership
7. Internal Financing

1. (i) Tax Revenue:

Property Tax:

- Tax on vacant lands,
- Tax on buildings (other than the Government buildings),
- Tax on residential houses (both government and private),
- Tax on shopping complex

- Tax on Choultries, schools and hospitals (other than those exempted)
- Advertisement tax

Cess

- Health Cess 15% on the property tax
- Library Cess 6% on the property tax
- Beggary Cess 3%
- ___- total of 24%

1. (ii) Non Tax Revenue:

- Water Charges (Tax on water supplies on private water tap connections)
- Rent on Municipal Land and Buildings
- Rent on Municipal Quarters
- Market Fee
- Slaughter house fee
- Ground Rent (from street hawkers and advertisement boards)
- Income from machinaries and bus stand and jataka stand fee
- Sale of manure
- Interest gained from investments and other income
- Income obtained from executing powers by the municipal authorities as in:
- Trade license fee (S 256)
- Betterment Fee (S 160) Municipal Councils have no powers if betterment fee is collected by the urban development authority
- Development Charges (S 170)
- Katha transfer (mutation) fee
- Building license fee
- Notice fee and penalty etc

2. Govt. Grants:

- State Finance Commission's Devolution
- Central Finance Commission's Devolution
- Plan Schemes
  - UIDSSMT (Physical Infrastructure Financing)
    - Water Supply, UGD, Roads, Drainages, Protection of tanks, Parking Lots (PPP)
  - SJSRY (Social Infrastructure Financing)

3. **Debt (bonds), Loans.**
    - Debt capital - Bonds
    - World Bank
    - Asian Development Bank
    - HUDCO
4. **External Financial Assistance**
    - Multi-Lateral Agencies
    - Bi-Lateral Agencies
    - Export Credit Agencies
    - Foreign Direct Investment
5. **Carbon Credit**
    - SWM
    - Energy Efficiency
6. **Public-Private-Partnership**
    - Need for capital intensive, long-lived infrastructure and the desired facility
    - built using a complex combination of Govt. & Private financing
    - Operated by a private entity under long-term franchise, contract or lease.
    - Long term – 99 yrs.
    - Construction, operation, maintenance & capital costs
7. **Internal Financing**
    - 18% fund – Social Infrastructure Financing
        - Education (40%)
        - Economic Development (40%)
        - Others (20%)

Principles of Urban Planning & Property Tax Administration

Rating and Assessment

- **Valuation of Property and Lands for Local Taxation purpose:**
- **Principles of law of Rating.**

Meaning of SAPT, Property tax returns form, taxable capital value of land (CVL), Land value (LV), Taxable capital value of building (CBV), Methods of calculation of depreciation, total CBV, calculation of property tax, illustration.

- Methods of assessment – building, vacant land, rebate on self-occupation, assessment on rented portion, exemptions from tax, penalty for non-payment.
- Home State Governments Municipal Corporation acts relating to Urban/City Planning.
- Methods of Collecting and fixing tax under VAT- Value added tax system introduced from 2004-05.
- Methods of collecting tax under “Self assessment schemes”
- Existing practice of fixing tax, drawbacks and irregularities in the existing scheme.
- Fixation of annual retable value- ARV as per market value, classification of localities in zones, classification of constructions (Buildings).
- Home State Governments Rent Act with up to date amendments, Standard rent, enhancement of standard rent and prevailing rental system.

The Path of Property Tax

1. The main obligatory functions of the Urban Local Bodies are as follows.

i. Drinking Water Supply.
ii. Street light facilities.
iii. Sanitation work.
iv. Providing Roads, Drains, Culverts etc.

2. There must be a source of income to provide the above amenities. Constitution of India empowered State Government to levy Tax on Land and Building by providing an entry at item No. 49 in list II of seventh schedule there in. Inturn the state Legislature has empowered the Urban Local Bodies to levy the tax on Lands and Buildings within their jurisdiction, as per the article 265 of the Constitution of India. The tax is based on the Rental valuation of property.

There are two types of valuation of property

1) Rental value
2) Capital value

3. The assessments (fixations of tax) of property tax were done by the officers/employees of Corporation and in the case of city Municipal Councils & Town Municipal Councils by the Assessors posted by the Government/Divisional Commissioners/Director, Directorate of Municipal Administration. There was no formal course of training to these Assessors nor are any specific steps taken to ensure objectivity of the assessment. These Assessors were appointed to the ULBs once in four years for revision of assessment. In the middle of four years the property taxes were assessed by the employees of respective ULBs for the new constructed buildings.

4. The irregularities committed by these assessors and officers empowered to determine annual ratable value, which is in two classes.

1) Deliberately causing harassment to honest taxpayers.
2) Will fully showing favour to tax evaders.

The powers vested with the assessors in determination of annual ratable value and the practices followed in approach were unreasonable, unjust, oppressive and improperly discriminatory.

5. The grievances felt by the tax payers are explained below.

1) Harassment to property owners.
2) Grant of excessive relief or remission.
3) Overlooking properties not assessed.
4) Making over or under assessments.
5) Delay in service of notices.
6) Setting conflicts among land lords and tenants.
7) Giving oral direction to raise A.R.V and lowering it in appeal.
8) Making khatha in favour of fraudulent persons.
9) Overlooking fraudulent documents tampering of records.
10) Antedating of orders and non-service of records.
11) Applying different standards in respect of different taxpayers.

Innumerable unfair procedural tactics were being done by some of the assessors to exploit the taxpayers, the abuse of powers by the assessors resulted in corrupt practices litigation, agitation, and tax evasion and causing loss of revenue to the ULBs. By observing all these defects the Bhoothalingam committee recommended that they should be a clear need for central valuation agency and core professional valuers in order to ensure uniform standards and objectivity of valuation.

In spite of the recommendation of the above committee and also on the report of Karnataka taxation review committee constituted in the year 1981 there was no any good result in assessing the properties located in the urban areas.

After abolition of collection of octroi on goods, the most important source of revenue for Urban Local Bodies is the property tax.

6. **<u>Previous method of assessing property tax.</u>**

The previous method of assessing property tax was based on the annual ratable value. The annual retable value was calculated on the annual gross rent. A standard deduction of 16%

was given at the time of assessing the property tax. The rates of tax for each category of ULBs were as follows.

(1)	**Corporation**	Not less than 20% & not more than 25%	On the annual ratable value
(2)	**City Municipal Council**	Not less than 20%	On the annual ratable value.
(3)	**Town Municipal Council**	Not less than 15%	On the annual ratable value

Based on all these discrepancies, which were created by the Assessors & Employees of the ULBs, several Institutions & also some public by individually filed the writ-petitions before the Honorable supreme & High court. After hearing the grievances, important orders were passed by the respective Honorable courts with a direction to the State Government to bring about appropriate amendments to the relevant ACT & rules.

Government of Karnataka has taken necessary steps to introduce self-assessment scheme by getting assent of the His Excellency the Governor of Karnataka on the first and Twelth day of September 2001, to amend the Karnataka Municipalities Act 1964 and as well as Karnataka Corporations Act 1976 respectively. The said amendments were published in the Karnataka Gazette on 05-09-2001 and 13-09-2001. Again a Notification was published by the Government in No. UDD 26TCT 2001 dated 12-11-2001 published in the Karnataka Gazette on 19-11-2001, in which the self-assessment scheme is introduced in Karnataka from 19-11-2001 but financially it is given to effect from 01-04-2002. This is a very progressive measure taken by the government for the simplification of property tax collection procedure from Annual ratable value to capital value system to avoid corruption and misappropriation committed by Tax Assessing Officer and other concerned officers and also the procedure in assessment of tax should not be painful to the tax payers. Maladministration in taxation is compared to sucking the blood by MOSQUITOES. Good tax administration may be compared with bees collecting honey.

Necessary amendments were also made in the Karnataka Municipalities Taxation rules 1965 vide notification No UDD 26 TCT 2001 dated 22-01-2002 published in Karnataka Gazette dated 23-1-2002 and UDD 188 MNU 2001 dated 30-12-2002 with effect from 31-12-2002.

7. Taxable Capital Value:

As defined under rule 5 of Karnataka Municipalities Taxation amendment rules 2002, and rule 4 of Karnataka Capital Value means the value of land or building as the case may be shall be determined by multiplying the market value by the area of such land or building, the market value which is notified by the committee in accordance with section 45 B of the Karnataka Stamp Act 1957, as prevailing immediately before the last date fixed for filing return in Form No II as prescribed under rule 19 of Karnataka Municipalities Taxation Amendment Rules 2002.

The Commissioner/Municipal Commissioner/Chief Officer as the case may be are authorized to publish in their office notice board about the capital value of land or building per unit area prevailing in different localities within their respective Municipal area, as and when it is revised. They may also supply the same on sale to any needy person.

The tax payers are at liberty to assess the tax by themselves based on the market value fixed for site and building construction value by the committee constituted under the provisions of section 45 B of Karnataka Stamps Act 1957, together with the following cesses.

1. Health cess 15%
2. Library cess 06%
3. Beggary cess 03%
4. Water Supply Cess 20%

The provision of section 94A of Karnataka Municipalities Act 1964 and section 103/A of Karnataka Municipal Corporation Act 1976 i.e., collection of water supply cess is omitted by Act No: 31 of 2003 dated: 16-06-2003 as such only 24% cess is now in existence. So many provisions provided in the Karnataka Municipalities Act 1964 and Karnataka Corporation Act 1976 under SAS scheme have been amended

in the interest of tax payers and those are collected and compiled here. This compilation may help the officers and officials for their ready reference in carrying out their day-to-day work.

8(a). <u>Exemption for payment of property Tax</u>

There is an exemption for 12 items as defined under section 94(1A) i.e., from (a) to (l) of Karnataka Municipalities Act 1964 & section 110 from (a) to (l) of Karnataka Municipal Corporation Act 1976.

(a) Place set apart for public worship and either actually so used or used for no other purpose.

(b) Choultries for the occupation of which no rent is charged and choultries the rent charged for Occupation of which is used exclusively for charitable purpose.

c) Places used for charitable purpose of sheltering the destitute or animals and orphanages, homes and schools for the deaf and dumb, asylum for the aged and fallen women and such similar Institutions run purely on philanthropic lines as are approved by Government;

(d) Such ancient monuments protected under the Karnataka Ancient and Historical Monuments and Archaeological Sites and Remains Act, 1961 and the Ancient Monuments and Archaeological Sites and Remains Act 1958 (Central Act 24 of 1958) or parts thereof as are not used as Residential quarters or public offices;

(e) Charitable hospitals and dispensaries but not including residential quarters attached thereto;

(f) Such hospitals and dispensaries maintained by railway administrations as may from time to time
Be notified by Government, but not including residential quarters attached thereto;

(g) Burial and cremation grounds included in the list published by the Commissioner/Municipal Commissioner/Chief Officer.

(h) Government lands set apart for free recreational purposes and all such other Government land as may be notified by it, from which in the opinion of the Government no income could be derived;

(i) Building or lands exclusively used for:-

a) Students hostels which are not established or conducted for profit;
b) Educational purpose by recognized educational institutions;
c) The offices of Labor Associations registered under the Trade Union Act, 1926 and belonging to such Association;

(j) Buildings or lands belonging to the central Government or any State Government used for Purposes of Government and not used or intended to be used for residential or commercial Purposes;

(k) Buildings or lands belonging to the city of Mysore Improvement Trust Board, the Bangalore Development Authority, the Karnataka Housing Board or any local authority, the possession of Which has not been delivered to any person, in pursuance of any grant, allotment or lease;

(l) Land which is registered as land used for agricultural purpose in the revenue accounts of Government and is actually used for the cultivation of crops;

8(b). <u>Levy of service charge on buildings exempted from property tax (vide Rule 7-A of Karnataka Municipal Corporations Taxation amendment Rules 2002)</u>.

<u>7-A(1)</u>: Service charge for providing civic amenities shall be levied in respect of buildings exempted from property tax under section 110 excluding places of public worship, at the rate of 25% of the property tax leviable for such lands and buildings but for exemption under section 111 of the Act (this provision applies only for corporation areas).

(2) The owner or occupier of such building shall pay the service charges and submit a return in Form 1A in duplicate to the Commissioner or the authorized officer in the manner specified in Rule 7.

(The content of Rule 7 is placed below):- Every owner or occupier who is liable to pay property tax shall submit a return in Form I in duplicate to the Commissioner or the officer authorized by him on or before thirtieth day of June every year.

9. Publication of resolution with notice

The Municipal Council is at full liberty to pass the resolutions at a General Meeting to levy any Tax as specified in section 94. In accordance with the provisions of Karnataka Municipalities act 1964 and the section 103 of Karnataka Municipal Corporation Act 1976 and the rules framed there under.

10. Power TO SUSPEND, REDUCE OR ABOLISH ANY EXISTING TAX SECTION 98(1) of Karnataka Municipalities Act 1964 and section 107 Karnataka Municipal Corporation Act 1976

At any time for any sufficient reason, the Municipal Council can suspend, modify or abolish any existing Tax, except otherwise provided in clause (2) of the section 140 of KM Act 1964 but it shall not take effect unless approved by the government as required under section 98(3) of Karnataka Municipalities Act 1964 & section 107 & section 146 of Karnataka Municipal Corporation Act 1976.

11. Levy of Property Tax on Commercial Building vide section 101 (2)(a) Of Karnataka Municipalities Act 1964 and section 108(2)(a) of Karnataka Municipal Corporation Act 1976

Not less than 0.5% (Rs5/thousand) and not more than 2% (two) percent (Rs20/per thousand) Maximum limit of property Tax 0.9%(Rs 9/thousand) in case of Commercial Building whose population does not exceed one lakh on taxable capital value of the Building.

12. Levy of property Tax on Residential Building. Section 101 2(b) of Karnataka Municipal Corporation Act 1976.

Not less than 0.3 (Rs. Three per Thousand) and not more than 1% (Rs. Ten per Thousand) on taxable capital value of the building, 0.6% (Rs Six per Thousand)

Maximum limit of property tax on residential building located in Municipal area, whose population does not exceed one lakh.

13. Levy of Property Tax on Vacant Lands Section 101 (2)(A)

13(a): Exemption from payment of Property Tax for vacant land situated within the Municipal Area having population of less than one lakh. (Not applicable to Corporation Area)

13(b). Section 101 (2)(c) of Karnataka Municipalities Act 1964 & section 108 (2)(c) of Karnataka Municipal Corporation Act 1976

Vacant Land measuring not above one thousand square meter at not less than 0.1 percent (Rupee one per thousand) and not more than 0.2% (Rs 2/Thousand) of taxable capital value of land.

13(c).section 101 (2)(d) of Karnataka Municipalities Act 1964 & 108(2)(c)(i) of Karnataka Municipal Corporation Act 1976.

Vacant Land measuring above one thousand square meter but not above four thousand square meter at not less than 0.025% (Rs Twenty five lakh) and not more than 0.05(Rs. 50/lakh) of taxable capital value of land.

13(d). Section 101 (2)(E) of Karnataka Municipalities Act 1964 & 108 (2)(c)(ii) of Karnataka Municipal Corporation Act 1976.

Vacant land measuring above four thousand square meter at not less than 0.01% percent (Rs. Ten per lakhs) and not more than 0.02 percent (Rs Twenty per lakhs) of taxable capital value.

13(e). Exception of Tax to the Land as apartment to a building section 101(3) para 3of Karnataka Municipalities Act 1964 & section 108(3) para 3 of Karnataka Municipal Corporation Act 1976.

Exemption is given from 1-4-2005, prior to that vacant land to a maximum of fifty square meters around the residential buildings constructed on sides measuring up to, two twenty five square meter may not be subject to property tax.

14. Opportunity given for payment of Tax payable for certain years Section 101(A)(1) of Karnataka Municipalities Act 1964 & section 108 A(1) of Karnataka Municipal Corporation Act 1976.

14(a): The property tax inclusive of all cesses so calculated under said section for the years 2002-03, 2003-04, 2004-05 at the rate which should not exceed two times the property tax inclusive of all cesses levied for the year 2001-02 under A.R.V system. This was allowed up to 31-3-2005, without any penalties.

14(b). Section 101A(2) of Karnataka Municipalities Act 1964 & section 108 A(2) of Karnataka Municipal Corporation Act 1976.

In case of default is made in making payment is accordance with sub section(1), the concerned tax payers is liable to pay a penalty at the rate of two percent per month on the amount of Tax remaining any un paid after the period specified in sub section(1).

15. Method of Assessment and property Tax Section 102 of Karnataka Municipalities Act 1964 & section 109 of Karnataka Municipal Corporation Act 1976

The taxable capital value of the building shall be assessed (together with the land occupied by It. i.e. entire extension of the site up to 31-03-2005, and from 1-4-2005 onwards the land occupied by the building shall be taken to account and the land apartment to a building shall be exempted from levy of property tax.

The taxable capital value of such land shall be assessed having regard to the Market value guidelines and properties published under section 45B and the Karnataka stamp Act 1957.

16. Fifty% Discount on Market Value guidelines section 102(1) of Karnataka Municipalities Act 1964 & section 109 (1) of Karnataka Municipalities Act 1964 & section 109(1) of Karnataka Municipal Corporation Act 1976

Fifty percent discount is allowed with effect from 01-04-2005, prior to that, at 100% of the Market value guidelines so fixed by the committee constituted under section 45B

of Karnataka Stamp Act 1957. This applies to vacant lands also which are liable for payment of tax.

17. Depreciation at the time of assessment: Section 102 (1) Last Lane of Karnataka Municipalities Act 1964 & section 109(1) of Karnataka Municipal Corporation Act 1976.

Depreciation is allowed to the buildings up to sixty years old, as per standard rate depreciation for buildings as prescribed by the PWD Department Government of Karnataka vide PWD hand book vol 11 pages 55 & 56 of the edition 1958.

18. POWER TO ENHANE THE PROPERTY TAX SECTION 102A of Karnataka Municipalities Act 1964 & section 109A of Karnataka Municipal Corporations Act 1976.

The ULBs shall not be assessed each year thereafter but shall stand enhanced by 15% once in every three commencing from the financial year 2005-06 but the ULBs may enhance property Tax up to 30% once in three years and different rates of enhancement may be made to different areas and different class of buildings and lands. Vide para (2) of section 102A of Karnataka Municipalities Act 1964 & section 109A of Karnataka Municipal Corporation Act 1976. Provided further that the non assessment of property Tax under this section during the block period of three years, shall not be applicable to a building in respect of which, there is any addition alteration or variation to it.

19. Rebate for self occupied buildings: Section 103 of Karnataka Municipalities Act 1964 & section 109A of Karnataka Municipal Corporation Act 1976.

50% rebate is allowed for the self occupied building by the Kathedras/Owner of the respective buildings.

20. Rebate of 50% on the amount payable section 105(1) para (2) of Karnataka Municipalities Act 1964 & section 112A para (2) of Karnataka Municipal Corporation Act 1976.

The owner or occupier who is liable to pay Tax, files the respective returns together with the bank challen for having paid the property tax within a month from the date of commencement of each financial year (i.e. with is 30th April of each year), shall be allowed a rebate of five percent on the Tax payable by them.

21. Levy of penalty at 2% Vide Section 105 (8) of Karnataka Municipalities Act 1964 & section 112A (5)(a) of Karnataka Municipal Corporation Act 1976.

The owner or occupier who is liable to pay the Tax, shall be paid the penalty at the rate of two percent per month in case of failure to pay the Tax amount within 90 days from the date of commencement each financial year, i.e. first July of each calendar year.

22. Levy of penalty of Rs 100/- : Section 105(5) (c) of Karnataka Municipalities Act 1964 & section 112A (5)(c) of Karnataka Municipal Corporation Act 1976.

If any owner or occupier fails to file the returns with in a one month even though after payment of Property Tax in full, shall be liable to pay a penalty of Rs 100/- by the concerned. In case of nonpayment by the concerned, the ULBs can collect the same as arrears of Tax.

23. Levy of Penalty on Unlawful buildings.

Section 107 of Karnataka Municipalities Act 1964 and Rule 22 of the Karnataka Municipalities Taxation Rules 2002 & section 112-C of Karnataka Municipal Corporations Act 1976 and Rule 12 of Karnataka Municipal Corporations Taxation amendment Rules 2002.

For any unlawful construction or reconstruction of any building or part a building.

Unlawful means.

a) Without obtaining permission under the provisions of KM Act 1964.
b) Layout formed without approval under the relevant law as prescribed under Town and Country Planning Act.
c) Land in breach of any provisions of the KM Act 1964 or any rule or bye law made there under or any direction or requisitions lawfully given or made under KM Act 1964 a rule or bye-law.

For these types and un law full, the concerned persons shall be liable to pay every year a penalty which shall be equal to twice the property tax livable on such building, so long as it remains as unlawful constructions without prejudice any proceedings which may be instituted against the concerned in respect of such unlawful constructions, but such levy and collection of penalty shall not be construed as regularization of such unlawful construction or reconstruction.

24. Levy of Penalty at 2%: vide section 105(5)(a) of Karnataka Municipalities Act 1964 & section 112A(5)(a) of Karnataka Municipal Corporation Act 1976:

At the rate of 2% per month on the amount of property tax assessed and due in case of failure to pay amount of property tax and also due to submit the return.

25. Levy of penalty at two times. Vide section 105(b) of Karnataka Municipalities Act of 1964 & section 112A (5)(b) of Karnataka Municipal Corporation Act 1976.

Not exceeding two times the amount of different between the tax assessed and the tax paid along with the return in the case of submitting knowingly an incorrect or incomplete return.

26. Submission of Return of Property Tax:

As per rule 19 of Karnataka Municipalities Taxation amendment Rules 2002 and rule 8 of Karnataka Municipalities Corporations Taxation amendment rule 2002 the person who is liable to pay the property tax, shall submit a return in form II and form I respectively in duplicate duly filled in all the columns completely and correctly, to the Municipal Commissioner or the chief Officer or the authorized officer as the case

may be, in person or sent by register post acknowledgement due. If it is presented in person one copy shall be returned to the presenting person, after being duly acknowledged by the assessing authority.

27. Demolition or removal of building: section 108(1)(2) &(3) of Karnataka Municipalities Act 1964 & section 115(1)&(2) of Karnataka Municipal Corporation Act 1976.

Any building or any portion of a building which is liable for payment of Tax is demolished or removed or otherwise than by orders of ULBs, the Kathedras or occupier shall give notice thereof in writing to the Municipal Council until such notice, the person liable to pay every such Tax as he would have been liable to pay in respect of such building, if the same or any portion thereof had not been demolished or removed.

This is also apply in respect of a building or portion of a building has fallen down due to natural calamities or burnt down due to fire accident.

28. Power to assess in case of escaped from assessment: vide section 115 of Karnataka Municipalities Act 1964 & section 143 of Karnataka Municipal Corporation Act 1976.

If any person liable to pay any of the Taxes, cess, rates, fees and charges leviable under chapter VI of KM Act 1964 has escaped from the assessment in any year, the Municipal commissioner or the chief Officers, as the case may be or the authorized officer may at any time within six years from the date of on which such person should have been assessed, serve on such person a notice assessing him to the tax, Rate cess, charges or fees due and demanding payment thereof with in fifteen days from the date of such service under the provisions of this Act and rules made there under shall so far may be a apply as if the assessment was made in the year to which tax rate, cess, charges a fee relates.

29. Demand for payment of Property Tax and appeal and against such demand.

If any property owner or other concerned fails to pay the property tax including penalty liable under sub-section 5 of 112-A of Karnataka Municipal Corporations Act 1976 and also under the provision of sub-section 5 of 105 of Karnataka Municipalities Act 1964 is not paid even after it has been become due the Corporation/CMC/TMC/TP may cause to be served upon the person liable for payment of the same, a notice of demand in such form as may be prescribed.

If the person to whom the notice of demand fails to pay the property tax together with penalty within thirty days from the service of such notice of demand, "Prefer an appeal against the demand, he shall be deemed to be in default and thereupon such sum shall be recovered along with such penalty and in such manner as may be prescribed".

"Any person disputing the claim in the notice of demand may within thirty days after the service of such notice, appeal in such manner subject to such conditions and to such authority as may be prescribed".

30. <u>Appeal to the Tax assessed and penalty levied: Section 105(5)& 107 (2)(3)(4). And rule 22 of taxation rules 2002 & section 112-C Karnataka Municipal Corporation Act 1976 (Read with Rule 15 & 17 of Karnataka Municipal Corporation Taxation amendment Rules 2002</u>:

If any order is passed by the Municipal Commissioner or the Chief officer as the case may be under the provisions of section 105(5) & 107 of KM Act 1964 & section 112-C of Karnataka Municipal Corporation Act 1976, the concerned person aggrieved by the determination and collection of penalty under sub section (2) may within thirty days from the date of receipt of the order he may file an appeal before the Deputy Commissioners of the concerned district whose decision thereon shall be final in respect of city Municipal Council, Town Municipal council & Town Panchayat but in case of Corporations shall lie to the District Court having Jurisdiction over the area concerned (vide rule 14 of Karnataka Municipal Corporations Taxation Amendment Rules 2002).

31. <u>Procedure for collection of property Taxes</u>:

After following the procedure as laid down under section (5) of section 105 of KM Act 1964 & section 112A(5) of Karnataka Municipal Corporation Act 1976, a bill to that effect shall serve on the concerned as per section 142 of KM Act 1964 & section 113 of Karnataka Municipal Corporation Act 1976 (Rule 15 & 16 of Karnataka Municipal

Corporation Taxation Rules) by following the procedure as prescribed under section 262 of the said Act.

32. APPEAL AGAINST THE BILL SERVED UNDER SECTION 142 (3) OR UNDER SUB SECTION(1) OF SECTION 148 (Read with section 113 of Karnataka Municipal Corporation Act 1976:

Any claims made by the Municipalities under the provisions of section 142 & 148, the concerned person if he so desires can file an appeal before the Judicial Magistrate having jurisdiction over the area concerned, subject to the condition as stipulated under section 150(1)(a)(b)(c) (read with section 142) but before filing the appeal, the amount admitted by the appellant has been deposited by him in the respective Municipal Office.

33. PREPARATION OF PROPERTY TAX REGISTER:

As per section 106(1) of K.M.A Act 1964 (read with rule 20 of Karnataka Municipalities Taxation Rules 2002) & section 112 B Karnataka Municipal Corporation Act 1976 read with Rule 11 of Karnataka Municipal Corporation taxation Rule 2002:

1) The Commissioner /Municipal Commissioner or the Chief Officer or the authorized officer as the case may be shall on the basis of the information furnish in return (Form No II or form I respectively) and after holding such enquiry as he considers necessary, proceed to assess the property tax.
2) If no return is filed or the return field is incomplete or incorrect, the assessing authority may proceed to access the property tax based on the inspection made and information collected & after holding such enquiry as it considers necessary.
3) The Commissioner of Corporations or the authorized officer as the case may be shall prepare and maintain a property Tax register in form second in respect of each work for every year (vide rule 11 of Karnataka Municipal Corporations Taxation Amendment Rules 2002.

The Municipal Commissioner or the Chief Officer or the authorized officer as the case may be shall prepare and maintain a property tax register in form III in respect of each ward for every year (vide rule 20 of Karnataka Municipalities Taxation Amendment Taxation rules 2002.

The Municipal Council may permit such person who has made an application with required fee as may be specified by the Municipal Council from time to time to inspect the property Tax Register at reasonable hours or grant certified extract of the entries in the register or certified copies thereof.

34. REMMISSION OF TAX IN AREAS INCLUDED OR EXTENDEED IN THE MIDDLE OF HALF-YEAR:

This provision is made applicable in Karnataka Municipal Corporations Act 1976 vide section 116. The contents of this provision are as follows.

If any area is excluded from the city, the owner of every in such area shall be entitled:-

a) If the date of such exclusion falls within the first four months of a half year, to a remission of the whole of the property tax payable in respect thereof for that half-year; and

b) If such date falls within the last four months of a half-year, to a remission of so much, not exceeding a half of the property tax payable in respect thereof for that half-year as is proportionate to the number of days in that half-year succeeding such date.

35. COMPUTERISATION OF DETAILS OF TAX PAID UNDER GEOGRAPHICAL INFORMATION SURVEY.

The Geographical Information survey, supported property Tax, the computerization is being introduced in ULBs in the state. The particulars of immovable properties like building and vacant lands are being collected by the respective ULBs in Form"C" for the computerization of the same. The details of construction are collected in five types which are mentioned under column table 1 of the said Form"C". The said five types are as follows.

(1) Wall type (2) Roof type

(3) Floor type (4) Frames wood type

(5) Shutter wood type.

For these five types, several types of materials which are being used are also shown under each type by giving code number to each one, so as to enable to feed at the time of data entry.

The category of construction type varies from ULB to ULB based on the construction material used. In the above mentioned 5 types each type has a choice of 5 to 9 materials.

With the variety of construction materials used this permutation and Combination of construction will go in to thousands. So Thirty Two different construction types has been listed out. Based on these types. The ULBs has to match their existing construction type. If it is not hundred percent match then they have to use nearest match. The list of 32 construction type, have been communicated to respective ULB through circular number DMA/MRC/CR-35/07-08 Dated: 23-07-2007.

36. PROCEDURE TO BE FOLLOWED WHERE ONE OR MORE PARTS OF ANY LAND OR BUILDING IS TO BE TREATED AS SEPARATE PROPERTY.

The Following guidelines have been given under Rule 24 of the Karnataka Municipalities Taxation Rules 2002.

If any khathedar desires that a part or two or more parts of any land or building be assessed as separate property, the municipal commissioner or chief officer may in his direction, treat such part or parts as separate property if

1) All taxes due on the entire land or building are paid.
2) A plan of the land or building showing the division and duly signed by all the owners of the property is enclosed with the application.

Computerisation, Web based application, Geographical Information System

Background:

Over the last several years, technology is increasingly being used to redesign business processes, restructure departments/ sections and programmes, and change the way the business houses and administrations plan and manage their affairs, deliver their services, and interact with various stakeholders.

A good municipal financial management information system is essential for effective municipal financial management. The heart of this system deals with the proper collection, compilation and maintenance of data and its ready availability, as and when required, in a usable form. The maintenance of financial records pertaining to annual budget, accounts, taxes, user charges, grants, loans, personnel system, expenditure, procurement, debt management etc. is the basis for effective decision-making, policy and programme formulation, project implementation, monitoring, and review. The accurate and regular flow of information facilitates coordination, communication and participation of stakeholders in the civic service delivery process. Information on existing infrastructure facilities and their condition, .utilization and functionality can facilitate priority-setting for infrastructure up gradation and replacement on a need-driven basis. Electronic networking facilities allow for easy access to and exchange of information resources between different levels of operation of the local government. This ensures improved efficiency, transparency, accountability and better civic services to the public.

E- governance

E-governance is more than just a government website on the Internet. But what is it exactly? What are the benefits of e-governance? What can governments do to make it work?

Solutions to development issues often require changes to government processes, The objective is generally to improve efficiency and effectiveness and to save costs. The driving force can also be public demand for online services and information that increase democratic participation,

accountability, transparency, and the quality and speed of services. The implementation and use of ICT solutions can support governance reforms.

The objectives of e-governance at municipal level are (i) to support, simplify and connect municipality with public (ii) improve delivery of services and empowerment of people through information (iii) all time availability of information and knowledge to policy makers for taking correct and speedy decisions (iv) overall , enhancement of efficiency, (v) adopting bottom up low cost solutions for effective implementation of policies.

Accomplishments of implementing e-governance would be (i) increased productivity and lowered error rate, (ii) improved efficiency (iii) removal of redundant manual tasks and reduction of paper work (iv) providing accurate and timely information, (v) improved delivery of services (vi) efficient and effective communication (vii) administrative and financial control (viii) 24/7 access to data

e-Governance Initiatives

E-Governance represents a strategic and systematic use of modem information and communication technology by municipalities to improve the efficiency, transparency and accountability in its functioning and interface with public.

In August 2002, Government of India announced that it would implement a comprehensive programme to accelerate e-Governance at all levels of the Government. As an initial step, the Prime Minister's Office set up a high-powered Task Force on IT and Software Development. The GoI subsequently approved the National E-Governance Action Plan for implementation during 2003-2007 (Refer Box 2.1). The Plan seeks to lay the foundation and provide the impetus for longer-term growth of e-governance within the country. It aims to create the appropriate governance and institutional mechanisms and set up the core infrastructure and policies and to implement a number of Mission Mode Projects at the Centre State and integrated service levels to create citizen-centric and business-centric environments for good governance. The National e-Governance Action Plan has identified the formulation of various Mission Mode Projects in e-Governance including one for municipalities under the responsibility of the Ministry of Urban Development.

Implementation of e-Governance in Municipalities

- The Government of India approved the National e-Governance Action Plan for implementation during 2003-2007. The Plan aims to create citizen-centric and business-centric environments for good governance through:
- .Appropriate governance and institutional mechanisms
- Core infrastructure, and policy implementation
- Mission Mode Projects at the Centre, State and integrated service levels.

The Ministry of Housing and Urban Poverty Alleviation (MoHUP A) is executing an action plan form municipalities under the National e-Governance Action Plan. This incorporates a significant degree of citizen interaction, since municipalities provide a large number of basic services to millions of citizen living in India's urban centres. The key objectives of the e-Governance initiative include:

- Provision of single window services to citizens on ‘any time, anywhere’ basis.
- Enhancement of efficiency and productivity of ULBs.
- Development of a single and integrated view of ULB information system across all ULBs in the State.
- Provision of timely and reliable management information relating to municipal administration for effective decision making.
- Adoption of a standards-based approach to enable integration with other related applications.
- MoHUPA decided to cover the following services/management functions in the first phase of Mission Mode Project:
- Registration and issue of births/deaths certificates
- Payment of property tax, utility bills.
- Grievances and suggestions
- Building approvals
- Procurement and monitoring of projects
- Health programmes
- Accounting system
- Personnel information system

An assessment of the plan was carried out in four States (Andhra Pradesh, Karnataka, Tamil Nadu, and Maharashtra) and seven ULBs (Hyderabad, Bangalore, Trichy, Coimbatore, Vizag, Kalyan, and Mumbai) in 2004. The key learnings from the assessment are as follows.

Data related Issues

1. Data creation, cleansing/validation, security, ownership and common databases are necessary first steps for implementation of e-Governance initiatives.
2. Certain standards are needed to ensure data correctness and uniformity, software development methodology and documentation, functionalities of various modules, software testing procedures etc.
3. Security, data privacy and audit issues need to be addressed.

Functions, Processes and Reengineering

1. With a few exceptions, most ULBs implemented different modules in a stand-alone manner. Integration with accounting and sequencing of implementation of key functional modules is very important.
2. Functionality of e- Governance module needs to be defined to carry out reengineering of select processes.
3. ULB agreements with banks facilitate citizens' convenience and internal operational efficiency. Issues like immediate credit of collection and reconciliation remain to be resolved.
4. Lack of qualified personnel and guideline has influenced software development and deployment.
5. Except in the case of Tamil Nadu none of the projects have made the use of language for actual application data. .
6. Except for Andhra Pradesh, there was no evidence of documented procedures or evidence of system audits in any of the initiatives.
7. Finally use of upgradeable technology necessary for sustainability of e-Governa nce in municipalities.

Objectives of e-Governance in Municipalities:

- Support, simplify and connect Government, citizen and business
- Improve delivery of services and empowerment of people through information
- Efficient transactions and latest information to business about global and domestic markets
- All time availability of information and knowledge to policy makers for taking correct and speedy decisions related to grass root developments
- Overall enhancement of efficiency and effectiveness of Government processes
- Adopting bottom up, low cost solutions for effective implementation

Issues with the Manual System

- Information in manual records difficulty in maintenance and retrieval of information
- Longer service fulfillment duration and delay in approvals/issuing the certificates
- Cumbersome processes in tax calculations and reconciliation
- Inefficient mechanism to track the citizen grievances
- Scope for illegitimate activities being unnoticed
- Lack of transparency in service fulfillment
- Tedious manual file movement processes
- Addressing the above mentioned issues lead to the development of e-governance in municipalities.

Accomplishments of Implementing e-Governance in Municipalities:

- Increased productivity and lowered error rate by automating routine manual tasks and streamlining workflows
- Improving efficiency by automating common accounting activities on a Municipal Financial Management Information System
- Removing redundant manual tasks and speed up generation of financial reports
- Reduction in paper work and providing accurate and timely information to

officials

- Improve delivery of services to stakeholders, such as citizens
- Establish efficient and effective communication
- Provide officials with a greater degree of administrative and financial control
- Boosted service to citizens with electronic registry and delivery of certificates and complaint submission
- Reengineer existing treasury information system to gain better control of financial process
- Reassigning user roles and responsibilities within new environment
- Provide training for staff on the new system
- Reduction of reporting time by the ability to generate reports as per requirement i.e. monthly reports, quarterly and yearly financial statements.
- Enhancing the data accuracy and consistency
- Data integrity and security issues
- Reducing database maintenance costs
- Enabled 24/ 7 access to data with web-based applications
- Establishing of institutional infrastructure and change management mechanism
- Human Resources Development for changing mind set of Government staff
- Development of low cost solutions, use of open source software should be encouraged. Adoption of e-governance standards and security issues are very crucial

Few Successful e-Governance Projects

- Akshya Kendra in Kerala for delivery of services in villages/ towns
- GYANDOOT: Community Owned Kiosks
- Community Information Centres (CIC) for facilitating citizen services in 487 blocks on N-E States
- e-Seva in Andhra Pradesh

Other successful projects:

- IT for high quality citizen services
- CFST, AP Portal, LRMIS, Municipalities

- IT for high internal efficiencies
- Treasuries, CMIS, Caring Gov, e-Procurement, IFIS
- IT for better enforcement of law
- Commercial Taxes, E-COPS
- IT for human resource development (HRD)
- APNET (Ku Band), 1000 Schools, APCIO, MSIT,
- Social Benefits Management, HRMS
- IT for health care
- FIDMS (PHCs), Telemedicine
- e-Justice

Need for Successful Implementation:

- Political commitment
- Personal initiative of reform minded and technology savvy civil servants.
- Continuous technology support of National Informatics Centre (NIC)
- Well defined objectives, guidelines and funding
- Competition amongst Departments and States
- Demand for better services

Steps for Successful Implementation

Up-to date information about services should be published on the web for down load application forms for a variety of services.

Actual delivery of service: applying online for registration, mutations, applying for various certificates/licenses and doctors appointments and so on

Encourage on-line payment through payment gateways and portals as a single-window for services from a large number of departments.

Implementation Steps

Step 1 - Visualize

Define Scope and Objectives to:

- Identify core functions of the municipality

- Identify areas for reform
- Visualize the end result of e-Governance
- Identify changes to legal framework

Step 2 - Strategize and Prioritize

- Develop core project concept
- Define roles and responsibilities
- MoUD, State, DIT, Consultants, etc.
- Ensure decentralized implementation structure
- Give responsibility at lower levels
- Give overall guidance from top.
- Define Action Plan
- Timelines
- Milestones
- Service levels
- Develop guidelines, policies, standard operation procedures

Step 3 Communicate

- Identify project champions
- Ensure undivided and assured presence
- Develop interaction mechanism
- Communicate with stakeholders
- Assess their expectations
- Ensure participation
- Sell the initiative
- Politicians, employees, public - must understand the benefits and should back the project
- Exchange
- Global Methodologies and Best Practices must be investigated and incorporated across domains.

Step 4 Modularize

- Data Capture

- Ensure uniform format, structured data
- Ensure data accuracy and security
- Processes
- Re-engineer, re-design and re-orient processes to take full advantage of capabilities
- Ensure structured Change Management
- Testing
- Pilot and then scale
- Migrate to electronic system (exclusive internal use initially)
- Capacity Building
- Focus on Human Resource
- Train extensively
- Develop Systems (to constantly upgrade the skills)
- Ensure adequate documentation

Step 5 Integrate

- Ensure Modular Linkage
- Eliminate redundancy of data.
- Ensure minimal information requirement from citizen
- Single Window
- Create Single point of contact
- Create Single Interface – Bilingual
- Create reliable communication
- Integrate in City or State Portals.

Step 6 Popularize

- Ensure Sustainability
- Demonstrate tangible impact
- Ensure quality of service
- Declare electronic interface as preferred mode
- Delegate authority
- Reward leadership and innovation
- Take Feedback
- Ensure quality grievance handling system

- Availability
- Ensure system uptime power, communication, etc.
- Create positive experience at point of contact

Step 7 Manage and Mature

- Enhance access
- Streamline and fine-tune
- Improve systems
- Maintain Performance Matrices and Monitoring.
- Have future plans and innovate

Case: Hyderabad Experience

In addition to the features in Financial Accounting System, several other small applications have been developed for bringing the activities, which are being done manually, for simplification of data entry and to make it accessible. Report generation time has been. reduced substantially and majority of reports are getting generated instantly.

Computerization of General Provident Fund, Budgeting and e-Seva integration Applications were taken up and implemented and have gone live from January 2005 onwards. These software applications have been developed in *n*tire architecture using Oracle *9iAS* as the front end and oracle *8i* as data base. These applications have been integrated with the existing operating modules for to and fro data transfer. GPF application has been integrated with Personnel Management System and Financial Accounting System. Budgeting Module has been integrated with Financial Accounting System and OPT receipts Module. e-Seva Application has been integrated with Property Tax, Trade License, Birth and Death, Pre-paid Parking and financial accounting system.

Budgeting: Budget Management & Control Software Application has been developed and implemented. Application Software has been developed after a detailed study of the existing procedures, provisions of the Hyderabad Municipal Corporation Act and the Chart of Accounts Structure suggested in National Municipal Accounts Manual.

Environment: Oracle *8i,* Oracle 9iAS, Oracle 9i F OTITIS & Reports.

Team Size: 4 Members

Duration: November 2004 to January 2005 (3 Months)

Salient Features:

- Capturing information from the base estimates at each Function level, reviewing and approving duly following work flow concepts.
- Oracle Financials Flex-field concept has been implemented for capturing code combination from Fund to Detailed Account Head.
- Facility to track inward budget proposal files and file movement.
- Facility to accord sanctions against the estimates to prevent the use of plan projects for non-plan projects.

Enquiry of budget estimations, proposals, actual for previous year, current year (upto the date) and variance.

- Other financial reports such as Budget Statements, . Statement of Proposals, Income and Expenditure Review Statements.

General Provident Fund: Integrated Software Application has been developed and implemented for GPF function. Salient features of the Application Software are:

- Web enabled application software
- Integrated with existing software applications
- Designed for paperless transaction process
- Master maintenance of member particulars'
- Transactions capturing and linkage from inception to payment/receipt and 1Jank reconciliation. .
- GPF member statements and loan monitoring
- Fund Performance Statement
- Fund Balance Sheet

e-Seva Collections: Application Software is being developed for e-Seva transactions monitoring and timely settlement. Salient futures of the software are:

Module-wise collection, reconciliation for the period for which consolidated payment received from the e-Seva authorities.

- Verification and capturing data related to deductions made from the collections on account of bounced cheques and transactions processing charges.
- Bounced cheque data transfer to the concerned modules for reversal of collections.
- Confirmation letters to e-Seva authorities for settlement of accounts or notifying the deviation, if any.

Examples of information that Government …		
… wishes to disseminate	***… may make available***	***… is required to supply***
press notices consultation papers policies white papers news health and safety advice benefits and entitlements applicable regulations	geographical data demographic data economic data information collected information generated routinely value added services business yellow pages	performance indicators environmental indicators audited accounts personal data internal policy documents correspondence management reports

24/7 Service Model

Systems and processes have to be adapted to a completely new service model. Intake processes are made self-service and even in the middle of the night a citizen should get an immediate (automated) response about the status of the application. Citizen's expectations towards government's response times will change because of the new communication medium. E-mail should be seen a new but serious channel besides the traditional channels such as telephone, physical counter, post and fax.

Need for Content

Websites consist of content (information). Governments will have to collect (buy), produce and update content daily. In phase 1 content will be static, but in phase 2 content will be changing every day. Content managers in each (large) department are responsible for the information on the website.

Human Resources

Effective use of ICTs in an organisation requires training of people. People should feel comfortable with the tools they can use otherwise they will return to their old working patterns and habits. Maintaining technological infrastructure requires IT skilled resources. Governments will have to compete with the private (commercial) sector to recruit the necessary IT skilled people.

Security

Just about any computer system is vulnerable to external attacks. As the government moves its core processes (information, communication and transactions) to the Internet it is becoming far more vulnerable. Internet increases the number of entry points exponentially. Protection is possible with anti-virus software, firewall at gateways, encryption technology, and authentic identification tools.

Privacy

In phases 3 and 4 governments possess detailed information about citizens and businesses, which is often held in multiple offices on many different computer systems (or still in paper files). The integration of data can result in situations where the privacy of individual citizens is in danger. It is the responsibility of the government to restrict the utilisation of private information, and secure such information from access by unintended parties. Due to public concern regarding privacy several countries have already passed data protection laws.

IT Department

With the implementation of e-governance IT is becoming more and more important in government operations. The need for a professional IT department will inevitable increase, not only during implementation, but also for maintenance of software, hardware and infrastructure.

GIS - Property Tax

Geographic information system is a tool to use for efficient and. effective coordinating the spatial data (which talks about with specific geographical reference) and attribute data (describe the various information, facts, statistics attributed to the spatial data) in any field.

GIS of property taxation essentially requires computerization of property tax records and other property related data, and digitized mapping of properties. The assessment method and extent of classification decides the extent and type of attribute data. The data building is the most important exercise in developing GIS. GIS can play a major role in improving each element of property taxation system.

The following table illustrates for various functions performed by property tax department and relevant GIS applications.

GIS Application

Sr. No	Department	Functions	GIS Applications
1.	Property Tax Department	-To maintain records of each and every property located in municipal area and update the information monthly. - To keep annual records of bills for property tax. - To alert the defaulters by maintaining separate record for them. - To Assess the Property - To Collect the Tax - Issue Property Card - Issue Tax NOC.	Display of Property Maps Census Map and Parcel Map in a single window. - Facility to view property related data by clicking on parcel or by giving property code or by name of owner / occupier. - To view information of any feature on the map by clicking object. - To locate particular property by its attribute data. - To view properties on the basis of outstanding payment. - To view properties area-wise, zone wise, block wise, office wise, tax type wise, user wise, etc. - To generate reports by querying existing data.

Objectives of GIS are:

- Bringing transparency in property tax assessment.
- Widening and perfecting property tax net.
- Rationalizing assessment method on the basis of simulation of huge database of properties.
- Assessing the impact of changes In assessment method.
- Timely revision and updation of property tax record.
- Track the changes in the properties and reassess the properties accordingly without time lag.
- Effective monitoring of tax collection system. The area wise analysis of revenue collected from the property tax and expenditure incurred on the services can be possible.

Road Map for GIS

Road map for GIS in a typical Urban Local Body can be envisaged as below:

- Define GIS applications vis a vis functions carried out by property tax department (as illustrated in the table below).
- Digitization of base map of city.
- Identifying the spatial data and attribute data required for property tax management, especially for front end (citizen interface) and back end (to support administrative decision and policy decisions).
- Review of existing data and bridging the data gaps with undertaking the surveys including pre-survey phase in which all road names, chowk names, road width, road type, and comer building details are captured.
- Attaching data to each property bearing unique identification number.
- Training and hand holding of Municipal Staff.
- Set up mechanism for updation of data and data entry.

To appreciate scope of work in each step of above road map for realistic estimate of time frame and cost for GIS and illustrative list of work is described below.

Map Preparation Methodology

- Scanning and Cleaning of City Survey Sheet
- Any Urban Local Body generally possesses preliminary two types of maps:

- City Survey Maps
- Development Plan Maps

Multi-layer digitization technique is followed segregating various features marked on the required information while blanking out unwanted details. The digitized maps will be plotted and quality check would be done to separate the maps into different layers of information. This will provide the convenience of viewing only the missing features, undershoot, and overshoot to eliminate drafting errors. After incorporating the changes, a final plot would be taken to ensure that all reported errors have been eliminated. The high resolution Satellite Image (Quickbird) can also be effectively used to prepare digitized map.

Field Survey Methodology

- Establishing Pillars/ Markers through city area
- Overlaying GRID on Development Plan of city area
- Identifying and establishing Ground Control Points (Equispaced)
- Carrying out Total Station Survey and establishing X, Y Co-ordinates of GCP's E')

Execution Methodology and Quality Control:

- Create the database of buildings & industries using industrial directory, voters list and telephone directory. Automatic geo-coding methodology should be used in creation of this database.
- Link all the pre-survey information to map. Create a color-coded map to verify that no road segment is missed. Check the physically measured road width against road width value from geo-referenced map to make sure that map proportions are properly maintained and map is correctly geo-referenced.
- Print the map sheets for detail survey, which include road names, chowknames and comer building names. It is much easier to match the map in the field and entire process can be scaled very easily for faster survey implementation.
- In the detail survey capture building name, number of floors, type of use, roadside shops and their type, footpath type and width, utilities like lamp poles, manholes, transformers, junction boxes, etc.

- Check the building names, floors, and type of use against previously created buildings and industry database. This eliminates most of the survey errors.
- Link all the survey information to map. Create a color-coded map to verify that no building or other features are missing.
- Randomly select 3% of buildings, road segments and footpaths for verification. Make sure that these random selections are uniformly distributed across entire geographical area. Repeat this process until number of errors drop to below 1%.
- Follow the above steps for each layer of the map such as utility lines, point features, etc.
- Link all the property tax data collected to map.
- Verify and tally each building captured in field survey with property tax data generated.
- Create a color-coded map to identify missing buildings in terms of data not gathered or data not attached.
- Resurvey all such cases to ensure maximum accuracy in property tax data generated.

The Mirzapur Model City GIS Based Property Tax System

Work on the Mirzapur Geographic Information System was started in December 1995 with the collection and computerization of property tax assessment registers for the 23,950 properties registered with the municipality. Assessment registers are the official property tax records. Any changes in taxation should have reference to them. Moreover, even though the registers may be disorganized and have not been updated for some years, they contain at least partial records of most of the urban property database. Any changes or the creation of any new registration system would need to be linked to these records. Old hand entry khat were converted to modem usable computer records such as shown below.

Property Enumeration and Mapping

In early 1996, the newly computerised property tax records were printed out to form the basis of the property enumeration and assessment survey. Municipal staff conducted the enumeration. Between April and December 1996 under the supervision of consultants. At the start of the project, the only property maps available were very dated and rough outline maps. From these revenue ward maps were extracted by rough boundaries for use in the property enumeration. These rough ward maps were taken to the field and used along with the assessment printouts to verify and update property information. Surveyors made current notations both on records and on maps in the field. The total number of buildings surveyed was 34,278, with 41,134 individual units. The increase in property registration from the enumeration was 44%. The property survey conducted with the enumeration was based on a simple questionnaire, which emphasized location and basic property characteristics likely to affect property values. The key characteristics were: land use, type of construction, and floor level of unit, neighborhood, area, and street accessibility.

At the end of every day enumeration/survey information was checked, corrected and entered in computer files. Rough field notation maps were faired and fitted to the outline city map to create the first ever property tax maps for Mirzapur. Upon completion, the city property tax maps were scanned and digitized using MapInfo computer mapping software. Property numbers from the enumeration were added to the computerized maps and linked with survey information. This established the first municipal geographic information system in India as shown below.

Geographic Information System to Increase Revenues

The first use of the new Mirzapur Geographic Information System was to facilitate the municipal property assessment. With the geographic information system, it was possible to develop and implement a feasible reassessment methodology without the concern for data management.

The methodology adopted was the representative neighbourhood approach where all the city's 6 I 0 Mohalla were classified into one of 7 neighbourhood types based on rent values as shown in the map below. Classifying neighborhoods by broad type is only possible with a powerful geographic information system. Once this classification

was completed, values for owner-occupied properties were calculated. Mohalla and street coding form the foundation of assessment values, so that the accuracy of these was checked visually. Properties with values significantly higher or lower than surrounding properties were reviewed in the same way. After application of a computerized assessment programme, property values were randomly checked. This checking was possible by pulling up the full property record. Property reassessment is by far the most critical use for the' geographic information system. Almost all cities will have to conduct a similar exercise in the next several years due to the severe municipal financial crisis, even though it is generally mandated every five years. The magnitude of financial benefit is enormous. In Mirzapur, the increase in tax revenues already underway is likely to be manyfold.

Costs and Benefits

The computerization process required staff that would not normally be available at the municipality. These included a planner for draftsmen for board and geographic information system map preparation, computer operators for data entry and management, and additional field survey supervisory staff. Municipal staff was responsible for routine record keeping and basic surveys. With the project processing of200 properties per man month, a total of l80 man months (for 35,000 units) was required. Survey work by the municipal staff was estimated to require approximately one man day for 20 properties.

The cost of resources external to the municipality, including computers and software was approximately Rs.38 lakh. This amounted to Rs.ll4 per property (for the total after survey 34,500 properties) or Rs.l9 per city resident. These costs do not include the required technical assistance for project management, computer programming, statistical analysis and· GIS 4evelopment. It is possible that this technical assistance could be combined for all the cities chosen through a central project management cell. This would reduce the costs on a per property basis.

In the case of Mirzapur, the current 23,950 properties produced an annual tax billing of only Rs.29 lakhs. This amounted to approximately Rs.121 per property or approximately Rs.14.5 per person (for the estimated 200,000 population). In contrast, the conservative estimate of the resulting new reassessment tax is Rs.3.2 crores (for the new 34,500 property total) or Rs.928 per property and Rs.160 per person.

Even though the estimated increase of Rs.3.2 crores does not include secondary revenue increases, it is already over 8 times the incidental cost in the ftrst year alone. If technical assistance were used judiciously, the maximum cost might be in the neighbourhood ofRs.2 crores over a 30 month period. Even: with this cost included, the revenue increase would more than repay the cost in the first year alone. In the second through ftfth years, all revenue would be net of these costs. Depending on the size of the city and the amount of possible assessment increase, such an investment programme is likely to produce an increase in revenues greater than its cost by at least several times within the implementation period.

The Government of Uttar Pradesh has approved of the use of the Mirzapur model assessment methodology. Even though the assessment is not based on the higher market values, it is not likely that higher assessments could be achieved. Therefore, we are conftdent that the amount is close to the realistic and appropriate property based tax potential for Mirzapur. This estimate is probably generally valid for most cities in Uttar Pradesh and India.

Strategy for Resource Mobilisation - Public Private Partnership

Background:

Governments worldwide understand that adequate infrastructure is needed for sustained economic growth and for reducing poverty. Infrastructure is also critical to the provision of basic services such as water, electricity, sanitation, transportation, education and health. Because of its importance, a substantial portion of government resources have traditionally been allocated to meeting infrastructure needs - often entailing significant public debt from both domestic and external sources. Despite the positive externalities derived from infrastructure improvements, such debts are being seen as a major economic burden by countries worldwide.

Public Private Partnerships (PPP) is becoming a popular alternative for the provision of infrastructure services worldwide, not only for financial reasons but also because of experience in demonstrating many other benefits of well-executed PPPs.

PPP in the Urban Local Bodies Context:

According to the National Development Council (NDC), "*massive investments are needed in infrastructure sectors such as power, roads, ports, airports and railways if India is to be able to grow at 8 percent per year.*" Moreover, the NDC has declared that the total investment needs are so large that "*a substantial portion will be through public private partnership in the form of BOT projects*."

India at the national level, has already achieved important, albeit limited, private investments in infrastructure. In order to attract the desired levels of new investments, a concerted effort is needed to build upon this success and to replicate more successful PPP transactions across sectors.

Public services need to remain committed to meeting current challenges, which may demand a radical shift in culture and the way things have been done in the past. The citizens apart from other stakeholders of the society including civic officials would have to recognize an increasing need to become pro-active in problem solving, fund-raising apart from securing best value for the citizens. Towards this end; embracing new culture of openness, transparency, accountability and strong leadership are vital. Yet the opportunities for wider scope, greater diversity and innovation also bring with them several potential risks, pitfalls and liabilities many of which may be all-together unfamiliar.

Given the country's growth aspirations and the current inadequacies of infrastructure which are sought to be overcome by the centrally administered schemes viz. Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Urban Infrastructure Development for Small & Medium Towns (UIDSSMT), Basic Services for the Urban Poor (BSUP), Integrated IHSDP. These schemes are getting implemented at the level of the Urban Local Bodies (ULBs).

In order to attract the desired levels of new investments, the ULBs need to build upon this success and to replicate more successful PPP transactions across sectors. On its part, the private sector has also shown much readiness to respond. The ULBs need to *foster speed, efficiency and transparency in the bidding process for the infrastructure contracts to ensure sanctity of contracts, encourage competition, promote market-driven tariffs and separate regulatory and adjudication authorities.*

While the technical knowledge housed among potential sponsoring entities even within the Indian ULBs are strong, the conceptualizing, selecting, procuring and managing of PPP-based projects by the ULBs in a consistent and effective manner requires a new set of knowledge, skills and techniques, that are very

different - and much more complex - than traditional methods of infrastructure procurement.

PPP: Public – Private *Partnership*

In this both the public and private sectors play equally important role. Both share equal responsibility and equal authority and they are in this entirely different and stand out and cannot be compared to privatization ventures.

PPPs are vouched for as it -

- Brings in financial and other benefits.
- Is useful for infrastructure and other basic urban services
- Pro active problem solving, fund raising
- Public services to meet current urbanisation challenges
- Best value for citizens

Definition:

A PPP is an arrangement between a public (government) entity & a private (non-government) entity by which services that have traditionally been delivered by the public entity are provided by the private entity under a set of terms and conditions that are defined at the outset.

Public Private Partnership (PPP) Project means a project based on a contract or concession agreement, between a Government or a statutory entity on the one side and a Private Sector Company on the other-side, for investing in construction and maintenance of infrastructure asset and / or delivering an infrastructure service.

The Need for PPP:

- Economic reasons
  - Inadequacy of resources

– leveraging on lower government funding

- Optimal transfer of risks – to the entity best suited to manage the risks
  - Design, Financing, Construction, Operations and Maintenance – all are commercially understood and manageable
  - Change of scope, defective designs, time overrun, cost overruns, leakage of revenues, high maintenance costs
- Transfer of responsibilities – efficiency gain
  - Appropriate technology, innovative design solutions, project management, better collection practices, life cycle costing

What a PPP is not & what it is

- *PPP is not privatisation or disinvestment*
- *PPP is not about borrowing money from the private sector.*
- *PPP is more about creating a structure*
  - *in which greater value for money is achieved for services*
  - *through private sector innovation and management skills*
  - *delivering significant improvement in service efficiency levels*
- *This means that the public sector*
  - *no longer builds roads, it purchases miles of maintained highway*
  - *no longer builds prisons, it buys custodial services*
  - *no longer operates ports but provides port services through world class operators*
  - *No longer builds power plants but purchases power*

PPP Benefits

- ***Benefits to people***
  - *Better quality of service – National Highways, Telecom, Air travel*
  - *Decreased user fees – Telecom and Air travel*
  - *Happy that Government using taxes not for salaries but for general public – High tax payers*
- ***Benefits to private sector***
  - *Return on investment – Paradise Island*
  - *Business opportunity – Hotel Metropole, Mysore*
  - *Long term involvement and guaranteed income due to lower market risk – BIAL Airport*

Other benefits:

- *Enhanced bankability – more rigorous project preparation*
- *Incentive to deliver whole life solution – not just asset creation*
- *Focus shifts to service delivery – integrated with construction, measurement of quality & payment linked to service delivery*
- *Acceleration of programme – time-bound implementation*
- *Better overall management of public services – transparency in prioritisation, selection and ongoing implementation*

Possible Areas for Urban PPPs

- *Solid Waste Management*
- *Urban Transport*

- *E governance*
- *Outsourcing of municipal services*
- *Urban renewal and regeneration (land and building redevelopment)*
- *Development Authorities/Housing Boards*
- *Urban roads and bridges*
- *Heritage and Public space development*
- *Water Supply*
- *Sewerage, drainage, sanitation*
- *And other sources including railway stations and airports*

Some Examples – India

- *Solid Waste Management: Delhi, Bangalore, Chennai, Jodhapur, Sirsa*
- *Urban Transport: Bus Terminal at Deharadun, Amirtasar*
- *Public Transport: Indore Bus Transport System*
- *Metro in Mumbai and Hyderabad: Versova, Andheri-Ghatkopar*
- *Land & Building redevelopment-Urban renewal & regeneration : Bhopal and Gwalier*
- *Urban Roads & Bridges: Thiruvananthpuram city*
- *Water Supply, Sewerage, Drainage and Sanitation: Tirupur Water Supply and Sewerage Project, Alandur Urder Ground Sewerage Scheme, Desalination Plant at Chennai*

Key Projects in Karnataka

- *BIAL*

- *HMRDC*
- *MSW Treatment and landfill at Mavallipura*
- *Madivala Market*
- *Bangalore-Maddur State Highway*
- *NICE Road*
- *Hotel Metropole and Hotel KRS*
- *Hotels & Yatri Niwas across State*
- *CSB to Karnataka Border – Elevated Expressway to E City*
- *KUWASIP*
- *Swachha Bangalore*
- *MCC, Devanahalli*

Accessing Capital Market

- Municipal bonds and
- Rating of ULBs / projects – cite, Programmes of GoI – International funding projects
- Pooled finance development schemes, VGF; GoK-KWSPF Trust (e.g. Of GBWASP, UIDF)

Background:

Rapid urbanization has increased the demand for urban services in India. The 74th Constitutional Amendment gave urban local bodies (ULBs) the responsibility to provide these services. Due to increasing emphasis on decentralization and the growing level of urbanization, the importance of municipalities in financing large scale infrastructure is growing. Urban infrastructure includes services like water systems, solid waste management, sewerage systems, power generation plants, roads, mass transportation, electricity generation and telecommunication. Evidence indicates that countries most successful in sustaining high growth backed their cities with investments directed to improve urban infrastructure. The decentralization principle states that the government services should be provided by the lowest level of government for better efficiency. Delegating responsibilities to the lowest level of government allows government services to be adapted more closely to specific demands of local citizens.

The sources of revenue devolved to ULBs are, however, not sufficient and still depend on higher levels of government. Traditionally, urban infrastructure has been financed mainly through budgetary allocations. Other financing has come from financial institutions like Housing and Urban Development Corporation and limited investments by the ULBs themselves through their internal resources. Financial resources from all these sources, however, fall far short of the urban sector's estimated investment requirements. Since public funds for

these services are inadequate, ULBs have to look for alternative sources for financing their infrastructure costs.

Accessing the municipal bond market is by far the best way to reduce the cost of credit for utilities which are not able to twist the arm of financial institutions to lend funds at lower rates. Since 1998, nine Indian cities have issued municipal bonds, including Hyderabad, Kanpur Ludhiana, Bangalore, Ahmadabad, Nagpur, Nasik, Madurai and Vishakhapatnam, though municipal bonds form a mere 0.1% of the total corporate bond market in India (by volume outstanding). By comparison, municipal bonds constitute about 12% of the overall corporate bond market in the US. Municipal bonds appear to be a good route to choose, since institutional investors both in India and abroad are looking at safer and more stable bond investments, even where the returns are lower (municipal bonds tend to carry coupons 1-2% less than the lending rate).

Municipal Bonds

Municipal bond issuance is of recent origin, with the first occurring through private placement by Bangalore Mahanagara Palike in 1997. Ahmadabad was the first municipal corporation to make a public offering in January 1998, raising Rs1 billion. In 1998, the Ahmedabad Municipal Corporation issued India's first municipal bond without state guarantee to finance a water supply and sewerage project. To boost the municipal bond market, the GOI decided to provide tax-free status to municipal bonds. Only financially strong, large municipal corporations are in a position to directly access capital markets. To help small and medium local bodies to access the market Government of India introduced the concept of pooled financing.

The Indo-US FIRE project helped the State Governments of Tamil Nadu and Karnataka issue municipal bonds by pooling municipalities. Based on the

success of these two issues, the Government of India introduced a scheme for a Pooled Finance Development Fund that will support small- and medium-sized local bodies to access capital markets. Credit rating of a bond issue provides investors with an independent third-party evaluation of the credit strength or weakness of a particular issue.

Municipal bonds generally are securitized debt instruments, providing future revenue flows from the project as collateral. ULBs offering the bonds will surrender their rights to future revenues to service the bonds. Revenue flows will comprise *octroi*, user charges collected from water supply and sewerage projects, state government grants and transfers, property tax, and tolls collected from vehicles, etc.

When future revenues are considered insufficient to meet debt service obligations, a third-party guarantee from the state government will be obtained and/or a debt service reserve fund created to obtain an investment grade rating for an issuer with no track record in the capital markets.

State-Sponsored Institutions

State-sponsored institutions include state-level financial institutions, state-sponsored SPVs, and statutory agencies such as water supply and sewerage boards. Most of these state-level entities issue bonds through private placements, which are often guaranteed by state governments (Table 21). Bond issuance can be taxable or tax-free, often in the form of structured issues or carrying credit enhancement features such as revenue dedication. □e instruments are usually known in India as structured obligations because they are structured to enhance credit rating. In recent years, these bond issues have increased significantly and carry significant fiscal risks for state governments.

Credit Rating

Rating agencies provide investors with an independent third-party evaluation of the credit strength or weakness of a particular bond issue. In the India context, rating agencies do not rate cities or countries, rather they rate the creditworthiness of a particular debt offering, essentially addressing the ability and willingness of a government issuer to pay its debts. Ratings of local governments establish a transparent credit record, and a reference framework for current and future performance of local finances and debt management. In addition to providing an initial rating of a bond offering, agencies continue to monitor the capacity of the issuer to make timely payments of principal and interest throughout the term of a bond. This continued monitoring throughout the life of a bond issue is important to the effective operation of a secondary market in local bonds. In ranking a local government's debt offering, rating agencies construct a general framework for evaluation that includes legal and administrative framework, economic base of service area, municipal finances, existing operations, management capacity, project viability, financial structuring, etc. In 1995, the FIRE-D project supported the Credit Rating Information Services of India Limited (CRISIL) to develop a methodology for carrying out municipal credit ratings based on careful study of ULBs in India and international experience. Ahmedabad was the first city where this methodology was applied in India. In February 1996, Ahmedabad received a rating from CRISIL for a bond offering. This was the first rating received by a municipal bond offering in India. The municipal credit rating system has come to be regarded by India’s private financial community as a solid indicator of a city’s performance and competitiveness. In the last 12 years, four rating agencies have provided ratings for municipal and municipal enterprise bond offerings. Subsequently, the process of credit rating of ULBs’ has gained wide acceptance with more than forty towns and cities seeking credit rating from one of the accredited credit rating agencies in the country.. The Ministry of Urban

Development launched an initiative for the institutional credit rating of 47 ULBs by the Security and Exchange Borad of India (SEBI) certified agencies namely. The credit rating initiative is envisaged to contribute towards improved financial management of ULBs and financing urban infrastructure projects.

Taxable Municipal Bonds

The Government of India (GOI), recognizing infrastructure's key role in the process of economic development, set up the Expert Group on the Commercialization of Infrastructure, often known as the Rakesh Mohan Committee, in 1994. The Committee recommended private sector participation in urban infrastructure development and accessing capital markets through issuing municipal bonds.

The Ahmedabad Municipal Corporation (AMC) was the first ULB to access the capital market in January 1998. It issued Rs.1,000 million in bonds to partially finance a Rs.4,390 million water supply and sewerage project. This was a remarkable achievement since it was the first6 municipal bond issued in India without a state guarantee and represented the first step toward a fully market-based system of local government finance. The AMC had previously instituted significant fiscal and management reforms, including improved tax collection, computerization of its accounting system, strengthening of AMC's workforce and financial management, and development of a comprehensive capital improvement program. Due to these measures, AMC was able to turn around its financial position from a cash deficit municipal corporation to achieve a closing cash surplus of Rs.2,140 million by March1999. These reforms laid the necessary groundwork for AMC's bond issue and the successful implementation of the water supply and sewerage project.

The Indo-US FIRE-D project's partnership with AMC began in 1994 with the preparation of an urban environmental workbook and an environmental risk assessment. Information provided by these studies served as the basis for formulating an Ahmedabad Corporate Plan. In this exercise, the FIRE-D project assisted AMC to carry out financial analyses and to prepare an affordable investment plan. The plan, which was prepared in association with IL&FS, assisted AMC in the development of the Ahmedabad water supply and sewerage project. In addition, the FIRE-D project sponsored and facilitated participation of AMC staff and elected leaders in a number of training programs and study tours to build capacity to undertake and sustain reforms. Since 1994, the FIRE-D project's multifaceted assistance has played a vital role in the development of the City's water supply and sewerage system and subsequent bond issues.

The debt market in India for municipal securities has grown considerably since the issuance of Ahmedabad bonds. Since 1998, other cities that have accessed the capital markets through municipal bonds without state government guarantee include Nashik, Nagpur, Ludhiana, and Madurai (Table 2). In most cases, bond proceeds have been used to fund water and sewerage schemes or road projects. India's city governments have thus mobilized about Rs.4,450 million from the domestic capital market through taxable municipal bonds. It is significant to note that most of the municipal bonds issued so far have been without a government guarantee.

The success of these issues demonstrated that local governments can access the capital market to finance the efficient delivery of civic services. The ability of municipalities to take advantage of these opportunities, however, depends on their presenting themselves as viable financial entities. ULBs must demonstrate creditworthiness and obtain an investment grade credit rating. This forces them

to improve their revenue base by introducing reforms, including improved cost recovery and financial management, as well as better management of service delivery systems. Another prerequisite for issuing municipal bonds is development of commercially viable projects, projects that can recover full costs, including the cost of debt service.

Tax-Free Municipal Bonds

The Indian Income Tax Act provides tax preferences for investments in infrastructure projects. These provisions, however, have not been generally available for financing municipal infrastructure. To boost the municipal bond market, the Government of India decided to provide tax-free status to municipal bonds. The GOI issued guidelines for issue of tax-free municipal bonds in February 2001. These guidelines stipulate eligible issuers, use of funds, essential pre-conditions, maturing period, buy-back, nature of issue and tax benefits, ceiling amount for a project, compulsory credit rating, and external monitoring of the tax-free municipal bond. Creating tax incentives for municipal securities provided a national government subsidy for ULB bond offerings by substantially reducing the interest cost of financing local infrastructure projects. Tax-free status provided an incentive to local governments to improve their fiscal management sufficient to meet the demands of the investment community.

Ahmedabad was the first municipal corporation in India to issue tax-free municipal bonds for water and sewerage projects. In April 2002, AMC issued a tax-free 10-year bond with an annual interest rate of 9.00 percent. The bond issue amount was Rs.1,000 million. The Municipal Corporation of Hyderabad also issued a tax-free municipal bond in May 2002 for Rs.825 million. The MCH thus became the second city to issue tax-free municipal bonds. The money raised by MCH through municipal bonds was used for providing urban

infrastructure in the city especially in slums. The tenure of the bond was seven years with a rate of interest of 8.50 percent.

Pooled Financing

Only financially strong, large municipal corporations are in a position to directly access capital markets. Most small and medium ULBs are not able to directly access capital markets on the strength of their own balance sheets. Also, the cost of the transaction is another barrier. In the United States and elsewhere, small local bodies pool their resources and jointly access the capital market. The FIRE-D project developed a similar vehicle for India's ULBs that enables capital investments to be pooled under one borrowing umbrella. Based on this model, the Governments of Tamil Nadu and Karnataka issued municipal bonds by pooling municipalities.

In 2003, the Tamil Nadu Urban Development Fund issued a bond by pooling 14 municipalities for commercially viable water and sewerage infrastructure projects. A special purpose vehicle, the Water and Sanitation Pooled Fund (WSPF), was set up to issue the municipal bonds. The FIRE-D project supported the efforts of WSPF to structure a Rs.304 million bond issue whose proceeds financed small water and sanitation projects in the 14 small ULBs. The Trust vehicle enabled the local bodies to participate in the capital market without increasing the contingent liabilities of the state and to channelize private financial resources into infrastructure investments. This was the first municipal pooled issue. It had a fifteen-year maturity and an annual interest rate of 9.20 percent. While the bonds were unsecured, a multi-layered credit enhancement mechanism was set up. The ULBs agreed to set apart monthly payments equal to one-ninth of their annual payments into escrow accounts and transfer the same during the tenth month into the WSPF's escrow account. Besides the strong escrow mechanism and government intercept, a key to the

bond's success was that all the pooled projects demonstrated strong collection of user charges and/or fixed upfront contribution from citizens. USAID provided a backup guarantee of 50 percent of the bond's principal through the Development Credit Authority (DCA) mechanism. The issue demonstrated a successful model of pooled financing in India. It threw open the possibility of enabling smaller and medium municipalities to access capital market funds at competitive rates.

Subsequently, the Government of Karnataka used the concept of pooled financing to raise debt from investors for the Greater Bangalore Water Supply and Sewerage Project. This project covers eight municipal towns around Bangalore and has a total project cost of Rs.6,000 million. A debt fund called the Karnataka Water and Sanitation Pooled Fund (KWSPF) was established under the Indian Trust Act to access the capital market by issuing a bond on behalf of the participating ULBs. The KWSPF was created as the intermediary between the local municipalities and the capital market. The KWSPF borrowed from the market and on-lends to the ULBs at terms determined by the KWSPF. During June 2005, the KWSPF successfully floated Rs.1,000 million tax-free municipal bonds at an annual interest rate of 5.95 percent. The tax-free status of the bonds greatly enhanced the terms on which the ULBs were to repay the loans, which in turn elevated the confidence of the investors. USAID under its DCA program provided a guarantee of up to 50 percent of the principal amount of market borrowing. It is felt that the tax-free status of the bonds and the DCA guarantee lowered the interest rate by about 1.5-2.0 percent per year compared to similar credit enhancement structures and helped to extend the bond's tenure to 15 years. The GBWASP will provide water supply to 1.5 million people residing in about 300,000 households, including some 60,000 urban poor households in 250 wards in the eight ULBs, which as of December 2006 have been merged with the Bangalore Muncipal Corporation.

The success of the pooled finance model as demonstrated in the States of Tamil Nadu and Karnataka subsequently led GOI to create a central fund that enables capital investments to be pooled under one state borrowing umbrella. The objective is to provide a cost-effective and efficient approach for smaller- and medium-sized ULBs and to reduce the cost of borrowing. MOUD formulated the Pooled Finance Development Fund (PFDF) Guidelines to help small- and medium-sized ULBs access market funds for their infrastructure projects and to encourage municipalities undertake fiscal, financial and institutional reforms required to create efficient and equitable urban centers. The PFDF Guidelines call for states to create their own pooled financing entities. The scheme is meant to provide credit enhancement grants to facilitate market borrowings through a pooled financing mechanism on behalf of identified ULBs for investment in urban infrastructure projects.

Some Examples:

December 1997

Bangalore Mahanagar Palika of Karnataka issued the first municipal bonds in India for Rs1 billion, with 7-year maturity and a coupon of 13% per annum.The purpose of bond flotation was to raise resources to develop roads, side drains, and street lighting in Bangalore City. The bond was issued through a private placement and guaranteed by the government of Karnataka. Crisil provided a rating of A (SO), indicating adequate safety. The principal and interest payments were secured by way of structured payment mechanisms— collection and deposit of property tax and government grants to a designated escrow account—which were used to pay bond holders, and supervised by a trustee: Karnataka State Financial Corporation. The issue was managed by State Bank of India Capital Markets Ltd.

January 1998

Ahmadabad Municipal Corporation (AMC) of Gujarat issued Rs1 billion at 14% payable semiannually. The bond was secured on a charge/mortgage on AMC's properties. Redemption was in three tranches of Rs333 per Rs1,000 at the end of year 5; Rs333 at the end of year 6; and Rs334 at the end of year 7. Designed as a structured obligation, the issue had a credit rating of AA (SO) from Crisil. *Octroi* collection from 10 designated collection points was earmarked to service the bond and kept in an escrow account; 75% (Rs750 million) was in the form of private placement (firm allotment basis), organized by Infrastructure Leasing and Financial Services Ltd., with co-lead managers such as Kotak Mahindra, SBI Caps, and ANZ Grindlays Bank; and 25% (Rs250 million) in the form of public issue, fully underwritten by the lead managers.

May 1999

Nashik Municipal Corporation of Maharashtra raised Rs1 billion at 14.75%, to partly finance projects such as water supply and underground sewerage, and to build flyovers, bridges, and truck terminals. Crisil rated the bonds AA (SO). Lazard Credit Capital Ltd. served as the arranger of the issue, and Bank of Maharashtra acted as the agent and trustee. *Octroi* collection from four designated collection points was earmarked in an escrow account to service the bonds, which were to be done in three tranches after years 5, 6, and 7.

September 1999

Ludhiana Municipal Corporation of Punjab issued Rs100 million at 13.5–14.0%. With a credit rating by ICRA of LAA-(SO), the bond was issued as private placements without a state government guarantee. The escrow of the revenue streams from water and sewerage charges were the basis to enhance the

rating. Property worth 1.25 times the size of the issue was pledged as security. Repayment was made in four equal instalments payable from the end of year 7.

November 2000

Nagpur Municipal Corporation of Maharashtra issued bonds worth Rs500 million at 13% coupon, payable semiannually, through a private placement of secured nonconvertible debentures. Arranged by SBI Capital Markets Ltd., the maturity of the issue was 7 years, with a put-and-call option at the end of 5 years, and a redemption option at the end of years 5, 6, and 7. The issue carried a rating of LAA-(SO) by ICRA. The proceeds of the bond issue were to be used to fund the corporation's water supply projects.

April 2001

Madurai Municipal Corporation of Tamil Nadu issued Rs300 million by way of private placement at 12.25% without a government guarantee. The bonds were in the form of secured, redeemable, and nonconvertible debentures, and were taxable. The bond issue was assigned a credit rating of LA+(SO) by ICRA and was without a government guarantee. The issue was made to partly finance the requirement for the two-lane inner ring road between Kanyakumari and Melur roads, and also to refinance the then high-cost loan from the Tamil Nadu Urban Development Fund. The agent and trustee were Canara Bank, Bangalore. The bonds were securitized through a dedicated escrow account into which toll collections from the inner city ring road are deposited daily. With a maturity of 15 years, the bonds had a put-and-call option after 8 years.

July 2001

Indore Municipal Corporation of Madhya Pradesh issued nonconvertible redeemable bonds of Rs100 million at 11.5% payable annually. The bonds were issued through private placement with guarantee from the state government.

The proceeds were to be utilized to improve city roads. The bonds were redeemable in three installments of 30%, 30%, and 40%, payable at the end of years 5, 6, and 7.

March 2002

Ahmadabad Municipal Corporation of Gujarat state issued for the second time tax-free bonds of Rs1 billion through private placement. With a rating of AA (SO) from Crisil, the coupon was 9% per annum, payable semi-annually, for the first 5 years, and the rate beginning in year 6 at the prevailing bank rate +2.5%, payable semiannually until maturity. With a maturity of 10 years, the bonds have a put-and-call option at the end of year 5 from deemed date of allotment. The lead arranger of the issue was GSFS Capital and Securities Ltd. Other arrangers included Infrastructure Leasing and Financial Services Ltd., Merchant Banking Services Ltd., Industrial Credit and Investment Corporation of India Ltd., Securities and Finance Co. Ltd., and Centrum Finance Ltd. The trustee was the Central Bank of India. Credit enhancement for the bond issue was made through an escrow account of property tax revenues.

March 2002

Hyderabad Municipal Corporation of Andhra Pradesh issued tax-free bonds of Rs825 million at 8.5%, payable semi annually and with a maturity of 7 years. The floating was backed by an escrow mechanism. The purpose was to partly fund the corporation’s plans to invest Rs2,475 million in various development projects. Crisil gave the corporation a credit rating of AA+ (SO). The State Bank of Hyderabad has acted as the trustee. Escrow accounts of non residential property tax, professional tax, advertisement tax, entertainment tax, stamp duty, and town planning charges are earmarked to service the debt.

TAX FREE MUNICIPAL BONDS
Urban Local Bodies/Parastatals which have been granted permission

SI No	Name	Amount (Rs. In crore)	Date of Gazette of Notification
1	Ahmadabad Municipal Corporation	100.00	21.08.01
2	Hyderabad Municipal Corporation	82.50	04.03.02
3	Nashik Municipal Corporation	50.00	07.03.03
4	Visakhapatnam Municipal Corporation	50.00	29.12.03
5	Hyderabad Metropolitan Water Supply and Sewerage Board	50.00	29.12.03
6	Ahmadabad Municipal Corporation	58.00	16.03.04
7	Chennai Metropolitan Water Supply and Sewerage Board	42.00	24.03.04
8	Karnataka Water & Sanitation Pooled Fund Trust	100.00	20.08.04 (Revalidated during 2005-06)
9	Chennai Metropolitan Water Supply and Sewerage Board	50.00	23.03.05
10	Chennai Corporation	44.80	24.03.05
11	Ahmadabad Municipal Corporation	100.00	24.03.05
12	Nagpur Municipal Corporation	128.00	4.1.2007
13	Ahmadabad Municipal Corporation	150.00	8.3.2007

(Revalidated during 2007-08 for six months from 28.5.2007)*
• Further extension up to 31.10.2010 is presently under consideration of Ministry of Finance.

Case 1:

Pooled Bond Issue by Tamil Nadu, India

BACKGROUND AND ENVIRONMENT

A series of changes introduced to the constitution of India in 1992[1] gave local governments increased authority and responsibility for the provision of social, economic, and urban infrastructure services (public health, education, housing, water and sanitation, urban development, etc.). State governments were left to provide increased transfer of resources and functions to urban local bodies (ULBs).[2] In response to this challenge, the government of the state of Tamil Nadu founded the Tamil Nadu Urban Development Fund (TNUDF) in 1996. The fund was created with the participation of Indian financial institutions and the World Bank and with technical assistance from USAID.

TNUDF was the first municipal development fund in the country. It was established as a trust under Indian law, and has become a leader in supporting municipal financing by introducing creative funding instruments appropriate for the emerging Indian capital market. A private asset management company, Tamil Nadu Urban Infrastructure Financial Services Ltd. (TNUFSL),[3] manages the financial operations of the trust. Through TNUFSL, TNUDF has been able to attract domestic private financing for urban projects covering water supply and sanitation, roads, bridges, electricity, and others.

In 2002, TNUDF successfully completed the Water and Sanitation Pooled Fund (WSPF), the first pooled financing arrangement in India. The transaction helped finance water infrastructure projects and benefited the country in several other ways. Its structure was tailored to the financing needs of several smaller- and medium-size urban local bodies, it provided credit enhancements to lengthen the municipal bonds' maturity, it significantly improved bond pricing, and it laid the foundation for development of the municipal bond market in India.

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[1] The 74th Constitutional Amendment Act (also known as the Decentralization Act).

[2] Krishnan, L. Tamil Nadu Urban Development Fund: Public-Private Partnership in an Infrastructure Finance Intermediary. Financing Cities, 2007.

[3] The TNUIFSL is 51 percent owned by private investors (including ICICI Bank, the largest private shareholder and manager of TNUIFSL) and 49 percent by the state government.

OBJECTIVE OF TRANSACTION

The main objective of WSPF was to provide 13 small and medium size ULBs in the state of Tamil Nadu access to the domestic capital market in order to finance their water and sanitation infrastructure projects. The goal was to diversify their credit risks and achieve the necessary economies of scale for a mix of financially strong and weak municipalities that could not have individually accessed the municipal bond market. By pooling the funding requirements, the normally high transaction costs of a bond issuance and accessing the market were spread among all borrowers. More importantly, the WSPF transaction was also intended to help develop the municipal capital market by introducing an attractive long-term debt instrument, with longer maturities than were characteristic at the time. Until this transaction, the maximum tenor for municipal bonds in India had been seven years, as they were perceived as too risky. The lack of appetite for longer maturities had become a major impediment to the expansion of the municipal bond market in the country.[4]

PRECONDITIONS AND PREREQUISITES

The creation of the Tamil Nadu Urban Development Fund was one of the key elements for the success of the WSPF transaction and other municipal financing schemes in the state. With the establishment of the TNUDF, the government of Tamil Nadu effectively insulated the process of mobilizing private financing for ULB infrastructure against the state's political pressures and bureaucracy.[5] The success of the WSPF transaction is also owed to the relatively stable legal and regulatory framework in India and the transparency of financial accounting and reporting on the part of the local bodies — all influenced by long-term and intensive USAID technical assistance. [6] The improved transparency in ULB budgets promoted effective interaction with the financial capital markets and facilitated the structuring of long-term financing.

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[4] Review of Risk Mitigation Instruments for Infrastructure Financing and Recent Trends and Developments, Public- Private Infrastructure Advisory Facility, 2007.

[5] Krishnan, L. Tamil Nadu Urban Development Fund: Public-Private Partnership in an Infrastructure Finance Intermediary. Financing Cities, 2007.

[6] USAID provides technical assistance through the Financial Institution Reform and Expansion (FIRE) project.

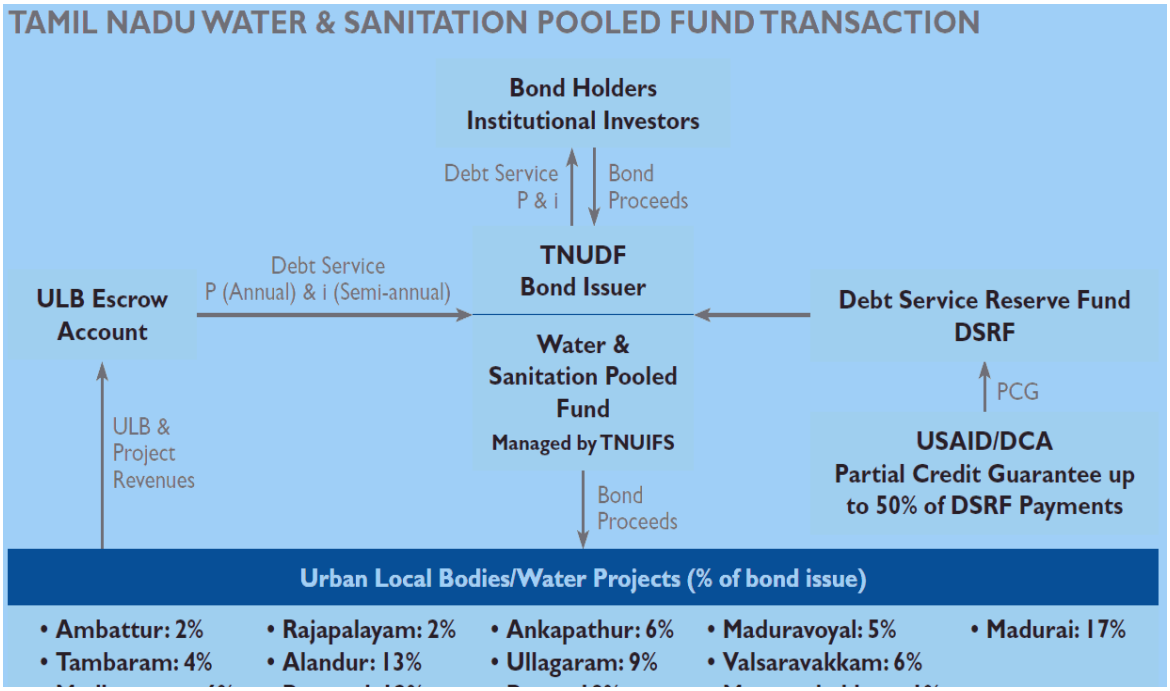
MODEL AND FINANCIAL STRUCTURE

The Water and Sanitation Pooled Fund was organized by TNDUF as a debt fund. The proceeds from bonds issued by the TNUDF were deposited in the fund, and subsequently lent back to the 13 participating ULBs as sub-loans to finance their water infrastructure projects. (See Figure 3 on page 17.) Debt is repaid by the individual projects' cash flows and from the municipalities' general revenues.[7]

The financial structure included several credit enhancement features designed to increase investor confidence and overcome their lack of interest in long-term debt. The first was an escrow account funded by the participating ULBs, with an amount equivalent to one year of their respective debt service obligations due to TNUDF. These funds are held in highly liquid, secure, short-term investments in the name of the ULB and are available to cover any shortfalls in debt payments.

The second was a debt service reserve fund (DSRF) established and funded by the state government with an amount equivalent to 1.6 times the annual principal and interest payment due to bondholders. Like the ULBs escrow account, the debt service reserve is maintained in the form of short-term, low risk deposits in the name of the fund. The final credit enhancement was a partial credit guarantee (PCG) in local currency for 50 percent of the principal and interest outstanding, provided by USAID's Development Credit Authority. The PCG is triggered if/when the DSRF is exhausted and has not been replenished by the state government within a period of 90 days. (See graphic on page 17.)

[7] Peterson, George. Innovations and Solutions for Financing Water and Sanitation Background Paper. The Urban Institute, 2003.



RESULTS

WSPF issued its first bond in November 2000. It was a five-year unsecured bond issue for $21.3 million, and carried an effective interest rate of 11.85 percent a year. A month later, in December 2002, the WSPF issued its second bond and the first long-term infrastructure bond in India. The enhanced $6.4 million pooled debt bond secured an AA (local) rating by Fitch Ratings. It was privately placed at a competitive effective interest rate of 9.2 percent a year (compared to 11.85 percent of the first issue), resulting in substantial savings compared to the ULB's individual borrowing rates of approximately 12 percent per year. In addition, the unprecedented 15-year maturity of the bond lowered the debt service payments and improved the matching of funding maturity to the life of the water infrastructure projects.

More significant, the longer tenors and structure of these bonds also triggered an active secondary bond market, enhancing the liquidity of these instruments, and helping to develop and invigorate the primary municipal bond market.[8] The success of the offering also confirmed the demand for long-term municipal debt instruments on a pooled basis.

[8] Venkatachalam, Pritha. Innovative Approaches to Municipal Infrastructure Financing. London School of Economics and Political Science Working Paper Series, 2005.

In a broader context, this transaction demonstrated the crucial role that a public-private financing intermediary such as TNUDF can play in bringing together local governments, rating agencies, advisors, investment banks, and investors to facilitate access to the domestic capital market. The WSPF/TNUDF transaction demonstrated that funding the development of local infrastructure in poor municipalities can be met by market-based financing mechanisms, and that it can be replicated in the urban and semi-urban areas of other developing countries needing investment in social and economic infrastructure.[9]

SUSTAINABILITY AND REPLICABILITY

The WSPF transaction established new precedents and was designed specifically to serve as a model for future municipal financings. In fact, based on the success of the Tamil Nadu WSPF, the Government of Karnataka requested USAID assistance to replicate the pooled finance framework in order to finance the implementation of its water supply and sanitation program. In 2005, the Government of Karnataka created a special purpose entity, the Karnataka Water and Sanitation Pooled Fund Trust (KWSPF), on behalf of eight ULBs in Bangalore. The form of a trust facilitated access to capital markets by local governments. Subsequently, KWSPF issued 15-year, 5.9 percent coupon, Rs.1000 million, secured, redeemable, tax-free municipal bonds. The issue also included a USAID DCA partial credit guarantee for up to 50 percent of the principal.

Since being replicated broadly in India, the basic institutional design of TNDUF is being proposed by donor organizations for replication in other developing countries.[10] For a large number of local governments in the developing world, their size and financial strength makes an individual bond offering unviable economically. The pooled fund transaction developed in Tamil Nadu provides a viable model for combining resources and generating the economies of scale to launch a joint issue that smaller entities should explore.

[9] Krishnan, L. Tamil Nadu Urban Development Fund: Public-Private Partnership in an Infrastructure Finance Intermediary. Financing Cities, 2007.
[10] Ibid.

LAND AND LAND BASED INSTRUMENTS FOR RESOURCE MOBILIZATION

1. Introduction

Land is a fundamental resource for any city development. It has two major characteristics of any resource: (i) its availability is finite at a given time and (ii) it has multiple competing uses. However, unlike water or energy, it is immobile i.e. land unit at one location cannot move to another location. Every land parcel is unique and therefore it cannot be recreated. In a city, land is divided into land held in public and private domains. Land held in public domain primarily caters to the uses like roads, community purposes e.g. market, rail bus station etc. or open spaces, parks and playgrounds that provide recreation whereas in the case of land held in private domain the right of exclusive use is exercised. The land held under public domain and its development increases the value of land in private domain and conversely inadequacy of land in public domain also reduces the value of land in private domain.

The availability of land for all major uses and the provisioning of public goods and services including public infrastructure guide city development. It is the local authority which ensures the provision of land for major uses. It does this through preparation of land use and development plans and ensuring their implementation, but other techniques are also available for planning and development of urban Land. Moreover, in urban areas and the surrounding areas land is largely owned by private individuals. When such land is required for public purposes such as infrastructure provision or local improvement it is to be acquired by local Government! Authority through either compulsory purchase at less than market price or paying monetary compensation at market (or, its equivalent negotiated) price or by providing alternate piece of land elsewhere. Financing the provision of these public goods and services (including infrastructure) is difficult when the local authority finances are not strong enough. Moreover, the benefits of such investment pass on to the private land owner i.e., infrastructure improvements lead to increased value or betterment for adjoining land parcels. Thus while considering land as a resource for city development, the increased value of land in private domain can be seen an opportunity to mobilize financial resources for providing public goods and services.

There are various ways in which urban land can be used as a major resource for urban development through the use of a variety of instruments. In this module, we will discuss

some of the major land and land-based instruments for steering the city development (as explained above) and for mobilizing the financial resources. The tools discussed are not exclusive but some more could emerge from designing of new tools and the innovations of the local Governments. The various instruments available are discussed under the major categories of:

Land Assembly Techniques such as land banking, land pooling/readjustment, utilizing available land, incentive zoning, accommodation reservation, plot reconstitution/town planning schemes and land development through partnerships.

Charges/Levies such as land use conversion charges, betterment levy, parking fees, vacant land tax, development impact fees, planning gains and projection charges.

Contributions such as road widening schemes, regularization schemes, development contributions and other contributions like polluter pay contribution, open space contribution and sale of pieces of land.

Non-conventional Techniques such as capital gains tax, transferable development rights, use of air space rights, tax increment financing, valorization and leasehold to freehold conversions.

Most of the land assembly techniques emphasize on using land as a resource in the sense that its acquisition or development can be facilitated through these instruments and they have legal validity under either the town planning laws or local authority laws. The charges/ levies essentially come under the broad purview of land taxes for resource mobilization and the nonconventional methods present both tax and market instruments for resource mobilization. The economic rationale for utilizing some of these instruments, particularly charges/levies and Other methods, is explained· in the following discussion. The main contributors are mostly innovations made by some of the local Governments! Municipal Corporations and have been shown as illustrations that can be used by other Municipal Corporations.

1.1. The Economic Rationale for Resource Mobilization using Land

Land value has assumed primacy in the debates and discussions of its management and

that of the goods and services provided by the local Government/Authority. Adam Smith, the founder of neo-classical economics, held in 1776 AD that urban land was in need of taxation by the State as the ownership of land had given absolute monopolist rights to the land owner. This thereby. Made him maximize the rents accruing from it and from the rise of its value due to extraneous circumstances than that of individual effort. He argued for an 'Urban Land Tax' on the grounds of (i) *resource allocation-neutrality* in resource allocation effects through the tax on land (ii) *equity principle-fair* to tax surpluses gained without any individual effort (iii) *benefit principle* beneficiaries of public services should pay for receiving the advantage.

The neo-classical position on urban land tax received support from the classical economists, who for long held that the urban land value arises largely due to two factors: (i) *the scarcity of land for the economic use*, and (ii) *the provision of public goods and services* (as laid down above). Therefore, any rise in land value is an accrual (of value) without any effort of the land owner towards its improvement. Among the proponents of urban land tax was Henry George (I897), a staunch advocate of recouping the unearned increment value of land to the land owner through a 'site value tax'; he led the movement towards 'single tax movement' i.e., 100% tax on land rents to finance all major public goods and services provided by. the local Government/authority. This position was also supported by J S Mills (I909) who held that land rents are created by unanticipated or external- forces (or windfall gains) and that tax on land or its expropriation should be used for public purposes. While Alfred Marshall (1926) upheld the site value taxation of urban land, Pigou (I927) believed that both site value as well as windfall gains were to be taxed as both accrue without any major effort of the individual. These positions were also corroborated by some other eminent personalities.

However, these viewpoints and theories need to be looked from historical perspective/ angle. They were very much valid when the 'State' or 'Government' was increasingly being considered to be a superior authority and most efficient and equitable institution for the allocation of resources including land. However, it has been recognized much later that it may not be necessarily true that the State or Government is the only efficient means of resource allocation. Therefore, the modernist view of urban land and its taxation has held that some of the assumptions of neo-classical and classical economists were not perfect but true to some extent and therefore there is a need for reviewing it on several grounds:

- Land is inelastic in supply as a whole (scarce) but it is elastic for any particular use

such as urban.

- Land values are formed not only by population and capital but also by several other factors like trade, technology, location, access, zoning, access to infrastructure and services.
- Urban land has both horizontal and vertical dimensions due to the built up space on it.
- Land transactions involve 'interests' in land rather than land as such, therefore the effect of special land taxes depend upon the nature of tax base and who pays.

Taxation of urban land is suitable for financing provision of local public goods to a limited extent in terms of criteria laid down for it and could be justified by certain principles like beneficiaries pay, users pay and polluters pay. To some extent, the criteria for the levy of taxes have been laid down by Bahl and Linn (I 992) as mentioned thus:

•	Benefits identifiable Beneficiaries identifiable	•	User charges
•	Benefits broadly identifiable Identification of beneficiaries either costly or difficult	•	Benefit taxes
•	Neither benefits nor beneficiaries identifiable	•	Generic taxes
•	Administrative Expenses	•	Fees and user charges
•	Long-gestation capital projects and works	•	Borrowing/Bonds

2. Land Assembly Techniques

In this unit, we will review the land assembly techniques that can be potentially used for achieving the development (and often redevelopment as well) of urban land and lay down civic infrastructure, thereby use it as a resource for the overall urban development. The range of the techniques widely varies from that based on pure State ownership (as in the case of land banking) to partnership with private sector (as in the case of joint land development). There are no guiding rules like which one is the best or efficient, low ever each of them present different alternatives that could be best used by the local Government! authority under particular circumstances.

2.1. Large Scale Bulk Land Acquisition (Land Banking)

Large scale land acquisition or land banking by local authority calls for advance acquisition of undeveloped land for future use either for the Government itself or for large-scale public ownership. The main advantages are that it allows the purchase of land relatively cheaply for public purposes and it provides a tool to influence the
pattern of development in accordance to overall planning objectives. It can also be used as a means to control the land market, prevent land speculation and recapture some of the battement created in connection with rural-urban land development. Land banking has especially been implemented in urban fringe areas where vast agricultural areas can typically be purchased at the value of current permitted land use.

Land acquired for land banking can be purchased compulsorily *(expropriation)* or no compulsorily. Another option of extending the land reserve is Government's pre-emption of land coming into the market (purchase of land which is for sale at market value). It would be necessary to use the compulsory method if land banking were to have a major impact on the development of the city. Moreover, wherever the concept has had an impact, as in Indian and Swedish cities, the implementation has been on a large scale. However, the concept of land banking, acquiring land before needs, is actually used by many actors from individual households to national Governments. Box 1 shows an example of an extensive land banking operation in Delhi.

Conceptually, bulk land' acquisition! land banking relies on public ownership of land for ensuring planned development, equitable distribution of land and recovering cost of development through sale or lease of land. This model has also been used in Navi Mumbai city by the City and Industrial Development Corporation of Maharashtra (CIDCO). However, serious doubts have been raised regarding whether the basic objectives have been achieved (Report of the Planning Commission Task Force 1983). The monopoly of land ownership has been blamed for the counter-intuitive results. Nonetheless, Navi Mumbai experiment has been successful in meeting some of the objectives such as acting as a planning counter-magnet to Mumbai city and creating a new township with excellent infrastructure and easy access to main city. It has also overcome the political tensions that normally arise due to lack of rehabilitation of native population and it did not lead to any forced selling by resident population (Shaw, 2004). Although land banking is a potentially good instrument especially in the case of new townships, the resistance to compulsory acquisition, necessity of rehabilitating the land owners apart from monetary compensation and general tilt towards market economy in macro-economic policies have limited the scope of this option. Therefore, it needs to be carefully designed and common pitfalls need to be avoided.

Land Bank in Delhi

An important experiment of large scale public acquisition of land for urban development has been that of the Delhi Development Authority (DDA) The land bank in Delhi, developed during the I 950s and I 960s to direct and control development of the city, has made DDA now extremely wealthy. The financial success of the land bank is indicated by increase of the revolving fund set up for this purpose. The fund increased from Rs. 50 million in 1961 to Rs. 2,068 million in 1981. DDA became the largest landowner during the same time period. However, the land banking is not very efficient land management tool mainly because of problems caused by acquisition, disposal and development policies.

The scheme, which was started in 1961, allowed DDA to take control over all land designated for urban development. DDA would subdivide and service the land. The acquisition process under the applicable law, the 1894 Land Acquisition Act, is both cumbersome and expensive in terms of time and money. The level of compensation has also been debated since it is based on the value ofthe land at the date of notification which can be 20 years before the actual transfer takes place. It was stipulated that the serviced land should be disposed offby auction to the highest bidder except in some specified cases. Problems with the disposal process include high auction prices and cumbersome administrative procedures. Land disposed off by means other than auction faces problems with inappropriate allocation procedures favouring more influential population groups.

Another common shortcoming of land banking is that its objectives are not clearly defined from the outset and no specific targets are attached to the general objectives. For example, one objective was "to prevent the concentration of land ownership in a few private hands and safeguard the interests of the poor and underprivileged" without specifying any targets. It has not been possible for DDA to provide land at affordable prices to low income beneficiaries resulting in large scale Jhuggi Jhopdi Colonies. As of 1982, 14,669 plots had been distributed to low-income groups, which is about 44% of the total amount of plots distributed. Although the high-income group only constituted 8% of the population, they received 38%of the plots and 58%of the residential land area. In the absence of price signals, land has been sub-optimally used, resulting in over provision to powerful groups.

Land banking as an instrument cannot be used to achieve several conflicting objectives such as maximizing gains, achieving social equity and regulating land prices. In case of DDA, regulating land values, an objective of land banking, could not be met but these have

actually increased considerably since the introduction of the scheme. DDA's policy to auction very few plots at a time and treating the maximum price quoted in such bidding as the real market price has in fact meant artificially increasing the land price through deliberate scarcity.

Source: ESCAPICITYNET, 1995. *Municipal Land Management in Asia: A Comparative Study STIESCAPI1539 (New York, United Nations).*

2.2 Land Pooling/Readjustment

Land pooling is a process whereby a public authority assembles numerous small parcels of a large area of land *without* paying a compensation to its owners. The authority undertakes the subdivision of the assembled land for urban use and returns most of the building sites to the original owners in proportion to the value of their land contribution (cost equivalent land), and permits them the right of alienating such sites. The authority retains a portion of the assembled lands partly to provide civic amenities such as roads, parks and gardens or schools and the remainder for public sale to recover development cost. Thus, land pooling is in abstract a temporary and hypothetical form of public ownership to achieve unified control over large areas of land and an instrument of financing public service installations during the crucial and expensive land development stage of urban growth. It is also known as urban land consolidation, land adjustment, land replotting, and land redistribution in other countries. It is widely used in Japan, South Korea and Taiwan and in some cities in Australia and Canada. A somewhat similar technique known *as plot reconstitution* is used in some cities in India.

The main steps and stages in carrying out a typical pooling project can be listed as follows:

Step 1	Identification of the group of adjoining landholdings for pooling, which is then designated as the *land pooling area.*
Step 2	Assessment of the value of each landholding in order to calculate each landowner's share in the project.
Step 3	Preparation of a draft pooling scheme (and supporting financial plan) in consultation with the landowners and the relevant Government authorities (the highway authority, public utility authority etc.)

Step 4	Public exhibition, review and amendment of the draft scheme followed by Central Government approval of the final scheme and its publication.
Step 5	Preparation of engineering works designs.
Step 6	Compulsory acquisition and consolidation of the landholdings, roads etc. in the designated pooling area.
Step 7	Raising of short-term loan for working capital.
Stop 8	Carrying out of land servicing and subdivision works by contractors and relevant government authorities.
Step 9	Physical and legal subdivision of land into streets, parkland and sites for buildings.
Step 10	Sale of some of the building sites to recover costs and repay the loan.
Step 11	Distribution of other sites to the landowners.
Step 12	Final cash adjustments to achieve each landowner's precise share of the project.

(I) The-Benefits of Land Pooling

The conversion of urban-fringe lands from rural to urban uses usually takes place by the subdivision of landholdings separately and is subject to the problems of scattered land and building development, poor subdivision design, backlogs in the provision of public utility and road works, land shortages, excessive land speculation and high land prices. Land pooling can reduce these problems. It can provide many benefits of large-scale land development projects. Pooling can improve the process of land subdivision for urban development in various ways. The consolidation of small landholdings for their unified planning, servicing, subdivision and redistribution by a Government Agency provides the following opportunities:

- To achieve a good standard of subdivision design and engineering works.
- To consolidate separate landholdings for their unified subdivision for the planned pattern of urban land uses.
- To carry out timely land servicing and subdivision works (i.e. the construction of the road Works and public utility reticulation works within the project area) efficiently and Economically.
- To finance the cost of providing road and public utility service networks out of the related Land value increases.
- To create new sites with clear land titles when the ownership of land holdings is disputed.
- To provide land for low-income housing by allocating a proportion of the land area in each

project for sale at cost or below cost to the public housing authority or alternatively, the Government Agency managing the pooling project could be allocated a proportion of the new sites for low-income housing purposes in recognition of its role as the project manager contributing its Government powers and status to the successful implementation of the project.

- To achieve the timely subdivision of urbanfringe landholdings for orderly urban expansion.
- To counter excessive land speculation and ensure adequate supply of land for new housing development.

Pooling can therefore provide real benefits but they are not automatic benefits. Each project has to be soundly conceived, properly organised and well-managed. Most of the benefits listed can be provided by individual land pooling projects. The final two benefits, achieving progressive urban expansion and an adequate supply ofland for new housing development depend upon the successful programming and coordinating of various pooling projects with the other land subdivision projects into a coherent program for metropolitan expansion and land supply.

(ii) Conditions for Successful Land Pooling

A number of factors contribute to the success of pooling projects. It is appropriate to use the land pooling technique when-

- The relevant local government (or the pooling agency) is genuinely interested in achieving orderly urban development to a planned pattern of urban land use.
- The ownership of the urban-fringe lands is fragmented into numerous separate holdings.
- A majority of the landowners in a proposed pooling area understand and support the use of pooling.
- The urban-fringe lands are ripe for urban development with the utility network mains nearby and a market demand for serviced sites for building development.
- A majority of the landowners in a proposed pooling area understand and support the use of pooling.
- The Central Government has set up a machinery to authorize and regulate the preparation and implementation of pooling projects.

Assuming that these general conditions are met, each pooling project is financially viable and soundly managed. Each project has to generate land value increases sufficient to cover the project costs and leave the landowners with a significant land value gain. Each project has to be well managed in order to achieve efficient and economical land servicing and subdivision. This financial viability and sound management is assisted by the preparation

and publication of a pooling scheme for each project. The scheme should be supported by a financial plan. The pooling agency will need to liaise and consult with the landowners and Government works authorities, particularly in preparing the scheme, in order to obtain their support and cooperation.

2.3 The Use of Available Land with ULB

Many Urban Local Bodies (ULBs) have land parcels that are not used optimally. These are often put to use which is no more relevant to changing development patterns, or the location has acquired such characteristics that the present use has become either obsolete or sub-optimal over the years. Some of them may be an old ground storeyed dispensary at an important location, a rundown house in the central area or a plot used for parking municipal vehicles close to the Central city. Such plots can be used in Public Private Partnerships (PPP) initiatives for example, lease contracts, to yield revenue for the city and also to improve the city infrastructure. One of the reasons why such practices are not followed highlights the fact that the city accounts are not kept on a commercial basis. In commercial accounts, all assets will be clearly identified and periodically revalued. The net income of the city will then be compared with the value ofthe assets to check whether the assets are being optimally used. The Jawaharlal Nehru National Urban Renewal Mission's (JNNURM) emphasis on the adoption of modem accrual based commercial accounting by the ULBs has to be seen in this perspective as well.

2.4 Incentive Zoning

Town Planning Permission is used as a resource in countries like the United Kingdom on the principle of *'beneficiaries pay'*, as planning permission provides some benefits accruing to developer/ land owner. The developers are sometimes provided with incentives in the form of relaxations to the existing Zoning and Building Regulations, in order to encourage them to take up infrastructure developments and social overheads by initially providing conditional planning permissions and then granting complete planning permission after completion. This kind of relaxation is also known as *'Incentive Zoning'*, so that the on-site infrastructure at least is provided by developers. Selected zoning benefits can be provided to developers of commercial and residential complexes and individual buildings subject to their contributing certain facilities to the city or making financial contributions for development and decongestion programmes. The test for the allocation of *incentive zoning* is that the social

benefits from the grant of incentive zoning to the city should outweigh the social costs. Recently, these concepts were used in industrial planning wherein the incentive zones are created strategically for the development of specific industries such as information technology entertainment and media and bio-technology by certain states like Maharashtra, Karnataka, Haryana, West Bengal and Andhra Pradesh. These are often known as industrial parks established by private entrepreneurs with the land within the demarcated areas procured by the Government. Private entrepreneurs are then provided with incentives in the form of relaxed development control regulations so that they would move to these locations and the city would benefit in terms of trade, employment and increased revenue with development of the industry. The Government of Maharashtra, for example has laid down different development control regulations for development of new townships so that developers will find incentives for creating them with most of the on-site infrastructure. Further there are special planning authorities like GIDC in Gujarat and MIDC in Maharashtra, which develop industrial plots with full fledged on-site infrastructure for the potential industrial investors and which also operate under different planning and development regulations that are guided by the respective State Governments. Likewise some cities began to provide such incentives for establishing SEZs: CIDCO has in fact partnered itself in the SEZ development in Navi Mumbai area.

2.5. Accommodation Reservation

Development plans are important instruments for steering the organized development of a city through land use planning. Apart from plan preparation, local Governments are under financial stress to implement the plan by acquiring land and putting it under reservation. Under *Accommodation Reservation,* landowners are required to provide public amenities as per the reservations stipulated by the Master Plan. It allows landowners to develop a site reserved for an amenity in the development plan using full permissible Floor Space Index (FSI) on the plot subject to agreeing to hand over the built up area of the amenity to the local authority free of all encumbrances. The owners receive full FAR*!* FSI as compensation in lieu thereof. The area utilized for the amenity does not form part of *FAR!* FSI calculation. Reservations such as retail markets, dispensaries, schools, garbage pick-up areas, etc. can be implemented in this way wherein the local authority is not required to acquire the land by incurring expenditure on the payment of compensation. This method has been adopted and implemented by the Municipal Corporation of Greater Mumbai (MCGM) under which sites earmarked for schools, parks, parking lots, etc. are developed by the developers subject to their receiving some FSI incentive or premium. By undertaking such scheme, the MCGM has

not only saved crores of rupees but also accomplished realization of planning reservations of the development plan.

2.6. Plot Reconstitution Town Planning Schemes

The plot reconstitution technique/ town planning scheme is much more limited in scope and extent than the Land Pooling! Readjustment scheme but it has often been described as LPIR because it has similar features. The plot reconstitution (PR) technique was introduced in India by the Bombay Town Planning Act, 1915 and has been widely used in the States of Gujarat and Maharashtra, selectively used in Kerala and Punjab, and occasionally used in Tamil Nadu and Andhra Pradesh. The Bombay Town Planning Act, 1915 was passed to authorize local Governments in Bombay state to plan and control the development of their newly urbanizing areas. In the state of Maharashtra, which is a pioneer in the field of Town Planning Scheme (TPS), it is implemented under Maharashtra Regional and Town Planning Act, 1966. In Gujarat, it is implemented under Gujarat Town Planning and Urban Development Act, 1976. Projects with area coverage ranging from 200-800 hectares were implemented in several towns of Maharashtra between 1915 and 1985. Due to inordinate delays in their completion, all the parties especially Government showed less and less interest. Gradually, the scheme was phased out in Maharashtra. However, in Gujarat (Ahmedabad) nearly 50% of the new developments on land were done through town planning scheme. In Gujarat, the use of Town Planning Schemes as an instrument for urban development has a long history. The first Town Planning Scheme was taken up as early as in 1917 for Jamalpur area of Ahmedabad city. The Jamalpur area Town Planning Scheme was also perhaps the first TPS in the country. The Gujarat Town Planning and. Urban Development Act, 1976 provides for Town Planning Scheme as a tool for implementation of Master Plans *(Figure* 1). Under this Act, the Town Planning Scheme is divided into 2 parts namely *physical planning* and *financial aspects.* It identifies the stages of TPS in the form of *Draft Scheme, Preliminary Scheme* and *Final Scheme* with a view to expedite the implementation process in different stages In order to implement the Master Plan! Development Plan prepared under the Gujarat Town Planning and Urban Development Act, 1976, Town Planning Schemes are prepared at micro level for an area of about 100 hectares particularly in those pockets which were under pressure of urban development and need priority attention. The reason for taking up 100 hectares is that TPS becomes manageable and viable for preparation and implementation at the 10calleveI. The scheme is conceptualized as a joint venture between the local authority and the owners of land, who voluntarily agree to pool their land, redistribute the reconstituted plots of land among themselves and share the development cost. The main steps in carrying out a typical planning scheme are as follows:

Step 1	Land parcels with common ownership are marked with original survey number/plot number on a map. All such original plots form one area for planning purpose.
Step 2	In the layout plan after taking out the area for roads and streets, and for public and semi-public spaces, the remaining area is planned in regular plots known as final plots.
Step 3	The final plots though reduced in size better in shape, build ability and accessibility are Allocated to the land owners preferably in close proximity to their original plots. The owner also gets compensation for the area reduced for public spaces and roads.
Step 4	Since the reconstituted plot has better accessibility and good potential for development, its value gets enhanced. Part of such increment in land value is contributed for the cost of development work in the scheme.
Step 5	The landowners will get the net amount of the increment value of the plot worked out after deducting the amount of compensation payable for the loss in area.

Plot Reconstitution Scheme, Trissur, Kerala

The Kannankulangara scheme in Trissur is the first Plot Reconstitution (PR) scheme implemented in Kerala. State has been used as a model for initiating other schemes in Trissur and severa] towns such as Kollam, Palakad, Kollam, Kochi and Thiruvananthapuram. Only six of these have been successfully completed. The application of the PR technique in Kerala has proved to be effective in situations where compulsory land acquisition for undertaking planned urban development has met with stiff opposition from landowners. The Kerala approach differs from other Indian examples in three important ways. Firstly, it is in the form of a time-bound scheme. Secondly, it ensures complete recovery of land development costs without any financial burden to the agency or to land owners. Finally, the public agency gets land for uses other than roads and open spaces also. In Trissur, PR was resorted to only after the original proposal to compulsorily acquire about 6.2 hectares of land as a part of the Detailed Town Planning Scheme for Kannakulangara met with stiff opposition from landowners. In the agreement, the nine landowners agreed to give portion of their land varying from 0% to 45% amounting to a total of 2.2066 hectares to the Trissur urban Development Authority (TUDA). The remaining land was to be developed and returned to the landowners as per the reconstitution plan with complete ownership rights and the commitment to develop the land as per the proposals of the detailed town planning scheme. TUDA was to provide roads and other services like water and electric supply and reclaim the entire area at their own expense within three years of signing· the agreement.

Failing this, the landowners would have the option to take over the land surrendered to TUDA, unless the delay was due to unavoidable circumstances upon which the period could be extended by a fresh agreement between the concerned parties. The landowners, in their turn were bound to develop their land and carry out construction work within three years from the date of provision of services by TUDA. Failing this, TUDA would have the option to acquire the land as per the provisions of the Land Acquisition Act, except for unavoidable circumstances necessitated the extension of the time by mutual agreement between the with registration after surrender of land and reconstitution of boundaries. Later, the State Government, at the request of the District Collector, decided to exempt the registration charges.

The scheme has resulted in obvious benefits to all the parties concerned. TUDA got more than two hectares of land free of cost and without lengthy legal procedure. Private land owners got developed land instead of low-lying "wet land" with enhanced development potential and appreciation of value, the scheme has hastened the conversion of agricultural land into buildable plots across the road from a prime area. It also demonstrated that it is possible for several public agencies to work together along with people to solve local problems.

Source: ESCAP/CITYNET(1995)

Guided Land Development

Guided Land Development (GLD) or Guided Urban Development (GUD) is a land management technique for guiding the conversion of privately owned land in the urban periphery from rural to urban uses. This concept emerged in response to *ad hoc*, uncontrolled urban development in which informal housing and other developments occur with no regard to formal planning and infrastructure investment process. It is also a response to the limited availability of urban land for economically weaker sections in urban areas. Guided land development uses the provision of infrastructure as a mechanism to guide urban development. It is done *in* partnership with landowners who pay for the cost of *servicing* their land through donation of land for public infrastructure and payment of a betterment levy. The principle behind guided land subdivision is that the Government agency entrusted with urban planning or land development pro actively selects the direction where it feels urban development. Should take place and provide infrastructure *in* those areas. This encourages private land developers to develop land *in* that area; at the same time, no building of infrastructure in other areas acts as a disincentive for private development in those areas. The

advantages and disadvantages of guided land development are in fact very similar to land readjustment and land pooling. The only advantage that guided land development has over land pooling. Readjustment is that Government need not decide the amount of land to be returned to the landowners at the end of the project. The key advantage of the approach is that it is less costly than outright land acquisition and more equitable than land banking. The cost effectiveness of guided land development approach results from the fact that land development is planned, designed and implemented with the landowners of the designated area who donate land for roads and right of way for infrastructure and public spaces as well as pay a betterment levy (which we will discuss in next section) to meet the costs of the project. The betterment levy is justified because of the increase *in* the value of land from the provision of infrastructure and from conversion to urban land use from rural land use.

The experiences of GLD have been limited; it has been proposed in Indonesia but yet to be implemented. Box 3 provides an idea of the background and design of GLD in Jakarta. In India, GUD has been applied in Chennai, under the World Bank-assisted Tamil Nadu Urban Development Project with Chennai Metropolitan Development Authority (CMDA) as the nodal agency. The objectives of the scheme are stated as follows:

- To ensure provision of a high percentage of serviced plots for low income families at affordable prices (approximately 75% of total plots to be for EWSILIG);
- To provide incentive to the private land owner/developer to participate. in the provision of low income shelter solutions by guaranteeing fair return on investment (guidelines recommended profit of20- 30%).

Guided Land Development

Jakarta city suffers from housing shortage and vast demand for land. The housing policy of the Government of Indonesia shifted in the late I 1960s from focusing on the conventional housing delivery system to strengthening the informal housing sector through the provision of basic infrastructure and some security of land tenure within the Kampung Improvement Programme (KIP). *Kampungs* are the common form of low-income settlements and house about 70 per cent of Jakarta's population. KIP provided basic infrastructure to 70-80 per cent of these *kampungs.* Unlike a majority of cities in developing countries, the overwhelming majority of the people have bought the land they live on. However, their access to the land is typically based on a private informal subdivision with limited land tenure security and land conflicts are common. Recognizing growing land scarcity, rapidly increased land prices, continued high population growth and the growing awareness of the various issues of land

management, the Guided Land Development (GLD) programme was developed. GLD was first proposed in the Jabotalek Metropolitan Development Plan of 1980 to be implemented on about 26,000 hectares of mostly privately owned urban fringe land. Although planned in two areas, it has not been implemented as of 1991. In short, the GLD programme would provide basic infrastructure such as secondary and access roads, as well as footpaths, drainage and water, whereas the costs for the provision of infrastructure would be recovered through betterment taxes (levies). OLD recognizes the present process of private subdivisions while attempting to guide and control its development as well as improving its technical standards. The main objectives of the GLD-programme are as follows:

- To assist poor people to build housing by providing technical and financial support as well as affordable land. The programme applies reasonable standards, such as, for example, a minimum plot size of 20 square meters
- To guide the transformation of *kampungs*, informal settlements and villages into functional urban structures;
- To provide infrastructure and services at minimum costs for the Government and the residents, including an element of crosssubsidy between high- and low-income groups. Plots adjacent to access roads will, for example, be charged considerably higher than plots with access to only a footpath;
- To stimulate the development of small-scale industries and other work opportunities;
- To set up a special organization within the Government for efficient and quick land registration and land titling;
- To set up a special implementation body within each project area consisting of local and regional government representatives as well as development consultant(s). The development consultant(s) should act as an intermediary between the private sector and the local community. The functions of the implementation body is to promote, regulate, facilitate and coordinate the development;
- Finally, to form a management board, consisting of representatives of the local government and the residents, initially represented by an NGO, to solve project management problems more directly.

The betterment tax (rather, cost-recovery tax) would allow cost recovery up to 60 per cent.

Source: ESCAP/CITYNET (1995)

Guided land subdivision while being quite enticing on paper, is often fraught with difficulties

on the ground. First, as the scheme depends on the consent of the landowners it cannot be applied in areas with fragmented land ownership. Too many landowners mean that more time and effort is needed in building consensus. It is very likely that those landowners who have access to roads will refuse to participate voluntarily. Landowners may want to continue the rural use of land. Second, collection of betterment levies, particularly on an annual basis may not be acceptable to landowners. Or even if it is acceptable, they may for various reasons, default on the payments. The option of holding a land parcel as collateral against default of payment may not be feasible. Judicial proceedings in civil cases in most developing countries take several years to complete. This would mean that a particular parcel of land will be out of market until the civil case settles. Moreover, it may be politically undesirable to repossess land of small landowners who are most likely to default. All these call for very careful design of the *GLD/GUD* scheme in the urban areas, particularly when the stakes of poor are very high.

2.8. Joint Land Assembly and Development (PPP)

Land assembly and development are vital for utilization of land as a resource in the urban areas through achieving organized development of land for various economic activities. Given the potential problems in land assembly and development and long delays that occur with it some of the Governments have used public private partnerships to achieve it. Public-Private partnerships provide right kind of platform for such projects in urban areas or areas in their vicinity wherein public (or, local) authority can leverage its strength of administrative machinery and control to undertake the risk and private sector can leverage its strength to provide the funds for implementing the projects. There are whole range of partnership models in the infrastructure development but the divestiture models such as Build Own Operate (BOO), Build Operate Transfer (BOT), Build Own Lease Transfer (BOLT) Build Own Operate Transfer (BOOT) the common methods by which the goals can be achieved. Public-Private partnerships also take form of Community-Private, Public - Community partnerships but their design is specific to the situation. Some innovative approaches to public private partnerships for assembly, development of land and provision of shelter are discussed below:

(I) New Land Development Scheme: HUDA Experiment

The Hyderabad Urban Development Authority (HUDA) had brought in a new mechanism of according layout approval since 2001. In the old system, a draft layout was given to the

developer/applicant with conditions to develop the layout within one year. Plots could be disposed only after HUDA sanctioned the final layout. This procedure left many layout development works incomplete and also dragged on the cases for several years due to non-compliance of layout development works. Under the new procedure, the applicant / developer are allowed to sell 75 per cent of the plotted area after the layout approval and after mortgaging 25 per cent of the plotted area as surety for compliance of the layout development works. This resulted in facilitating the layout owner/developer with getting capital investment for undertaking the layout development works at a faster pace (many layouts are completed within six months) and keeping a proper check on the layout developer and the works undertaken by him. The layout approval is given within 30 days provided· the developer fulfils all the norms and submits documents and details of site position, etc.

(ll) Licensing of Colonizers: Haryana Joint Development Model

Under a legislative act i.e. the Haryana Urban Development Authority Act, 1977 (HUDA Act) and Haryana Development and Regulations of Urban Areas Act (HDRUA), 1975 the State of Haryana competent authorities permit participation of private developers / colonizers / builders to assemble parcels of land that exceed the limits set by Urban Land Ceiling and Regulation Act (ULCRA). The HDRUA Act and its 1981 by-laws stipulate that private developers must first apply for a license from the State Director of Town Planning, stating the details of land and project intended. The land must be within a township/city development scheme which has been prepared by Haryana Urban Development Authority (HUDA) and sanctioned by the State Government. The developer must also prove that he is a "bonafide" land owner and "has a good track record". The license granted has mandatory provisions such as:

- The developer must pay external development charges to HUDA on a gross area basis (net m^2 basis for water) to cover the off-site costs of water, sewerage, surface drainage, roads, landscaping and community facilities. Rates are set by the Acts by-laws and are periodically revised.
- The developer must reserve 20% of the created residential plots of land for LIG and EWS housing categories (plots below 55 m^2 in area) with such plots to be allotted to beneficiaries under a system and at a price laid down by HUDA.
- The developer must reserve an additional 25% of created plots to be sold on a "no-profit no loss" basis.
- The developer must pay other servicing/administrative costs to HUDA on a net m2 basis.
- The developer must build certain community facilities and/or provide land for such purposes

free of charge.

- The developer must put 30% of the proceeds of land sales into a separate account to be used for development.
- The developer must maintain the completed colony for five years
- The developer must return any excess profit to the State (a ceiling of 15 percent profit on total project costs is imposed).

To ensure compliance with these conditions, the developer must takeout a bank guarantee in favour of HUDA. The Chief Town Planner, in granting a license may impose additional conditions at his discretion such as a time limit for development. Initially the agreement was primarily for plotted development, but over time the emphasis shifted to luxury apamnents. The joint development approach has been extensively applied in Gurgaon Township, particularly in the area adjoining Delhi where more than 1,500 hectares have been developed. The initiative allowed developers to develop land which was otherwise frozen under the ULCRA. The 1975 HDRUA Act been applied only in couple of instances in Haryana State. The most ambitious and visible of such schemes is Gurgaon Township, actually a satellite of the New Delhi Metropolitan area. The Gurgaon case is particularly interesting because out of the total township area, half is being developed by private developers and the other half by HUDA itself, with HUDA responsible for overall planning and off-site infrastructure.

The Joint Development Model: Gurgaon Township

Gurgaon City is an old town 32 kilometres from Delhi on the national highway to Jaipur. Anticipating rapid growth, the Haryana Department of Town and Country Planning prepared a Development Plan for the large Gurgaon area with a 200 1 target population of 500,000. The plan envisages new urban areas on 4,550 hectares of which 2,923 are to be primarily residential and the rest to be industrial, commercial and public. New residential areas were to accommodate about 369,000 inhabitants. Of the total new residential area, 51% is being developed by HUDA itself, with land acquired from farmers under the Land Acquisition Act. The rest is being developed by private real estate companies.

Public Sector Development

In the 1,940 hectares of residential areas being managed by HUDA, almost all land is being developed as serviced plots. Land was acquired from farmers at very low prices by compulsory purchase under the Land Acquisition Act. Plot sizes ranges from 50 to 600 m^2 and are sold sporadically in lots to citizens who have signed up under a complicated

registration process which includes for EWS and LIG plots (50 to 125m^2) income statements. Demand for plots has far exceeded supply at any one time and vetted beneficiaries are chosen by lot. The prices for these lots are low by market standards.

Private Sector Development

The 1,430 hectares in Gurgaon reserved for private development have been acquired by five main real estate companies, all of which are based in New Delhi. DLF Ltd. has acquired roughly 700 hectares, Ansal Group 470 hectares and the remainder has been acquired by Unitech, Utility Builders and ITC Group. As stipulated in HDRUA Act, licenses for acquisition of separate discrete sections (usually ranging from 25 to 60 acres) had to be obtained. The first licenses were issued in 1980 and the licensing/acquisition process continued through 1984. Land prices negotiated between private developers and farmers were significantly higher than those set by the Government for compulsory purchase. This led to the fIrst of many frictions between public bodies and the developers.

Within each developer's domain, 20 percent of the plots created were to be reserved for EWS and LIG categories (size ranging from 50 to 125 m^2) and sold at nominal prices set by HUDA. In addition, a further 25 percent of plots (sizes ranging from 125 to 250 m^2) had to be sold at cost. The fact that in areas of Gurgaon that were developed by HUDA, these norms were apparently only half-heartedly applied contributed to the climate of mistrust. Also, heavy external development charges had to be paid to HUDA by developers, in spite of the fact that there appeared to be very little of this development (By 1986, it was estimated that of all HUDA investments in trunk infrastructure, 70 percent went for roads and practically none for water, drains and sewerage). Matters were not helped by the obvious discrepancy in the rates of land development. Whereas the residential sectors under private companies tended to be served with internal infrastructure quickly (one to three-year average), in those sectors under HUDA the rate was much slower. Conflict came to a boiling point in July, 1986 when the Haryana Government served over 200 show cause notices to most of the private developers, threatening to cancel development licenses. Developers were accused of non-compliance with conditions of the HDRUAAct, including non-payment of external charges, not submitting accounts, etc. The developers countered by raising court cases against the Haryana Government and after a two year period in which development works in Gurgaon were suspended compromises were reached, and in 1988 licenses were restored and land development was renewed in a much better climate.

Gurgaon Township results to Date:

Formalised land developed in the Gurgaon area actually predates the 1981 HDRUA Act. One sector of 62 acres had been developed for services plots by HUDA in the 1966-74 period and at the same time another 37 acres were developed by a private developer, DLF Ltd. also for serviced plots. Although plots in both areas had been disposed by 1975, over ten years later, less than 25 percent of plots had been built-up in either area and infrastructure services remained poor. The situation has improved now with about 75% plots built up.

This earlier poor record of built-up has improved Gurgaon Township as a whole. The record of internal land servicing and disposal by private developers has been good with perhaps 80 percent of their areas provided with infrastructure and sold as of 1990 and 100% in 2000. But build-up on the sold plots is still comparatively low. Given the very large size of Gurgaon Township, build-up on individual plots and occupation of units, has taken time.

(III) Public-Community Partnership: Punjab Model

The Punjab Area and Urban Development Authority (PAUDA) launched a statewide scheme under the title of "farmer friendly land policy scheme" in 1996. The scheme was framed with an objective to achieve quick land assembly and benefit both PAUDA and landowners in equitable manners. The important features of the scheme are the following:

- Quick and cheaper land with compulsory acquisition
- For each hectare of land, PAUDA promised to provide 25 per cent as developed land to the landowners,
- Landowners provided option of selling back half of the developed land to PAUDA at reserved price fixed by PAUDA.
- Possession of land proposed to continue with the landowners for the existing uses before development work undertaken by PAUDA

(IV) Contract Model: Ghaziabad Development Authority (GDA) Experience

GDA Model has been implemented for developing land and constructing houses under Urban Planning and Development Act, 1973 due to several reasons. The authority (GDA) had a paucity of funds for carrying out development works. GDA under a Government order of 1987 launched public private partnerships. GDA auctioned a particular project area in unfinished conditions to *MIS* Shipra Estate Pvt. Ltd. The GDA has auctioned project area to the highest bidder fulfilling the following:

The Role of the Developer

- Need not have proven track record, but a clean record in terms of past performance, income tax clearance and balance sheet.
- Will complete tenements by adopting self designed specifications . but conforming to minimum standards.
- Will complete the works within a mutually agreed time frame, failing which a penalty is applicable.

Institutional and Financial Arrangements

- A joint venture committee was formed, consisting of at least 3 members from GDA and members nominated by the venturer's {individuals) or co-venturers.
- This committee was to decide, the project schedule, time frame for completion, minimum specification, ground coverage, floor area ratio, etc.
- A joint account in name of GDA and the venturer was opened through which all transactions were expected to be handled.
- To ease the situation for venturers, a nine months moratorium was agreed, during which no payments are to be made. After this, bid money is payable in installments
- Money from sale proceeds to be credited to joint accounts.
- Payment may be withdrawn by GDA and venturers in 70:30 ratios from joint accounts.
- After GDA receives its full share, the joint account was expected to be dissolved.
- Execution of sale deed oftenements by GDA with allottee that is selected by the venturer.

(v) Community-Private Partnership: Parshwanath Model at Naroda-Gujarat

The Parshwanath Group (PG) started their efforts by assembling land at low rate of Rs 15 m^2 at Naroda in 1981. In a novel arrangement with the landowners, the developer identified land and booked by paying a token amount, or taking an option of revenue sharing. Subsequently, PG entered into an agreement with the landowners to develop land under a 'power of attorney' arrangement. The land assembled by this single group was of 67 hectares and therefore the Urban Land (Ceiling and Regulation) Act, 1976 was applicable. The PG sought exemption under section 21 of the Act, according to which case 10 per cent of the acquired land has to be kept for housing for the EWS. The exemption was granted in 1987. Meanwhile PO also got their plans sanctioned through Ahmedabad Urban Development Authority.

The fist step being taken, the PG then sought loans and approached financial institutions. HUDCO showed interest to invest and an agreement was executed in 1988, according to which HUDCO provided 66 per cent of the construction cost as loan and made provision of mortgage financing for the beneficiaries. The PG formed the Parshwanath Housing Finance Corporation (PHFC) to act as refinance window. It was mutually agreed that on completion of work in phases, the PHFC would allot houses to the beneficiaries in batches who would then form an appropriate number of co-operative societies. In this way, the schemes were considered sanctioned to the cooperatives directly by RUDCO, in accordance to the prevailing terms and conditions.

(VI) Specific Purpose Vehicle: Cochin Model

Participatory approach for integrated development of Co chin in a main commercial and industrial growth centre of Kerala was initiated to create additional land supply. Due to fast growth, the city boundary has expanded to underdeveloped islands. In absence of bridge between the mainland and islands, integration was not possible. To make capital investment, State could not make budgetary provision for construction of bridge due to financial constraints.

The development strategy adopted was to connect four islands with bridges. Also, it was decided to reclaim backwater land because the area of land on the islands was very small. Here, emerged a novel concept of partnership, which states that any developer who would construct the bridges would be paid back in terms of land. The project was first of its kind in India, proposing a total of 1.6 km. of bridge and reclamation of 382 hectares of land.

Key Actors

- GIDA (Goshree Island Development Authority): the new development authority for the project
- Real estate developer
- CIDCO, as a consultant to GIDA
- Inhabitants of the islands

The Partnership

- The developer should quote estimated value of works for construction of bridges, roads and reclamation and land area sought in exchange.
- The land will be on sixty years lease.

- Reclamation, bridges and approach roads would be taken up in that order.
- Public uses to be handed over to relevant authorities.

3. Charges/Levies

In this section, we will primarily discuss the major taxes that couId be levied or charged on the urban land with an intention of financing the urban development projects and of providing public services in the existing areas as well as new growth areas. Therefore, the major objective of such land based instruments i.e. charges ***I*** levies is resource mobilization (here, we use the terms charges and levies interchangeably). While most of these instruments are traditional and widely used in the USA as well as the Europe, only few of them are used in India and that too to a limited extent. In this section, we will discuss a range *of* instruments like:

- Land use conversion charges that attempt to recoup part of the gains made by land owner due to of uses change;
- Betterment levies that attempt to recoup part of the gains made by land owner due to infrastructure development/improvement;
- Parking fees, which attempt to recoup the benefits of use of public land;
- Vacant land tax, which curb speculative holding of the land;
- Development impact fees, which recoup the additional public investments to be made due to the development;
- Planning agreements, which ensure that the development takes place as per the conditions laid down in planning permission;
- Planning gains, which are windfall gains to land owner due to planning permission that need to be recouped;
- Projection charges, which penalise disamenity or pollution or such damage.

3.1 Land Use Conversion Charges

The concept of betterment due to planning permission is well-grounded in the Town Planning Acts of many countries and there is a strong case for tapping a part of the unearned increments in land values due to planning gains and using the same for decongestion programmes, acquiring and developing land for conservation purposes, etc. Likewise, planning permission (or, development permission) can also lead change in the use to which the land is kept, which results in not only windfall gains to the land owner (e.g. from the

residential to commercial use, or agriculture to residential use) but also warrants provision of public goods and services by local authorities due to the change of use. Therefore, as change in land use brings about significant increase in land value, part of it could be recovered through conversion tax/charge. Conversion charges, particularly the charges on use conversion from agriculture to non-agriculture, are widely used in several States like Maharashtra, Gujarat and Andhra Pradesh but it is used most effectively in West Bengal. The funds generated can be used for public goods and services programmes of the local Government/ authority.

3.2 Betterment Levy/Infrastructure Development Levies

Infrastructure development levies, also called as 'betterment levies' are popular in the cities of North American countries as well as the UK and have long been used by these countries to recoup the land value gains made by land owner. They are charged with a view to accommodate population expansion in a new development area and make this happen through charges/ levies. Levies are imposed on would-be property developers in proportion to the estimated costs of the needed infrastructure. Both, off-site and onsite infrastructure needs are taken into account while calculating the fees. The principle behind these levies is that 'the growth should performance itself.

While internal development charges are normally designed to meet with the costs of laying down public infrastructure services (either fully or partly) within the jurisdiction of the city (or, onsite infrastructure), external development charges are designed to meet the costs of laying down or providing access to public infrastructure (either fully or partly) outside the city (or, off-site infrastructure), such as water supply schemes drawing water. from, outside city. Betterment levies/ infrastructure development charges have not been used much by the local Government/ authorities in the provision of infrastructure and public services in new growth areas. However, it has been used to some extent by the municipal corporations in some States in the recent past and it presents an important resource that

Internal and External Betterment levies/Development charges in India

In India, internal and external development charges are levied by certain development authorities and municipal corporations. The Haryana Urban Development Authority (HUDA) provides an excellent example of the levy of External Development Charges from land developers. These charges include costs of water source development, laying of trunk water lines, development of freeways/major roads, regional parks, etc. The Government of

Andhra Pradesh has provided for the collection of "external betterment charges" in the Hyderabad Municipal Corporation area. These charges are similar to the external development charges of the HUDA.

3.3 Parking Fees/Charges

As cities grow, the occupancy of vehicles also grows, so also the number of trips/ travels made by them. However, there is little public space that can be kept for parking of vehicles. Parking complexes are constructed by the local Governments/ authorities in the key commercial areas so that the vehicles can be parked safely in those premises. However, financing the construction of such complexes is expensive and warrants for resource mobilization through a levy of parking feel charge. Sometimes, the complexes are constructed, operated and/or leased to private contractor with a partnership agreement between the local authority and the contractor, who then becomes responsible for the collection.

Therefore, the local Government/ authority can use this resource to finance the construction of parking complexes and managing the parking spaces respectively.

In addition, over the years, several residential areas in cities have changed their character and residential houses have been converted to commercial use. As a result, there is considerable problem of parking in many commercial localities. It is suggested that a parking contribution be collected where there is no public interest involved and also where demolition is impractical from those responsible for the unauthorized conversion of residential areas into commercial so that compensatory parking complexes and open parking places can be created to ameliorate traffic congestion problems. In the western countries, the street car parking areas are ear marked and the street car parking is taxed according to a pricing schedule that varies with time and duration.

3.4 Vacant Land Taxes

The arguments for vacant land tax come from the classical economists, but they also found approval of modem economists with the rise of speculative land holding in urban areas. In fact, many individuals and developers hold urban land waiting for a ripe opportunity to maximize the rent from its selling or development. This not only causes the shortage of housing and developed land but also it leads to the loss of potential revenue (in the form of property tax) to support the development of public infrastructure and services on the surrounding land. Therefore, the local Government/ authority have to use this resource primarily

for curbing speculative land value gains and to partly mobilize the resources for providing public infrastructure and services on the developed land. Vacant land tax has been widely used by cities in Europe to check speculative land holding, but it is yet to be fully utilized in the Indian cities.

While municipalities in some Indian States are empowered to levy vacant land tax, in others, there is no explicit legal provision for the levy of this tax. Experiences indicate that a tax rate of about 1 % (or lower) on capital value of vacant land could be a major source for financing trunk

Infrastructures in cities. The investment in roads, water supply, drainage, etc. would, in turn, enhance the value of vacant land. Vacant land tax will also promote housing if the tax rate on built up land is lower than that on vacant land. Tamil Nadu has a well developed vacant land taxation system under which urban land tax is levied at rates as shown in table 2. In Andhra Pradesh, a rate of 1 % on capital value of land is the rate of vacant land tax provided under municipal law. However, the tax is not being exploited properly due to a variety of reasons. Perhaps, a further reduction linked with a self-assessment scheme may be worked out.

Urban Land Tax in Tamil Nadu			
All Urban Lands in areas other than the Chennai Belt Area (On the extent in excess of two grounds or 4800 sq. feet)		**All Urban Lands in the Chennai Belt Area** (On the extent in excess of three grounds or 7200 sq. feet)	
First two grounds	Nil	First 3 grounds	Nil
Where the extent does not exceed 5 grounds	0.7% of the market value	Where the extent does not exceed 7 grounds	0.7% of market value
Where the extent exceeds 5 but does not exceed 10 grounds	1 % of market value	Where the extent exceeds 7 but does not exceed 10 grounds	1 % of market value
Where the extent exceeds 10 but does not exceed 20 grounds	1.5% of market value	Where the extent exceeds 10 but does not exceed 20 grounds	1.5% of market value
Where the extent exceeds 20 grounds	2% of market value	Where the extent exceeds 20 grounds	2% of market value

3.5 Development Impact Fees

Local Governments in many countries today, including the USA, levy non-negotiable monetary assessments or impact fees on new developers. Impact fees are 'one-time' charges collected to pay for public infrastructure required by new developments. They are imposed as a condition for approval to proceed with development. The facilities financed out of impact

fees may include on-site and off-site infrastructure such as roads, water supply, sewerage, storm water drainage, flood control measures, open space, solid waste management, fire protection, libraries, schools, police services, public buildings and administration. Impact fees are assessed under the broad 'police' powers of local authorities (as distinct from 'tax' powers) to regulate the use and development of land. These powers have their root in the legal 'nuisance' doctrine which deals with the elimination of potential negative impacts of new development on the community. The fees differ from exactions which are 'negotiated' requirements, mandating developers either to dedicate land or infrastructure for public use or to contribute cash for provision of facilities needed to serve a proposed development. Impact fees are based on the general marginal cost pricing principles. They have a demonstrated potential for raising revenues to support new development.

The US Department of Housing and Urban Development (1993) reports that the local Governments in all 50 States in USA impose impact fees in some form or other. The average Level of impact fee assessment on 2,000 square feet single-family home based on a study of 206 representative local Governments in the United States' in 1991 was $9,425. State and federal courts and the US Supreme court have generally ruled that the assessment of impact fees is within the legal powers of local/ Governments to finance all types of public facilities as long as state statutes permit such levy and the 'rational nexus' criterion is met. The local Government imposing impact fees must show the nexus or link among (a) the new development's need for public facilities (needs test) (b) the benefits of the assessed development (benefits test) and (c) the proportionality of the fee (proportionality test). Proportionality refers to the portion of the cost of public facility improvements which reasonably relate to the needs and benefits of accruing to new development.

Between World War I and World War II, developers in the United States were required to provide and dedicate for public use such facilities as streets, sidewalks, waterlines and sewers that were within or adjacent to new development as a condition for receiving development approval. Local Governments also established special assessment districts that made the new development directly responsible for the infrastructure needs it generated. After World War II, the developers' responsibility for infrastructure improvements expanded to off-site public facilities that benefit the community as a whole. In 1950s and 1960s, the authority of local Governments to collect 'voluntary' contributions (exactions) from developers on case-by-case basis as a negotiating tool for development approval was

established. Developers were assessed not only on in-kind contributions but also monetary contributions for off-site infrastructure. During the 1970s and 1980s, the use of development exactions broadened to cover all types of infrastructure and resulted in emergence of impact fees. These fees were found to be less administratively cumbersome, more predictable, more equitable and less prone to political interventions than exactions. The arguments for and against impact fees are as follows

Arguments for	Arguments against
❖ New developments pay their fair share of infrastructure development costs through impact fees. Use of impact fees eases pressure on other financial resources. ❖ The requirement of a capital improvement plan (CIP) to justify impact fees leads to improvements in regional and local planning. ❖ Use of impact fees avoids de facto moratoria on development that result from tax and debt limits on local government. ❖ Impact fees act as revenues exclusively earmarked for creation of infrastructure facilities. ❖ Impact fee legislation requires a rational link between fee payment and infrastructure expenditure. ❖ The use of impact fees can provide a politically acceptable alternative to property tax increases. ❖ Correctly calculated impact fees assess the developer only for the cost of providing infrastructure for the new	❖ Infrastructure provision is the responsibility of local Government and the community as a whole, not of new development alone. ❖ Impact fees are inherently regressive. ❖ Impact fees increase the market price of new and existing housing; they have the potential to reduce the supply of housing. ❖ By earmarking impact fee revenues for expenditure on infrastructure to serve new development, flexibility in financing capital and other expenditures. ❖ Impact fees have the potential for abuse and misuse by Government unless limited by carefully drafted legislation. ❖ Administrative costs in connection with the calculation, assessment, collection, tracking and refunding of fees may be expensive.

development. ❖ Impact fees reduce the price of undeveloped land.	

To ensure equity, fairness, uniformity and nondiscrimination, impact fees need to be designed taking into account the full consequences of their imposition. These consequences extend to affordability of housing, long range infrastructure planning, overall municipal budget and ease of fee administration. Fee calculation, fee payment, fee administration, fee use etc. need to be clearly defined by impact fee legislation to limit the potential for misuse. In this regard, the Indiana Code for the State of Indiana in the United States stipulates [see US Department of Housing and Urban Development (1993)]

An impact fee ordinance must include (i) a schedule prescribing for each impact the amount of the impact fee that is to be imposed on each infrastructure type covered by the ordinance; or (ii) a formula for each impact zone by which the amount of the impact fee that is to be imposed for each infrastructure type covered by the ordinance may be devised.

A schedule or formula included in an impact fee ordinance must provide an objective and uniform standard for calculating impact fees that allows fee payments to accurately predict the impact fees that will be imposed on new development. "

Different models are in operation. around the world. The American model of impact fees where a standard fee is payable according to the type and size of a development proposal which contributes towards a public schedule of a proposed infrastructure. The system has benefits of openness and certainty and the developer can calculate the expected contribution before an application is submitted. Under a community benefit system, each development application is subject to a valuation appraisal, agreed by both sides and a community benefit (either on site or off site) but related to the development of the land would be calculated and payable by the developer. The Indiana legislation further requires

that an impact fee schedule complies with the "rational nexus" test. In that, an impact fee may not exceed the development's proportionate share of the costs of providing the community level of service to the development, exclusive of the costs needed to raise the current level of service and exclusive of any non-local revenue available to pay for infrastructure of the applicable type and any taxes, charges and fees which will be paid during the IO-year period following assessment of the impact fees for use with the geographic areas of the unit. A study of State legislations in the United States to enable the local authorities to levy impact fees suggests some desirable criteria for drafting impact fee legislation in India.

Criteria for drafting Impact fee legislation in India

- Clearly state the jurisdictions authorized to levy impact fees.
- Identify the specific types of residential, commercial, industrial and other developments and/or buildings brought under the net of impact fee assessment and clearly specify the basis for that assessment (e.g. square footage, per unit, etc.).
- Stipulate all types of facilities and expenditures (benefiting new development) that are eligible for funding by impact fees;
- Require the definition of service area of facility improvement to ensure that the impact fees are calculated, assessed, collected and spent only in the area served by the facility improvement. The service area may be defined in terms of population or land area;
- Prescribe the application of rational nexus among the new development's needs for facilities, the amount of fee charged to develop the facilities and the benefits accruing to new development from the facilities.
- Stipulate that impact fees finance only those eligible facilities projected for development In an existing capital improvement plan (CIP).
- Require that the level of services provided by facilities funded by impact fees do not exceed the level of services provided by existing infrastructure to the community as a whole. If a community adopts a higher level of service standard, it must have a plan to remedy the current deficiency from sources other than impact fees.
- Include a system of credits for developer donated in –kind contribution and revenue payments including taxes and fees.
- Allow jurisdictions to establish a system of exemptions for specified types of development with foregone fees paid from general revenues.
- Specify the time of fee payment. Since timing has unique consequences for the land

seller, builder and home buyers, the fees may be assessed early in the development process and collected late.

- Require the establishment of separate interest-bearing accounts for the deposit of impact fees so that they are not co-mingled with funds for other purposes.
- Require the adoption of a plan to refund fees not spent on the needed public facilities within a reasonable time period.
- Specify criteria to be taken into account while devising a formula to determine impact fee assessment.
- Include provision to guide intergovernmental agreements, citizen advisory committee requirements, public hearings, fee appeal process and procedures for fee fixation.

Impact of Hyderabad

In the recent years, the Government of Andhra Pradesh has permitted the Municipal Corporation of Hyderabad to levy impact fees to mitigate the impact of construction of commercial buildings that lead to increased traffic and necessitate decongestion measures. Distinction is made between on-site and off-site (local area) development cost and city-wide impact. Impact fees are meant to address citywide problems emanating from high density commercial development. These fees levied at Rs.25 per square feet are to be deposited in a separate account of the Municipal Corporation and utilized for implementation of the Capital Improvement and Decongestion Plan, i.e. for works such as road widening, link roads, slip roads, parallel roads, junction improvements, traffic signals, flyovers, rail over-bridges, rail under-bridges, etc. Under no circumstances this amount to be spent on salaries and maintenance works. It is desirable to extend impact fee to all major commercial constructions in large cities in the State to create resources for decongestion activities. Given the potential of the impact fee in raising resources for financing city development, the States need to draft guidelines and impact fee proposals should be made by the local Government/authority in line with the guidelines.

3.6 Planning Agreements

The introduction of Planning Agreements and their widespread use in Britain was associated with a move from regulatory to negotiatory style of development control and general belief that developers should shoulder the costs of development. Planning agreements, obligations or planning gain is the extraction of community benefits from a development project through the exercise of the planning approval system. Three reasons are often given to support the imposition of planning agreements on developers.

- Firstly, to support the implementation of the development (with a clear planning framework justifying the proposal), developers are encouraged to contribute to the provision of infrastructure for the scheme or other management problems.
- Secondly, adverse impact of the scheme and the need to alleviate or compensate for social costs ofthe impact of the development
- Thirdly, some believe that the developer has a duty to return some profit from the development to the community - thus these are a local development charge.
- Planning agreements can relate to regulatory matters {contracts, plans and drawings, and building materials), occupancy conditions (Who should be able to occupy old persons housings, agricultural housing, etc.)Agreements serve an important function in securing the provisions of infrastructure associated with the development and environmental improvements (landscaping).

Planning obligations may be positive (relating to provision of services or facilities - roads, sewerage, low cost housing, open" space, landscaping or other physical community benefits); or negative in respect of controls over the use and occupancy or land or buildings. They can require sums of money to be paid - one-off or periodic. To establish what a reasonable planning obligation is, a number of tests have been developed.

3.7 Planning Gains/Development Charges

Planning gains/ Development charge is levied at the time of granting planning! development permissions as provided in Town Planning Acts. This tax related to area of development alone, neither relate to value of property developed nor to infrastructure investment required but takes the form of a general tax devoid of buoyancy. Development charge however is a one-time charge levied at the time of completion of new development related to value of the property. Theoretically, it is argued, in a competitive real estate market, the incidence of this charge is on the landowners.

3.8 Projection Charges

Under the municipal laws, provisions exist for the collection of projection charges from unobjectionable projections into the footpaths or streets by way of balconies, sheds, etc. Permissions for such projections should be issued only if there are no objections from the traffic point of view. Hoardings in the cities also present the cases for raising projection charges, as their wrong placement causes severe visual pollution. Projection charges, in a way, can add to the revenues of the Municipalities. Attempts have been made in Mumbai to

regulate hoardings and projections, but resources could also be generated from such erections.

4. Contributions

Contributions (either monetary or non-monetary such as land) that could be mobilized by the local Governments/ authorities from private individuals or developers which can finance the urban development projects and public services provision in the cities. Most of these instruments are non-traditional and are mostly based on the innovations made by some of the local Governments/ authorities and hence not complete on - the list. While the local Governments/ authorities can make use of some these illustrations, they can innovate some more under their own circumstances. The rationale for the use of such instruments comes from the policing powers of the local Government/authority rather than its taxing powers.

4.1 Road Widening Schemes

This novel instrument of road widening scheme has been in operation in Hyderabad since the early. 1990s. The scheme has been accelerated significantly in the last five years. Under the scheme, loss of land to the land owners in the process of widening of designated roads, is compensated by giving them additional Floor Space Index (FSI) on the remaining land. If a land owner cannot use the extra FSI in situ, he can use the same elsewhere or transfer them to other developers on sale. Compensation for loss of structures is directly paid. Funding for compensation and for the physical improvement works has to be met from the general funds of the Municipal Corporation. Extensive consultation with affected landowners and meticulous planning of implementation are the highlights of the scheme.

Road Widening Scheme: The Case of Municipal Corporation of Hyderabad

A massive road widening programme, the first 0 its kind in the country, has been taken up in Hyderabad since 1996. Under this, the land owners surrendering land for road widening; free of cost, are provided with benefits of relaxation of zoning and building rules in exchange in all round set backs, coverage, etc. and in allocation of Floor Space Index higher than what is prevailing in the area. The Commissioner 0 Municipal Corporation of Hyderabad is competent to grant permission to those surrendering land for road widening to take up additional construction over and above that permitted by Building Regulations. Land surrendered horizontally is compensated by additional construction vertically. The Municipal Corporation rebuilds the demolished compound walls and other structures or pays structural

compensation. The extent to which vertical construction is to be permitted depends on the extent of land surrendered by parties and the prevailing FSI in the area. If there is no scope for going vertical, the landowner can avail Transferable Development Rights for using the same elsewhere or selling to others. In some cases, even the construction of buildings for nonresidential use (commercial/institutional) is permitted to induce landowners to part with valuable land for road widening. The Municipal Corporation of Hyderabad (MCR) has created a "Road Widening Cell" specifically for this purpose. Since 1996, the Corporation has completed the widening of 68 major link roads. Work is in progress for the remaining 32 roads. The success of the road widening scheme can be attributed to the strong support from the State Government which delegated the power of zoning relaxations in road-widening cases to the Commissioner of the Municipal Corporation of Hyderabad - a power that was hitherto exercised by the Cabinet. With successful negotiation by the Town Planning Staff of MCH to convince land owners affected by road widening,· MCH has taken over 821,253.3 square yards of land worth Rs.81 1.51 crores free of cost till date. The structural compensation paid is only Rs.30 crores.

The details of achievement under Road Widening Scheme implemented by the Municipal Corporation of Hyderabad from 1996-97 to 2001-02 are shown in Table.

Road Widening Scheme in Hyderabad			
Year	**No. of Roads Widened**	**Area in sq. yards taken over**	**Present Value of land taken free of cost (Rs.**
1996-1997	7	168620.00	12849.00
1997-1998	7	150638.00	21501.00
1998-1999	8	75438.00	10321.00
1999-2000	7	141476.00	12797.00
2000-2001	16	98853.00	8140.00
2001-2002	23	186228.30	15543.46
Grand Total	68	821253.30	81151.46

4.2 Building Regularization Scheme

This scheme envisages the regularization of hitherto unauthorized constructions by providing one-time opportunity to pay penalty and regularize their structures or plots in line with the building/zoning regulation of the municipal corporation and/or master plan for the city. The Municipal Corporation of Hyderabad has undertaken this measure to build significant resources. This also gives room for restructuring the operations of inspection and enforcement as the routine operations, which still do not completely curb the violations. The owners of the plots/buildings could get an opportunity to correct the violation and Municipal Corporation stands as a gainer of the charges due to penalty and other town planning related charges. However, it is applicable to minor building/plot violation but not a remedy for large scale violations.

4.3 Unauthorized Development Contribution

Unauthorized colonies are come up in many cities over a period of time. The developers of the land tend to sell plots before completing all the amenities required in a colony. Efforts are being made to track the defaulting developers and collect development charges as required by regulations. Taking a practical stand and to ameliorate the problems faced by residents due to lack of civic amenities, the Municipal Corporation of Hyderabad has propose~ to take up public works in these colonies provided the plot-owners/residents come forward to contribute 50% of the costs. Schemes of similar nature can be tried out in other Municipalities too.

4.2. Special Development Contribution

For special projects of strategic importance to a city, such as providing amenities like parallel roads, slip roads and link roads special development contributions from developers can be collected as these projects benefit the city as well as the developers. Special development contribution presents a win-win situation for both. This scheme has been tried in many countries and has good scope for application in large cities. Projects which involve heavy costs and which significantly benefit some areas, but which may not be taken up under ordinary municipal budgets, may be taken up with the contributions from the area developers.

4.5 Polluter Pay Contribution

The building owners and plot owners resort to several practices that may lead to some kind of damage to the neighbourhoods and the surrounding area at large. This results in passing of costs on to some other persons and the city authorities (if they have to rectify it). Polluter pay concept can be applied to recover these costs by the local Government/ authority. For example, a survey has revealed that several commercial and residential buildings in

Hyderabad city have illegally hooked their internal sewer lines to storm water drains without taking sewerage connection from the Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB). As a result, while the Board is deprived of its legitimate revenues and the Municipal Corporation of Hyderabad (MCH) is subjected to the extra burden of maintaining storm water drains, which are subject to considerable flows even in the summer months. On the basis of 'polluters pay' principle, MCH has resolved to levy storm water drainage charges on those who are not in a position to connect to sewer lines due to non-availability of infrastructure. Others will be required to apply for sewerage connection from HMWSSB and till such time connection is taken, they will pay storm water drainage charges. 'Polluters pay' is another innovative principle that can be applied to all cities.

4.6 Demolition Charges

The Municipal Corporation of Hyderabad has introduced demolition charges, to be paid by the violators of building rules under the 'polluters pay' principle. Today, persons resorting to unauthorized construction face demolition and also are made to pay for the demolition of their own buildings. It is proposed to rationalize the demolition charges and recover the full cost of demolition so that the Corporation does not spend the tax-payers' money on demolition of buildings of offenders. Similar instruments can be adopted by all Municipalities as a matter of policy.

4.7 Open Space Contribution

Open spaces are an important component of the city's land and provide a valuable environmental quality e.g. improved air quality green lungs, and amenity e.g. improved natural scenic beauty/ landscape to the citizens. Such open spaces are normally provided for in the city development plan or the land use plan, but their ownership may or may not be with the local body concerned. There are many ways by which the open spaces are created, but traditionally through the route of compulsory land acquisitions against the land reserved for open spaces in the development/ land.

use plan. However, this process is fraught with legal suites and longer time is taken to acquire it. One way of overcoming this is to either allow land swaps i.e. exchanging this land with an equivalent land existing elsewhere, or give TDR equivalent to the contribution of land (or, equivalent development permitted on such land at the prevalent FSIIFAR). Land swaps are widely used as an instrument. By several counties in the USA to achieve the environmental quality preservation goals. Montgomery County, for example, has used this to a large extent to protect the preserved land of environmental value. TDR against the plan

reservation! open space has also been used quite effectively in several other counties in the USA. In India, the MCGM, Mumbai has used it quite successfully to acquire the open space without any legal recourse and litigations, which led to an increase in the open space in the city. Using such innovative methods local authorities can achieve large open space contributions made by the citizens, which also increase their quality of life.

Open Space Contributions in Hyderabad

To augment resources for enhancing lung space in the city, the Municipal Corporation of Hyderabad has introduced Open Space Contribution to be collected from persons applying for development permission. This is required only in the case of lands belonging to layouts, which have not provided the 40% statutory open space (for roads and parks). The contributions are used to take up parks and avenue/woodlot/green-belt plantations under compensatory greening. It is proposed to rationalize charges and contributions for the creation of a Green Hyderabad Fund. Similar funds can be created in other Municipalities.

4.8 Sale of Small Pieces of Land

Many Municipalities and Municipal Corporations own small and large extents of lands. The small pieces cannot be used productively for any public purpose like parks or playgrounds. Some of these are already under encroachment for a long period of time. In view of this position, a scheme of sale of bits and pieces of lands, which are becoming liabilities to the civic bodies and not earning any returns, may need to be implemented. As there is already a Government Order permitting Municipalities to sell small extents of useless bits and pieces of land, it is proposed that the scheme may be implemented in all urban local bodies in the interest of effective land administration and also to raise resources.

5. Other Non-Conventional Methods

In this Chapter, we will primarily discuss the nonconventional methods that can be deployed for mobilizing resources as well as for using them judiciously to avoid any commitment of budgetary resources by the local Governments/ authorities. These methods have been used by the local Governments! Authorities for some time but as they are some kind of off-budget strategies, they can be termed as non-conventional methods. We will examine the following methods in detail in the sections that ensue:

- Capital gains tax and valorization are essentially tax-based resource mobilizing instruments.
- Transferable development rights, use of air space rights and leasehold to freehold

conversions are more of market-based instruments that use the market mechanisms to trade with acquiring land for providing infrastructure and services.

- Tax increment financing is a different type of tool used by the local Governments/authorities in the US to finance redevelopment/renewal of physical infrastructure in a jurisdiction but it has not been used much in countries other than the US and Canada.

5.1 Capital Gains Tax on Land/Property Value

It is widely recognized that land values increase mainly on account of community actions like provisions of infrastructure and not due to efforts of landowner himself. Henry George, a staunch advocate of this theory also argued that the increased inland values could justifiably be captured for common use through taxing the unearned increment to the land. This is called value capture or taxing land value gain or land value increment tax. Though such a tax can be levied on annual basis on the increased land value, in most practical cases however it is levied on the sale of land, as the increased land value is only notional to the owner but realized only when it is actually traded in the market. In such a case, it takes the color of capital gains tax which in India is reserved for Union Government. However, if surcharge on capital gains is levied on transaction of land for the city in which it. occurs, this could become a buoyant source of revenue.

A word of caution is necessary. Though it is true that land value increase is the result of community actions e.g. infrastructure investment, market price as a measure of value has many problems. In a high inflationary economy, a measure share of increase may be on account of inflation. In other cases, where supply of land or development rights is constrained like ceiling on urban land or uniformly low FSI, the market price may reflect scarcity of land. Such price rise cannot be equated to increase in value and then captured through a tax. Likewise, the surcharge on capital gains tax should not be very high that it curbs market transactions (which affect the operation of land and housing markets and the supply of land) or leads to malpractices such as non-registration of property related transactions.

5.2. Transferable Development Rights

Transferable Development Rights (or, shortly known as TDR) are the development rights of land that are transferable from one location to another. In traditional urban planning approach, the development potential of the land is fixed in situ and not transferable but to be consumed at site. TDR program is meant to facilitate the utilisation of surplus development of a site to be developed ex situ. The Urban Development Plan Formulation and Implementation (UDPFI), Government of India (GoI, 1996) defines Transferable Development Rights as: *'Development Right to transfer the potential of a plot designed for a public purpose in a plan,*

expressed in terms of total permissible built up space calculated on the basis of Floor Space Index or Floor Area Ratio allowable for that plot, for utilisation by the owner himself or by way of transfer by him to someone else from the present. location to a specified area in the plan, as additional built up space over and above the permissible limit in lieu of compensation for the surrender of the concerned plot free from all encumbrances to the Planning and Development . Authority'.

Local governments undertake TDR programs to use the market to implement and pay for development density and location decision (Hanly-Forde 2006). They are based on the assumption that each unit ofland in a city has the potential to accommodate at least some level of development. The potential level of development of each parcel ofland is determined by the property zoning, land use and development control regulations. Essentially, the differential development potential ofland can be utili sed in a positive manner to preserve certain land uses which are required to be kept with little or no development on site; while at the same time, this unutilised development potential needs to be tapped for beneficial use in other sector such as residential housing. TDRs essentially serve as a mechanism to achieve this objective. The TDR scheme allows exploiting the full potential development of land through transferring the development density of land and, by implication, population density as well. Here, on the whole, the amount of development in the city will remain the same with more development taking place on the sites with high development potential e.g. those sites with better infrastructure, proximity and site characteristics) while preserving those sites which either need to be preserved or have poor site characteristics and infrastructure. However, the TDR programme can be used to serve several purposes such as (Kothari 2002):

- Land mark preservation.
- Open space preservation.
- Preservation of fragile lands.
- As a primary system of land use regulation.
- As a tool for encouraging the construction of moderate and low income housing.
- As a tool for regulating the location and timing of community growth.
- Providing for land acquisition under reservation for urban services.

A summary of the experience of TDR utilization in select counties of the US and that in Mumbai is provided in Table.

Comparison of TDR programme in various Urban Centres					
Parameter	**Montgomery Country**	**New Jersey**	**Chicago**	**Virginia**	**Mumbai (India)**
Objective of TDR	Preserve agriculture	Environmental protection	Preserving land marks	To replace zoning	To acquire reserved land for social amenities
Transfer limits	Within county	Across counties	Within districts	Within county	Within CGM limits
Development Rights based on	Acreage	Suitability of land for development	Difference between allowed and and onsumed FSI	Acreage	Allowable built space (subject to FSI limits)
Person getting Development Right	Farmers in agricultural areas	All farmers	Yes	All land owners	All land holders having land Under reservation
Development Rights Bank	Yes	No	Yes	No	No
Value of right	Multiples of five acres	Varied according to type of land	Equal to area of Unutilized FSI	Depends upon use	Equal to permissible built-up area or FSI

Source: Kothari (2002)

(I)TDP Experience of Mumbai

The Municipal Corporation of Greater Mumbai has adopted· practice of Transferable Development Right (TOR) under Regulation 34 of the Development Control Regulations (OCR) for Greater

Bombay, 1991. These Regulations of the Maharashtra Regional and Town Planning Act, 1966. Under the TDR concept, the development potential of a plot of land partly or fully reserved for a public purpose can be separated from the land itself and be made available to the owner of the land by way of TOR in the form of Floor Space Index. Such award entitles the owner a Development Right Certificate (DRC), which he may himself use or transfer to another person. If the FSI granted cannot be used on the land not covered by acquisition, the land owner is free to use the additional FSI on his land located in other parts of the city or to sell the same to other land owners. The exorbitant costs of urban land acquisition for public purposes can be met by such system of compensation in kind rather than in cash. The TDR Regulations take into account the long experience of the Municipal Corporation of Greater Mumbai in the practice of the instrument of Floating FSI. Provides a sample pro forma of the DRC and box 9 provides the process and details of TOR experiment in Mumbai.

TDR Utilization in Mumbai

The TDR Regulations of the Municipal Corporation of Greater Mumbai describe the salient features of a Development Rights Certificate and specify certain conditions for the grant of such instruments which are as follows:

- Development Rights Certificates (DRCs) will be granted to an owner or a lessee only for reserved lands which are retainable/nonretainable under the Urban Land (Ceiling and Regulations)Act, 1976 and are available only for prospective development of reservations.
- DRCs will be issued by the Municipal Commissioner himself. They will state, in figures and in words, the FSI credit in square metres of the built-up area to which the owner or lessee of the reserved plot in question is entitled, the place and user zone in which the Development Rights (DRs) are earned and the areas in which such credit may be utilized.
- The built-up area for the purpose of FSI credit in the form of a DRC shall be equal to the gross area of the reserved plot to be surrendered and will proportionately increase or decrease according to the permissible FSI of the zone wherefrom the TOR has originated.
- When an owner or lessee also develops or constructs the amenity on the surrendered plot at his cost and hands over the amenity to the Corporation, free of cost, he may be granted a further DR in the form of FSI equivalent to the area of the construction

I development done by him.

- If a holder of a DRC intends to transfer to any other person, he will submit the DRC to the Commissioner with an appropriate application for an endorsement of the new holder's name, i.e. transferee on die said Certificate.
- Irrespective of the location of the land in which they originate, the DRCs shall not be used in the densely developed Island City.
- The user who will be permitted for utilization of the DRCs on account of Transfer of Development Rights will be as specified.
- DRs will be granted and DRCs issued only after the reserved land is surrendered to the Municipal Corporation or the State Government.
- A DRC will be a transferable negotiable instrument after due authentication by the Commissioner.
- The surrendered reserved land for which a DRC is to be issued shall vest in the Corporation or the State Government and such land shall be transferred in the City Survey Records in the name of the Corporation or the State Government, as the case maybe.

By using the innovative TDR concept, the Municipal Corporation of Greater Mumbai, by 2000 was able to acquire about 900,000 square meters of space reserved for public purpose as per the Development Plan without paying any cash compensation whatsoever. On a conservative value of land at Rs.4,OOO per square meter, the cost of the land obtained free of cost works out to about Rs.360 crores. This is certainly a very impressive achievement for the city of Mumbai.

(II) Purchasable Development Rights

The concept of Purchasable Development Right (PDR) is essentially a purchasable TDR. TDR might be purchasable or not according to its design; it is non-purchasable under the scheme of land swap. PDR therefore also involves the grant of premium Floor Space Index or Floor Area

Ratio (FAR) over and above that is normally permitted subject to certain stipulated payments. This way FAR can be used as a resource for undertaking infrastructure development. The Master Plan Regulations for Cyberabad Development Authority in Andhra Pradesh provides for premium FAR as follows:

- A basic FAR is automatically allowed while additional FAR has to be paid for. Thus for FAR there are two tables, i.e., one for free category and the other for payment

category;

- The rates of premium on FAR range from Rs.375 to Rs.1,250 per square meter of total floor area built over and above the free FAR;
- Group Housing is permitted on plots of 1,500 square meters and more in size and on roads having width of 18 meters and above.

Following from Premium FAR, a concept of Actionable Development Right can even be experimented to generate resources while regulating development. In selected business centers, FAR can perhaps be auctioned subject to the total floor space in the relevant zone being restricted to that stipulated in the Master Plan. The funds so generated could be used to develop the city and suburban infrastructure for the decongestion of core areas including widening of roads, construction of bridges junction improvements etc. The funds could also be used to provide equity support for rail-based urban mass transit projects which can decongest cities. This way a scheme of financing of 'trunks' linked to the development of, nodes' can be taken up.

5.3 Use of Air Rights on Transport Corridors

Mass transit systems in cities in general and the transit stations in particular represent locations of very high accessibility and therefore of very high economic value. Use of areas around such stations and also of air rights above the stations could help mobilize resources for development of transit (e.g. Hong Kong and Delhi Metro). In fact well planned selling of the air space rights results in many desired commercial facilities! Services. Coming up in these areas which not only serve the people accessing the stations but also at the same time contribute to the station area development. Some of these strategies are now being used in the construction of mass rapid transit systems in metro cities and present opportunities for other cities as well.

5.4 Tax Increment Financing

Tax increment financing (TIP) is a very useful method that can be used by the local Government/Authorities to provide public infrastructure facilities or achieve down town revitalization using the future value of land/property to meet with current or recurring infrastructure needs. It captures the projected increase in property tax revenue gained by developing a discrete geographic area and uses that increase to assist in paying for the infrastructure/ revitalization project. This funding makes it possible to go forward with projects that otherwise would not be built.

Upon the creation of a development or redevelopment project area, the local Government assessor will establish the base assessed value of that area (equivalent to taxable assessed value of all real estate and tangible property) and a regular levy of property tax will provide the local Government a regular income throughout the project period. Upon commencements of the project each for subsequent year the current assessed value of the property in the area is calculated and the difference between current assessed tax value of property and base-assessed tax value of the property is the tax increment. The tax increment is used during the project period (typically 20 or 30 years) and it will return to the base-value at the end of period.

Tax increment financing is advantageous because it ensures that the regular levy of property taxes on the base-assessed value of property will continue to be allocated to local Government and the tax increment is utilized to finance the development! re development project. The tax increment will be in a tax incremented financing fund for use on those projects approved for the project area. There are two ways to fund projects using tax increment financing:

(i) Pay-as-you-go: In this case,' the local Government uses the tax increment to pay for the projects as they are constructed. It is suitable when the project components and costs are well distributed over time.

(ii) Issuing bonds/notes: When there are substantial upfront development costs of the project, the local Government can issue bonds/notes in order to use the increment to help finance the project. These bonds/notes will have general obligation and can be tax-exempt.

5.5 Valorization

In Colombia, road improvements, water supply and other public services have been financed by "valorization," in which the cost of public works is allocated to the affected properties in proportion to the estimated benefits conferred on them by those works. The success of the scheme is seen to depend on (i) careful planning and execution (ii) active involvement of beneficiaries (iii) effective collection system and (iv) significant initial funding of the "valorization fund" by higher levels of Government. It is suggested" that the valorization principles could be applied to layout development projects in large cities.· The major problem, however, is that the assigning benefits to the beneficiaries is difficult and so is the case of costs.

5.6 Leasehold to Freehold

Most Municipalities have not been able to administer their leased properties for a long time. There is no point in keeping records for properties whose lease period goes up to 99 years. Such records are seen to be lost in many cases and most urban local bodies are found to be poor in recordkeeping. In many cases, vested interests have also resulted in the lease papers not being traceable. It is proposed that all municipal bodies go in for a Leasehold-to-Freehold conversion scheme following the pattern adopted by the Delhi Development Authority and some State Governments. The leasehold properties may be converted to freehold subject to payment of certain portion of the market value.

Awarding leaseholds has always been contentious as they were given at a paltry price or the lease rental fixed became pity low and corruption and other malpractices play an important role in the allocation of such leases. Moreover, local governments/ authorities are not very good at assigning, managing, protecting and guarding municipal assets. As a result, the lessees take it for granted and stay on for years after the expiry of lease period. It was found in the Mumbai city that there are several properties of the district collect orate, which is the land lord of public land, that are occupied by the lessees at a lease rental of few rupees a year and some of them even expired several years ago but no action was taken to recover them or to revise the lease rentals.

6. Summary and Conclusions

Land is the fundamental resource for city development. It has all the characteristics of a resource: its availability is finite at a given time; it has multiple competing uses; it is immobile in a sense that land at one location cannot move to other location. Every land parcel is unique in space and cannot therefore be recreated. A city land is divided into public and private domain. Public domain caters to common uses like roads or open spaces for recreation whereas in private domain, right of exclusive use is exercised.