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GOVERNANCE FRAMEWORK FOR DELIVERY OF URBAN SERVICES

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EVOLUTION OF LOCAL GOVERNMENT

Local government institutions have always existed in India in one form or another. The present form of urban local government owes its genesis to the British rule. The first such body called a Municipal Corporation was set up in Madras in 1688 and was followed by the establishment of similar corporations in Bombay and Calcutta in 1762. The tradition of local service delivery being the explicit mandate for local governments began with Samuel Laing, member of the Viceroy's Council, in the Budget Speech (1861–2) proposing that local services should be based on local resources. Lord Mayo's Resolution of 1870 introduced the concept of elected representatives in the municipalities. Lord Ripon is considered the founding father of urban local government as he devised the concept of municipal authorities as units of self-government. His Resolution of 18 May 1882 on local self-government dealt with the constitution of local bodies, their functions, finances and powers and laid the foundation of local self-government in modern India.

Since then the structure of municipal bodies has remained by and large the same even though the number of urban areas has increased and their problems have become more and more complex. After independence, the Constitution of India was framed on federal principles. Indian Constitution makers divided the government functions in three lists: federal, state and concurrent. Local government bodies are covered in the State List and are governed by the State Statutes or in the case of Union Territories by the Union Parliament. Initially the extent of the municipality's power as well as the extent of government control over a municipality/municipal council

depended on the statute enacted for its creation. Presently, the statutes confer wider regulatory and supervisory powers on the state government. This is due to two reasons: firstly, the Constitution does not demarcate the power and the duties of the municipal authorities and secondly in the absence of any clear-cut demarcation, it is obvious that state governments will tend to control municipal authorities.

In view with the problems faced by urban local government bodies, the Rural–Urban Relationship Committee set up by the Government of India in 1963, pointed out that local governments should not merely remain instruments of political education and civic conscience but should play a role in the promotion of social and economic development of local communities as well as be an integral part of the National Government. The Committee also made significant recommendations on the criteria for constitution of municipal bodies with clear delineation of powers, functions, and resources. As far as the municipal government was concerned, it was assumed to be a state function. Entry 5 of the State list in the Seventh Schedule of the Constitution of India gives legislative power to the state with regards to municipal laws, establishments, constitution, and powers of local governments.

Recent years have witnessed an increasing interest in and growing consciousness of the need and importance of local self-government as a provider of services to the community as well as an instrument of democratic self-government. Local government is an integral part of the national government structure, the level of government closest to the citizens and in the best position both to involve them in the decision making process of improving their living conditions and to make use of their knowledge and capabilities in the promotion of all round development. Until recently, urban local government was manifested in municipal corporations, municipal councils,

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town area committees and notified area committees. However, the 74th CAA 1992 proposes to form a uniform structure of municipal corporations, municipal councils and *nagar panchayats* in transitional areas. Rural local government operates through *zila panchayats (parishads)*, *taluka panchayats* and village *panchayats*.

Urban local bodies are supposed to be formed as democratic institutions based on the principle of self-government and should represent people's desires and strengths. Due to massive urban growth during the past two decades, quality of urban life has deteriorated creating an urgent need for vibrant and efficient ULBs that can deliver adequate services and improve living conditions. This is the primary factor behind the drive to promote decentralization to improve governance and public service delivery by local bodies. ULBs offer:

- enhanced opportunity for people's participation; local government is closest to the citizens and in the best position both to involve them in the decision making process of improving their living conditions and to make use of their knowledge and capabilities in the promotion of all round development;
- bottom-up planning; and
- effective implementation by enhancing coordination and responsiveness to users.

Local governments are in the best position to improve service delivery as they allow for increasing both allocative efficiency through better matching of public services to local preferences as well as productive efficiency through increased accountability of local governments to citizens, fewer levels

of bureaucracy, and better knowledge of local costs.

The 74th CAA 1992 has acted upon the recommendations of the Rural–Urban Relationship Committee and seeks to provide more power and authority to urban local bodies. It is the first serious attempt to ensure stabilization of democratic municipal government through constitutional provisions.

The 74th CAA seeks to introduce fundamental changes in urban local bodies. Its salient features are:

- introduction of the Twelfth Schedule which lists the functions of the urban local bodies, covering planning, regulation and developmental aspects (Box 3.1);
- establishment of District and Metropolitan Planning responsible for the election of representatives for the preparation of development plans at district and metropolitan levels;
- proposed establishment of ward committees in areas having a population of over 300,000;
- specification by law of the powers and responsibilities;
- entrusted to municipalities and ward committees;
- holding of periodic and timely elections; if a municipality is dissolved for any reason it should be reconstituted within 6 months;
- specifying by law the sources of municipal finance and their periodic review by a statutorily constituted SFC and by making it obligatory on the part of the Central Finance Commission to recommend measures needed to augment state resources to assist the municipal governments;
- restrictions on the power of state governments to do away with democratically elected municipal governments;

Box 3.1

Twelfth Schedule of the Constitution of India

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

(This schedule was added by the Constitution (Seventy-fourth Amendment) Act, 1992, sec. 4)

- reservation of one-third of seats for women and weaker sections in municipal bodies; for minorities there are no reservations.

The CAA envisages enabling people to participate in development processes at ward, municipal, district, and metropolitan regional level. The empirical evidence of such optimism could be realized only after the incorporation of the CAA in the existing Municipal Acts.

The state governments need to adopt the 74th CAA with reference to their respective municipal bodies. Although some states like West Bengal and Madhya Pradesh have proceeded in a determined fashion, overall progress of devolution by state governments has been slow and reallocation of roles and responsibilities as well as related financial powers and resources has left a lot to be desired (Box 3.2).

Box 3.2

Implementation of the 74th Constitution Amendment Act*M.P. Mathur*

An important initiative of the Government of India to strengthen municipal governance is the enactment of the 74th CAA in 1992. Until the recent amendment, local governments in India were organized on the basis of the 'ultra vires' principle [beyond the powers or authority granted by law] and the state governments were free to extend or control the functional sphere through executive decisions without an amendment to the legislative provisions. Through this initiative, an attempt is being made to improve the performance ability of municipalities, so that they are able to discharge their duties efficiently.

The important provisions specified in the Act include constitution of three types of municipalities, devolution of greater functional responsibilities and financial powers to municipalities, adequate representation of weaker sections and women, regular and fair conduct of municipal elections, and constitution of Wards Committees, District Planning Committees, Metropolitan Planning Committees and State Finance Commissions.

The 74th CAA, 1992 provisions, thus, provide a basis for the State Legislatures to guide the state governments in the assignment of various responsibilities to municipalities and in strengthening municipal governance. Accordingly, several state governments have amended their Municipal Acts/Laws/Legislations so as to bring these in conformity with the Constitutional provisions.

Interestingly, a review of literature reveals that till date apart from some piece-meal studies a systematic attempt to assess the impact of the 74th Amendment Act provisions on the working of municipalities has not been made at the all-India level. It is also learnt that the municipalities are confronted with a number of problems, despite the amendments in the State Municipal Acts and the implementation of the 74th CAA provisions. For instance, in several states, there exist problems of ineffective participation in the decision-making process despite adoption of the policy of reservation, delays in the transfer of funds to the municipalities despite constitution of State Finance Commissions, and poor recovery from various tax and non-tax sources despite devolution of powers. It is further learnt that there is an influence of various social, economic and political factors on the functioning of municipalities in India. Considering these local-level issues of governance as relevant, it is essential to examine the impact of the 74th CAA in different states of India.

The impact of the 74th CAA is assessed for a total of 27 States and 1 Union Territory (UT) of India. The state of Jammu and Kashmir was not included in the study. The National Capital Territory of Delhi, which is classified as a Union Territory by the 2001 Census of India, has been covered in this study.

The main problem faced in assessing the impact of the 74th Amendment Act was the non-availability of data on some aspects of the 74th Amendment Act provisions. This problem was noted especially in the case of most north-eastern states and the newly created states of Chhattisgarh, Jharkhand, and Uttaranchal. There are a number of states where disaggregated data on the number of male and female councillors/chairpersons belonging to scheduled castes, tribes, backward classes, and general category are not maintained properly. Similarly, adequate information is not available on the devolution of functional responsibilities and financial powers to ULBs. It may be further stated that updated information on the provisions of the 74th CAA could not be provided in this paper since data for the study were collected over a period of time.

The analysis of the data collected throws light on the performance of different state governments on the compliance/implementation of the Act provisions. Table B3.2.1 gives the state-wise compliance of the 74th Amendment Act provisions. Some important provisions of the Act have been included in the table. These are: constitution of ULBs; reservation of seats in ULBs, regular conduct of elections, constitution of ward committees (WCs), District Planning Committees (DPCs), Metropolitan Planning Committee (MPCs) and state finance commissions (SFCs).

An important observation is that while there has been full compliance in respect of select provisions, such as constitution of three types of ULBs, reservation of seats, and constitution of SFCs, others, namely constitution of WCs, DPCs, and MPCs have not been adopted to the fullest extent. West Bengal has shown full commitment and a high compliance with the provisions.

Furthermore, urban local governments now comprise of persons with diverse backgrounds and roles, namely elected members (such as the Mayor, President and councillors, who are representatives of citizens), nominated members (who are selected by the state government from amongst persons having special knowledge or experience in municipal administration) and the ex-officio members (such as the

Table B3.2.1
 State-wise Compliance of the 74th CAA Provisions

S. No.	State/UT	Constitution of ULBs	Reservation of seats	Regular conduct of elections	Constitution of WCs	Constitution of DPCs	Constitution of MPCs	Constitution of SFCs
1	Andhra Pradesh	÷	÷	÷	÷			÷
2	Arunachal Pradesh ^a					÷		÷
3	Assam	÷	÷	÷		÷		÷
4	Bihar	÷	÷	÷		÷		÷
5	Chhattisgarh	÷	÷		÷	÷		÷
6	Delhi	÷	÷	÷	÷			÷
7	Goa	÷	÷	÷				÷
8	Gujarat	÷	÷	÷				÷
9	Haryana	÷	÷	÷		÷		÷
10	Himachal Pradesh	÷	÷	÷				÷
11	Jharkhand	÷	÷					÷
12	Karnataka	÷	÷	÷	÷	÷		÷
13	Kerala	÷	÷	÷	÷	÷		÷
14	Madhya Pradesh	÷	÷	÷	÷	÷		÷
15	Maharashtra	÷	÷	÷	÷			÷
16	Manipur	÷	÷	÷				÷
17	Meghalaya ^b							
18	Mizoram ^b							
19	Nagaland ^b							
20	Orissa	÷	÷	÷		÷		÷
21	Punjab	÷	÷	÷				÷
22	Rajasthan	÷	÷	÷		÷		÷
23	Sikkim	÷	÷	÷				÷
24	Tamil Nadu	÷	÷	÷	÷	÷		÷
25	Tripura	÷	÷	÷				÷
26	Uttaranchal	÷	÷	÷				÷
27	Uttar Pradesh	÷	÷	÷				÷
28	West Bengal	÷	÷	÷	÷	÷	÷	÷

Notes:

1. a—There are no municipalities in Arunachal Pradesh.
2. b—The 74th Amendment Act provisions have not been applied to certain Scheduled Areas and the Tribal Areas of India.
3. Status of information provided in the table is based on data collected over a period of time and may therefore not tally with the latest position in the different states of the country.

MPs and the MLAs, who are responsible for spending funds received from the government on various development works within their constituency). Moreover, seats for the posts of Mayor, President and councillors in urban local governments have been reserved for women, for persons belonging to the scheduled caste, scheduled tribe, and backward class categories. The main objective of these changes is to create a representative government at the local level, which is capable of addressing the needs of all sections of the society.

Empowerment of municipalities through functional devolution is an important objective of the 74th CAA. The Twelfth Schedule of the 74th CAA, which consists of a list of 18 functions, has been inserted to guide state governments in the assignment of various functional responsibilities to municipalities. In response, most state governments have included the 18 functions in the list of duties to be performed by municipalities. Activity mapping of the 18 functions among the three tiers of municipalities is currently underway (that is, a number of activities have been identified within each function and actions are being taken for implementation). This

analysis shows that some functions have been transferred to the municipalities and are being performed by them in consultation with the respective state government departments. In a few states, for example, Uttar Pradesh and West Bengal, some of the functions listed in the Twelfth Schedule such as town planning, urban poverty alleviation, provision of urban amenities, vital statistics, etc. were already being performed by the municipalities before the enactment of the 74th CAA.

The analysis on the functioning of SFCs in different states of the country reveals that although the major thrust is on strengthening the financial condition of municipalities, there is also an emphasis on improving their overall management capabilities. Further, the 'action taken' reports prepared to assess the status of SFC recommendations show that the proportion of recommendations accepted (either fully, partly or in a modified form) is much higher than those, which have not been accepted. Decision to accept or reject a recommendation lies with the state government and is based on a number of factors, such as the financial condition of the state/local government, priority areas, etc.

Note: Views expressed are the authors' personal views.

Source: This box is based on a research study conducted by NIUA on *the Impact of 74th Amendment Act on the Working of Urban Local Bodies*, sponsored by the Ministry of Urban Development, Government of India, 2005.

THE ROLE OF GOI

The Ministry of Urban Development and the Ministry of Urban Employment and Poverty Alleviation form the apex authority of the Government of India at the national level to formulate policies, sponsor and support programmes, coordinate the activities of various central ministries, state governments and other nodal authorities and monitor the programmes concerning all the issues of urban development and housing in the country. Some of the key interventions of the Government of India include:

- (i) National Urban Transport Policy; guidelines for sector reform and public-private partnership in the urban water and sanitation sector;
- (ii) centrally sponsored schemes (CSS) such as integrated development of small and medium towns, mega city schemes, special development plan for the National Capital Region, accelerated urban water supply programme, low cost sanitation, etc.
- (iii) administering fiscal concessions such as tax holidays for integrated urban infrastructure development projects, urban environmental infrastructure schemes such as for solid waste management and urban water supply, tax free status for municipal bonds, etc.
- (iv) Training and information: by funding a variety of training programmes, creating and disseminating manuals such as the municipal solid waste planning manual, etc.

GOI's Role in Resource Allocation

At the dawn of independence the Government of India was faced with the challenge of rehabilitating the trans-border migration due to partition. The first few plans in the aftermath of the partition had a strong housing focus; significant

resources were allocated for the purpose. Since the initiation of development planning at the central level and the first five year plan, the Government of India has concentrated on making available additional financial resources to meet the urban development and infrastructure financing shortfall in cities and towns, although with varying emphasis on housing and other aspects of urban development. In the first five year plan (1951–6), the emphasis was on construction of houses for government employees and weaker sections. The Ministry of Works and Housing was constituted and National Building Organization and Town and Country Planning Organization were set up at the central level. The centre subsidized schemes to the extent of 50 per cent towards the cost of land and construction. The scope of a housing programme for the poor was expanded in the second plan (1956–61). The Industrial Housing Scheme was widened to cover all workers. New schemes were introduced, such as, Slum Clearance and Sweepers' Housing. Town and Country Planning legislation was enacted in many states and necessary organizations were also set up for preparation of Master Plans for important towns. Third plan (1961–6) generally emphasized coordination of efforts of concerned agencies and targeting of programmes to the needs of the low income groups. A scheme was introduced in 1959 to give loans to the state governments for a period of 10 years to acquire and develop land in order to make sufficient building sites available. This first period was aimed at increasing support to developing greater housing stock almost as a reaction to the huge influx of population and relocation due to the partition.

The next set of plans focused on *increasing coverage by funding asset creation* for local services including housing. Balanced urban growth was accorded high priority in the fourth plan (1969–74). It stressed the need for decongestion or dispersal of population to prevent further crowding in large cities. This was to be achieved by creation of smaller towns



and planning the spatial location of economic activity. Housing and Urban Development Corporation (HUDCO) was established to fund remunerative housing and urban development programmes, promising a quick turnover. A centrally sponsored scheme for Environmental Improvement or Urban Slums was undertaken in the central sector from 1972–3 with a view to provide a minimum level of services, like, water supply, sewerage, drainage, and street pavements in 20 cities. The fifth plan (1974–9) reiterated the policies of the preceding plans to promote smaller towns as new urban centres in order to ease the pressure. This was to be supplemented by efforts to augment civic services in urban areas with particular emphasis on a comprehensive regional approach to problems in metropolitan cities. The Urban Land (Ceiling and Regulation) Act was enacted to prevent concentration of land holdings in urban areas and to make available urban land for construction of houses for the middle and low-income groups.

The thrust of the planning in the sixth plan (1980–5) was on integrated provision of services along with shelter, particularly for the poor. Another centrally sponsored Scheme called the Integrated Development of Small and Medium Towns (IDSMT) was launched in towns with population below hundred thousand for provision of roads, pavements, minor civic works, bus stands, markets, shopping complexes, etc. The seventh plan (1985–90) stressed on the need to entrust the major responsibility of housing construction on the private sector. A threefold role was assigned to the public sector, namely, mobilization for resources for housing, provision for subsidized housing for the poor and acquisition and development of land. The National Housing Bank was set up to expand the base of housing finance. National Building Organization was reconstituted and a new organization called Building Material Technology Promotion Council (BMTPC) was set up for promoting commercial production of innovative building materials. The seventh plan explicitly recognized the problems of the urban poor and for the first time an urban poverty alleviation scheme was launched known as the Urban Basic Services for the Poor (UBSP).

The current phase of plans aims at increased funding to existing urban service delivery institutions to meet the enormous backlog in terms of service delivery capacity. In the backdrop of the National Commission of Urbanization's report the eighth plan (1992–7) for the first time explicitly recognized the role and importance of the urban sector for the national economy. While growth rate of employment in the urban areas averaged around 3.8 per cent per annum, it dropped to about 1.6 per cent in the rural areas. Therefore, the urban areas have to be enabled to absorb larger increments to the labour force. The plan identified the key issues in the emerging urban scenario:

- The impact of the widening gap between demand and supply of infrastructure services on the poor, whose access to drinking water, sanitation, education, and basic health services is shrinking.
- The unabated growth of urban population aggravating the accumulated backlog of housing shortages, resulting in the proliferation of slums and squatter settlements and decay of the city environment.
- The high incidence of marginal employment and urban poverty as reflected in NSS 43rd round which finds that 41.8 million urban people lived below the poverty line.

The response of the plan to this scenario was to launch an employment generation scheme in urban areas called the Nehru Rojgar Yojana (NRY).

The ninth plan (1998–2002) identified 'the key urban concern is the growing gap between demand and supply of basic services. While there has been a steady growth in the housing stock, infrastructure and services, the gaps between demand and supply have been rising, even in terms of conservative norms. It is now well-recognized that these gaps are unlikely to be bridged over the next 5 to 10 years. Many goals of housing, potable water and sanitation that were to be attained by 2001, may require the target point fixed 10–15 years ago to be extended.'

Therefore the 'the priority concern (of the Ninth Plan) was identified as not only to stop the growing deterioration in the urban environment, reflected in key urban indicators on housing conditions, pollution levels, traffic congestion, informal sector, among others, but to positively change the trend and ensure an improved, healthy and congenial environment. The wide gap between the demand and supply of basic amenities will be reduced through the creation of new assets, upgradation and renewal of existing assets, attaining better operational and managerial efficiency and stimulating flow of resources' (Planning Commission 1998).

The binding thread through this entire period was the lack of capacity and resources at the local level. The central government's concern was the need to augment resources available for local services. Thus, in spite of the limited powers and fiscal capacity of the Government of India to address grass root issues at the city level, it continued to increase the funding of city services from its central position.

The Financing Gap for Urban Local Services

Estimating the gap in investment requirements for urban infrastructure is mired in difficulty as it involves setting of standards, which inevitably becomes a judgemental exercise. Nonetheless it is essential for planning purposes. Various estimates of fund requirements for addressing urban infrastructure needs have been made in the past. The estimates

of the Expert Group on Commercialization of Infrastructure Projects (ECGIP 1996) are the most recent. The IIR 1996 estimated the annual investment need for urban water supply, sanitation and roads at about Rs 280 billion, at 1996 prices for the period 1995–2005. Another estimate made for the ninth five year plan had estimated the investment requirement for urban housing at Rs 526 billion. The Central Public Health Engineering (CPHEEO) has estimated the requirement of funds for 100 per cent coverage of the urban population with safe water supply and sanitation services by the year 2021 at Rs 1729 billion. Estimates by RITES indicate that the investment required for urban transport infrastructure in hundred thousand plus cities during the next 20 years would be of the order of Rs 2070 billion. All these estimates, whether realistic or otherwise, point out the urgent need to upscale investment into urban infrastructure to meet the large unmet demand of services.

Traditionally, the provision of urban infrastructure and services has been among the primary functions of the government where the funding of complete service delivery is sourced out of tax revenues. These basic services have generally been considered social goods to be provided by the government for free or at nominal prices to users. Urban infrastructure services are natural monopolies. Essential services such as roads, street lighting, water supply and sewerage are difficult to deliver without adequate cash flow from tax revenues or other charges. Driven by the understanding that for the majority of urban residents direct user charges would be neither affordable nor desirable, central and state governments saw themselves as legitimate financiers of these activities.

Municipal finances in India operate on the assumption of fiscal autonomy, and in the absence of any systematic method of transfer of state resources to support municipal activities, municipalities are effectively dependent on their respective state governments to allocate funds to them (see Chapter 5). Across the country, new urban infrastructure assets are funded through budgetary support from central/state governments laid down in five-year plans and annual plans and then passed on to ULBs for O&M. Resources are supplemented with funds from LIC, HUDCO, the World Bank, and other multilateral and bi-lateral programmes routed through central/state governments to supplement the plan allocations partly as grants and partly as loans according to a pre-determined formula.

Gradual Increase in Resource Allocations

With the widening gap between supply and demand of urban infrastructure services, the government has gradually increased in resource allocations for the most basic services through its development support funding mechanisms as in plan financing

as well as through a host of centrally sponsored schemes. As an example, the trend of water and sanitation investment support from the centre has been represented graphically in Figure 3.1.

Funding Local Services post 74th CAA

The 74th CAA mandated greater fiscal autonomy and service responsibilities to lower levels of government. Subsequent Planning Commissions and Finance Commissions have struggled with the challenge of empowering disparate local bodies with the capacity to govern themselves and make autonomous service delivery choices. Intergovernmental fiscal transfers should support local service delivery by synergizing policies and programmes that build the capacity of local governments as sustainable service providers, rather than perpetuating dependency on upper-tiers of government for fiscal gap equalization and substitution of inadequate human and technical resources by funding of inefficiencies (Figure 3.2).

In this changing context of intergovernmental fiscal transfers it is interesting to review the centrally sponsored schemes for their impact and significance, both individually and collectively, as vehicles for generating greater capacity and fostering sustainability of ULBs. Intergovernmental fiscal transfers have suffered from chronic problems, some of which are given below:

- a) Inconsistency between target groups of CSSs and allocation criteria (mandated in the CSS guidelines) leads to misdirected channelling of grant assistance.

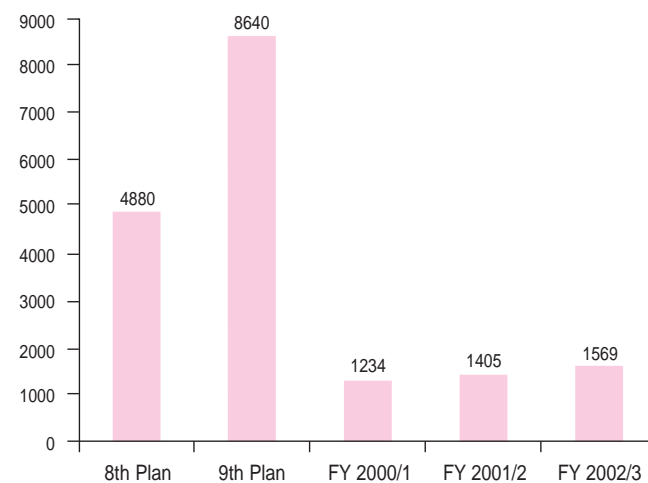


Fig. 3.1 Plan Outlays and spending by Central Government on Urban Water and Sanitation Sector

Note: Outlays in Rs million.

Source: Author's analysis of data from Water and Sanitation Programme: South Asia and Ministry of Urban Development, GOI.

The intended target group of CSSs often do not match the end recipient of grant funding, due to imprecise targeting criteria of grants, unavailability of demographic or socioeconomic data at local government-level and/or evolution of the grants' target population over time. For example, the Integrated Low Cost Sanitation programme's (ILCS) primary mandate is to eradicate manual scavenging of human excreta but there is no direct measure of the incidence of this service in the design of the grant (where funds are allocated on urban population and incidence of no latrines) or available social data (such as direct survey of nation-wide scavenger population). Hence, weak design of the programme has resulted in an inability to identify the intended beneficiaries of the grant funds and has instead become a de facto grant for construction of new sanitary latrines.

b) Intergovernmental institutional arrangements under CSSs and related funding patterns (central, state, and local government shares) are varied and often unclear.

The intergovernmental institutional arrangements for similar grant programmes are not consistent and lead to overlap of sector function and disjointed sector development efforts. Significant disparities between states in terms of institutional arrangements and political climate make it difficult to standardize functional and administrative relationships across state governments in the context of CSSs. There are weak linkages between the design of programmes and the intergovernmental financing pattern of sector assistance. For example, similar programmes, such as the Valmiki Ambedkar

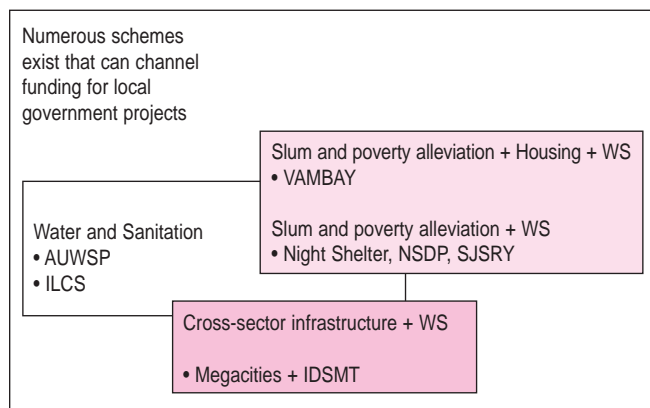


Fig. 3.2 Centrally Sponsored Schemes for Urban Sector

Notes: AUWSP: Accelerated Urban Water Supply Program, SWM: Solid Waste Management, WS: Water Sector, ILCS: Integrated Low Cost Sanitation programmes, NSDP: National Slum Development Programme, SJSRY: Swarna Jayanthi Shahari Rozgar Yojana, IDSMT: Integrated Development of Small and Medium Towns, VAMBAY: Valmiki Ambedkar Awas Yojana

Source: WSP Analysis

Awas Yojana (VAMBAY) and the National Slum Development Programme (NSDP), both for slum improvement, have different financing patterns and therefore different sector development approaches that do not complement each other (Figure 3.3).

c) While the relationship between the distribution of CSSs based on income level of the states is weak, CSS distribution based on poverty levels is a stronger link.

d) Opportunity costs are generated by the existence of many similar and unaligned sector assistance grants.

Opportunity costs include efficiency losses due to:

- misdirection of funding assistance to unintended target groups;
- underutilization of 'economies of scale' in local service provider support, such as pooling of human and capital resources, cross-departmental infrastructure development and sector cross-learning support;
- unnecessary administrative costs of small grants that could be administered under similar and larger schemes;
- setbacks vis-à-vis rigid and non-responsive programme guidelines, insufficient knowledge of fund availability, volatility in annual fund transfers, and difficulty in multi-year and multi-sector planning; and
- absence of a facilitating agency which could foster greater awareness and understanding of the schemes regarding fund availability, eligibility, guidelines, and application of basic services grants.

e) Haphazard pattern of annual CSS transfers in the current system of intergovernmental grant support undermines the adequacy of the grant assistance that encourages consistent and predictable funding allowing for comprehensive sector development strategies and multi-year planning.

f) The design of existing CSSs does not necessarily foster accountability or efficiency at the service provider end.

Despite the requirement for community contribution or a local government loan component built into central grant programmes these criteria are often not being met resulting in ad-hoc and non-participatory design of grants, and inability to foster greater sense of pride and ownership in community infrastructure. The implementation of the schemes has been problematic due to lack of transparency, poor selection of projects, and ineffective monitoring.

Inefficient delivery has led to fragmentation of schemes creating huge opportunity costs, unpredictability of transfers in terms of quantum and timing, backed by inconsistent institutional arrangements and funding patterns with limited ex-post assessment and reward for performance. This has rendered CSS impotent as an instrument for fostering sustainability of service delivery of ULBs through capacity building and has led to the fragmentation of service delivery institutions at the state and local levels.

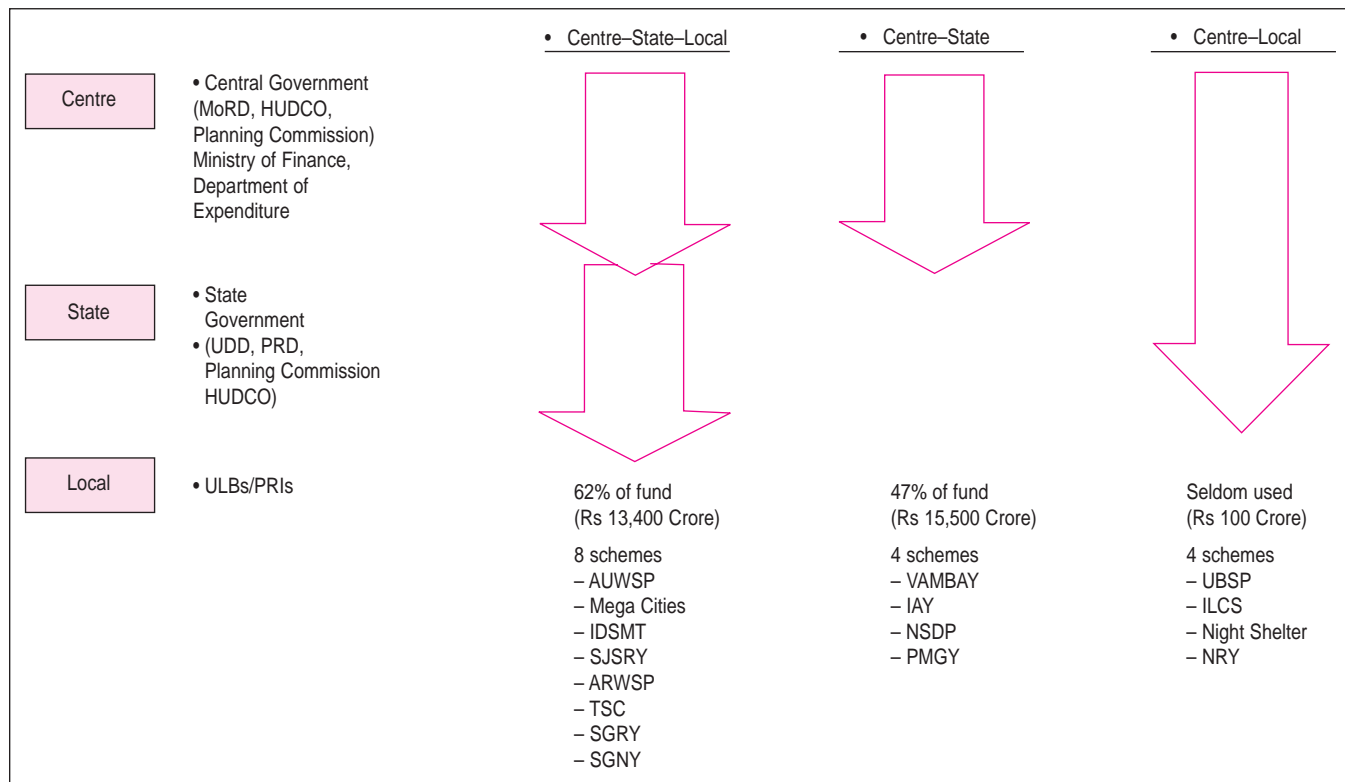


Fig. 3.3 Various Delivery Modes to Fund Urban Sector Schemes

Notes: AUWSP: Accelerated Urban Water Supply Programme, IDSMT: Integrated Development of Small & Medium Towns, SJSRY: Swarna Jayanti Shari Rojgar Yojana, ARWSP: Accelerated Rural Water Supply Programme, TSC: Total Sanitation Campaign, SGRY: Sampoorna Gramin Rojgar Yojana, SGNY: Sanjay Gandhi Niradhar Yojna, VAMBAY: Valmiki Ambedkar Awas Yojana, IAY: Indira Awas Yojana, NSDP: National Slum Development Programme, PMGY: Pradhan Mantri's Gramodaya Yojana, UBSP: Urban Basic Services for the Poor, ILCS: Integrated Low Cost Sanitation, NRY: Nehru Rojgar Yojana.

Source: WSP Analysis

Current central funding patterns of urban CSSs create rather weak incentives for service performance due to:

- focus on asset creation/replacement rather than asset management or service delivery outcomes
- unpredictability and volatility of transfers
- Non recognition of performance through a system of rewards

DECLINING TREND IN URBAN LOCAL SERVICES

Infrastructure Coverage versus Service Delivery

Though there are vast improvements in basic amenities such as access to telecom services, electricity, water supply and sanitation, etc., the quality of basic services except that of telecom, is declining. In other words increasing coverage of infrastructure is not matched by improvement in the service levels. While there are more taps today in sheer number, there is less water once the taps are turned on.

For example, water delivery in terms of hours per day has been declining in Chennai, Bangalore, Hyderabad, Vizag, Guwahati, Dehra Dun, Coimbatore and Ahmedabad. The cities which used to have 15–24 hours of supply per day (Bangalore and Hyderabad) have to do with only couple of hours of daily water supply in the last few years. In other expanding cities as well, water delivery has dropped to a couple of hours a day. Water availability, measured as litres per capita per day is quite high for almost all Indian cities but delivery, computed as water supply in hours per day in the city is rather poor in spite of adequate availability of water (Figures 3.4 and 3.5).

Challenges to Urban Services

Despite low rates of growth of urbanization, Indian urban population will expand stupendously in the years to come in sheer absolute numbers. The decline in urban services will then be progressively more glaring with each passing year (Figure 3.6).



The Government of India is coming to grips with this challenge for the first time. Not only is urban India massive and expanding, it is also contributing the lion's share of the National GDP and propelling economic growth which is

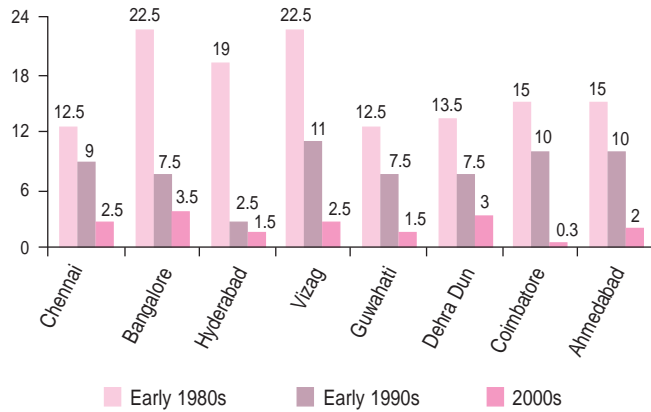


Fig. 3.4 Water Delivery (hrs/day) in Select Indian Cities since 1980s

Source: Interviews by ASCI

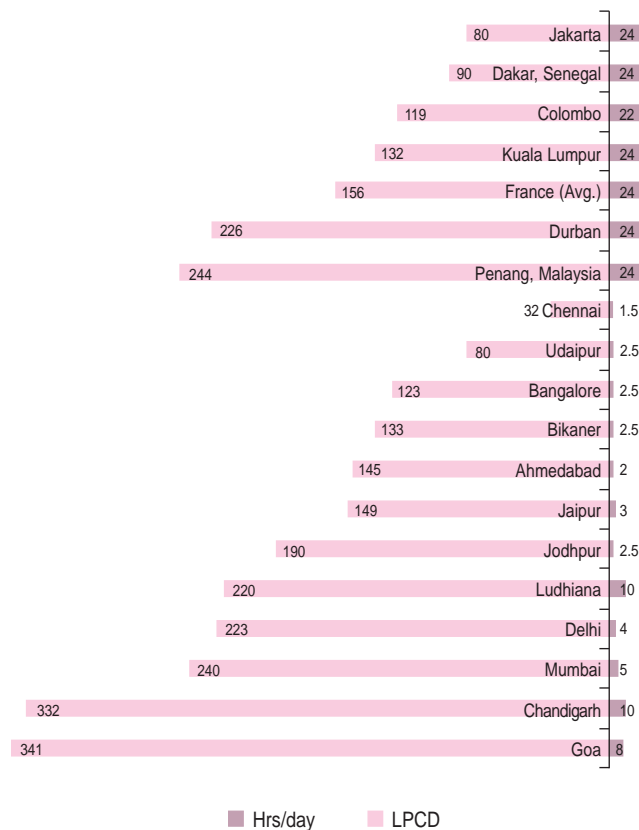


Fig. 3.5 International Comparison of Water Availability and Delivery per day

Source: MoUD/WSP Benchmarking Study (2004) and ADB Water Utilities Data Book (1997)

Note: Figures verified by relevant utilities.

providing meaningful jobs to young, educated, skilled and unskilled workers. This is not a sector that can be ignored. India's economic growth since the 1970s has been largely led by the service sector predominantly based in urban areas. Growth in transportation linked agro-based products to consumer centres in urban areas in the 1980s. Telecom based services in the 1990s, entertainment, audio as well as audio-visual, and now IT enabled services, are responsible for the increased share of the services sector in the GDP.

Steadily, India's urbanization is being reflected in the structural shift in the economy in which, by 2001, industrial and service sectors accounted for almost 80 per cent of India's GDP (Figure 3.7). Further, larger cities of faster growing states

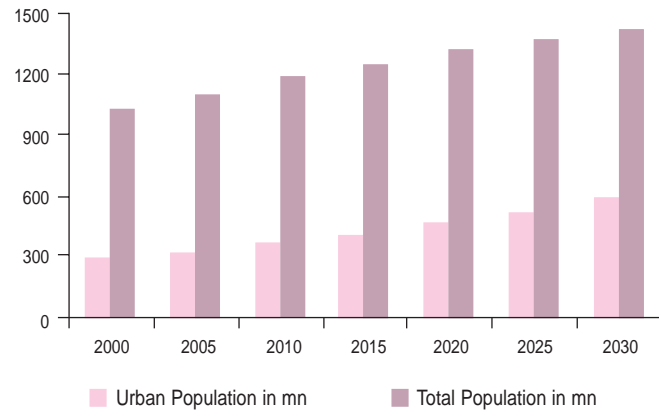


Fig. 3.6 Projection of Urban Population in India by 2030

Source: UN (2005)

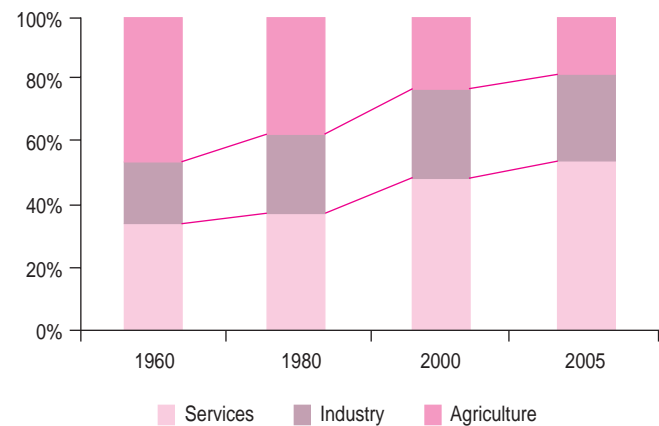


Fig. 3.7 Sectoral Contribution to GDP, 1960-2005

Source: CSO, various years

have grown rapidly—Chennai (services); Ludhiana (industries) and Bangalore (industries cum services).

Emerging Scenario

India's urban workforce can be more productive if urban infrastructure services are better¹. Newspapers consistently carry stories of power and water shortages every day. Prominent citizens of different cities have raised the issue of inadequate urban infrastructure in various forums².

In Chennai, firms have to set up their own water desalination plants to meet their needs. In 1996, the plague in Surat demonstrated to the whole country the huge economic risks attached to low standards of municipal solid waste management in cities. The Supreme Court, taking up active interest on the basis of a public interest litigation on the subject steered the creation of the Municipal Solid Waste (Management and Handling) Rules 2000, with a strict implementation schedule. Nine years on from the plague in Surat while Surat has been able to set up an operational engineered sanitary landfill site, neither have we been able to replicate this in other cities nor have we been able to set up other city wide modern waste collection and transport systems³.

This increasing dissatisfaction with the quality of urban infrastructure services is constantly pushing investment out to the fringes of prominent urban agglomerations which provide comparative advantages as a location (NASSCOM 2000). In the manufacturing sector also, Indian manufacturing firms have seriously considered relocating to China and in some industry segments they have indeed relocated outside the country. The relocation of industries to other countries or even to fringe areas of the city has a direct impact on the future prospects of investment in urban infrastructure due to the loss of local government revenue and a shrinking of its base. This leads to a vicious cycle and many cities are caught in it making changes in geographical boundaries of the local

government imperative, as in the case of Rajkot, Panaji, Raipur, etc. As a case Panaji's borders were extended to incorporate a number of gram panchayats, leading to its declaration as a municipal corporation. However since then the city borders have shrunk again, but Panaji still keeps the status of a municipal corporation though its population is only around a hundred thousand. With the integration of India into the global economy, the government is faced with a new management challenge of creating world class cities and urban centres, which can provide gainful employment to young urban professionals, urban labourers as well as rural migrants keen to improve their living standards.

It is significant that apart from the traditional municipal functions, Article 243W allocates to ULBs the function of 'preparation of plans for economic development and social justice', and the Twelfth Schedule contains 'urban poverty alleviation' as a municipal responsibility. These take municipal bodies from being mere providers of civic amenities to a much wider arena of action encompassing economic and social planning. The 74th CAA has catapulted the ULBs to the status of being comprehensive institutions of urban self-government, and has left the details to the state legislatures.

The challenge stated to be met in the tenth plan period is to assist these elected bodies to grow organically to fulfil the demands of urban residents for a decent quality of life and this itself is a strong demonstration of the change in the government approach to urban development. It is asking the question not merely about improvement in service quality but, focusing on whether, say, water and sanitation institutions are structured to support cities and urban centres in India to play a vital role in the economy.

The Government of India now seems to be convinced that municipal service delivery cannot be seen in isolation and is engaged in understanding how municipal services come together to serve the urban economy and enhance the productivity of cities and urban centres.

The government clearly acknowledges the need for more comprehensive and coordinated reforms in the urban sector focusing on individual characteristics of cities. The need for reform is evident from three trends: (i) the enhanced economic and social roles of cities; (ii) the major service backlogs in most cities; and (iii) evidence that current reforms, although well-intended, are too piecemeal to have the desired transformational effect.

Urgent reforms are needed because if the current situation prevails, the levels of delivery are likely to decline even more. New rapid city assessments in Bangalore and Hyderabad, provide a grim picture of urban services likely to occur by 2021 (Table 3.1).

¹ A recent survey of 165 firms in five cities (Polese, Echeverria, and Freire 2002) exposed the multiple effects of poor services to the productivity of firms operating in particular cities. Although the cities were mainly Latin American, the conclusions would be similar if conducted in any other region. Also see Box 9.1, 'Hidden Cost of Poor Infrastructure'.

² It was reported that the Bangalore Chamber of Industry and Commerce (BCIC) threatened to boycott Bangalore.IT.in, an annual event showcasing the state's strength in the information technology sector. The industry captains had a long discussion with the CM and he reiterated the government's commitment to resolve issues related to infrastructure on priority basis and outlined several projects, including the Bangalore International Airport, metro rail, and flyovers (*The Hindu* 23 September 2005).

³ See Chapter 8, section on 'Sanitary Landfill Sites in India' for details.

Table 3.1
Service Decline under Status Quo

	Hyderabad		Bangalore	
	Current	Projected (2021)	Current	Projected (2021)
Population (million)	5.5	10.5	5.7	10.3
Area (sq km)	778.0	833.0	530.0	784.0
Population density ('000 per sq km)	7068.0	12637.0	10755.0	13071.0
Road density (per cent area covered by roads)	6.0	6.0	12.0	12.0
Number of vehicles (million)	1.4	3.5	2.0	3.7
Vehicles per road length	723.0	1718.0	695.0	1902.0
Water supply (lpcd)	110.0	55.0 ^a	90.0	49.0 ^a
Sewerage infrastructure connections (per cent)	41.0	31.0	21.0	18.0

Note: ^aWithout planned expensive capacity augmentation
Source: Water and Sanitation Programme: South Asia (2005)

ROADBLOCKS UNDERMINING REFORM INITIATIVES

The Limits of Reform without a Strategic Framework

In the face of the service challenges, ULB's typical response has been to invest more in infrastructure while attempting to enhance revenue at the city level. Cities like Bangalore, Ludhiana, Hyderabad, and Alandur have hence introduced

accrual accounting; some (such as Bangalore, Hyderabad, Lucknow) have begun to reform property taxes; several have improved their collection methods and databases (such as Raipur, Bangalore, Hyderabad, Alandur). However, there seems to be a disconnect between revenue collection and service delivery outcomes, as the example of Bangalore demonstrates (Box 3.3).

Box 3.3

More Revenue and Infrastructure do not Mean Better Services: Bangalore

Figure B3.3.1 and Table B3.3.1 show significant revenue increases (accounting for inflation and population) for various agencies in Bangalore. Service outcomes have declined despite these resource enhancement measures. The fact too is that more infrastructure creation is unlikely, even if cities are able to generate more revenue. There are political limits to raising tariffs at current service levels. This underscores the need for a city-wide set of reforms that not only entails improving revenue, but also to ensure effective expenditure management, new management and organizational approaches, and focus on outcomes for specific communities.

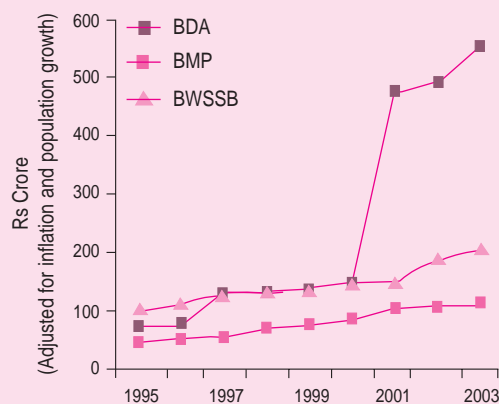


Fig. B3.3.1 Real Revenue Increase in Agencies

Note: Adjusted for WPI inflation rate of 5.49 per cent per annum and population growth rate of 2.24 per cent per annum.
Source: Water and Sanitation Programme: South Asia (2005)

Table B3.3.1
Decline in Service Outcomes

Outcomes/Service Delivery Measures	Past (1991)	Present (2001–02)
Slum population	7%	12–18%
Water connections	26%	25%
Per capita availability of potable water	150–160 LPCD	80–100 LPCD
Water leakage	13%	33%
Access to low cost sanitation facilities	30%	18%
Travel time (one way work trip)	24 minutes	40 minutes

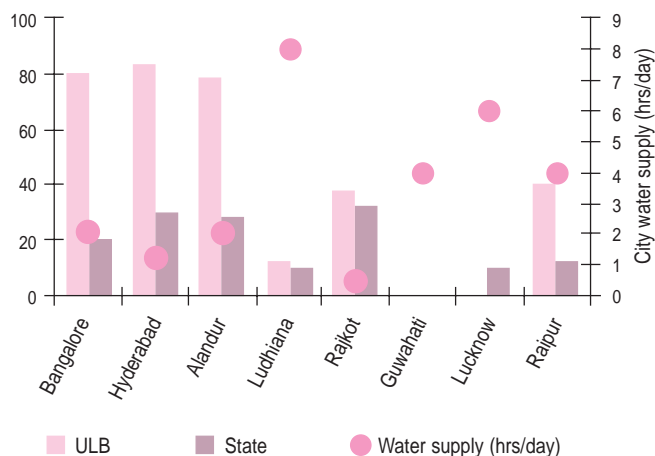


Fig. 3.8 Compliance with Common Reforms vs Service Delivery

Source: Water and Sanitation Programme: South Asia (2005)

Although a broad sweep⁴, comparison of outcome indices with water supply as a surrogate for urban services here (as it is one of the services which has got maximum attention so far) shows that the level of compliance with reforms has no relationship with standards of service (Figure 3.8). It is therefore necessary to look at more fundamental causes of the service problems and address them through new approaches.

Addressing the Failures in Urban Service Delivery

The above analysis shows that a new approach to urban governance and service delivery is necessary which can address critical institutional roadblocks such as overlapping authorities, regulation, and limited mandate.

Overlapping of policy, regulation and operational roles

In most Indian cities considerable confusion exists as to the authorities responsible for each component of the service delivery process. For example, the Chief Minister of Delhi is also the chairperson of the Delhi Jal Board, hindering her ability to hold it to account for failure to deliver. The state government relies in large measure on the Delhi Jal Board to set service delivery policy and standards, and has no effective mechanism to monitor its compliance, or intervene in the case of failure. Allowing a single agency to undertake all the activities hinders the ability of the government to set 'outcome targets' for the service provider and the regulator to ensure that the service provider meets those targets. Overlapping of different roles in a typical city is evident in Table 3.2, which showcases responsibilities assigned to various agencies in Bangalore City⁵.

Table 3.2
Responsibilities of Main Urban Service Providers in Bangalore

	Service delivery	Policy-making	Regulation
Water and sanitation	BWSSB, BMP, Municipalities	BWSSB, BMP, Municipalities	BWSSB
Solid waste management	BMP, Municipalities	BMP, Municipalities	BMP, Municipalities
Road infrastructure	BDA, BMP, Municipalities, R&B departments	BDA, BMP, Municipalities	BDA, BMP, Municipalities
Public transportation and traffic	BMTC, Traffic police	BMTC, Traffic police	BMTC, Traffic police
Housing, town planning	BDA, Karnataka Housing Board, BMRDA	BDA, BMRDA	BDA, BMRDA, BMP, Municipalities

Source: Water and Sanitation Programme: South Asia (2005)

⁴ The compliance score is a rough indication of reform compliance. URIF-reforms and initial indications of the reforms anticipated under the JNNURM were considered. The level of compliance was then expressed as a percentage of how many of the reforms a particular ULB have embarked on (for example, if 10 out of 15 it would get a score of 66 per cent). No assessment was made about the effects and success of such reforms. Service trends as discussed above were then mapped against these broad percentages, and as Figure 3.8 indicates, showed little correlation to the reform compliance. The argument here is that it is

not the reforms that are the problem, but the fact that they are not part of an integrated and outcomes-focused reform agenda. In isolation, each reform is unlikely to move the process of change forward unless it comes as a part of the package.

⁵ When assignment of roles is separate, it is possible for a regulator to question service providers, for example, in Delhi with respect to electricity bills or in Mumbai to Reliance Energy Ltd. after the Mumbai floods in July 2005 and not MSEB.



Fragmentation and duplication

In all the cities, service delivery is fragmented, with multiple entities involved in each service. These entities are also often accountable to different departments of the state government, which means that reform also has to involve state governments. Fragmentation of responsibility of service delivery and its duplication are common phenomena. For example, in Guwahati, water supply and drainage rests with three to four government offices (Figure 3.9).

Limited autonomy

ULBs have limited influence over the key service providers in their jurisdictions. Instead, key service providers are often accountable to the state government, as they are parastatal institutions. This compromises the scope for ULBs to pursue their own goals and policies in line with their city needs. Also, the state government has to prioritize between competing needs of different urban centres within its jurisdiction and it also has a wider basket of responsibilities. Thus, urban issues (especially for non-metro cities) do not get the required attention.

Weak links with citizens

Due to fragmentation of service delivery responsibility, urban governance is not adequately responsive to citizens. Inclusion of state parastatals in service delivery makes it even more remote from urban citizens. First, while the state government is also accountable to the citizens, it is far removed and, therefore,

Agency	Activities				
	Building Permission	Water Supply	Drainage	Roads	Solid Waste
Flood Control					
PHE, PWD					
AUWSSB					
GMDS					
GMC					

Fig. 3.9 Fragmentation and Duplication of Authority

Note: PHE: Public Health Engineering Department, AUWSSB: Assam Urban Water Supply and Sanitation Board, GMDA: Guwahati Metropolitan Development Authority, GMC: Guwahati Municipal Corporation

Source: Water and Sanitation Programme: South Asia (2005)

not in the same position to respond to local requirements. Second, the performance criteria for service bodies are not geared towards overall service outcomes, but are more concerned with internal procedures within the government structures. This situation compromises accountability. There have however been cases of consultation with citizens. Community involvement in the development of a sewerage project in Alandur, a smaller settlement at the border of Chennai metropolis, shows the potential often intrinsic to localized power.

Lack of capacity

This problem cuts across the cities and organizations and is manifested in different ways. Some departments are understaffed whereas others are staffed with people who do not have adequate skills. Performance incentives are geared towards input controls rather than service outputs so that it becomes difficult to match people having specific skills with their functional responsibility, which would enhance services.

Lack of incentives

Improving services, and changing the management arrangements, requires that ULBs and service agencies view it to be in their interests to change the way they conduct business. A number of roadblocks weaken such incentives. First, the current fiscal approach does not require ULB service provider's performance to be evaluated against outcome standards. Second, there is no provision by which a service provider may be threatened with revocation of licence in case of non-performance and the reissuing of the same to another service provider. Third, the overlapping and fragmentation mentioned above also weaken the incentives for performance because service agencies, councils and others are not held responsible for specific aspects of governance, management and service delivery.

REFORMS TO REMOVE THE ROADBLOCKS

It is clear that reforms cannot be piecemeal or random. They need to systematically address the issues highlighted thus far. Figure 3.10 depicts succinctly, the links between the reforms, roadblocks, and triggers.

Jawaharlal Nehru National Urban Renewal Mission

After some prevarication, the Government of India has begun to respond to the magnitude of challenges facing urban service provision in India. Importantly, the efforts are not directed towards increasing the stock of infrastructure funding, but

rather to utilize existing resources at a central level to create incentives for more efficient systems. JNNURM has consolidated existing CSSs into a single fund for large cities, which will be disbursed to cities contingent upon their progress with implementing a specified set of reforms. These reforms are specified both in terms of desired outcomes which are formulated as the reform agenda articulated as institutions for universal service provision, integrated financial management, city-wide planning and governance frameworks among a couple of others, as well as measurement indicators.

The JNNURM will have two components, focusing on infrastructure and governance and services to the urban poor respectively. This differentiation reflects the current departmental structure of government, rather than a specific policy choice.

The government now recognizes that greater accountability for service delivery performance is a pre-requisite for improvement in the coverage and quality of services. The JNNURM takes gentle steps towards structural reforms that would separate policymaking, regulatory and service provider roles, enhance local autonomy over service delivery choices, address the fragmentation of authority for urban governance, and strengthen direct mechanisms of accountability to citizens.

Most importantly, the JNNURM hopes to trigger a deeper process of reform at the state and city level.

Triggers for Reform

Three types of triggers offer the potential for inducing reform in urban governance and service delivery. The first trigger could be that of using fiscal flows to entice service utilities and local governments to change. The JNNURM will tie funding for projects to a commitment to reform. International experience suggests that it is best to simplify such flows so that the rules, goals and incentives are clear. In South Africa, for example, there are a limited number of grants now, focused respectively on infrastructure and restructuring at the local level. This seems highly relevant to India where incentives are required both to streamline the system and to change spending behaviour at local level. Targeted consolidated fiscal instruments could provide considerable impetus to reforms for assisting restructuring and managing transition. Care should be taken not to overload these grants with conditions, but rather setting performance requirements. Although subject to compliance with reform, it is also necessary to make flows predictable, which in itself would facilitate better planning and budgeting.

Second, decentralization has potential to spark change and create incentives because it would place accountability more squarely at the level where the services are being delivered. If supported by effective regulation it could provide a means to retain and enforce standards, while the political imperatives of local decision-makers ensure that providers perform effectively.

A third set of triggers would come from the demand side (citizens), essentially by making service providers directly accountable. In the long term, an empowered elected body at the metropolitan level (rather than municipality or state) can be a compelling factor for reform, so that larger cities can more forcefully drive their own reforms agenda (see Box 5.2 'Increasing Municipal Revenues: Case of Indore'). Better information on urban governance and service delivery performance can be a tool to empower citizens. Reliable and accessible public information makes it possible for institutions and independent evaluators to monitor operations and for political supervisors and the public to judge their performance and hold them accountable.

Evolving Agenda

The JNNURM reflects a significant shift in public policy towards delivery of urban services. Policy has shifted from funding asset creation to promoting improved management of assets by accountable service provider agencies. The government has thus accepted the pitfalls of earlier financing approaches and is trying to demonstrate that central resources can be designed and channelled in a way that creates incentives for improved service delivery at the local level.

The success of this new initiative will be determined by the collective effort of states, ULBs and the government of India where each has to play an important role in developing

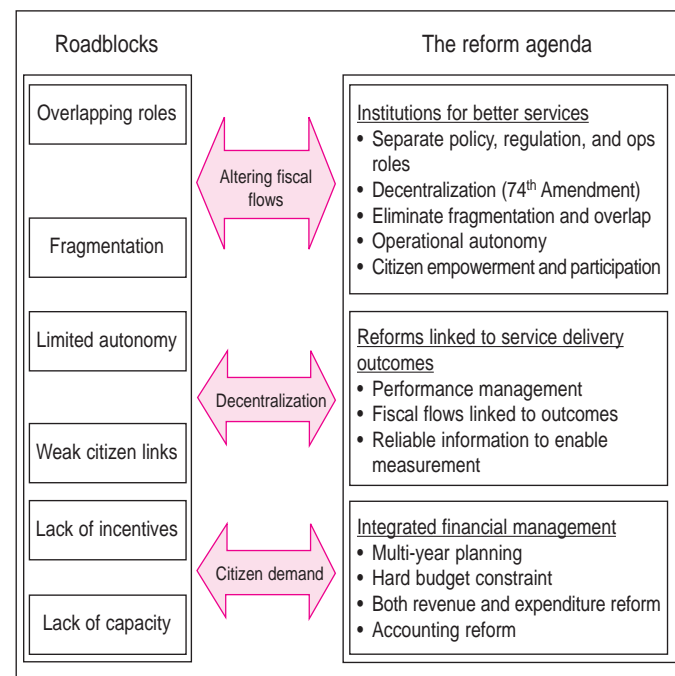


Fig. 3.10 Roadblocks, Triggers, and the Reform Agenda

Source: Water and Sanitation Programme: South Asia (2005)



this new approach. At present it is not clear whether sufficient incentives will be provided for states or cities to reform urban service delivery systems

CONCLUSION

Local government in India has a long history as a service delivery vehicle, but not as a vehicle for local level accountability. As a result elected local governments are not particularly accountable to their communities as they have a very limited set of powers and functions, in most cases. States still remain powerful, both in law and in the number of agencies they control at local level and most attempts to change have been hamstrung by the voluntary nature of the implementation of the 74th CAA. The net result is that urban areas continue to be governed by a plethora of agencies, with weak coordination and very little accountability. Coupled with this, a variety of implementation issues have led to fragmentation of service delivery institutions at the state and local level

The constitutional and legal authority of the Government of India is limited only to Delhi and other Union Territories and to subjects, which state legislatures authorize the Union

Parliament to legislate. Within this framework the Government of India through the Ministry of Urban Development and the Ministry of Urban Employment and Poverty Alleviation has been playing a significant Policy and Guidance role. Thereby national policy issues are decided by the Government of India which also allocates resources to the state governments through various centrally sponsored schemes, assists in making available debt finance through national financial institutions such as the Housing and Urban Development Corporation and the Life Insurance Corporation and supports local and state governments in accessing various external assistance programmes for housing and urban development in the country.

Despite increasing financial support by the central government, the quality of services in cities is declining. In order to remove the key roadblocks in improving service delivery, the central government has formulated the JNNURM for large cities. The outline of the new fiscal and policy support environment being contemplated at the national level. Current policy shifts with redefinition of approach at the national level represents significant conceptual change in the policy environment for local service delivery and has the potential to rewrite the way urban local governments will deliver services.



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