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Introduction

This paper intends to contribute to the 'Cities and Fragile States' component of the Crisis States program. It seeks to provide a global overview of urban local government finance and then focus on India in terms of revealing a more qualified understanding of the relationship between conflict and municipal structures and finances. In doing so, it adopts a case-study approach by studying the cities of Ahmedabad and Srinagar in India that have been short-listed from a wider set of cities identified for the program. The choice of these two cities illustrates the different dimensions of cities in conflict. The two cities are stark in their contrast in terms of the onset, nature, duration and intensity of conflict as well as the *ab initio* strength of their respective municipal finance frameworks. Ahmedabad city has experienced significant communal urban conflict but its municipal structures and finances have remained robust and the state did not collapse. On the other hand, Srinagar is combating prolonged insurgency and has a rudimentary municipal system that is being developed under challenging circumstances.

The paper, while highlighting these differences, also attempts to synthesise the relevant findings from the two case studies. Adopting an inductive approach, it aims to identify some of the key issues that confront city finances as a result of conflict and highlight the underlying factors that define the degree of impact, if any. The conclusions and caveats emerging from this study can be tested further in terms of the fiscal structures of other conflict-torn cities being examined in the program. Towards that end, the paper seeks to develop a framework for the analysis of local government structures and finances, and their character in conflict cities. Based on the inferences that emerge for other cities, the cities may then be appropriately grouped for meaningful comparison and any broader contingent generalisations. It is important to note that cities differ in their local government structures, and may be at varying stages of functional and financial devolution. Hence, the consideration of fiscal structures of other cities and states may offer further interesting inferences compared to the Indian context.

This study is largely based on information gathered over the short field-studies conducted in India in March and June 2006, covering the cities of Ahmedabad and Srinagar. This involved the collection of primary material and semi-structured interviews with key persons in the municipalities, the departments of urban development, and representatives from the non-governmental and private sector organisations who are directly or indirectly involved in city development and/ or conflict management. The paper also draws on secondary research of relevant literature and data. There have been studies and models examining the economic dynamics of conflicts; for instance, the cases of 'resource wars' or conflicts caused by 'loot-seeking' by either insurgents or state actors. These critically analyse the economic incentives and opportunities that sustain and perpetrate hostilities.[1]

The nature and extent of linkages between conflict and municipal finances critically depend on the existence of some form of decentralised functional and financial authority at city level. Further, on account of out-dated accounting systems, lack of computerised data, and poor supporting administrative systems such as budgeting in most municipalities of developing countries,

[1] Ballentine (2003), pp.259-260

information on municipal finances is often not readily and reliably available. Interestingly, the caveats in relation to available information on the two case-study cities are quite different. Ahmedabad Municipal Corporation is one of the few Indian local governments that enjoys surplus finances and has also obtained a strong credit rating, and therefore has relatively more reliable financial records. However, since the State actors were complicit in the communal conflict that ravaged the city, its true impact has been an area of official indifference, concealment and denial. Srinagar, on the other hand, on account of its nascent local government structures, municipal accounting and financial management systems, and heavy reliance on Government of India funding, has limited reliable data or analysis of its city finances.

Against this backdrop, the study is structured to set out how municipal finance systems function in the two cities, explain the background and nature of the conflict, and then explore any potential relationships between the two. Being an introductory overview, the paper does not attempt to establish any correlations or causations between the issues under study. Indeed, any endeavour to substantiate such a relationship will be inappropriate, given the dissimilarity of the two cities studied and extraneous considerations besides conflict that have influenced the trends in municipal finances.

The scope of the study covers the ‘financing’ aspect of urban infrastructure and services at local government level, including any linkages or dependencies between finances at central, regional and local levels. This refers to the framework of revenues and expenditures at city level and the supporting administrative and institutional arrangements such as revenue collection systems, local taxation records and budgeting and control systems. Additionally, formal systems of revenue may be threatened in the face of conflict. Hence, the presence and contribution, if any, of informal and non-state sources of local revenues have been explored, where practicable. Also, where relevant and insightful, the structures of sub-city administrative units such as wards have been examined. The paper does not assess directly the impact of conflict on the actual delivery of services or performance of infrastructure; this has been covered only to the extent that it has impinged on the expenditures or the financial liabilities of the municipality.

The primary conclusion of this paper, based on the case analyses of Ahmedabad and Srinagar, is that conflict exerts only a limited impact on the municipal finances. However, given the existing political sensitivities of decentralisation, conflict can impede the growth of resilient local government structures. This may occur through a combination of institutional and socio-political factors such as the influence of interest groups and coalitions that may adversely impact local decisions relating to resource mobilisation and allocation. This overview paper attempts to identify several such plausible areas of relationship between conflict and municipal finance systems, which can form the subject of further in-depth research in other cities.

Overview of municipal finances across the world

The twin dilemma of ‘what constitutes adequate local government finances’ and ‘how to mobilize it’ has confounded academics and practitioners alike. As argued by Ebel and Vaillancourt, there is no unique revenue mix that should be used by all urban governments; there are only economic principles or guidelines that lead to best practices.[2] The theory of fiscal federalism assigns the public finance role of resource allocation to local governments, while retaining the roles of economic growth and income distribution at the federal level. Accordingly, only immobile tax bases such as property taxes are typically assigned to local jurisdictions.[3] These tax bases, by definition, are less elastic to economic growth and are hence limited in their expansive ability. The matching principle of local finances emphasizes that the financial capacity of local authorities should be harmonized with the functional responsibilities assigned to them. To that effect, operational expenditures are typically expected to be met by locally raised revenues, and capital expenditures

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[2] Ebel & Vaillancourt (2004), p.131

[3] Musgrave (1959),p.181; Oates (1993), p.14

are financed by inter-governmental transfers, grants, and external funds.[4] Historically, borrowing at the local level was not favoured as the traditional thesis of capital financing professed that local government borrowing is irresponsible and not viable and sustainable given their poor income generation capacities.[5] This thinking was embedded in donor policies of lending to sovereigns and not to local bodies.

However, these conventional theories have been challenged by the recent trends of urbanisation and globalisation heightening pressure on cities' growth and infrastructure. Simultaneously, political decentralisation strategies have pushed downwards to city governments the responsibility for coping with the explosive demand for urban services.[6] More recently, increased financial authority is being devolved, albeit gradually, owing to political unwillingness to delegate power to local entities, as well as genuine fiscal inability at all levels to finance the spiralling urban infrastructure requirements.[7]

The varied pace of fiscal decentralisation across countries and the differences in sizes and economic prospects of cities have resulted in wide diversity in sub-national fiscal structures across developing and emerging markets. Some cities that are engines of economic growth generate a high degree of own revenues and in turn contribute to the central exchequer. However, as a general principle, 'own revenues' of most cities comprise the more immobile tax sources such as property tax. Table 1 summarises the typical tax bases by level of government.

[4] Bird (2001), pp.113-119

[5] Bahl (1981), p.263

[6] Vera and Kim (2003), p.1; Mathur (1999), p.237

[7] Bird (1980), pp.21-22; Bahl and Linn (1992), p.402

Table 1: Tax base

Level of government	Tax base	Tax base mobility
Central	Capital income	High
Intermediate (state/ provincial)	Consumption/ labour income	Medium
Local/ municipal	Real property	Low

Source: Ebel and Valliancourt (2004), p.132

Globally, local revenue sources are a combination of tax and non-tax charges that are internally generated and transfers from the higher levels of government. Tax revenues include personal and corporate income tax, property tax and tax on goods and services. Non-tax revenues comprise fees, fines, user charges and sales income. Table 2 provides an un-weighted average summary of local revenues across groups of countries/ regions over the period 1991-2001. Detailed break-up of this summary by the sixty countries studied by Ebel and Valliancourt is set out in Annex 1. The percentage of local revenues refers to the contribution of locally raised revenues in the national revenues. All other percentages in the table represent that particular income as a proportion of the total local revenues.

Developing countries in Asia and Africa are still lagging behind in terms of percentage contribution of local revenues in the overall government revenues as well as the percentage of own revenues (vis-à-vis transfers and grants) in total local revenues. This indicates that the pace of financial decentralisation in developing countries is as yet gradual. Also, income taxes typically constitute a large proportion of local revenues only in the OECD, East European and transition countries. Developing countries across South and Central America, Asia and Africa, on the other hand, derive most of their own local revenues from property taxes and taxes on goods and services. Non-tax sources such as fees, fines and charges supplement the local government's own revenues. Local governments in South and Central America particularly derive almost a quarter of their tax revenues from transactions and movements in goods and services. These tax sources are more economically buoyant than property taxes.

Table 2: Local government revenues (un-weighted average across sampled countries)

Countries	% local revenues	% own revenues	% tax revenues	% income taxes	% property taxes	% goods & service taxes	% non-tax revenues
1.OECD	14.82%	63.78%	42.20%	20.66%	13.06%	5.22%	9.92%
2.Eastern Europe & Transition countries	19.59%	70.23%	55.38%	33.90%	6.81%	11.32%	7.26%
3.South & Central America	7.09%	68.84%	47.21%	2.34%	13.35%	22.67%	5.32%
4.Asia/ Africa[8]	6.86%	58.45%	32.67%	2.97%	13.71%	13.78%	7.59%

Source: Ebel and Valliancourt (2004), p.138, Government Finance Statistics 2002, IMF[9]

Within the various tax and non-tax sources of revenue, countries adopt different basis and criteria of determining their revenue bases and rates. For example, property tax internationally is levied on the basis of rental value, capital value or site area. All of the three methods assume that there is a clear definition and allocation of stable property rights and land titles in the economy. Rental value based property tax is linked to incomes and best applied where there is a fluid and active rental market. Capital value based property tax is linked to the original construction or land values and is popular where there are active open markets in real estate. Area based taxation is levied on a single or composite measure of site or area characteristics. An example of a composite area based measure is valuation on a linear combination of carpet area, location, age, type of building, use and user.[10]

The efficient administration and collection of the assigned local revenue sources depends, in part, on the strength of the institutional structures of the local governments. Recently, several local governments in developing countries that enjoy some degree of administrative and financial strength are trying to increase their traditional revenue sources by mobilising private financing.

Municipal structures and finances in India

The Constitution of India ordains that India is a federation of states and union territories, with residual legislative powers vesting in the central government.[11] The constitution, in its seventh schedule, assigns the powers and functions of the centre and the states. The schedule specifies the exclusive powers of the centre in the Union list; exclusive powers of the states in the State list, and those falling under the joint jurisdiction in the Concurrent list. The constitutional assignment of tax powers in India follows the principle of 'separation', i.e. the tax handles are exclusively assigned either to the centre or to the states. Most of the broad-based and productive tax handles have been assigned to the centre, including income taxes, wealth taxes from non-agricultural sources, corporation tax, taxes on production (excluding those on alcoholic liquors, opium, hemp and other narcotics) and customs duty. State taxes include taxes on agricultural income and wealth, taxes on the transfer of property (stamp duties and registration fees), taxes on motor vehicles, taxes on the transportation of goods and passengers, sales tax on goods, excises on alcoholic beverages, entertainment tax, taxes on professions, trades, callings and employment, property tax and taxes on

[8] India and China are not included in the countries studied. Average excludes Zimbabwe.
[9] Incorporates own calculations using base data, Netherlands Antilles has been excluded as it is non-representative of the rest of the region.
[10] Rao (1989), p.25; Tripathy (1967),p.125
[11] The Constitution of India, Article 1

the entry of goods into a local area for consumption, use or sale (octroi). The centre has also been assigned all residual powers of taxation. [12]

In terms of the urban-rural profile, India's population of 1029 million is still predominantly rural. As per the 2001 Census, 28% of India's population is urban and expected to grow to 38% by 2026.[13] However, as in other countries, the urban sector is the engine of India's growth in the manufacturing and the services sectors and contributes to over 65% of the country's gross domestic product.[14]

The urban local bodies (ULBs) in India were formally conferred the status of 'democratic institutions of self government' only in 1992, with the passing of the Seventy-fourth Constitution Amendment Act (CAA), although their existence pre-dates the British colonial era.[15] There are three types of ULBs in India: Town Panchayats in the areas in transition from rural to urban areas, Municipal Councils, and Municipal Corporations. Urban areas with population over 500,000 and last three years' average annual income over Rs.300 million are classified as Municipal Corporations, and those with population over 30,000 and income over Rs.5 million as Municipalities.[16] This landmark 74th CAA provides for direct elections to the General Body of these local bodies headed by a Mayor and consisting of elected councillors. The 12th schedule of the Amendment sets out the key municipal functions, which have been provided in Annex 2. These include responsibilities related to both economic (water supply, sanitation, roads and bridges) and social (primary education and health) infrastructure services. In addition, the schedule confers on local governments the roles of slum upgradation and urban poverty alleviation.

The 74th Amendment also proposes the formation of State Finance Commissions (SFC) every five years to recommend principles to strengthen municipal finances through assigned taxes, devolved taxes, and grants-in-aid from the State.[17] However, the actual degree of devolution has been left to the discretion of respective state governments, resulting in conspicuous disparities in the extent of decentralization across India. Table 3 presents the relative revenues of different levels of government in India.

Table 3: Government revenues in India

Level of government	Revenue (Rs. million)	Per capita income (Rs.)
Centre	833.20	987
State	486.60	574
Local	39.00	205

Source: Mathur (2000), RBI Bulletin February 1994

The political status of the state of Jammu and Kashmir (J&K) is however, distinct from the rest of India. Article 370 of the Indian Constitution bestows J&K with the special status of 'nation within a nation' with its own flag, emblem and constitution. This article specifies that except for Defense, Foreign Affairs and Communications, the Indian Parliament requires the State Government and the State Constituent Assembly's approval or concurrence for applying any law in J&K.[18]

Municipal revenue and expenditure

As in other developing countries, the sources of income for ULBs in India are either own revenues or external transfers and loans. Own sources of revenue consist of tax and non-tax levies. Taxes include property tax, octroi (entry tax on goods imported into the city), tax on vehicles, tax on

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12 Rao and Singh (1998), p.9

13 NCP (2006)

14 Vyas (2004), p.5

15 Datta (1999), p.87. Madras was the first local body in India to receive a municipal charter in 1687.

16 Tamil Nadu District Municipalities Act 1920,Section 4

17 The Constitution (Seventy-Fourth Amendment) Act, 1992

18 The Constitution of India

gains/ profits from professions or vocations, and tax on entertainment, show, and advertisements. Examples of non-tax revenues are fees and fines, user charges, rents from municipal assets and income from municipal investments or undertakings. External revenue sources comprise fiscal transfers from the central or state government such as grants-in-aid or shared taxes, and borrowings and loans from domestic and foreign sources.[19] While earlier, local governments were not allowed to borrow directly, the burgeoning fiscal deficits led to the realisation at the Centre that cities need to look beyond budgetary support for capital financing. The Eighth Five Year Plan of India 1992-97 envisaged building cost recovery into the municipal finance system, and the Ninth Plan 1997-2002 substantially reduced budgetary allocations for infrastructure and suggested mobilising institutional and market-based financing.[20]

Again, there is significant variation between the states in the relative sizes of the municipalities' own and external sources of revenue. Since the actual degree of functional and financial devolution of powers to local authorities in India is a matter for the State Government and cities differ fundamentally as regards their size, economic resources and growth prospects, the strength of municipal finances of cities begs individual analysis. Even within the ambit of own revenue sources, the application of revenue-generating powers and the rate structure of taxes and charges vary by state. For example, all states of India except Gujarat, Maharashtra, Rajasthan, Punjab and Orissa have abolished octroi.[21] The municipalities in these exception states, including Ahmedabad Municipal Corporation in Gujarat, that are still permitted to charge octroi have a significantly stronger financial position than the other local governments in the country. Table 4 provides a sample of financial strength of local governments with octroi bases. While octroi clearly empowers municipal bodies, there has been strong critique against its levy as it hinders the free flow of goods within a country and may hamper economic development. Besides, being a multi-point tax, it imposes a significant burden on tax collection and administration and is open to leakages.[22]

Table 4: Municipal finances with and without octroi (1991-92)

State	% local expenditure financed by own revenues
Sample of non-octroi states	
Andhra Pradesh	53.50%
Assam	79.60%
West Bengal	29.90%
Sample of octroi states	
Maharashtra	98.50%
Gujarat	112.20%
Punjab	94.40%

Source: Table 5, Mathur (1992)

Within the Indian municipal tax revenues, the most significant fiscal instrument has been property taxes, which is typically levied on the annual rateable value of the land or building in most cities. This is defined as the gross annual rent at which the property may be reasonably expected to be let, to be revalued every five years accordingly to the municipal legislation. In effect, it is a

[19] Municipal Acts of various States of India

[20] Pethe and Ghodke (2002),p.2468

[21] Mathur (2000), p.45

[22] Sharma (1988),pp.82-83

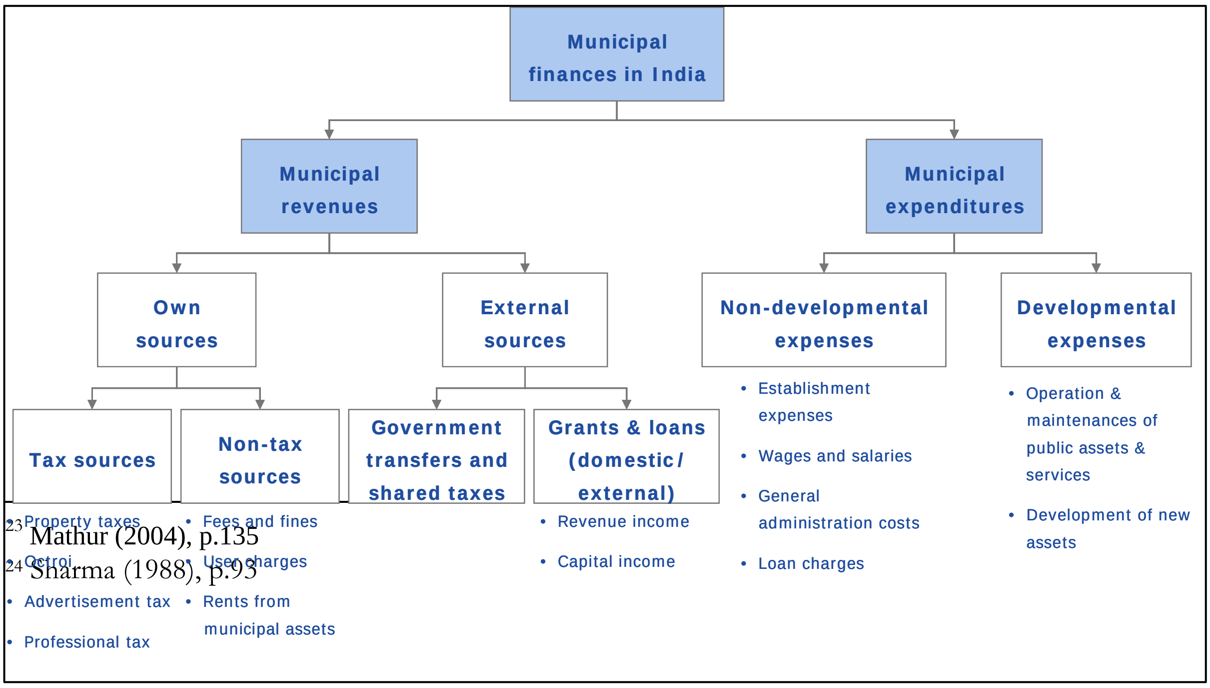
hypothetical or notional rent, held as a proxy for the market rental value of the property. Given that rateable value based assessment is often not updated and hence undervalued, some urban local governments in states such as Andhra Pradesh and Gujarat have moved to other bases of property tax assessment such as area based valuation. In this assessment type, rental values are standardised per unit area of property for a given location, use, type of building, age etc. Attempts have been made to de-link the rental value assessment from the archaic Rent Control Act.[23]

In India, property taxes allow the application of the benefit principle as local services are, to some degree, capitalised into the property values. A proportion of the property tax imposed includes charges for services such as water, conservancy, drainage and latrine taxes. The basis and rates of property and service taxes vary by state and are governed by the respective Municipal Act.[24] The Municipal Corporations are governed by a separate Act and have higher property tax rates than Municipalities. Other municipal taxes such as vehicle tax have provided only meagre revenues. Professional tax and advertisement tax are not levied by all municipalities and again have yielded limited revenues.

Municipal fee income from licences and registrations is expected to be complimentary to economic growth. However, there is a large element of evasion in these revenues due to the large prevalence of the informal sector in the small shops and establishments sector and the lack of supervision and enforceability by the local governments. Finally, in terms of user charges as a source of local revenues, the economically more developed and higher income cities have an advantage with respect to the citizens' ability and willingness to pay for municipal services. Other less resourceful cities still require substantial subsidy in service provision.

Municipal expenditure vis-à-vis infrastructure and services are governed by the municipal functions described in the 12th schedule of the 74th CAA. Whilst these functions set the goalpost, the actual municipal expenditures are substantially curtailed. This is because most municipalities have negligible revenues left after paying for non-developmental expenditure such as establishment expenses that include the salaries and wages of its staff and general administration costs. In general, the allocation of public expenditure at the local level is poorly planned and calls for streamlining the administrative machinery of the local governments. The few municipalities that earn some revenue surpluses undertake developmental activities such as the operation and maintenance of the local infrastructure and services. With respect to the creation and development of public assets and infrastructure, the central and state departments bear a major share of responsibility. Hence, capital expenditure for public works is predominantly financed by transfers and loans from the central and state governments. Figure 1 below depicts the main sources and uses of municipal finances in India.

Figure 1.



23 Mathur (2004), p.135
24 Sharma (1988), p.93

More recently, some of the local governments that have strong municipal structures and finances are experimenting with innovative approaches of augmenting traditional revenue sources by attracting private sector participation (PSP) and financing in municipal infrastructure and services. In terms of impact, these are as yet of small magnitude vis-à-vis the growing infrastructure requirements and financing gap in cities. Nonetheless, where successful, they have triggered far-reaching institutional reform and motivated the Central and State Governments to empower and support local governments in developing additional private sources of municipal revenue and PPP models. For example, the municipality of Tirupur in South India has undertaken a major PPP initiative to involve the private sector in the provision of water supply and sewerage facilities for the city, specifically to support its export oriented industrial estate. Project viability and private sector participation has been possible due to the municipality's sound financial performance and the availability of commercial end-users for the services.[25] In addition, many of the larger local governments have let out maintenance of gardens, parks and streets on management contracts to the private sector. In terms of mobilising private capital, many local governments have issued municipal bonds for infrastructure development. These have usually been structured debt obligations, with several levels of credit enhancement and secured on municipal revenues. A select few bond issues such as by the Madurai Municipal Corporation in South India have been revenue bonds on the strength of estimated revenues from the project, particularly in the case of toll roads and bridges. Some of the larger issues have been credit rated and have translated into lower cost of borrowing for the municipalities. This has led to the development of a robust credit rating system for municipalities, which seek to access capital market finances for its activities.[26]

Also, many cities of India are undertaking significant reform of the administrative and organisational machinery that supports and holds together the municipal activities. These include revamping and computerising the accounting and financial management systems of the larger municipal corporations and municipalities in order to improve overall accountability and effectiveness. Additionally, by letting out functions such as solid waste collection, maintenance of streetlights, and upkeep of public parks and gardens on private management contracts, some municipalities are trying to enhance efficiency of operations as well as reduce their establishment and salary expenses.

Case study of Ahmedabad

Background

Ahmedabad, in the state of Gujarat, is one of the largest and more prosperous cities in Western India. It was renowned for its vibrant manufacturing and textiles industry and was often referred to as the 'Manchester of India'.[27] The rapid economic growth in the 1960s and 1970s turned Gujarat into one of India's richest and industrially developed states. However, the recession in the 1980s forced the closure of many of the textile mills, and nearly 50,000 people lost their sources of livelihood.[28] In the post-1991 period, Ahmedabad city received substantial industrial investments

[25] Raghupathi (1999), p.216, 227; Vaidya & Vaidya (2004), p.338

[26] Baghi & Kundu (2003), pp.790-793;

[27] ICRA (2002), p.4

[28] News reports, accessed at www.news.bbc.co.uk

on account of the generally progressive policies of the state government. This led to the growth of economic activity in the city, reflecting in its substantial contribution of about 18% of the state's gross domestic product.[29] The city is currently growing at an annual rate of 3-3.5%.[30]

As in the other cities of the world, the increasing trend of urbanisation has continually expanded the area of the city. Table 5 indicates the growth in the city area since 1872. The rapid growth in city area in the period 1981-1991 was due to the merger of the eastern side of Ahmedabad city with effect from 23rd February 1986. This has led to a city jurisdiction of about 190.84 square kilometres as per the 2001 Census.[31]

Table 5: Growth of city area

Census	Area (sq kms)	Percentage growth
1872	5.75	
1881	5.95	3.96%
1891	11.42	92.04%
1901	14.93	30.68%
1911	23.08	54.59%
1921	23.96	3.82%
1932	25.29	5.54%
1941	52.47	107.46%
1951	52.47	-
1961	92.98	77.22%
1971	92.98	-
1981	98.15	5.56%
1991	190.84	94.44%
2001	190.84	-

Source: Census Reports, Ahmedabad Municipal Corporation

Table 6 provides the growth in Ahmedabad city population. As per the 2001 Census, Ahmedabad city has a population of 3.52 million, with a decadal growth rate of 22.36%, from 1991 to 2001.[32] Urban growth in the state has been driven primarily by natural population growth (72%), followed by migration (19%) and reclassification of boundaries (9%).[33]

Table 6: City population

Census	City population	Growth (%)	Population, incl. urban agglomeration
1921	274,007	26.40%	274,007
1932	382,768	39.69%	382,768
1941	591,267	54.47%	595,210
1951	837,163	41.59%	877,329

29 Gillian (1968), p.97
30 Mathur (1999), p.250
31 Census Reports, Ahmedabad Municipal Corporation
32 Census of India (2001)
33 NIUA (1998), p.2

1961	1,149,918	37.36%	1,206,001
1971	1,585,544	37.88%	1,741,552
1981	2,059,725	29.91%	2,548,057
1991	2,876,710	20.79%	3,312,216
2001	3,520,085	22.36%	-

Source: Census Reports

Table 7 provides the religion-based breakdown of Ahmedabad's population. Almost 80% of the population is Hindu.

Table 7: Ahmedabad population, by religion (1981)

Religion	Population	Percentage
Hindus	1,611,570	78.24%
Muslims	314,613	15.28%
Jains	101,379	4.92%
Christians	23,504	1.14%
Sikhs	4,903	0.24%
Buddhists	999	0.05%
Others	2,757	0.02%

Source: Census Reports, Ahmedabad Municipal Corporation

Conflict

The religious mix of the population of Ahmedabad provides the backdrop to the city's communal conflict. Once famous as the adopted hometown of Mahatma Gandhi, an apostle of peace and non-violence, Ahmedabad today is arguably one of the most communally sensitive cities in India. Its battle with sporadic but fierce communal violence has lasted over the last forty years. It is generally agreed that communal violence in Gujarat saw an upward turn from 1980s. However, in the 1990s and more recently, the Hindu-Muslim hostility has taken political centre-stage.[34]

There has been a rapid growth of hardline Hindu organisations in India, specifically Gujarat, in the last twenty years. These Hindu nationalist parties raised religion and communal discord as the central agenda of their socio-political campaign. It is argued that the close links between these political parties - Jan Sangh, Shiv Sena, Vishwa Hindu Parishad (VHP), Bajrang Dal, its youth wing, the Rashtriya Swayamsewak Sangh, and the Bharatiya Janata Party (BJP) has led to the communalisation of politics in Gujarat.[35] The political ascendancy of the BJP to power at the state government level and their leadership of the National Democratic Alliance coalition at the centre aggravated the communal focus. Further, the textile and industrial workers who lost their livelihoods in the state's economic downturn in the 1980s resorted to anti-social and often illegal sources of income generation, becoming pawns in the religion based conflict.

In 1969, nearly 2,500 people were killed in Ahmedabad in the region's worst violence between Hindus and Muslims since the partition of the subcontinent into India and Pakistan in 1947. A series of communal riots rocked the city around 1985 and again in 1992 following the demolition of the Babri mosque by Hindu activists in the north Indian town of Ayodhya. The Babri Mosque-

[34] Robinson (2005), p.24

[35] Robinson (2005)

Ramjanmabhoomi (birth place of Ram, a Hindu God) Ayodhya dispute was a watershed in the escalation of Hindu-Muslim animosity and marginalisation of Muslims.

Then followed a decade of relative peace in Ahmedabad, barring a few months of sporadic anti-Christian violence. These were attacks on minority Christian institutions and individuals during the BJP reign in the state between December 1998 and January 1999, in line with their All-India campaign against Christian missionaries.[36]

But the bloodbath in 2002 again raised the evil head of communal conflict. The Godhra train episode took place on 27th February 2002, when a compartment carrying a large number of Hindutva activists and VHP supporters was burnt to cinder, after a skirmish with a Muslim tea vendor on the railway platform of Godhra station. The exact identity of the culprits, their motivation, and the way the coach was set on fire had not yet been deciphered, but this dastardly act triggered by Muslims in Godhra was taken to legitimise the revenge against all Muslims in the state. The next few days until 3rd March saw Gujarat burning, with thousands of unsuspecting Muslims massacred and more than two hundred thousand displaced from their burnt and looted homes. Sporadic incidents of violence continued unabated until July. It is now a well-known fact that the ruling BJP state government and its police forces were complicit in this pogrom and the then coalition government led by BJP at the Centre remained a mute spectator.[37] It has been established that the lists of Muslim residential and commercial properties were 'obtained' by the perpetrators of violence for careful targeting of violence. Also, the violence was sustained by vicious communal propaganda through public media often by leading political stalwarts.[38]

Beyond the tragic loss of lives, Muslim businesses in Ahmedabad and other cities of Gujarat were attacked and burnt, their shops looted and shut down, and their power looms gutted – virtually all the vulnerable Muslim establishments were systematically targeted and destroyed.[39] There have been many other incidents of communal and class-conflicts in the past in Gujarat, but the 2002 riots were by far the bloodiest and described as genocide by many. While communal propaganda is not necessarily an ideology of only the Hindus and is indulged by many Muslim organisations as well, the aftermath of the riots saw the systematic and growing ghettoisation and vulnerability of the Muslims. The active connivance or passive concurrence of the State and police forces shook the foundation of secularism and communal co-existence. Several of Gujarat's cities such as Ahmedabad, Surat and Baroda were affected. Even today, the Muslims who did not flee from the state continue to live in fear and insecurity.

Municipal structure and finances

There are two main local bodies in Ahmedabad responsible for the creation and provision of infrastructure and services - Ahmedabad Municipal Corporation (AMC) and Ahmedabad Urban Development Authority (AUDA). The AMC is the elected urban local government that was established in 1950 under the Bombay Provincial Municipal Corporation Act 1949. The Act provides the revenue generation and borrowing powers of the Corporation.[40] AMC undertakes the provision of basic services in Ahmedabad city within the jurisdiction of about 190.84 square kilometres with a population of 3.87 million. Its area is divided into six geographic zones for administration purposes, which are further segregated into 43 administrative wards. AMC is headed by a Municipal Commissioner, and each zone is led by a Deputy Municipal Commissioner. Zonal officers are reasonably empowered for administrative procedures to ensure timely sanction of works.[41] Each ward has three elected representatives. Wards form the basis of collection of property

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[36] News reports, accessed at www.news.bbc.co.uk
[37] Bunsha (2006), Interview with Father Moses
[38] Robinson (2005), pp.25-26
[39] Varadarajan (2002), p.11
[40] Mathur (1999), p.250
[41] CMAG (2002A), p.20

tax, service charges and other fees.[42] Each ward inspector covers around 5,000 properties for billing and collections. While municipal revenue data may be available by ward, local expenditures are not budgeted or compiled by administrative wards.[43]

In the periphery areas of the city and its urban agglomerations, the AUDA, a State owned entity, is responsible for town planning and infrastructure development. The states of Gujarat and Maharashta are historically renowned for their town planning scheme, which enables local authorities to develop land without fully acquiring it and having a positive control over the design and timing of urban growth.[44] The map in Annex 3 specifies the boundaries and remit of the AMC and AUDA.

AMC is one of the few ULBs in India that generates sufficient revenue surpluses to finance the development, operation and maintenance of urban infrastructure and assets. It has a strong revenue base of its own tax sources, primarily octroi and property tax. This is supplemented by other taxes such as advertisement tax and motor vehicles tax and non-tax income such as fees and fines. AMC had huge revenue losses and liabilities until 1993-94. Also, at that time, inadequate capacity and inefficiency of the Corporation's administration contributed to severe deficiencies in performance.[45]

In 1994, wide-ranging taxation reforms and improved administrative and enforcement systems enabled AMC to covert its revenue deficit into a surplus. A series of measures were undertaken to shore up tax collections. The reforms for octroi included the arrest of anti-social elements engaged in evasion, updating of valuation books to prevent under-invoicing of goods, random physical verification and vigilance squads at octroi points and wireless communication systems connecting octroi check posts. Key property tax reforms included imposing stringent collection mechanisms and coercive measures against defaulters including disconnecting water supply and drainage connections.[46] These reforms were instrumental in the financial turnaround of AMC by increasing revenues from Rs. 2.2 billion in 1993-94 to Rs. 2.9 billion in 1994-95 and again to Rs. 3.5 billion in 1995-96. All cash losses and overdrafts of AMC were wiped off by year ending March 1995.[47] In the late 1990s, AMC introduced a number of financial management improvements such as computerisation of accounts, double entry accrual based accounting, and capital budgeting systems. However, the collection of property taxes was still relatively poor. 73% of the residential properties and 29% of non-residential properties were exempt from paying tax on account of very low assessment with annual rateable value below Rs.600. The rateable values were generally not revised and resulted in huge variations in amount of taxes to be paid, perceived to be unfair and non-transparent. In 2000-01, it revamped the property tax assessment system from annual rateable value basis to area-based valuation, to make it more transparent and increase the property tax base and collections.[48] The property tax assessment was modified to be a function of annual rate, area, location, year of construction (age), type of building (for example, hut, flat, bungalow etc.), and occupancy by landlord or tenant.[49]

Table 8 presents AMC's sources of municipal revenues since 1991-92 to date. Own tax sources from octroi and property tax on average encompass over 55% and 20% of the total revenues respectively. Grants and contributions contribute about 15% of the revenues.

Table 8: AMC revenue income 1991-2005 (Rs. million)

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42 Interview with Mr Padia

43 Interview with Mr Barot

44 AUDA, p.1

45 Interview with Mr Asnani

46 CMAG (2002B)

47 Interview with Mr Asnani

48 ICLEI (2002), p.2; Interview with Mr Padia

49 CMAG (2002A), pp.12-13

Year	Octroi	Property tax	Non-tax income	Grants and contributions	Total
1991-92	972.484 (56%)	357.814 (20%)	161.138 (9%)	255.116 (15%)	1746.552
1992-93	1228.956 (62%)	366.518 (18%)	120.294 (6%)	273.033 (14%)	1988.801
1993-94	1295.768 (59%)	441.936 (20%)	147.584 (7%)	312.318 (14%)	2197.606
1994-95	1561.401 (55%)	731.373 (26%)	203.106 (7%)	358.762 (13%)	2854.642
1995-96	2029.819 (57%)	800.252 (23%)	260.78 (7%)	451.325 (13%)	3542.176
1996-97	2249.270 (58%)	920.878 (24%)	255.323 (7%)	446.542 (12%)	3872.013
1997-98	2425.370 (58%)	1009.368 (24%)	301.337 (7%)	471.257 (11%)	4207.332
1998-99	2642.734 (56%)	1190.081 (25%)	358.774 (8%)	558.385 (12%)	4749.974
1999-2000	3094.013 (56%)	1154.623 (21%)	416.475 (7%)	890.988 (16%)	5556.099
2000-01	3245.110 (58%)	978.391 (17%)	382.362 (7%)	1019.981 (18%)	5625.844
2001-02	3080.673 (55%)	1215.823 (21%)	438.160 (8%)	893.668 (16%)	5628.324
2002-03	3613.057 (59%)	1212.157 (20%)	439.394 (7%)	891.807 (14%)	6156.415
2003-04	4009.384 (58%)	1368.012 (20%)	705.950 (10%)	823.408 (12%)	6906.754
2004-05	4620.434 (57%)	1737.652 (22%)	800.396 (10%)	912.332 (11%)	8070.814
2005-06 (E)	5515.033 (61%)	2007.566 (22%)	640.688 (7%)	831.351 (9%)	8994.638

Source: Ahmedabad Municipal Corporation, *http://www.ahmedabadcity.org/revenueincome.html*

In addition to the above revenues sources of income, AMC also receives capital income in terms of grants and loans from the state government, Gujarat Municipal Finance Board and lending institutions. These can be general-purpose income or against specific sectors or projects such as slum upgrading or affluent treatment.[50] AMC's capital income since 2001-02 is shown in Table 9.

Table 9: AMC capital income 2001-05 (Rs. million)

	2001-02	2002-03	2003-04	2004-05 (E)
Capital income	3341.651	757.976	3961.748	4395.834

Source: Ahmedabad Municipal Corporation; *http://www.ahmedabadcity.org/capitalincome.html*

In terms of its expenditure, AMC spends most of its revenue income on establishment and administrative expenses. However, since its financial position improved in the early 1990s, it has

[50] Interview with Mr Hingrajia

deployed some of its revenues to services and programs as well as generated growing revenue surpluses that can be used for the development of public infrastructure. To its credit, AMC undertakes developmental expenditure towards both physical and social infrastructure.[51] Table 10 sets out AMC's revenue expenditure.

Table 10: AMC revenue expenditure 2000-06 (Rs. million)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Establishment	2535.351	2352.441	2377.131	2452.739	2467.415	2668.125
General & admin.	716.749	783.592	844.919	800.117	739.047	733.435
Repairs & maint.	160.440	207.077	233.126	188.842	330.816	314.278
Service & Programs	138.142	150.447	171.794	142.923	198.405	299.776
Grant	1342.135	1324.350	1267.210	1243.197	1356.563	1458.893
Loan charges	719.175	777.625	924.831	798.632	963.548	762.281
Total Rev. Exp.	**5611.992**	**5595.532**	**5819.011**	**5626.450**	**6055.794**	**6236.788**
Revenue Surplus	*13.852*	*32.792*	*337.404*	*1280.304*	*2015.020*	*2757.850*

Source: Ahmedabad Municipal Corporation, http://www.ahmedabadcity.org/revenueexpenditure.html

AMC utilises its revenue surpluses as well as its capital income towards capital works and new projects, shown in Table 11. These include capital expenditure on public infrastructure and services such as roads and bridges, water supply, sewerage and solid drainage, street lighting, land and housing programs etc.

Table 11: AMC capital expenditure 2001-05 (Rs. million)

	2001-02	2002-03	2003-04	2004-05 (E)
Capital expenditure	4091.723	1376.157	1269.556	4395.834

Source: Ahmedabad Municipal Corporation, http://www.ahmedabadcity.org/capitalexpenditure.html

Leveraging the strength of its revenues, AMC was the first ULB in India to issue municipal bonds worth Rs. 1000 million without state guarantees in January 1998. Subsequently, it has obtained a strong credit rating and raised further capital market financing through the issue of municipal bonds.[52] Another unique model of growth adopted in the state is to develop industrial estates and attract private financing using Special Purpose Vehicles (SPV). Essentially, 75% of the property tax collected within an earmarked estate area is dedicated to an SPV, which then leverages these revenues to raise finances from market sources. The SPV is responsible for developing the infrastructure such as roads, streetlights, water supply etc. within the estate. Three industrial estate SPVs have been developed so far, with the Memorandum of Understanding having been signed for another two. AMC benefits from the model as it assists in the industrial development of the city and thereby increases octroi revenues.[53]

With respect to land and property development, many capital works are undertaken by AUDA under the auspices of the Gujarat Town Planning and Urban Development Act 1976. Town planning (TP) schemes are conceptualised as a joint venture between the local authorities and the original owners of the plots, who agree to pool their land for planning purposes. After carving out public roads and sites for social facilities such as parks, schools, dispensaries etc., the remaining

51 Interview with Mr Asnani

52 Asnani (2004); CMAG (2002A), p.8

53 Interview with Mr Padia

area is laid out into regular shaped plots and sold. The final plots are hence enhanced in terms of shape, accessibility, usage, accompanying amenities and consequently, in value. AUDA is paid the difference between the incremental appreciated value of the final plot and the compensation for the original plot by the owner. In addition, up to 15% of the land can be appropriated by AUDA and sold at market rates for housing and commercial purposes to recover its costs of infrastructure provision.[54] While between 1978 and 1997, only 18 TP schemes were undertaken by AUDA, the post 1997 period saw the initiation of almost 119 schemes.[55]

Table 12 details the revenue and expenses of AUDA. Unlike the AMC, which charges taxes, AUDA primarily derives capital income from betterment levy or incremental land contribution and the sale of land. Concurrently, its main expenditure is towards development projects and the provision of infrastructure for the town planning schemes. While AUDA is responsible for the provision of basic infrastructure services and amenities in the TP scheme, it typically relies on the local government or the private sector to maintain the public assets. It is hence not authorised to collect taxes, and at times charges maintenance fees for specific services rendered.[56]

[54] AUDA, pp.2-6, Interview with Mr Dhar
[55] Interview with Mr Patel
[56] ibid.

Table 12: AUDA income and expenditure 2000-06 (Rs. million)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06E
Capital Income						
Betterment charges	212.3	104.5	177.7	409.9	482.0	717.0
Sale of land	151.8	164.0	346.4	415.8	650.2	960.0
Drainage/ water connection, Misc.	23.9	15.1	21.0	25.8	42.2	57.1
Govt. grants	10.4	0	0.8	9.3	117.6	0
Other income	0	0	124.7	22.0	15.4	20.0
Revenue Income	126.9	156.6	125.5	145.7	132.3	204.5
Loans	0	28.8	320.9	605.5	646.7	1476.8
Total Income	**525.3**	**469.0**	**1117.0**	**1634.0**	**2086.4**	**3949.7**
Expenditure – Development Projects						
Road network	120.6	129.4	473.9	872.3	955.6	1671.3
Drainage	45.2	16.0	57.6	126.7	205.0	358.1
Water supply	0	0	311.5	378.8	751.6	703.6
Environmental	6.3	9.5	-2.4	26.4	36.9	113.0
EWS houses	47.8	70.1	75.2	100.6	115.0	323.0
Social infrastructure	97.7	53.9	72.3	88.1	22.7	271.0
Revenue expenses (incl. salary/ admn.)	66.2	108.6	101.0	108.2	102.8	208.5
Loan repayment	20.6	0	0.4	4.7	188.4	298.4
Total expenditure	**404.5**	**387.5**	**1089.5**	**1706.0**	**2378.0**	**3946.9**

Source: Ahmedabad Urban Development Authority

The combination of AMC and AUDA activities and finances comprise the city's fiscal systems, against which the impact of conflict is being studied.

Impact of conflict on municipal finances

There are certain fundamental characteristics of Ahmedabad city and the communal riots, which underlie the impact assessment of the conflict on its municipal finances. Firstly, the municipal finances of AMC are robust and in surplus. It is also one of the few local government bodies in India that has obtained a strong credit rating. Secondly, the nature of conflict in Ahmedabad, although certainly devastating in terms of loss of life, property and security, was localised and not protracted over a long period. It was wilfully targeted against the Muslim community and intended to drive them out of the Ahmedabad old city area. Thirdly, the hand of the State in the violence taints any evaluation, since the local authorities and official sources deny and underplay the impact of the conflict. Fourthly, there are extraneous concurrent factors such as the massive Gujarat earthquake in January 2001 that increased the financial pressures of the state and city governments.[57] Hence, it is difficult to isolate the impact of the 2002 conflict on some of the economic and financial factors of city development in the period.

There were a few visible implications of the riots for the city's financial position. However, given the strong municipal finances and the concentrated nature of the riots in terms of duration and target groups, these implications were marginal and short-term.

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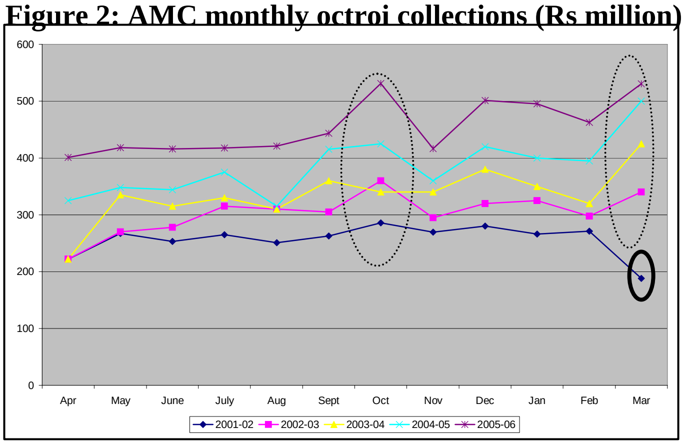
[57] CMAG (2001)

The direct impact of the riots can be studied with respect to the sources of municipal revenues for the period. As shown in Figure 2, octroi collections fell steeply in March and April 2002 during the riots. The fall could potentially be on account of the conflict, as typically the month of March being the year-end, provides the highest octroi collections in any year. This can be seen in the following years 2002-2006, where the months of March and October accrued the highest octroi collections in the year.[58] The downward impact on octroi as a result of conflict in March 2002 can be explained by the slump in economic activity, particularly the entry of goods in the city, in the months and areas of intense rioting. Nonetheless, the communal grievances did not shake the economic and business fundamentals of the city and hence, the decrease in octroi revenues was not sustained beyond April 2002.

Figure 2: AMC monthly octroi collections (Rs million)



Source: Ahmedabad Municipal Corporation, Monthly accounts

The other sizeable source of municipal revenue to be explored is the property tax collections. The violence was clearly targeted to purify certain neighbourhoods of Muslim and pluralistic identities. The Ahmedabad riots of 1985, 1992 and 2002 saw the forced migration of Muslims from the inner city area. However, the 2002 pogrom inflicted by far the most gruesome violence on the Muslims. Muslim houses were burnt and many were forced to sell their property and relocate to fringe or periphery areas of refuge such as Juhapura, Shah Alam, Vejalpur, Kalupur, Dariapur and East Jogeshwari. Some of these areas were termed 'mini-Pakistan' by the locals.[59] The Sabarmati river that flows through the city became a symbolic divide for areas designated as Hindu and Muslim.[60] (Refer to city map in Annex 3). The mass exodus of Muslims and their forced migration led to distress sales and collapse of real estate prices in the affected areas.[61] However, these falling prices do not exert an immediate effect on property taxes, given that the official tax records are not updated annually for latest market property values and that rental charges are based on historic valuations.[62] In India, property taxes assessed on rateable values are revalued only once in every five years. Moreover, the Ahmedabad property tax system was revamped in 2000 from annual rateable values to area-based composite valuation. Hence, overall local property tax collections did not decrease as such in the period under study (Refer Table 8, years 2001-2003). Possibly, the realisation may have been adversely impacted in specific Muslim majority wards from where the migration was highest. Property tax collections at ward level could be an area for further study.

The non-tax sources of municipal incomes, comprising 6-7% of total municipal revenues, are not substantial. Hence, any impact related to the conflict will only be marginal to the overall municipal finances. There are claims of incidental reductions in the collections of some municipal fees and

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58 AMC Monthly Municipal Finances, Interview with Mr Padia

59 Interview with Father Moses

60 Robinson (2005), pp.48-49

61 Interview with Ms Baradi, Mr Balachandran. It was reported that the surveys of property values in the affected areas conducted by real estate agents clearly indicate the fall in property prices following the riots.

62 Interviews with Ms Baradi, Mr Randhawa

charges such as for the Muslim shops and establishments and tanneries and slaughterhouses destroyed or displaced during the riots.[63] But these effects are possibly localized to select wards in the municipality. Also, on the whole, the lower standard of living and limited asset ownership of Muslims imply that this impact on AMC finances is quite negligible. Further, many of these establishments are set up in the informal sector and are prone to high evasion and lack of enforcement by the municipal authorities.

With respect to municipal expenditure, majority of the revenue expenditure is incurred on establishment, general and administration expenses of running the municipal operations. Barely 3% of municipal revenues are spent towards services and programs for maintaining public infrastructures. Most of the physical damage during the riots was wrecked on private houses and commercial properties owned by the Muslims, rather than the city's public infrastructure like roads, bridges, and drainage systems. Therefore, the financial impact of the destruction caused is not substantial on the city's fiscal structures. Also, most of the capital works at local government level are undertaken out of capital income, particularly loans and transfers from the state and central governments. While these revenues may suffer if State structures collapse or weaken as a result of widespread city-level conflict, Ahmedabad's case was stark. Not only did the conflict not destabilize State systems, but in fact, the State played a role in abetting the violence.

However, the point to note is that the riots, by driving out the Muslims from the inner city, led to their ghettoisation in peripheral areas of the city. Some of these areas such as Vejalpur, Sarkhej and parts of Bombay Hotel are out of the AMC limits and fall within the AUDA area.[64] To compound the situation, the Municipal Corporation neglected the provision of amenities to these riot victims in several of the displacement camps and often discriminated against the Muslim majority areas. Most of the ghettos have abysmal living conditions with no or limited access to water supply, drainage, roads, pound and fire services.[65] Persons deriving their income from the informal sector were hit hardest, as they were unable to re-establish their small-scale businesses under these pecuniary circumstances. These included a variety of job seekers in the unorganized sectors ranging from skilled artisans, craftsmen and tailors to rickshaw-pullers and vendors. By design, Muslims were systematically polarized from economic activities in the city.[66]

As earlier mentioned, poverty and slum improvement have been included in the list of municipal functions after the 74th CAA. About 22% of AMC's population lives in slums. AMC undertakes some poverty alleviation programs in partnership with non-governmental organizations (NGOs), including the Slum Networking Project commenced in 1998.[67] Several NGOs such as SAATH, SEWA and minority-based organisations such as St Xaviers Social Service Society and SAHRWARU assist in and mobilise support for community development projects.[68] However, since the expenditure on these pro-poor programs is quite small in terms of the overall fiscal framework, the adverse welfare impacts of the riots are not adequately captured in the financial analysis. Also, as a consequence of the forced migration, many of the Muslim victims had to restart their lives in irregular settlements and refugee camps that were often not within the ambit of AMC's developmental activities. As highlighted by Ms Bhatt of the Mahila Housing SEWA Trust, an active NGO in Ahmedabad, out of the local government's 45-50 slum area projects, only one was a Muslim majority area.

The relatively longer-term financial implications of the riots for the city are lower remittances and transfers from external non-governmental sources, including donors and the private investors. This is despite Gujarat's progressive measures such as repealing the Urban Land Ceiling Act, rationalizing stamp duties, and being one of the first Indian states to develop a private sector policy

[63] Interviews with Ms Baradi, Ms Choudhry

[64] Interview with Mr Patel, Ms George

[65] Robinson (2005), pp.50-51, Interviews with Mr Balachander, Ms Ramrakhiyani

[66] Interviews with Ms George, Ms Bhatt, Ms Ramrakhiyani

[67] AMC (2006); Interviews with Mr Padia, Mr Makwana

[68] Interview with Mr Joshi

for ports and electricity distribution. Projects under preparation by the World Bank, Asian Development Bank (ADB), and the US Agency for International Development (USAID) in Ahmedabad were delayed/ stalled in the aftermath of the riots until the revival of some normalcy. For example, the World Bank put on hold the Gujarat State Urban Program after the riots.[69] Private investments in the state from foreign and other Indian investors are also reported to have declined on account of loss of confidence in the city's stability.[70] These effects are not directly reflected in the municipal finances as most often, donors lend to the sovereigns, which then on-lend or transfer the monies in local currency to the sub-national entities. However, the riots clearly diminished such external sources of finances that may have otherwise been available to the city for developmental activities.

In sum, the resilience of Ahmedabad's municipal structures and finances, the sporadic nature of the bloody conflict, and the resultant outward migration of Muslims from the city resulted in only transient impacts on the municipality's fiscal structures. This was to some extent visible in the fall in octroi revenues during the months of conflict. Other possible areas of impact such as property taxes and non-tax charges require deeper research at a ward level. Overall public expenditure related to developmental activities remained largely unscathed by the conflict, as they were predominantly supported by capital transfers from the state and central governments (who in this case, connived in the orchestration of the violence).

Another interesting implication of the conflict that merits further exploration relates to the balance of powers among the social and political actors in the city and their interest groups and coalitions, for example, the Hindu nationalist parties. These actors play a pivotal role in decision-making on the levy and expenditure of local revenues.

[69] Interviews with Mr Dhar, Ms Baradi, Mr Joshi

[70] Interview with Mr Vaidya

Case study of Srinagar

Background

The northern most state of India, J & K comprises three contiguous geographic regions, Jammu, Ladakh and Kashmir, with a total population of 10.1 million, of which nearly 25% has been recorded as urban.[71] The percentage decadal growth of population 1991-2001 is one of the highest in J&K at 29% against a national average of 21%. Srinagar district is situated in the centre of Kashmir Valley with a population of around 1.2 million, spread over an area of 2228 square kilometres.[72] Srinagar is the summer capital of the state (May – October) and Jammu is the winter capital (November – April).

J&K state has been bestowed special constitutional status in the Union of India under Article 370 in May 1954. The article exempts the State from the provisions of the Constitution providing for the governance of other Indian States and allows it to have its own Constitution within the Indian Union. The Parliament's legislative power over the State was restricted to three subjects - defence, external affairs and communications. If other "constitutional" provisions or other Union powers were to be extended to J&K, the prior "concurrence" of the State government was required. That concurrence was provisional and had to be ratified by the State's Constituent Assembly. The J&K Constitution came into effect in 1957. Moreover, Article 370 cannot be abrogated or amended by recourse to the amending provisions of the Indian Constitution that apply to all the other States, namely Article 368, which allows the imposition of President’s rule in any state.[73] However, the Indian Government’s execution of Article 370 is critiqued widely as a facade for the denial of democratic rights and institutions to the citizens of J&K. The various elections of the J&K State Legislative Assembly, with the exception of the recent state elections in 2002, are known to have involved unfair practices to install a government that is not representative of the local populace but subservient to the Indian state.[74] There has been a lot of criticism that the elected government and its supporting bureaucracy have barely been accountable to the interests of their citizenry. Also, there have been instances of dissolution of the State Assembly and imposition of President’s rule in J&K such as in September 1986 and July 1990, violating the spirit of Article 370.[75] These undemocratic measures not only hampered the growth and self-determination of J&K, particularly the Kashmir Valley, but also fostered a culture of corruption and a lack of responsibility and responsiveness to the real needs and grievances of the people.

Srinagar city, besides being the seat of these political issues, faces numerous growth and developmental challenges. In the recent years, its economy has been growing at 8% per annum. While tourism declined considerably in the face of conflict, ssome employment sources such as horticulture, arts and crafts have proved fairly resilient and sustained the local economy.[76] However, Srinagar still requires massive investments in its antiquated public infrastructure and services, especially housing and drainage and sanitation systems. Such investments are further challenging given the valley’s unique geographic characteristics of being ringed by mountains and having a river as well as several lakes flowing through the city.[77] The Dal Lake in the heart of the city, which has floating gardens, houseboats, agricultural land and a resident population, requires large investments in terms of sewerage treatment, sanitation and development of catchment areas.[78]

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71 Census of India (2001), excludes the population in the Pakistan and China occupied areas of Kashmir.

72 Includes population of urban agglomerations around the city

73 Noorani (2000)

74 RLEK (2002); www.geocities.com, It is reported that “the federally appointed governor of J&K in 1990 admitted that the Kashmiri legislature has had a history of rigged elections.”

75 http://www.jammu-kashmir.com/basicfacts/politics/political_history.html; http://jammukashmir.nic.in/profile/majev2.htm

76 J&K Information Department (2001)

77 Interviews with Mr Quereshi, Ms Lanker

78 Interview with Ms Jahan

Conflict

The dispute and conflict in Kashmir dates back to the partition of the sub-continent in 1947, although the nature of violence has changed considerably over the years. Since the termination of the first India-Pakistan war over Kashmir in January 1949, the territory has been divided into India-occupied J&K (IOK, comprising about 10 million people in the Kashmir valley, Jammu and Ladakh) and Pakistan-occupied Kashmir (POK, comprising about 3 million people in the high Himalayas or Pakistan's northern areas). The dividing ceasefire line between the two occupations was marginally altered during the India-Pakistan wars of 1965 and 1971 and renamed the Line of Control (LOC) by an agreement between the two nations in July 1972.[79]

The ensuing years of peace since the 1971 war were once again destroyed by the low-intensity insurgency that was started in late 1989 as a guerrilla revolt under the banner of J&K Liberation Front (JKLF). The stated objective of JKLF was to liberate IOK, reunite it with POK and establish a single independent state of J&K. The rise of an Islamist guerrilla group called Hizbul-Mujahideen in 1992-93, strongly promoted by Pakistani intelligence authorities led to the intensification of the conflict. This was coupled with the large infiltration of pan-Islamist fighters from Pakistan into IOK and protracted warfare. The stationing of the Indian security and paramilitary forces in IOK to combat the violence signalled a significant transformation in the military and political character of the conflict from a dispute between India and Pakistan to a more complex, multi-dimensional localised problem. The decade of the 1990s wrought death and devastation on the fighting forces in the Kashmir Valley as well as inflicted collateral damage on the civilians and establishments. Most of all, the decade hampered the growth and development of the state. The prolonged and widespread insurgency has largely been concentrated in hinterland areas outside of the city, although Srinagar has also experienced several incidents of violence. Furthermore, Srinagar has had to support the large migrant population that moved to the city in search of security and livelihood as well as the some of the additional floating population of military, para-military, police forces and support services.[80]

In July 1999, there was another limited war between India and Pakistan along the LOC in Kargil. Since 2003, there has been a de-escalation of the violence and an attempt to restore normality and economic buoyancy to the Kashmir valley. This has been brought about by several diplomatic parleys and confidence building initiatives between India and Pakistan.

While the economic activity in the state is gradually being resumed, the peace situation is still very fragile and lot of initiatives are still underway to restore the institutions and administrative machinery that had been in effect neglected since the late eighties.

Municipal structure and finances

The elected local government body of Srinagar is the Srinagar Municipal Corporation (SMC), which came into effect after the Municipal Corporations Act was passed in J&K in 2000. However, the first elections to SMC took place only in February 2005, on account of the continued militancy. Prior to 2000, the city was governed by the Srinagar Municipality, which was essentially run by state government officials.[81]

Besides the developing Municipal Corporation, there are currently several other agencies for urban development in Srinagar. The Srinagar Development Authority (SDA) was established under the Development Act 1970 to control and promote land development and housing, and prepare the City Master Plan and Land Use Plans. There are two catchments in Srinagar; one drains into the Dal Lake and other into the river Jhelum. The Lakes and Waterways Development Authority (LWDA) was set up in the late 1970s for the development of the catchments areas that drain into the Dal

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[79] Bose (2003), p.2
[80] Interview with Ms Lanker
[81] Interview with Mr Deva

Lake. The Department of Urban Environmental Engineering (UEED) was constituted in the 1980s and is responsible for drainage and sewerage of the city, especially into the Jhelum River. Besides, there are several state owned and controlled agencies that have historically been responsible for specific urban development functions such as water supply, housing and transport.

The Municipal Corporations Act 2000 envisages higher levels of fiscal decentralisation and the steady integration over time of several of these state functions in the SMC.[82] The standard economic responsibilities of other local governments in India such as streetlights, water supply, sanitation, transport and civic amenities are still in the process of transition to the SMC. The Srinagar Municipality historically played only a minor role in the city's urban development; hence its functional empowerment not only requires political will but also large investments in capacity building. Incongruous to its meagre roles, the Corporation is overstaffed and incurs high administration and overhead costs.[83] There are 68 wards in the Corporation, of which 34 are administrative wards. Elected ward officers are responsible for monitoring service provision and compliance in their areas as well as preventing unauthorised construction.[84]

Similar to its administration structures, SMC's municipal finances are also fairly rudimentary. After the abolition of octroi charges in July 1987, the municipalities effectively depended on transfers and grants from the state and central governments, which comprises nearly 90% of their revenue income. The limited own revenues of SMC accrue from various fees and fines, license income from issue of building permits and income from municipal assets. There are no taxes imposed by SMC. In an environment of vulnerability of local residents to the militancy situation and the fragile political balancing by the state government of the central government orders and local conditions, imposition of property taxes has been considered politically sensitive and difficult. Moreover, effective tax administration requires the streamlining of existing institutional systems that are plagued with inefficiencies, bureaucracy and corruption. Currently, almost the entire local income is spent on establishment, salary and general administration expenses of the municipality, with little surplus for developmental activities. Over the last two years, there have been some surpluses that the Corporation plans to deploy towards the creation of remunerative assets and commercially viable projects.[85] Table 13 depicts the revenue income and expenditure of SMC.

Table 13: SMC revenue income and expenditure 1996-2006 (Rs. million)

Year	Grants-in-aid (A)	Own resources (B)	Revenue Income (A+B)	Revenue Expenses	Revenue Surplus
1996-97	100.776 (91%)	9.657 (9%)	110.443	108.415	2.018
1997-98	114.936 (86%)	19.142 (14%)	134.078	124.713	9.365
1998-99	145.084 (91%)	14.562 (9%)	159.646	159.024	0.622
1999-2000	159.121 (82%)	34.010 (18%)	193.131	190.302	2.829
2000-01	247.661 (89%)	30.615 (11%)	278.276	147.735	130.541
2001-02	219.324 (88%)	28.813 (12%)	248.137	242.318	5.819
2002-03	247.378	38.886 (14%)	286.264	306.641	- 20.377

82 Interviews with Mr Lal, Ms Jahan, Mr Dewan

83 Interviews with Mr Dhar, Mr Deva. Most of the Corporation's 5000 employees are cleaners, sweepers and scavengers. Also, despite the dismantling of octroi charges, the staff that manned the various check-posts are still on SMC's payroll.

84 Interview with Mr Deva

85 Interview with Mr Deva, SMC Municipal Finances

	(86%)				
2003-04	261.140 (92%)	22.534 (8%)	283.674	282.734	0.940
2004-05	276.501 (82%)	62.404 (18%)	338.905	285.919	52.986
2005-06	406.779 (93%)	30.338 (7%)	437.117	379.116	58.001

Source: Srinagar Municipal Corporation

Capital works and programs are entirely financed by grants from the state and central governments. The main urban infrastructure programs undertaken by SMC (and the erstwhile Srinagar Municipality) over the last ten years are the Capital City Development Program (CCDP) and Extended Areas Program financed by the State Government, and the National Slum Development Program (NSDP) and Environmental Improvement Urban Sector (EIUS) sponsored by the Central Government. Table 14 sets out the capital receipts and expenditure related to these four programs. With the launch of the Jawaharlal Nehru National Urban Renewal Mission (JNURM) by the Government of India in December 2005, all centrally sponsored urban schemes are proposed be subsumed under its umbrella. This mission covers Srinagar city as well and is aimed at urban reform through governance and infrastructure development and provision of basic services to the poor.[86]

Table 14: SMC capital income and expenditure 1996-2006 (Rs. million)

Year	CCDP (SG)		NSDP (CG)		EIUS (CG)		Extended Area (SG)	
	Income	Expense	Income	Expense	Income	Expense	Income	Expense
1996-97	25.279	25.279					5.000	5.000
1997-98	31.100	31.100						
1998-99	29.250	29.250	7.500	7.500	0.750	0.750		
1999-00	21.280	21.280	9.125	9.125	0.100	0.100		
2000-01	26.000	26.000	10.000	10.000	0.100	0.100		
2001-02	17.125	17.125	13.250	13.250	0.100	0.100		
2002-03	15.250	15.250	17.500	17.500	0.250	0.250		
2003-04	15.000	15.000	20.000	20.000				
2004-05	87.431	87.431	22.000	22.000				
2005-06	37.000	17.500	22.500	5.000				

Source: Srinagar Municipal Corporation

A City Development Plan (CDP) has been recently prepared by the Chief Town Planner and presented to the state and central government as part of the JNURM scheme. It is a 20-year vision for city development across sectors at a proposed investment of Rs 125 billion. The recommended resource mobilisation to raise Rs 125 billion over 20 years has been provided in Table 15 below. It is expected that the SMC develops its own sources of revenue over time and reduces its dependence on external grants and transfers.[87]

Table 15: Proposed resource mobilisation in Srinagar city over the next 20 years

Source	Amount (Rs billion)

[86] http://urbanindia.nic.in/moud/programme/ud/main.htm; http://www.indiatogether.org/2006/jul/gov-tagnurm.htm

[87] Interview with Mr Ahmad

SMC own revenues	15
State government grants/ loans	25
Central government grants/ loans	30
JNURM	17
Financial institutions	10
Capital markets	10
PPPs	10
Other sources	8
Total	**125**

Source: Draft Srinagar City Development Plan

Impact of conflict on municipal finances

As explained above, Srinagar's municipal structures and finances are very weak. The local governments are currently almost completely reliant on grants-in-aid and transfers from the central and state governments. One may argue that the prolonged militancy and the distinct treatment of J&K by the Indian Union under the veil of the Article 370 destroyed its democratic institutions and prevented the growth of any form of sustainable self-governance. The prolonged violence coupled with the vested interests of the state governments, who were often protecting the interests of the Centre, did not foster the development of robust and representative local government structures. While the other states of India stepped up the decentralisation process after the 74th CAA, J&K effectively commenced its devolution of powers to local governments only with the passing of the Municipal Corporations Act in 2000. Srinagar's first local government elections were even further delayed and held only in February 2005. Many of the elected councillors faced security threats to their lives and two of the councillors have been killed by militants within a year of being elected. As stated by Dr Sofi, the state needs to be released from the clutches of militancy in order for able and competent persons to fearlessly contest local elections and represent the true needs of the people.[88]

Furthermore, the legacy of large-scale corruption that has become endemic in the state systems increases the perverse incentives of being dependent on the largess from the central exchequer. Lack of political will, weak municipal administration, and most significantly, the unearned financial benefits of continued violence in the form of large capital grants from the Government of India have deterred the introduction of any local taxes or charges.[89] This is in spite of the 2004 State Finance Commission's report that emphasises revenue generation by the local governments through sources such as property tax, services charges and entertainment tax.[90] As shown in Table 15, the CDP clearly recommends local resource mobilisation by the imposition of taxes and service charges, graded by income groups.[91]

Taxes withstanding, there has been a considerable decline in the external sources of financing for projects in Kashmir during the last twenty of insurgency. Donors like the World Bank, ADB and USAID either exited or substantially reduced their project activities in Kashmir during the violent years of insurgency. Only recently have donor and private sector activity resumed in Kashmir. For instance, the World Bank is considering the second phase of the Integrated Water Development Project and the ADB is appraising the J&K Urban Sector Development Project focussed on water supply, solid waste management, drainage and transport.[92] The ADB is also suggesting loan conditions related to levying user charges for water supply in the cities. This may reinforce the

[88] Interview with Dr Sofi
[89] Interviews with Mr Handoo, Mr Mukundan
[90] Interview with Mr Dhar
[91] Interview with Mr Ahmed
[92] Kashmir Images (2006)

imposition of some form of municipal taxes and charges in the city. An Economic Reconstruction Agency (ERA) has been constituted in 2005 as a nodal agency to coordinate donor projects in the state.[93]

Contributions from the private and NGO sectors for city development are almost non-existent. The continued militancy did not permit the growth of an active civil society and deterred domestic and foreign private investments in the state. It is reported that most of the contractors on infrastructure projects are local residents and the insurgency situation still discourages external private contractors and workers.[94] The CDP also suggests innovative methods to attract private sector participation and financing in infrastructure to supplement state sources of finance.[95]

The impact of the war and destruction on the city's fiscal position is reflected to some extent in the nature of its expenditure. Since the start of militancy in the late 1980s, developmental activities in terms of both the creation and maintenance of infrastructure such as drainage systems, transport, health and education have taken a backseat despite their pressing need. Most of the capital works have been on the restoration and repair of infrastructure and public assets demolished or neglected during the years of war, rather than new development. Social infrastructure such as housing, schools, health services and enterprise development has been the worst hit.[96]

The years of insurgency also saw the growth of numerous haphazard settlements and encroachments in and around the city without the adequate provision of public amenities. Such unplanned development, congestion and crowding has led to the growth of urban slums and poor areas without any provision of infrastructure services. The state and local governments have been investing their resources towards maintaining peace and law and order rather than urban rejuvenation.[97] As commented by Ms Lanker, 'Kashmir is now gradually catching up with the 20+ years of lost growth'.

Framework of analysis

Overview

As set out in Section 2, the nature and strength of municipal finances vary by country, and city based on their political and economic structures and the extent of decentralisation of powers to sub-national levels. Hence, any analysis of municipal finances needs to be undertaken in the context of the overall political economy of the national and sub-national units of which the fiscal and financial structures form a part. Local bodies derive their powers from the higher levels of government. To that extent, their taxation, borrowing and spending powers are restricted, narrow and less flexible. For example, in some states of India, potential legitimate local income sources such as profession tax, advertisement tax and vehicle tax have been taken over by the state governments.[98]

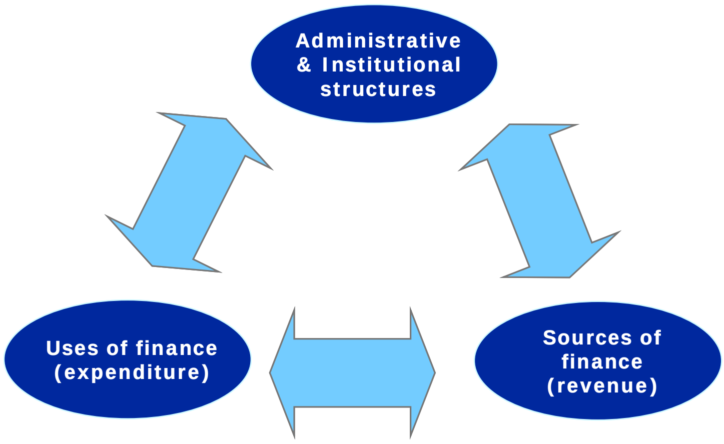
The two case studies highlight that while the Ahmedabad city government enjoys a fair degree of functional and financial devolution, Srinagar Corporation is still financially dependent on the central and state government. The degree of financial autonomy and strength of municipal finance structures is the starting point of assessing whether and to what extent it is impacted by conflict. Other environmental variables that affect fiscal systems must also be considered. These may result in positive or negative outcomes for the local financial structures. For example, co-terminus shocks other than the main conflict under study such as higher country risks, national budgetary pressures or major natural disasters may adversely impact municipal revenues. For example, the Bhuj

93 Interviews with Mr Bakaya, Mr Mukundan
94 Interview with Mr Bakaya
95 Interview with Mr Ahmed
96 Interviews with Mr Quereshi, Mr Handoo, Mr Singh
97 Interview with Dr Sofi
98 Sharma (1988), p.46

earthquake hit the state of Gujarat, including Ahmedabad city in 2001 and significantly increased the burden on the state finances and resources just before the communal riots. In such scenarios, a higher degree of caution needs to be exercised in isolating or evaluating the interaction between conflict and the municipal finance framework.

Once the existence of some form of substantive sub-national autonomy has been established, there are predominantly three aspects of the municipal finance framework to be studied. As depicted in a simple diagram in Figure 3, these are the administrative and institutional structures, sources of funds (revenue) and uses of funds (expenditure). The administrative and institutional components encompass the fiscal structure, processes and systems such as budgeting, accounting, financial management; governance; and the organisational elements of the municipality. These aspects contribute to the overall machinery of local revenue collection and administration.[99] Proper functioning of these administrative components is essential to maintain an efficient, non-corrupt and cost-effective local system. Else, there is a large scope for wastage and embezzlement of resources and leakages from the system. For example, if property tax records and budgets are not maintained and regularly updated, it will be difficult to track and enforce the collection of municipal taxes. Local sources of revenue range from dependence on transfers and share of taxes from the central government to raising and retaining the city's own tax and non-tax sources of revenue. Local uses of revenue include developmental (operation, maintenance and investments in public infrastructure and services) and non-developmental expenses (costs of establishment and administration). Clearly, these three elements are interconnected and dependent on one another in order to maintain a balanced local budget. For example, municipal expenditure is a direct function of administrative structures and costs as well as the level and nature of income available.

Figure 3: Municipal/ local finance framework

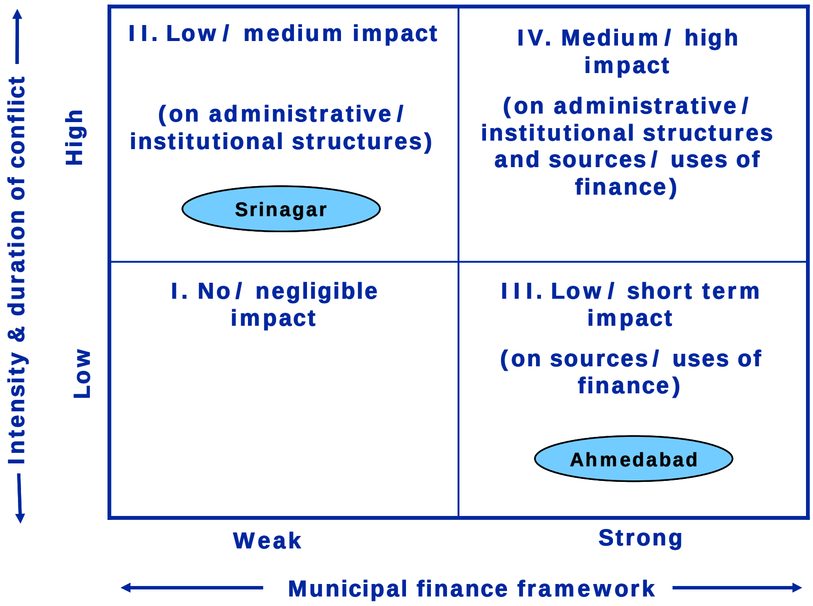


In terms of assessing the interaction between conflict and the municipal finance framework, at the most basic level, the key drivers are the intensity and duration of the conflict on one axis and the strength of the municipal finance framework on the other. A strong municipal finance system has robust institutional underpinnings, efficient administrative systems and a reliable source of own revenues financing its expenditure and surplus. A weak municipal finance system has rudimentary systems and procedures, is dependent on external sources of transfers and grants and/ or is mostly in deficit. While the interaction of the two variables can be described along a spectrum, the extremes of their relationship have been depicted in Figure 4 below. The lessons from the two case study cities have been plotted. The figure is intended to provide a starting point to short-list the other case study cities to examine the relationship between conflict and local finances. Based on the two case studies, each quadrant provides an indicative hypothesis of which element(s) of the municipal finance framework is likely to be more or directly impacted. Since all three elements of the

[99] Interview with Mr Bandhopadhyaya

municipal finance framework are inter-related, there may be varying indirect effects on the other elements as well.

Figure 4: Framework of analysis



Quadrant I, where the municipal finance system is weak and the conflict is short and of low-intensity, exhibits no or negligible visible impact of conflict on municipal finances. However, in Quadrant II, where the municipal finances systems are weak but the conflict is intense and long, the most visible adverse impact is on the institutional and organisational structures of the local government. Srinagar in Kashmir is a case in point where SMC has weak municipal structures and limited own revenues. The sustained insurgency and violence in the state did not allow the city administrative systems and institutions to develop. If the administrative machinery of the city is not robust, its ability for the collection and administration of revenues is adversely influenced. For example, if the municipal unit does not have in-house capacity for investment appraisals and processes, it is difficult to plan and administer the developmental expenditures of the city. Similarly, if the revenue or compliance units are weak, the local authorities will be faced with high tax evasion. Thus, conflict may indirectly hamper or delay the growth of a strong municipal finance system. In the case of Srinagar, the city's development has been sustained by transfers from the state and central governments. In the absence of strong state financing systems, conflict could further impede the growth of self-sustaining local government institutions and finances.

In Quadrant III, where a strong municipal finance framework faces a short low intensity conflict, the impact is of a lesser degree or in the short term. This is evinced in the case of Ahmedabad, where the financial structures are sufficiently resilient to the consequences of the urban conflict. Here, depending on the specific fiscal structures, the conflict may exert varying degrees of impact on the administrative structures as well as the sources and uses of funds. However, given the ab-initio strong fiscal situation, these effects may be transient. For example, the octroi collections in Ahmedabad decreased for only two months during the riots.

Quadrant IV, characterised by a strong municipal finance framework and a long drawn intense conflict, may exhibit medium-high impact. The exact levels of impact will depend on probing further into the nature and drivers of the conflict as well as the three described elements of the municipal finance framework.

Based on this intuitive typology, cases that fall within Quadrant I may not as such provide lessons regarding city fiscal impact. Cases in Quadrant II can be evaluated vis-à-vis the impact on the institutional or administrative underpinnings of local structures. Cases that are cast within Quadrants III and IV may be studied from the perspective of impact of conflict on the municipal administration as well as the sources and uses of funds. These may be at city and sub-city levels. Across these quadrants, the activities of local pressure groups and institutional agencies at the sub-national level and above may significantly affect the extent of impact on the local governance structures.

Sources of local finances (revenue)

City finances may accrue from external or own sources of revenue. Cities that have sustainable own sources of revenues are categorised to have strong local finances and autonomy. This will be characteristic of cases that fall within Quadrants III and IV.

Section 2 presented an international overview of local revenues and Section 3 provided an overview of the various tax and non-tax sources of local revenues in India. For the purposes of studying the impact of various types of conflict, city revenues can be categorised as economically buoyant sources, sources dependent on an individual's affordability, and immobile sources. Put simply, the implications of conflict for the economy, its population, and physical property and possessions can be studied along these categories. The three categories are interlinked and impact on one may have a ripple effect on others. Major conflicts of longer duration such as civil wars may adversely impact all categories; where-as localised conflicts of a short duration may most impact the immobile sources of revenue in the affected areas. Conflicts that destabilise the economic fundamentals of the city have cascading effects not only on the other tiers of local revenues but also on the ability to mobilise additional external sources of revenue from the private sector. Traditionally, only immobile sources were assigned to local governments. However, with increasing decentralisation and growth, local governments in many developing countries have been devolved the powers to charge more economically buoyant sources of revenues such as taxes on goods and services.

Economically buoyant sources are closely linked to economic growth and expansion. Examples include indirect taxes such as octroi and sales tax, and direct taxes such as advertisement tax and fees from professions or commercial establishments.[100] They may be single or multi-point charges. For example, octroi is a multi-point tax, collected at physical check-posts across the city entry points. Sales tax is typically levied at the point of retail sale to the final consumer. The point of imposition and collection of revenues are facets that influence the nature and degree of the impact of conflict on them.

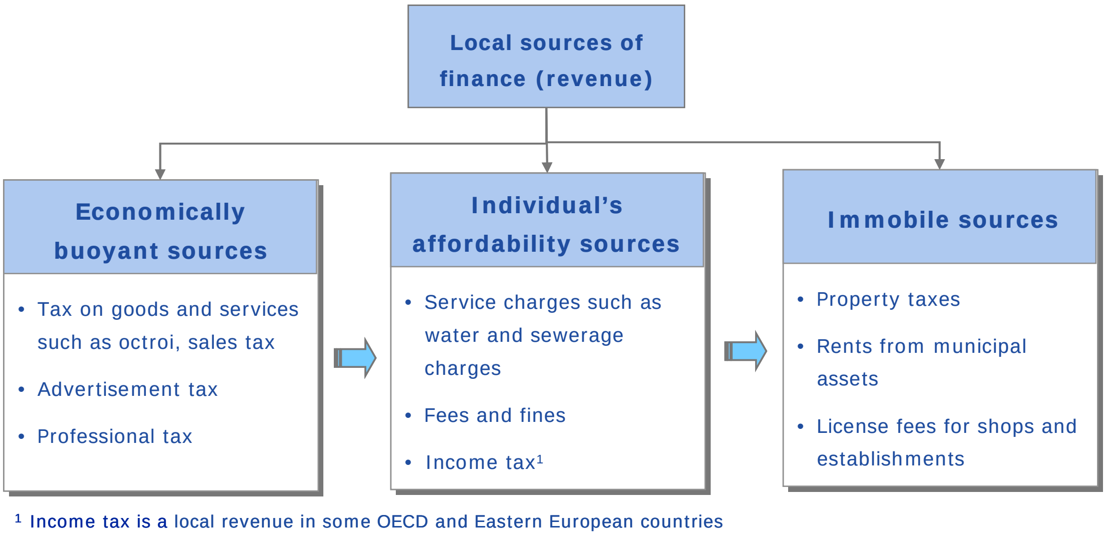
Sources linked to individuals' affordability and wealth are mostly non-tax service charges such as water or sewerage tax and fees and fines levied on local population.[101] While these revenue sources are also positively impacted by overall economic growth, their actual increase is dependent on the extent and pace at which the benefits of growth percolate to the local levels in the economy. Typically, the cannon of local revenues is the poor ability and willingness of pay of local residents, and hence, these sources are typically meagre in most cities. However, as cities develop and the wealth of the local population grows, the revenue generation capacities of such sources can be tapped. The growth of these revenue sources may be hit by conflict at two levels, namely the development of the city's economic and institutional structures and/ or progress of residents' economic prospects. In the case of Srinagar, where despite the increase in the citizens' ability to pay, there has been no political will to develop the local institutional and administrative structures.

Immobile revenue sources are static in location and exhibit the least elasticity to economic growth and development. They are hence the most restricted in terms of expansion, which may be achieved through increasing efficiency of administration. Examples include property tax and rents from municipal assets. Property taxes may be progressive or regressive, depending on their basis of assessment. A regressive property tax does not account for the economic capacities of the different groups of properties and property holders. In order to more effectively mobilise the resource

[100] Interview with Mr Shivaramakrishnan
[101] Most local government revenue in developing countries does not include income tax, which usually belongs to central governments.

potential of immobile taxes, local governments within their statutory mandates, are attempting to make these taxes more progressive. For example, a composite property tax valuation based on area, location, age, type and use of property and user is more progressive than area-based valuation. Immobile sources can therefore be affected by factors that influence the other two sources of local revenues (i.e. economic buoyancy and individual wealth) in addition to static geographic and institutional factors. These may be the size or geographic location of the city or the institutional rules and principles for assessing local revenues. Figure 4 summarises the three tiers of local revenues with some examples.

Figure 4: Categorisation of local sources of finance



Uses of local finances (expenditure)

Local expenditure depends not only on the extent of functional decentralisation but also on the other two pillars of the municipal finance framework, i.e. the municipal administrative structures and the sources of funds. Hence, there is large diversity in the composition of municipal expenditure across cities and countries.

At the broadest level, local expenditure can be categorised as developmental and non-developmental. As local governments grow in efficiency and financial strength, they have higher surpluses left after meeting their non-developmental expenditure, i.e. establishment and general administration expenses. A strong municipal finance system is characterised by the deployment of revenue surpluses and capital income (usually from external sources) for the operation and maintenance of public assets and works, investments in new assets and welfare objectives such as poverty alleviation and slum upgradation. Of these developmental activities, local governments are typically not responsible for welfare activities compared to national governments that are entrusted with the income distribution and economic stabilisation roles.

Conflict can both directly and indirectly impact on the municipal expenditure framework. The indirect impact of conflict on city expenditure is through its linkages with the municipal income and administrative systems. Lower municipal revenues and increase in organisational inefficiencies or costs reduces finances available, specifically for developmental activities. The direct impact is through the diversion of funds for restoration and reconstruction activities after the conflict. Also, the burden on the city's infrastructure and services may change substantially on account of displacement and migration of people, and ad-hoc growth of temporary settlements. In the case of Ahmedabad, there was forced ghettoisation of Muslims in peripheral poor areas of the city and often outside the AMC limits; whereas Srinagar being relatively less affected by the war in the

Kashmir Valley saw masses of people move into the city in search of means of livelihood. The role of civil society and informal sector is most visible on this branch of the local fiscal structures. In the above scenarios of reduction in local funds available for growth and developmental activities, the local civil society may provide the missing links of state provision. Ahmedabad, which historically has a strong and active NGO sector, saw their increased role during the conflict period in assisting the riot victims and displaced residents. They specifically worked at grass root levels towards bridging the gaps in municipal expenditure on service provision and poverty alleviation.

As evident from the above analysis, some of the interesting lessons that emerge extend beyond the technical components of the municipal financial systems to the changes in the socio-political factors. These relate to the institutional effects of conflict on the various actors and interest groups that are able to exercise influence on the sources and uses of local revenues.

Conclusion

This study provides an overview of local finance frameworks at city levels across the OECD and developing countries in South and Central America, Asia and Africa. It then studied in-depth the municipal structures and finances in the context of Indian local governments, particularly in the case study cities of Ahmedabad and Srinagar. Placing the city fiscal policies and systems within the overall perspective of national political economy and the decentralisation process, the paper provides a simple typology for future case studies analysing the impact of conflict on city finances. This is based on the evaluation of the intensity and duration of conflict vis-à-vis the strength of the municipal structures and finances.

The specific impact of conflict on city fiscal structures is as yet an unexplored area of research. One of the primary reasons may be because very few cities in developing countries, let alone conflict-ridden cities, have a strong local finance framework. In such cases, the analysis of any financial impact of conflict is best undertaken at regional, provincial/ state or national level, where the government's taxing and spending powers are concentrated. At a local level, the impact of conflict may be examined vis-à-vis the fiscal institutional and administrative structures that provide the foundation for strong local finances. These include the activities of agencies and coalitions at the city, national, regional or international level, which have direct or indirect control on the municipal finances and expenditures.

Where the city fiscal position is strong and reliant on own sources of revenue, the impact of conflict on the sources and uses of finances is worth exploring. The paper categorises local sources of funds into economically buoyant, individual's wealth dependent and immobile revenues. The factors that affect each of these categories as well as the basis of assessment and administration of these revenues can provide specific inputs in assessing the impacts of conflict at city level. Economically buoyant sources are most likely to be affected in the event of any conflict destabilising the local economy. However, the duration of impact depends very much on the nature of conflict. Impact on the economically buoyant sources may have ripple effects on other local sources of revenue.

The paper also underscores the practical difficulties of isolating the impact of multiple external shocks to the city fiscal systems. Once the possible high impact areas of conflict have been identified, the affected sources of funds can be further studied at sub-city level where it may be possible to establish some correlation. For example, especially for localised conflicts, multi-point taxes such as octroi or immobile sources such as property tax can be studied in the affected areas or wards where their realisation may have been adversely affected. In such scenarios, their impact may be less pronounced at city level on account of averaging of performance across the wards. However for wider spread or prolonged conflict, the impact may be felt at both the city and sub-city levels. Any analysis at sub-city level is contingent on their systematic collection and maintenance of municipal data. This again underscores the importance of a robust supporting administration for any fiscal impact analysis.

Local expenditure being a derivative of city administrative systems and revenues can arguably be impacted directly and indirectly by conflict. Also, given that few local governments in developing countries are financially independent and strong, the proportion of cities that spend on growth and developmental activities is even lesser. Hence, any destruction or displacement of people and properties impose additional burdens on an already limited budget on developmental expenditure. These may again be studied at city and sub-city levels depending on the specific impact areas of conflict identified above. For example, if outward migration of people is identified to be the most consequential outcome of conflict, its impact on both local revenues and expenditure may be studied.

As an increasing number of developing countries are in the process of devolution and strengthening their local governments, the analysis of fiscal impact of crisis should focus on a combination of the local institutional structures and actors, and financial sources and uses. This should be coupled with the analysis of the fiscal structures at the higher levels of government. It is specifically relevant to study fiscal structures across the tiers of government to obtain a comprehensive overview of the different types of public revenues mobilised. Based on the case studies, it is evident that conflict adversely impacts the economically buoyant sources of revenue. However, as discussed in Section 2, for political, economic and capacity reasons in developing countries, these sources are typically decentralised to local levels much more gradually than the immobile sources of revenue. Furthermore, external sources of finance such as donor and private sector funding that are typically impacted by conflict may also be explored at national and sub-national levels.

In sum, drawing the linkages between conflict and city finances highlights the fiscal pressure points at which the city is vulnerable and therefore undermined in terms of its own financial stability and its contribution to national revenues and growth. While previous studies have examined how economic resources and incentives can *cause* or fuel wars, this paper has attempted to interrogate the relationship from the inverse direction of analysing the *consequences* of conflict on the local finance framework. The conclusions that emerge vary not only by whether the country is developed or developing or in transition, but also the relative levels of growth and financial autonomy enjoyed by its cities. Within this context, it is also important to examine the relative powers of the various local institutions and interest groups that can influence resource mobilisation and allocation.

Annex 1

Local revenues across countries (1991-2001)

Country	Year	% local revenues	% own revenues	% tax revenues	% income taxes	% property taxes	% goods & service taxes	% non-tax revenues
1. OECD countries								
Australia	1999	5.73%	85.90%	41.18%	0	41.18%	0	0
Austria	1999	15.04%	81.70%	56.73%	22.15%	0.04%	23.65%	21.03%
Belgium	1998	5.79%	46.70%	37.90%	14.30%	0	23.46%	0
Canada	1999	10.67%	60.73%	42.34%	0	39.22%	0.08%	14.63%
Denmark	1996	31.78%	58.11%	49.15%	46.04%	3.08%	0.04%	5.88%
Finland	1998	30.96%	77.45%	55.19%	N/A	N/A	N/A	N/A
France	1997	13.55%	65.82%	47.20%	7.22%	16.84%	5.07%	14.41%
Germany	1998	10.50%	65.37%	39.91%	31.57%	6.00%	2.26%	14.69%
Iceland	1998	25.11%	90.91%	72.97%	56.97%	9.50%	0	13.19%
Ireland	1997	6.95%	21.40%	2.15%	0	2.15%	0	7.85%
Italy	1999	14.20%	51.36%	38.06%	N/A	N/A	N/A	6.36%
Luxemborg	1997	9.54%	63.67%	34.93%	34.25%	0	0.68%	24.97%
Netherlands	1997	10.34%	31.84%	12.18%	0	4.17%	1.21%	7.21%
New Zealand	2001	9.45%	90.58%	57.61%	0	48.88%	4.10%	0
Norway	1999	20.92%	60.82%	41.78%	37.68%	3.22%	0.88%	14.36%
Portugal	1998	7.30%	66.91%	32.53%	15.17%	11.49%	5.87%	3.10%
Spain	1997	11.28%	66.08%	49.97%	9.26%	14.36%	23.61%	7.67%
Sweden	1999	30.08%	80.57%	74.83%	74.83%	0	0	0
Switzerland	2000	19.37%	82.65%	48.16%	40.66%	7.35%	0.15%	26.01%
UK	1998	7.60%	29.43%	13.69%	0	13.62%	0	5.31%
USA	2000	15.04%	61.34%	37.64%	2.44%	27.02%	8.18%	11.76%
Average		**14.82%**	**63.78%**	**42.20%**	**20.66%**	**13.06%**	**5.22%**	**9.92%**
2. Eastern Europe & Transition countries								
Albania	1998	1.16%	4.05%	1.63%	0.00%	0.00%	1.50%	0.99%
Azerbaijan	1998	15.15%	49.64%	41.59%	17.58%	2.79%	18.54%	5.95%
Belarus	2001	36.15%	83.30%	75.21%	25.24%	7.10%	39.99%	2.14%
Bulgaria	2001	12.14%	66.96%	50.08%	44.93%	4.84%	0.00%	10.42%
Croatia	1999	12.40%	93.96%	51.24%	43.22%	6.03%	1.95%	22.88%
Czech Republic	2001	14.64%	65.02%	46.17%	25.48%	2.40%	18.27%	7.90%
Estonia	2001	16.14%	62.84%	48.71%	43.49%	4.80%	0.42%	4.26%
Georgia	2000	28.71%	87.60%	82.96%	44.98%	17.84%	10.40%	0
Hungary	1999	14.47%	50.69%	29.09%	13.03%	3.25%	12.72%	8.50%
Kazakhstan	2000	45.93%	86.19%	82.67%	42.11%	8.32%	6.66%	1.48%
Kyrgyz Republic	2000	15.59%	51.33%	38.53%	14.60%	0.01%	23.88%	12.10%
Latvia	2001	20.70%	71.94%	56.12%	45.10%	10.32%	0.70%	6.80%
Lithuania	2001	19.70%	89.72%	87.19%	78.11%	8.80%	0.23%	1.86%
Moldovia	2001	25.61%	78.10%	62.21%	32.13%	10.70%	19.38%	8.48%
Poland	2001	22.66%	59.79%	40.35%	8.93%	8.22%	0.61%	14.50%
Romania	2001	17.66%	89.16%	79.22%	40.04%	7.97%	30.32%	7.84%
Russia	2001	32.57%	83.65%	62.78%	40.78%	7.39%	12.63%	0.77%
Slovak Republic	2001	6.48%	81.03%	49.38%	29.65%	13.02%	6.71%	15.91%
Slovenia	1999	9.70%	79.09%	60.31%	42.06%	12.39%	5.86%	1.37%
Ukraine	2001	24.16%	70.60%	62.11%	46.49%	0.00%	15.62%	7.22%
Average		**19.59%**	**70.23%**	**55.38%**	**33.90%**	**6.81%**	**11.32%**	**7.26%**

Country	Year	% local revenues	% own revenues	% tax revenues	% income taxes	% property taxes	% goods & service taxes	% non-tax revenues
3. South & Central America								
Bolivia	2001	15.70%	77.34%	65.81%	6.58%	7.29%	26.47%	8.03%
Brazil	1998	5.42%	35.20%	20.97%	0.00%	9.84%	9.98%	5.90%
Chile	2001	7.67%	92.83%	78.40%	0	36.91%	41.49%	4.47%
Guatemala	1993	3.71%	33.05%	13.21%	0.57%	1.14%	3.47%	3.25%
Mexico	2000	5.42%	73.02%	57.71%	0	0.26%	1.10%	8.15%
Nicaragua	1993	10.12%	87.38%	70.67%	0.10%	6.55%	60.21%	0
Paraguay	1993	2.27%	100.00%	57.62%	9.16%	31.43%	15.97%	7.44%
Peru	2001	6.37%	51.89%	13.27%	N/A	N/A	N/A	N/A
Average		**7.09%**	**68.84%**	**47.21%**	**2.34%**	**13.35%**	**22.67%**	**5.32%**
4. Asia/ Africa								
Botswana	1994	0.58%	16.81%	9.79%	0.07%	8.47%	0.73%	2.32%
Israel	2000	9.30%	60.42%	35.47%	0.00%	34.25%	0.00%	0.00%
Kenya	1994	5.40%	100.00%	32.01%	0.00%	21.95%	10.01%	1.67%
Malaysia	1994	3.17%	77.29%	N/A	N/A	N/A	N/A	N/A
Mongolia	2001	19.67%	54.28%	43.19%	23.07%	0.79%	12.53%	5.73%
Philippines	1992	4.69%	42.76%	26.77%	0.00%	14.16%	12.61%	10.63%
Senegal	1999	4.29%	72.97%	37.84%	0.00%	0.00%	38.92%	16.49%
South Africa	1998	7.96%	79.45%	41.06%	0.00%	29.40%	0.00%	28.41%
Thailand	2000	8.15%	68.87%	61.43%	0.00%	12.86%	48.57%	1.03%
Uganda	2001	5.42%	11.60%	6.46%	3.62%	1.49%	0.69%	2.00%
Zimbabwe	1991	14.84%	97.73%	30.76%	0.00%	26.86%	2.04%	61.23%
Average		**6.86%**	**58.45%**	**32.67%**	**2.97%**	**13.71%**	**13.78%**	**7.59%**

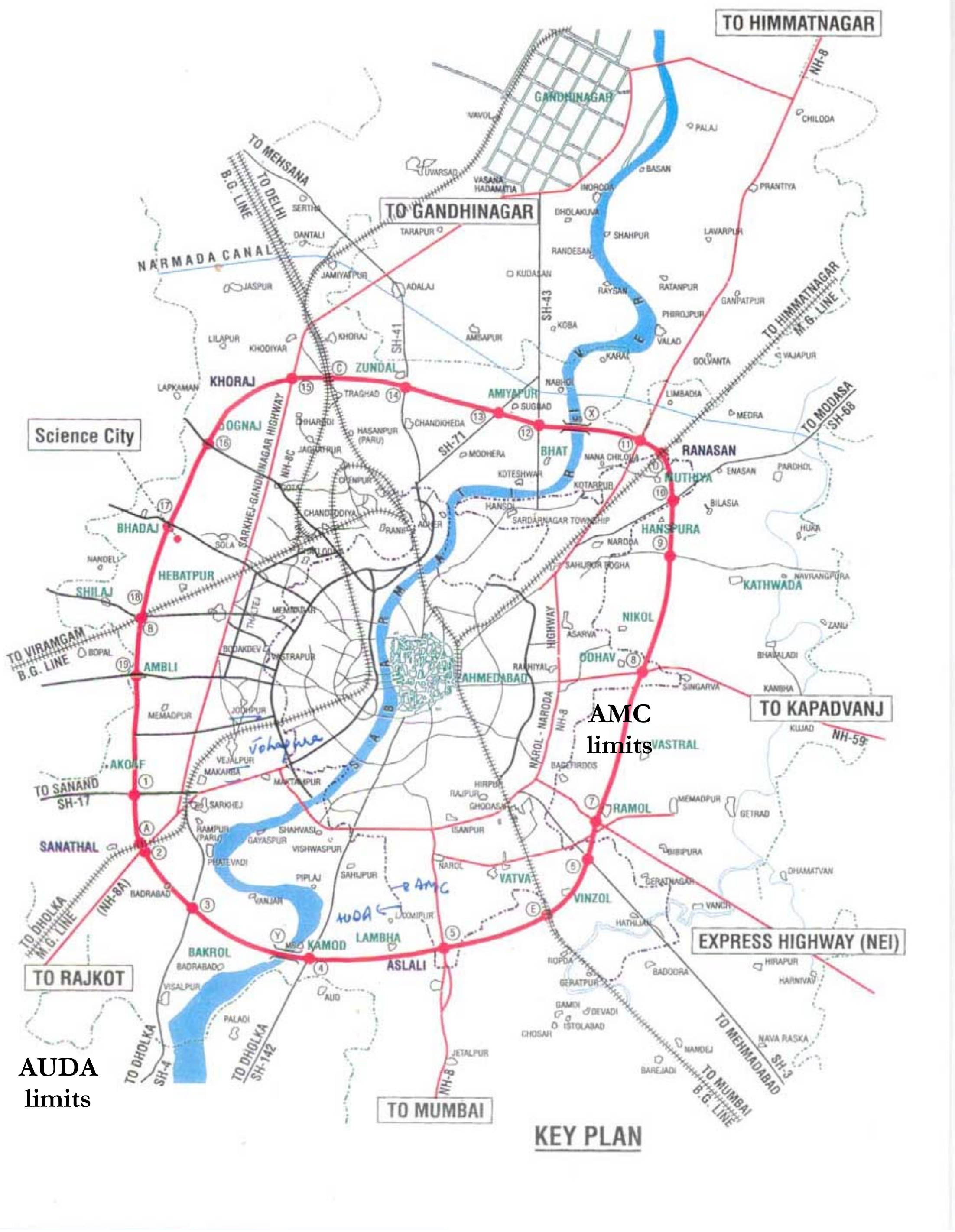
ANNEX 2

Twelfth schedule of the 74th Constitutional Amendment Act (1992)

1. Urban planning including town planning.
2. Regulation of land-use and construction of buildings.
3. Planning for economic and social development.
4. Roads and bridges.
5. Water supply for domestic, industrial and commercial purposes.
6. Public health, sanitation conservancy and solid waste management.
7. Fire services.
8. Urban forestry, protection of the environment and promotion of ecological aspects.
9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
10. Slum improvement and upgradation.
11. Urban poverty alleviation.
12. Provision of urban 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 slaughterhouses and tanneries.

ANNEX 3

Ahmedabad city map depicting AMC and AUDA areas



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