

*DEVELOPMENT OF
BASIC SERVICES FOR URBAN POOR (BSUP)
FUND IN URBAN LOCAL BODIES*



JANUARY 2010

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**Centre for Good Governance
Hyderabad**

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Development of “Basic Services for Urban Poor Fund” in Urban Local Bodies through Internal earmarking

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Acronyms

ADB	Asian Development Bank
APMAM	Andhra Pradesh Municipal Accounting Manual
APUSP	Andhra Pradesh Urban Services for the Poor
BATF	Bangalore Agenda Task Force
BMP	Bangalore Mananagara Palike
BPL	Below Poverty Line
BSUP	Basic Services for Urban Poor
CBO	Community Based Organisation
CDP	City Development Plan
CDS	Community Development Structure
DFID	Department for International Development (UK)
DMC	Developing Member Country
FBAS	Fund Based Accounting System
FSI/FAR	Floor Space Index/ Floor Area Ratio
GHMC	Greater Hyderabad Municipal Corporation
GO	Government Order
GoI	Government of India
HUDCO	Housing and Urban Development Corporation
IHSDP	Integrated Housing and Slum Development Programme
JFPR	Japan Fund for Poverty Reduction
JNNURM	Jawaharlal Nehru Urban Renewal Mission
MAPP	Municipal Action Plan for Poverty reduction
MLA	Member of Legislative Assembly
MP	Member of Parliament
MSU	Municipal Strengthening Unit
MTEF	Medium Term Expenditure Framework
NGO	Non-Government Organisation
NHG	Neighbourhood Group
NMAM	National Municipal Accounting Manual
NSUP	National Strategy for Urban Poor
PPA	Participatory Poverty Assessment
PPAF	Pakistan Poverty Alleviation Fund
PROOF	Public Record of Operations and Finance
P-Budget	Poverty Alleviation Budget
SC	Scheduled Castes
ST	Scheduled Tribes
SHG	Self Help Group
SJSRY	Swarna Jayanti Shahari Rojgar Yojana
SUDA	State Urban Development Authority
SWOT	Strengths, Weaknesses, Opportunities and Threats
TSP	Tribal Sub-Plan
ULB	Urban Local Body
UNDP	United Nations Development Programme
UPA	Urban Poverty Alleviation
UPDF	Urban Poor Development Fund
UPRS	Urban Poverty Reduction Strategy
UPAP	Urban Poverty Action Plan
VMC	Vijaywada Municipal Corporation
WG	Working Groups
CSFS	Chandigarh Small Flat Scheme
CHB	Chandigarh Housing Board

Summary

Urban poverty reduction, assumes greater importance, at the times of rapid urbanization, in enabling ULBs to become inclusive and pro-poor, thereby, to enhance service delivery and raise productivity. JNNURM, the latest programme undertaken by Government of India, aims to tackle several urban problems, including those relating to urban poverty in a comprehensive manner. One of the key reforms under JNNURM is aligning municipal finances and service delivery to be pro-poor.

BSUP Fund at ULBs acts as a link between fiscal requirements of and needs planning for urban poor. Internal earmarking of ULB funds is the first step towards creation of such Fund, which needs to be complemented by other resources. For better utilisation of the funds, urban poverty reduction strategy and action plan have to be prepared that lead to Medium Term Expenditure Framework (MTEF) and annual expenditure plan for poverty reduction in cities. By this way, an effective linkage can be established between planning and budget, and, thereby, ULB resources can be effectively channelised to urban poverty reduction initiatives in a targeted manner.

Funds have been constituted in India for several purposes with the objective of achieving better fund management and governance. BSUP Fund development through internal earmarking of municipal funds needs an active participation of:

- State governments - to provide directives and guidelines to ULBs, and establish support and reporting mechanisms for better implementation.
- Urban local governments - to establish BSUP Fund through council resolution and legal amendments. The principle for constitution of Fund may be left to the ULB but they need to balance the expenditure and revenue allocations such that enough allocation is made to urban poor within the pool of municipal resources.

The ULBs need to ensure the sustainability of BSUP Fund by ensuring adequate resources left in BSUP Fund by making it non-lapsable and replenishable with a minimum proportion (25%) of net or surplus ULB funds flow into it. All other scheme and programme funds may be subsumed into BSUP Fund. The ULBs need to resort to mobilization of additional revenue sources, wherever possible, to complement the sources of the Fund.

For identifying pro-poor expenditure and preparing poverty action plan/ sub-plan, an integrated approach of area, sector and spatial approaches may be followed; and community structures, as envisaged under SJSRY programme, may be followed. Poverty alleviation action plan process suggested as a separated toolkit is very useful to the ULBs to determine the needs of urban poor, and identify the targeted beneficiaries through surveys and prioritisation.

Poverty alleviation budget (P-budget) is built upon the poverty alleviation action plan and strategy, and it is an enabling step within the budgetary framework of ULBs. BSUP Fund shall be established as a minor Fund under a major Fund of the ULBs with annual accounting and budgetary statements. For better accounting of the BSUP Fund, the codification structure suggested under NMAM or a State Manual as well as guidelines may be followed for BSUP Fund accounting and budgeting. The

accountability of Fund can be improved further by incorporating suitable social accountability mechanisms at all phases of ULB budget cycle.

1. INTRODUCTION

1.1 Urban Poverty and Its Reduction

Urban poverty is the term used with the poor living in urban areas – cities, towns and transitory urban areas. Urban poverty has been on rapid rise to have assumed much more importance in the recent past. Yet, the nature and character of urban poverty as well as the means of addressing it are the same that of rural poverty alleviation. The multidimensional character of urban poverty needs to be analysed with reference to both the framework of asset ownership and the cumulative impacts of poverty on its many dimensions.

Given the intricacies and complex relations, and given the cumulative impacts of different dimensions of poverty, an important means of addressing urban poverty is to take an ‘integrated perspective’ of service delivery and economic growth. Therefore, identifying appropriate means for poverty reduction has assumed importance in the process of enabling the ULBs to become inclusive and pro-poor in their approach and functioning, thereby, achieve significant enhancement in the service delivery and productivity.

1.2 JNNURM

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is the single largest initiative ever launched by the Government of India to address the problems of infrastructure and services to urban poor in a holistic manner. It envisages reform driven, fast track and planned development of identified cities, with a focus on efficiency in urban infrastructure/ service delivery mechanism, community participation and accountability of Urban Local Bodies (ULBs) towards citizens.

Governance reforms are central to the successful implementation of JNNURM. Linked to the Government of India’s support to the States, they are based on an enabling strategy. This aims at assisting the State and Municipal Governments to improve urban governance and management with a view to ensure the provision of urban infrastructure and basic amenities to the poor in a sustainable manner. Accordingly, the JNNURM envisages a series of reforms at the State and Urban Local Body levels to address the key urban issues. These reforms are critical for urban poverty alleviation as it is the poor who need good governance the most.

The Basic Services for Urban Poor (BSUP) and Integrated Housing & Slum Development Programme (IHSDP) under JNNURM aim at integrated provision of following basic amenities and services to the urban poor, especially slum dwellers, in the identified cities:

- Security of tenure at affordable prices
- Improved housing
- Water supply
- Sanitation
- Education
- Health
- Social security

The BSUP and IHSDP of JNNURM contemplate certain key reforms in pro-poor governance. The prominent pro-poor initiatives under JNNURM include:

- *Internal earmarking within urban local budgets for providing basic services to the urban poor* so that adequate funds are made available for undertaking development programmes for the poor
- *Implementation of Seven-point Charter* i.e., the provision of basic services to urban poor including security of tenure at affordable prices, improved housing, water supply, sanitation and ensuring delivery of other already existing universal services of the Government for education, health and social security within the Mission period as per agreed timelines;
- *Earmarking at least 20-25% of developed land in all housing projects* (both public and private agencies) for EWS/LIG category with a system of cross-subsidization.

1.3 Poverty Reduction Strategy & Action Plans

Poverty Reduction Strategy & Action Plan is an approach to target poverty reduction in a structured manner through the interventions with well set timelines and budgets. Poverty reduction strategies are prepared based on wider consultations with the stakeholders – government departments, public agencies, local/ regional governments, private sector, civil society groups and academic institutions.

An important aspect of this approach is the integration of budget into action planning, which sets out a targeted and practical approach to targeting poverty alleviation. Action plans also lay down implementation arrangements and institutional responsibilities in order to implement the programme.

Under JNNURM, City Development Plans (CDPs) have been prepared for 63 mission cities. There is a clear need for the CDPs to promote integrated strategies for the reduction of urban poverty in these cities. The Urban Poverty Reduction Strategy (UPRS) focus on improving the living conditions of the urban poor and advancing their quality of life through a spectrum of strategies. Emphasis is laid on providing a broader spectrum of livelihood options for the poor.

In essence, the UPRS is expected to provide:

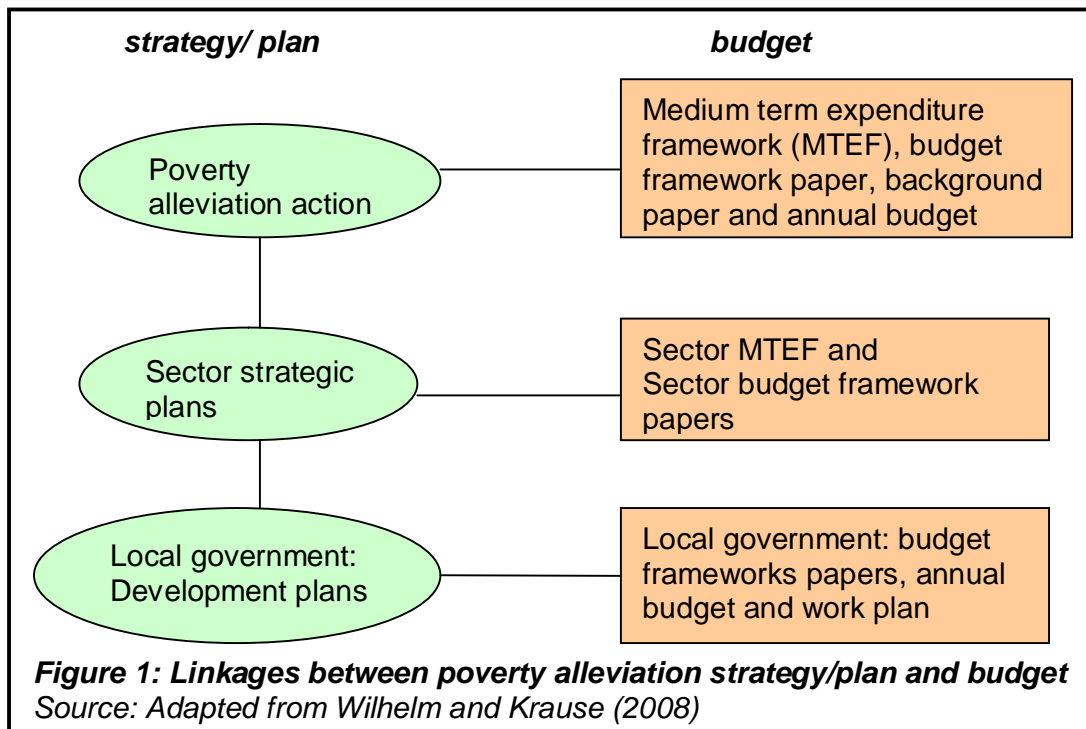
- Multi-sectoral strategy to sustainable livelihoods, provision of access to basic amenities and tenure security
- Mechanisms and processes that lead to the empowerment of urban poor
- Developing strong linkages to the urban development strategy outlined under the City Development Plan
- Qualitative analysis of variables such as gender, democracy, decentralization, participatory governance, capacity building, etc

- Define institutions, resources, timelines and implementation strategies at local level

1.4 Linking UPRS and ULB Budget through BSUP Fund

Integrating poverty reduction plans and budget is very important for attaining the objectives. Figure 1 shows linkages between strategy/ action plan and budget with reference to poverty alleviation. The following are some instruments that may be used for integrating planning and budget process for achieving the goals:

- pro-poor spending priorities
- medium term expenditure framework
- result-oriented program budgeting



The UPRS is expected to provide inputs to the development of Medium Term Expenditure Framework (MTEF) of urban poverty reduction in the cities. The MTEF may, in turn, provide scope for planning budgetary allocations of ULBs for poverty reduction towards implementing specific initiatives identified under the action plan of UPRS. By this way, an effective linkage can be established between UPRS and ULB budget, and, thereby, ULB resources effectively channelised to the urban poverty reduction initiatives in a targeted manner.

It is proposed that in order to ensure the earmarking of urban local body funds to the urban poor and to spend them in the provision of basic services to the urban poor, a BSUP Fund needs to be established within the system of administration of the ULBs. The development of BSUP fund is considered to be a model for the ULBs to emulate and establish such mechanisms in their systems which would ensure the achieving of one of the objective of the JNNURM – well designated spending of funds to the cause of urban poor.

The development of BSUP fund within the system of ULBs, both the constitution and implementation, and the establishment of other mechanisms that lead to a better ground in the ULBs should render them implement mandatory/ optional reform measures required under the JNNURM. In this context, it needs to be mentioned that the JNNURM already mandates that the reforms that lead to the empowerment of the poor and poverty alleviation shall be undertaken in conjunction with other reforms aimed at creating an enabling framework for good urban governance and sustainable development of cities and towns, including provision of infrastructure and basic amenities to the poor.

A well functioning result-oriented reporting system needs to integrate financial information on actual expenditure inputs with performance information on the outputs and outcome that result from public spending. While poverty alleviation plan goes beyond the budget, it includes strategies and priority actions that do not require the allocation of public funds, the systems for monitoring government performance in implementing budgets could provide a solid basis for reporting on a critical part of plan/strategy implementation.

2. DEVELOPMENT OF BSUP FUND: AN APPROACH TO URBAN POVERTY ALLEVIATION

2.1 Introduction

Given the multi-dimensional nature of urban poverty, Urban Local Bodies (ULBs) can potential play an important role in poverty alleviation. Providing the basic services – housing, water, sanitation, education, health and social services – by the ULBs to the urban poor can be more effective if their needs are assessed separately and fund allocation is done in a regular manner rather than resorting to *ad hoc* provision through budgetary allocations.

ULBs have not traditionally dealtwith urban poverty alleviation, as neither was it mandated nor funds/ functionaries were provided for that in respective municipal legislations of the States. The 74th Constitutional Amendment Act has, however, changed the establishment by adding it to the list of ULB functions. Although ULBs have traditionally not been implementing any income supplement or social upliftment measures, yet they are responsible for the basic service delivery, which determines the nature, incidence and extent of urban poverty to a good extent. The extent of spending by ULBs on these services for the urban poor is hitherto unknown, as the expenditure on city-wide infrastructure linked to the slum settlements is not recorded.

2.2 Fund based approaches

A Fund is a segregation of resources established to control and monitor resources and to help and demonstrate compliance with legal/ administrative requirements. Based on the purpose for which they are established, they are often distinguished as – Capital and Current Funds, Endowment and Investment Funds, Agency and Program Funds, and Loan and Grant Funds. However, in practice, Funds are designed and/or developed for some specific purposes and with the objectives laid down to achieve those purposes.

In an accounting framework, a Fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. In other words, a Fund is a separate accounting entity for which income, expenses, assets and liabilities are separately recorded and is capable of being presented as independent financial statement. Government accounting systems need to be organized and operated on a fund basis.

Fund basis of accounting helps in taking managerial decisions in a more conducive accounting environment. This is simply because governmental operations are by their very nature diverse. The other major factor is the need to assure legal compliance at every step. As a single government entity is involved in multifarious activities – each with a specific purpose; some in the nature of business and others as a part of governmental activity, it implies that each activity/ purpose must be

accounted for separately. Therefore, including all the financial transactions in a single Fund makes it difficult to analyse the way government funds are being used or expended. The linked problem is that in government usually separate entities become responsible for particular groups of assets, unlike in private sector where a single company will have all kinds of assets that are shown in its balance sheet.

Fund based approach to local government finances gives the same kind of advantages mentioned above to the local governments of urban areas i.e., municipality or municipal corporation. However, organizing municipal financial and accounting system to incorporate Fund based approach in their functioning is not very simple and straight forward. The municipal bodies need to have/ make provision for doing it in their legal framework i.e., municipal act of the Corporation or the State, and the accounting system should have been well organized to include this approach and move forward.

2.3 Development of BSUP Fund

Municipal spending on the services for urban poor through budget and other resources needs to be better channelised and well targeted for achieving the desired results. It is here that the creation of a separate Fund for catering to the delivery of Basic Services to Urban Poor (BSUP) can make a difference and improve the fund allocation for the benefit of urban poor. The BSUP Fund may act as a pool of funds available with ULBs allocated for the purpose of providing services to the urban poor, including the budgetary resources of urban local governments. Internal resource earmarking provides an important channel that can be supplemented by other funds.

The entire process of BSUP Fund constitution, internal earmarking, management and operational issues (including accounting and audit) is shown in Figure 2 and set out briefly hereunder in the subsequent sections. The subsequent chapters/ sections of the report deal with them in detail.

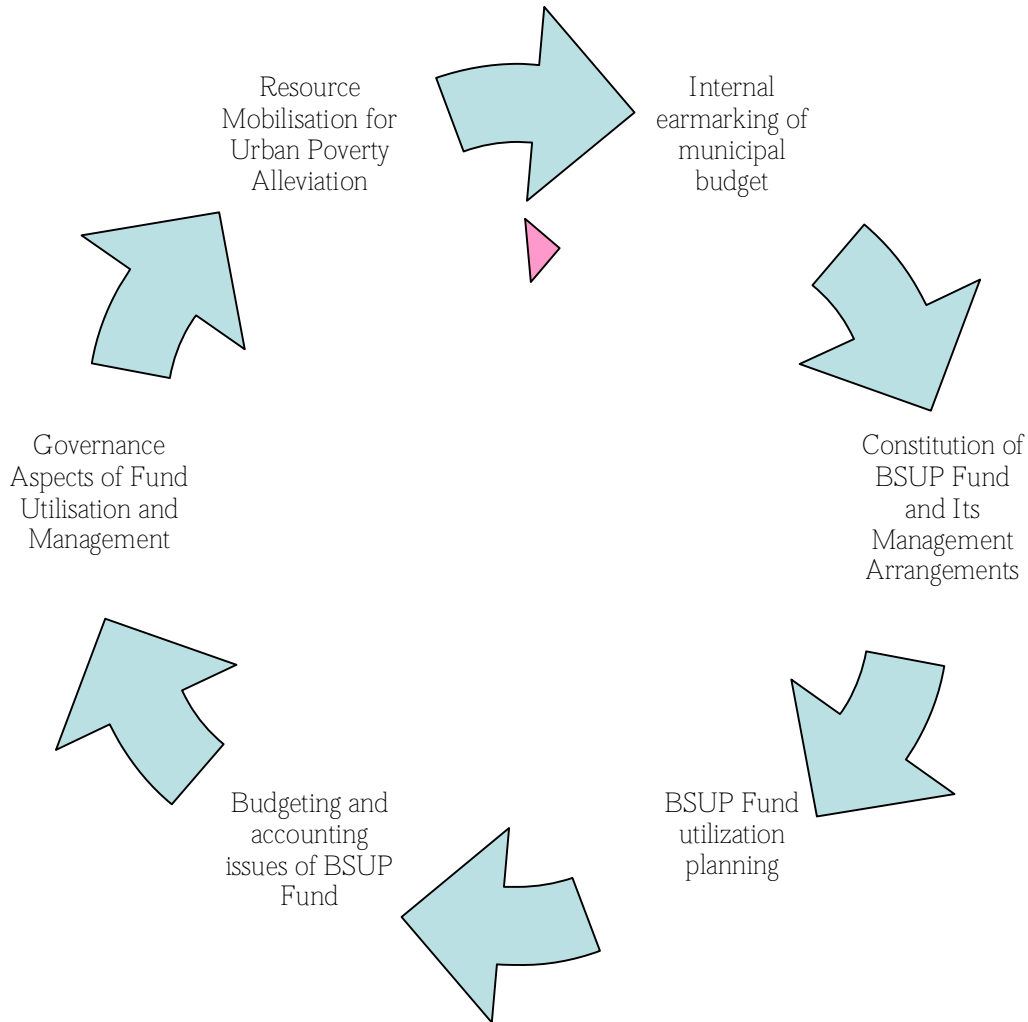


Figure 2: BSUP Fund Development Cycle

2.3.1 Internal Earmarking of Municipal Budget

For developing the BSUP Fund, ULB needs to ensure that a mechanism for fund flow is firmly established. If the municipal bodies already have a similar Fund in their ambit of finances, it needs to be clear whether these funds are regularly replenished and whether it happens from the annual budget of the municipality or they use any other operating principle for arriving at the net flow of funds into the Fund. It is also important to know/ seek any other contributions (apart from internal resources) e.g., donor agencies, individuals, and non-profit organizations, also supplement the funds in the Fund.

It may be the case that some municipal bodies do already earmark certain amount or proportion of their budget expenditure towards poor/slum households. Central government already has programmes under which support is given to ULBs for targeting poverty reduction e.g., IHSDP/BSUP housing schemes, SJSRY/BRGF schemes. State governments may also have such schemes for the benefit of urban

poor that are implemented by the ULBs. Redirection of the funds from Central or State government sponsored schemes to the BSUP Fund can be made effective if some allocative principles are also made with reference to budgetary resources. Apart from the scheme funds, internal earmarking of the municipal resources needs to be made operational.

Internal Earmarking has to be done with reference to any of the following to establish BSUP Fund:

- i. Total expenditure (capital and revenue)
- ii. Gross Revenue expenditure
- iii. Net revenue expenditure (after deducting committed expenditure)
- iv. Operating surplus
- v. Development/Works expenditure

In the process of earmarking, it needs to be ensured that the earmarking principle does not yield bizarre results; for example, if the earmarking is solely based upon net or surplus revenue alone, and if the same is found to be negative or negligible, then it yields little or no funds flow to the BSUP Fund. Therefore, adequate steps have to be taken to ensure a good amount of funds flow.

Also, earmarking of budgetary resources should be such that it does not come into conflict with other operating principles of budget e.g., allocation of sizeable amount of budgetary expenditure to BSUP Fund may leave inadequate resources to meet other expenditure – capital works, operation and maintenance of civic infrastructure at large. Therefore, any legal back-up in the form of either legislative approval or amendment in council for earmarking funds is advisable. Earmarking needs to be on both sides of accounts - receipts and expenses - for balancing expenditure and revenue.

2.3.2 Constitution of BSUP Fund

As a first step of developing the BSUP Fund, the ULBs need to constitute a BSUP Fund, internally, by making a provision for it in their accounting systems. In case, already there is any other Fund with a similar objective/ purpose in place, then the same may be converted/ subsumed into BSUP Fund by changing nomenclature. As most ULBs receive funds for poverty alleviation from both Central and State governments, they budget expenditure for services to the poor. The BSUP Fund can be formed to form an umbrella of all such funds within the reach of ULB – both own resources and external resources - for better channelisation of funds and for efficient and effective fund utilization.

To create a BSUP Fund, an appropriate legal background/ framework is required, especially where there exists none. The legal background/ framework comes from either the Municipal Act and Rules of concerned City or from State Municipal Act (in the case of municipal bodies without any city-specific Municipal Act). Where the provision for constituting the Fund does not exist, the Act may be appropriately amended to introduce such Fund in the system of ULB. This may be done by placing suitable amendments for approval in either Municipal Council or State Assembly, after the drafting of amendments.

The concerned Municipal legislation i.e., State or City legislation, has to suggest operational principle/ mechanism to be used for creating BSUP Fund, which may be based on some guidelines provided by the Ministry. The precise amount to be earmarked may be left to the discretion of the municipal body concerned. Earmarking of the municipal budget (revenue and expenditure) and channeling the existing schemes that meet the objectives of BSUP Fund into BSUP Fund are commonly used principles or mechanisms for the creation of BSUP Fund. The proportion of earmarking i.e., at least 25%, may be indicative as 'bottom line target' to be met by ULBs.

2.3.3 Management and Operation of BSUP Fund

An important component of the development of BSUP Fund is Management and Operation arrangements of the Fund. The municipal body concerned needs to spell out who will primarily oversee the Fund administration – accounting, transactions and audit. It is expected that the Municipal commissioner would oversee it periodically but the regular oversight can be delegated to Finance Manager or Finance Officer or Examiner of Accounts or of a similar level of person in a ULB, who supervises the finance operations of the municipal body. Both of them are also responsible for periodic reporting of the Fund performance to the upper tiers of government.

For better management and operation of BSUP Fund, it is important to set out operating principles for a better management of funds in the BSUP Fund. If, currently, there is no operating principle, then it is better to know the current utilization/ spending pattern of funds towards meeting the objectives laid down under the BSUP Fund. The operating principles of the BSUP Fund are related to:

- (a) authorization to draw and manage the funds
- (b) maintenance of its accounts upto date and auditing
- (c) access criteria for the utilization of funds from the BSUP Fund.

Authorization

Withdrawal of funds from the BSUP Fund needs to be authorized by a municipal authority i.e., municipal commissioner. In the case of large municipal corporation, Assistant or Additional Municipal Commissioner looking after the relevant functions viz., community development, may be delegated as the authorizing officer. It may also be examined if any other officer at municipal body e.g., examiner of accounts, shall be made co-authorizer/ co-signatory. They also need to submit, from time to time as may be desired, appropriate statements/ reports to authorities at State and Central government.

Accounting

The BSUP Fund accounts need to be operated by the Finance officer of the municipal body. The accounting procedures shall be the same as that followed in the case of general municipal accounts in order to avoid any kind of conflict between the two. Codification structure i.e., codes of major and minor revenue and expenditure heads of accounts, may follow the same as that of the ULB, if already developed, broadly in line with the provisions under National Municipal Accounting Manual (NMAM). Transfer of funds from BSUP Fund to any other Fund and vice

versa needs to be properly recorded and procedures for the same need to be established in the accounting systems. The procedure for the closure or succession arrangements for the BSUP Fund, if any, in the case of municipal body opting to do away with it may also be planned and established.

Access criteria

The access criteria to funds, if any, need to be established so as to ensure that the funds are utilized for furthering the objective/purpose of the BSUP Fund i.e., access to funds should not be provided for any other purposes like general (other than service related) salary payments, debt repayment etc. Further, the access to funds under BSUP Fund may be linked to the preparation of city level poverty alleviation strategy and action plan as well as micro-plan at slum level for poverty alleviation in the ULB. The ULBs may be mandated to prepare these strategy and action plans based on the toolkit provided by the Ministry of Housing and Urban Poverty Alleviation, Government of India.

2.3.4 BSUP Fund Utilisation Planning

Utilising the funds available under BSUP Fund needs to be backed up by a comprehensive strategy and action plan for poverty alleviation and corresponding fiscal framework and plan. The Cities need to first make an assessment of urban poverty in terms of the extent of urban poor and the key issues that need to be addressed towards poverty alleviation. A methodology for the same has been developed by Hentschel and Seshagiri (2000). The criteria for identification of urban poor and measurement of urban poverty may also be established.

An Urban Poverty Alleviation Action Plan is an important component that comprises identifying the poverty levels, service deficiencies, identification of projects and prioritization of investment. A toolkit developed by the Ministry provides a framework for the preparation of the same. The cost estimates of the actions identified under the poverty alleviation action plan need to be worked so that the fund requirements from various sources of funds under the BSUP Fund would be known. The preparation of a poverty alleviation strategy and action plan may be undertaken in the framework shown in Figure 3.

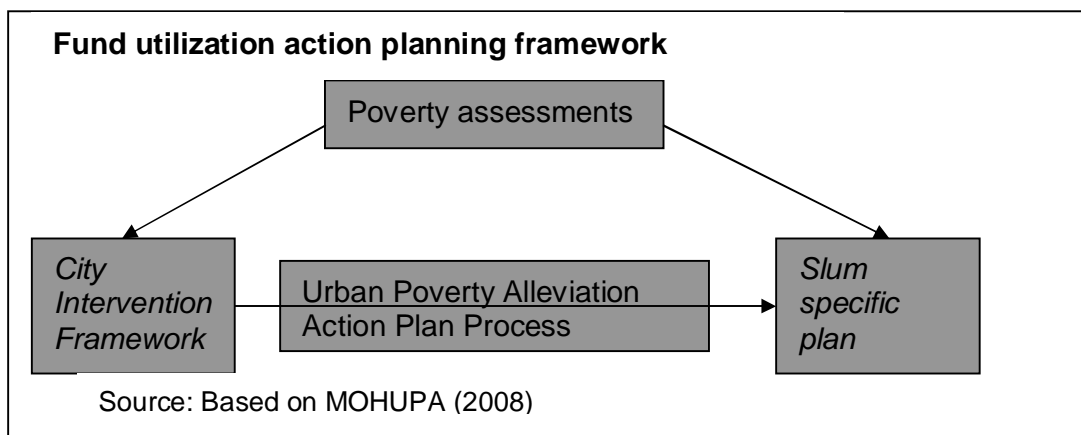


Figure 3: BSUP Fund Utilisation Planning Framework

2.3.5 Governance of BSUP Fund

For better operation and management of BSUP Fund and for improving Fund governance, it is important to have the following measures in place:

- i. Transparency: BSUP Fund accounts need to be made easily available to the public for information and discussion - may be alongwith the general annual budget and financial statements of ULB. This may be mandated in the public disclosure law for the ULBs. Other forms of disclosure e.g., public notification of the fund allocations made to basic civic urban services and other measures taken for the upliftment of poor, may be made through print media, office notice board as well as the website of municipal body.
- ii. Accountability: BSUP Fund accounts need to be audited like other municipal accounts by internal and statutory auditors. However, other accountability mechanisms like social audit of BSUP Fund and works implementation, public discussion of budget proposals, particularly with reference to works for the urban poor, will bring in better accountability of ULBs. Budget advocacy may also be promoted so that the community is well aware of the proposals, participate in the discussion on usefulness and benefits to community.
- iii. Participation: BSUP Fund proposals may be discussed with stakeholders well in advance, and wider public participation may be ensured so as to reach out the poor. The priorities of poor communities need to find a place in municipal budget/ budget proposals and their voice needs to be heard in basic civic infrastructure project proposals. There are some examples of participatory prioritization and monitoring of project works that may be followed by ULBs e.g., APUSP and *Kudumbashree*, which are discussed earlier.

2.3.6 Other Aspects

The municipal bodies need to come out the ways and means of tackling other issues concerning the BSUP Fund. One of them is the treatment of unutilized funds in the BSUP Fund accounts. Whether they would be carried forward to next financial year in the same account or whether they need to be transferred/ returned to the General Fund account of the municipal body is a matter which needs to be settled. As far as possible, it should be a non-lapsable Fund so that the allocated funds are used for the purpose and as per community priorities that may change over time with reference to the infrastructure deficit (as done in APUSP) or action plan prepared for reducing poverty in a location.

It is also important to see whether auditing of BSUP Funds is confined to internal audit alone or the accounts statements are kept for wider discussion among elected representatives, local media and public at large. Social audit arrangements may be better institutionalized and public advocacy campaigns may be held for fostering community participation and promoting local government accountability. This will also fall in line with the State level mandatory reforms to be implemented by the ULBs.

3. INTERNAL EARMARKING OF MUNICIPAL FUNDS FOR URBAN POOR

3.1 Forms of Earmarking Municipal Funds

Earmarking of municipal budget is done as certain amount/ proportion with reference to the general pool of revenue resources viz.,

- i. Taxes
- ii. Surcharges/Levies/Duties
- iii. Grants
- iv. Any other special sources

Internal earmarking of the municipal funds for the urban poor can, broadly, take place in two forms:

- Ø Earmarking of global resources
(own revenue resources of the ULBs)
- Ø Earmarking of special taxes
(special revenue resources of the ULBs)

While earmarking global taxes, the local government needs to enlist its own revenue sources that would be earmarked. The proportion of earmarking may be decided with respect to the expenditure needs of service delivery and other actions for urban poor (drawn under the urban poverty alleviation action plan). Property tax is the major revenue resource of the municipal bodies, which needs to be earmarked, and the components of it include:

- General tax
- Water tax
- Drainage tax
- Lighting tax
- Community tax

While earmarking of specific taxes/levies, the local government needs to enlist its own special tax revenue sources (a) that are existent (b) that could be exploited. Based on the quantum and potential of these resources, the extent (or proportion) of earmarking may be determined. It is expected that these sources should contribute more than global tax sources. Some of the special taxes/ levies, primarily land based revenue sources, include:

- Vacant land tax
- Betterment levy
- External betterment levy
- Impact fee
- Tax increment finance
- Development impact tax/levy

Further, internal earmarking on 'net' or 'surplus' funds has to be done after ensuring that the adequate resources to meet the committed expenditure are provided for. In other words, earmarking can be done with respect to the net available pool of resources with ULBs. The adequacy of these funds to meet the needs of urban poor needs to be closely examined; the States/ULBs may have the

flexibility to choose drawing resources from other special taxes/ levies imposed and also determine the extent to which these resources can be used.

3.3 Summing-up

Internal earmarking of municipal budgets is practiced differently in different settings of the ULBs and State. There is a need to bring some kind of uniformity and consistency in the use of the approach. While the States have given orders for allocating a minimum 25% of the own municipal funds/budget for the urban poor, this proportion may be taken as a 'bottom-line' and they may fix a higher proportion, as done by Andhra Pradesh, if the poor people's number and needs are higher.

Box 1 Learnings from Evaluation study of Andhra Pradesh

The evaluation study of Government of Andhra Pradesh directive to implement 40% earmarking of funds for urban poor pointed to several interesting insights of the reasons for the current trends especially, with respect to not being able to allocate a higher proportion i.e., 40% of net, prescribed by the government.

- Ø Several of the ULBs are not aware that the proportion has to be with reference to net or surplus resources; by showing fund allocation for the urban poor with respect to total resources they only make the proportion appear smaller than actual
- Ø Most of the ULBs point to the difficulty in meeting expenditure needs of general population and that of city wide infrastructure maintenance, which take away a sizeable amount of resources. Such compulsory expenditure needs to be deducted to arrive at the net resources.
- Ø The ULBs did not receive any guidelines for the utilisation of earmarked municipal funds for the poor, which encouraged them to effect earmarking as mere numerical exercise at the begin of financial year and then adjust it to general fund towards the end of financial year.
- Ø Some ULBs have undertaken basic infrastructure and welfare schemes under the poverty alleviation programmes of the State government and other donor agencies, which are not covered under the spending made through earmarking of municipal budget.
- Ø The upgraded slums and poor settlements have not been excluded and they may be excluded from getting benefited further by declaring as infrastructure saturated areas. This will also lead to resources deployment to other existing and emerging slums.
- Ø Currently, the utilization of funds reserved for the purpose of developing services or on welfare schemes for the poor is not subject to any social accountability. Political interference of selection determines the benefits, which weakens community. Community structures - groups of urban poor - need to be built and be used for promoting social accountability of the funds deployed.

Source: Centre for Good Governance, Hyderabad

Internal earmarking of Municipal budgets has to take place on both revenue and expenditure sides of municipal budget. Allotment of municipal funds coming from various revenue sources – own sources as well as grants/scheme funds provided by State and Central governments – could be utilized under a special BSUP Fund. However, for efficient and effective use of funds, there has to be an expenditure plan of with fund requirements. At Fund level, the balancing of expenditure and income accounts is important for ensuring and sustaining internal earmarking for the urban poor.

The next chapters discuss the methods of targeting the urban poor, poverty alleviation sub-plan preparation, and pro-poor expenditure identification that give the inputs to expenditure plan preparation for spending on services for the urban poor. However, it needs to be backed-up by revenue allocation to that extent. The following chapters explain these sub-processes in detail.

4. CONSTITUTION OF THE BSUP FUND AT ULB LEVEL

4.1 Approach to the Constitution of BSUP Fund

As laid down earlier, the constitution of BSUP Fund needs to be done at ULB level using the own revenue sources, devolutions/shared revenue, grants meant for the purpose of serving urban poor or their needs, and other external sources.

4.1.1 Estimation 'Net' or 'Surplus' Own Revenue of ULB

Internal earmarking needs to be made with reference to the 'net revenue' but not 'gross revenue' of the ULB. The meaning of net revenue may be as below.

Net municipal funds = Municipal revenues – Compulsory expenditure

Municipal revenues include:

- Own revenue sources
 - o Tax revenue
 - o Non Tax revenue
- Assigned revenue sources
 - o Shared revenue
 - o Devolved revenue
- Inter-governmental transfers
 - o Central government grants
 - § Non-plan grants
 - o State government grants
 - § Compensatory grants

Compulsory Expenditure includes:

- Establishment expenditure
 - o Staff salaries and wages
 - o Staff pensions and other benefits
- Operation and Maintenance Expenditure
 - o Operational expenditure for works
 - § Power/energy etc
 - o Maintenance expenditure for works
 - § Repairs, hiring of equipment/vehicles etc
- Debt servicing/loan repayment expenditure

After arriving at the net municipal funds available, a proportion of them, not less than 25% as instructed by several State governments, may be earmarked for the spending on the poor living in slums.

4.1.2 Subsuming Funds under National, State & Other Schemes

Once the net surplus funds from own sources are estimated, the quantum of resources available from various poverty alleviation schemes of Central government can be subsumed into a Common BSUP Fund. The following is an indicative list of such schemes (some of which may require ULB share):

- Swarna Jayanti Shahari Rojgar Yojana
- Jawharlal Nehru National Urban Renewal Mission(JNNURM)
 - Urban Infrastructure & Governance (UIG),
 - Urban Infrastructure Development Scheme in Small & Medium Towns (UIDSSMT),
 - Basic Services to Urban Poor (BSUP),
 - Integrated Housing & Slum Development Programme (IHSDP)
- Prime Minister's Employment Generation Programme (PMEGP)
- Urban Basic Services Programme
- Skill Development Initiative

Wherever, welfare schemes for the poor and vulnerable sections are implemented with funds flowing from the ULBs towards their implementation, those funds may also subsumed into BSUP Fund and channeled through it. Some such schemes include

- Sarva Siksha Abhiyan
- Mid-day Meal Scheme
- Integrated Child Development Scheme (ICDS)
- Antyodaya Anna Yojana (Targeted public distribution)
- National Old Age Pensions Programme
- Integrated Low Cost Sanitation Scheme (HUDCO supported)

The above funds may also be supplemented by the funds received under the state government and external programmes whose objective is to alleviate poverty and improve services to the urban poor. Some such programmes include:

- Slum Rehabilitation Scheme
- Kolkata Urban Services for the Poor
- Kudumbashree programme
- Indira Kranthi Patham and Pavala Vaddi Schemes
- Any Other poverty alleviation programmes undertaken with the support of agencies like DFID, World Bank, ADB and other agencies

Wherever possible, the ULBs may supplement the above own and subsumed funds with other funds (such as special levies or contributions) from external sources, to swell the size of Fund. Contributions from individuals and organizations for this purpose may also be added. Box 2 shows some possible constituents of BSUP Fund.

Box 2
Possible Constituents of BSUP Fund

- Net or surplus own revenue resources of the ULBs
- Non-lapsable Amounts from Earmarked P-Budget (including the surplus or net resources/funds existing with the ULB)
- Earmarked revenue (as a special levy or by transfer) from Property Tax, Vacant Land Tax, Surcharge on Stamp Duty, Planning Permission-related Fees including Conversion Charges & Impact Fees (All Land related Taxes)
- A Slum Cess on specific State & Local Taxes
- Funds from Centre & State for Poverty Alleviation – BSUP, IHSDP, SJSRY etc.

- Matching Grants from State Government (from State BSUP Fund) for Urban Poverty Sub-Plan
- State Finance Commission/Central Finance Commission Devolution for Urban Poverty Alleviation/Slum Upgradation/Slum-free City
- Externally-aided Projects: ULB-State-Centre-Multi/ Bi-lateral Institution Partnerships
- Contributions under Income Tax Act seeking Tax Exemption (80G)
- Corporate Social Responsibility - Contribution

5. INSTITUTING POVERTY ALLEVIATION PLANS TO ACCESS BSUP FUND

Earmarking of municipal funds to constitute BSUP Fund is a good approach for better channelization of the funds for the objective. However, it can only be effective and efficient when there is a strong action plan of poverty alleviation at the ward/ sub-unit level and when there are structures for integrating them at ULB level. Also, for effective targeting of the funds, the identification of the urban poor needs to precede the action plan implementation. Essentially, the following have to be in place for better achievement of the target:

- Identification of the Urban Poor
- Poverty Alleviation Action Plan/ Sub-Plan Preparation
- Pro-Poor Expenditure Identification

5.1 Identification of Urban Poor: Approaches

Identification of the urban poor is a starting point of planning poverty alleviation initiative. In spite of the experience of urban poverty, ULBs are not fully aware of the multiple dimensions of it, and even the seemingly familiar concept of urban poverty is not well understood. The concept of below poverty line (BPL) was also subject to the definition varying from Planning Commission to the respective State governments. Therefore, the methods of measurement of urban poverty and identification of urban poor are still evolving.

5.1.1 Below Poverty Line (BPL) measurement

The BPL concept originated from the Integrated Rural Development Programme launched in 1980 for implementation in rural areas and then there were BPL surveys held in 1992, 1997 and 2002, which kept changing the concept and measurement from a narrow based measure of income to wider measures. The following criteria have been proposed to be used in the household survey of BPL population in 2009 (Mehrotra and Mander 2009):

- (A) Occupational Categories:
 - a. Destitute/ dependent on alms
 - b. Forest gatherer
 - c. Landless worker
 - d. Tenant/ sharecropper
 - e. Marginal farmer
 - f. Small farmer
 - g. Self-employed artisan
- (B) Affirmative Action Categories
 - a. SC/ST
 - b. Most Backward Classes
 - c. Designated Primitive Tribal Groups
- (C) Social Categories
 - a. Single women headed household
 - b. Disabled bread earner
 - c. Old person headed household
 - d. Bread earner with HIV/AIDS, leprosy, mental illness

e. Disabled dependent

BPL survey has not been carried out exclusively for urban areas so far. Based on the conceptual basis provided for its measurement in rural areas in the BPL Survey 2009, a criteria has been worked out, by Mehrotra and Mander (2009), which comprises:

- (a) Social Vulnerability (on the lines of the categories used on rural BPL survey)
- (b) Occupational Categories
 - a. rag pickers, casual daily wage workers, rickshaw pullers, porters, construction workers, street vendors, hawkers and domestic help
- (c) Residential categories
 - a. Shelterless people
 - b. Dwellers of unauthorized slums
 - c. Dwellers of authorized slums and resettlement colonies

Although BPL measurement appears straight forward, it is fraught with too many political risks and interventions, and unintended or non-targeted population may be included through collusions. Even when BPL criteria are used in the identification of urban poor, it needs to be checked further with either participatory assessments or biometric assessments for better targeting.

5.1.2 Participatory Poverty Assessments

While the BPL surveys rely heavily upon the information gathered by surveyors from the door-to-door surveys, they are at times contested at field level due to some inevitable lapses in the records of survey, which may not be corrected. The ULBs may opt for participatory poverty assessments (PPA) to address this issue. Under PPA, the beneficiary is identified based on the relevant measures identified for carrying out the poverty assessment and carried out in the presence of local community.

The original survey forms may be similar to those used in the BPL surveys i.e., list of parameters, weightages, responses and scores, but alternative approaches like the pictorial method of poverty assessment is increasingly becoming popular as it is easy to understand and user friendly in implementation. Figure 4 shows the format of pictorial poverty assessment survey used in one of the ULBs of Hyderabad under the APUSP.

Based on the poverty assessment household surveys of various slum and poorer settlement areas of the city, prioritization may be done so as to cover them in a phased manner with the first preference given to the most deserving. Poor settlements in the town are ranked in a matrix or any other method like participatory mapping. Here, the concept of vulnerability is used through a combination of poverty and infrastructure deficiency.

Under the APUSP, poverty-infrastructure deficiency matrices were prepared and, based on them, the vulnerable poor settlements were prioritised to be covered. The poverty criteria included (a) BPL Population and (b) SC/ST Population, whereas the infrastructure deficiency criteria included the deficiency in terms of: (a) Water supply (b) Roads (c) Drains.

Figure 4 Household survey format of the urban poor living in slum settlements

HOUSEHOLD PROFILE OF SLUMS **MALKAJGIRI MUNICIPALITY**

Section - I General Information

1. Slum: _____ 3. Door No. _____ 5. Head of the Household _____ 7. Caste Category _____
 2. Municipality: _____ 4. Social Map No. _____ 6. Election Ward No. _____ 8. Caste Name _____
 9. Religion _____

Section -II Household Details

10. Type of the House: Slab, Tiled, Asbestos, Thatched, Kutcha
 11. House Ownership: Own, Rent
 12. Type of the floor: Tiled, Cement, Earth, Pava
 13. House Documents: Possession Certificate, None
 14. House Lighting: Electricity, Kerosene
 15. Fuel: Gas, Electricity, Kerosene, Charcoal, Firewood
 16. Ration Card: Pink, White, Antyodaya, Annapurna, Cardless
 17. Assets: Fridge, Telephone, Two wheeler, TV, Hand pump, Sewing Machine, Furniture, Auto, Bicycle, Bullock Cart, Rickshaw, Pushcart, Buffalo, Cow, Sheep/Goat, Pig, Hen, Donkey
 18. Live Stock: Buffalo, Cow, Sheep/Goat, Pig, Hen, Donkey
 19. Toilets: Own, Community, Open, Disinfection
 20. Bathroom: Pucca, Kutcha, None

Section -III Amenities

21. Water Source and Distance in Meters: Own tap, Public tap, Borewell, well, Municipal tanker, Private tanker
 22. House Waste Water Drains to: Pucca, Kutcha, Street, Sewerage
 23. Lights in the Street: Halogen, Tube, Bulb, No Light
 24. Street in Front of the House: CC, RT, Metal, Gravel, Kutcha
 25. Garbage Throws At: Door Collector, Dust Bin, Road, Open, Drain
 26. Type of Health Services Accessed: Emergency, Pvt. Clinic, LIC, Govt. Hospital, RMP, Quacks, Private
 27. Number of Children in School: In the Slum (Govt., Private), Outside the Slum (Private, Govt.)
 28. Assisted under Government Schemes: Govt. House, Decoom, Adaruna, ILCS, S.E.C.

Section -IV Migration Details

29. Stay in this town (in No. of Years): _____
 30. Native place from where the family has migrated: Village/Town, District, State
 31. Migration from the town to other place: V/T, Dist, State
 32. Migration type: Seasonal, Permanent
 33. Reasons for Migration: Low Wages, Lack of Work, Conflicts, Drought, Debt, Others
 34. Number of visits during last year: a. To Native Place, b. To other place than this town
 35. Person(s) in the family died last year: Sex, Age, Krasan

Section -VI Details of Family Members

Sl. No.	Name of the Family Member (Surname, Name)	Age	Sex	Relation with Head of the Household	Marital Status	Family Planning	Educational Qualification	Vulnerability (Specify the Nature)			Govt Scheme Provided	Skills	Occupation		Monthly Income	Name of the SHG (if Member)	Leadership Position	Name of the chit fund	Loan				
								Social	Health	Disability			Type	Specify					Source	Amount	Purpose		
36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57		
1																							
2																							
3																							
4																							
5																							
6																							
7																							
8																							
9																							
10																							

Postal Address : _____

Pin-Code No : _____

Date : _____

Signature of the Informant : _____

Signature of the Surveyor : _____

5.1.3 Biometric Survey of Urban Poor Households

The new methods of urban poor household identification that use modern Information technologies (IT) have been recently gaining popularity among the ULBs, as they offer technological features that prevent mis-information, fraudulent listing, history record and database, search and matching options for verification. Before undertaking such surveys and using such methods for identifying the urban poor, socio-economic surveys of household are also carried out to compare and match the data base. Utilisation of such technologies is also gaining popularity in the large public programmes like food security, public distribution system and employment guarantee schemes.

Recently, the Chandigarh administration has used the biometric surveys and used IT based technologies to validate the urban poor living in slums who qualify for the housing under Chandigarh Small Flat Scheme 2006. The features of the same are shown in Box 3.

Box 3

Identification of Poor by Chandigarh Housing Board

The Chandigarh Administration has undertaken several housing programmes for the urban poor on hire-purchase basis. With increasing cost of land, infrastructure and construction, the houses became costlier and unaffordable to build. The houses constructed were provided to the slum dwellers at a highly subsidised price, which command a premium in the market.

Under the new Chandigarh Small Flat Scheme 2006, these pitfalls were attempted to be eliminated, by bio-metric survey to find eligible persons living in slums and issuing them smart cards. The Biometric Survey helped to prevent any duplicity in the identification of the slum dwellers. This system also helped build a permanent database of all existing slum families in the city. As a result of this survey, slum population of Chandigarh was found to be 23,841 families, spread over 18 different colonies in the city.

Each Eligible family under this scheme was provided with a smart card. This card has all the family details along with the photograph of the family printed on it. This card also has details about the license fee installments already paid by the beneficiary. This card may be used as an identity document when the beneficiary deposits his fee installments. The license fee is accepted only after the beneficiary has been biometrically identified. This helps ascertain the possession of the property under question continues to be with the original beneficiary and has not been transferred.

5.1.4 GIS Survey of Slum Settlements

Geographic Information System (GIS) is another IT tool that may be used to map the slum settlements that are occupied by the poor on a digital map that gives geo-referenced location of slums. GIS survey may make use of the spatial data available from various sources – mapped city plans, satellite images etc, -

and non-spatial data available from ULBs e.g., community infrastructure and SHGs, which can be integrated for prioritizing and ranking the slum settlements in a city for undertaking improvement works and for providing a wide range of services and benefits as identified under the action plan.

Also, with the advancement of satellite remote sensing technology, satellite data products are now easily available at a very high resolution that give more accurate details of settlements. This spatial data may be used together with non-spatial data existing in municipal records and other sources in order to generate spatial database that can form basis for information building and decision making on the infrastructure deficits and relative ranking for the prioritization of slum settlements to be covered in a phased manner.

GIS based slum mapping may also be used to provide crucial information on the infrastructure deficits and allows to readily calculate the funding needs e.g., costs of housing space, water connection network etc, so that this information would be used better in providing link between community needs and city budget for the urban poor. Before undertaking such GIS surveys and using such methods, the ULBs need to make a good study of the cost of such undertaking as well as the costs of its continuity in the form of technical and manpower requirements.

5.2 Poverty Alleviation Strategy and Action Plan/ Sub-Plan Preparation

After identifying the urban poor i.e., target beneficiaries, and after identifying the poorer settlements that require immediate attention, expenditure requirements need to be worked out. Before such an assessment, a medium - term strategy and a sub-plan of key actions/ interventions for poverty alleviation need to be prepared by the ULBs, as laid down below.

5.2.1 Urban Poverty Reduction Strategy

An Urban Poverty Reduction Strategy (UPRS) defines broad strategic framework for operationalising poverty alleviation in an urban area based on the understanding of the development and poverty issues of a city, and upon a review of the existing programmes and institutional arrangements for the same. The preparation of UPRS involves applying participatory/ consultative methods involving various tasks and activities that lead to formulation of a strategy. Figure 5 outlines the process under which the execution of the UPRS is envisaged.

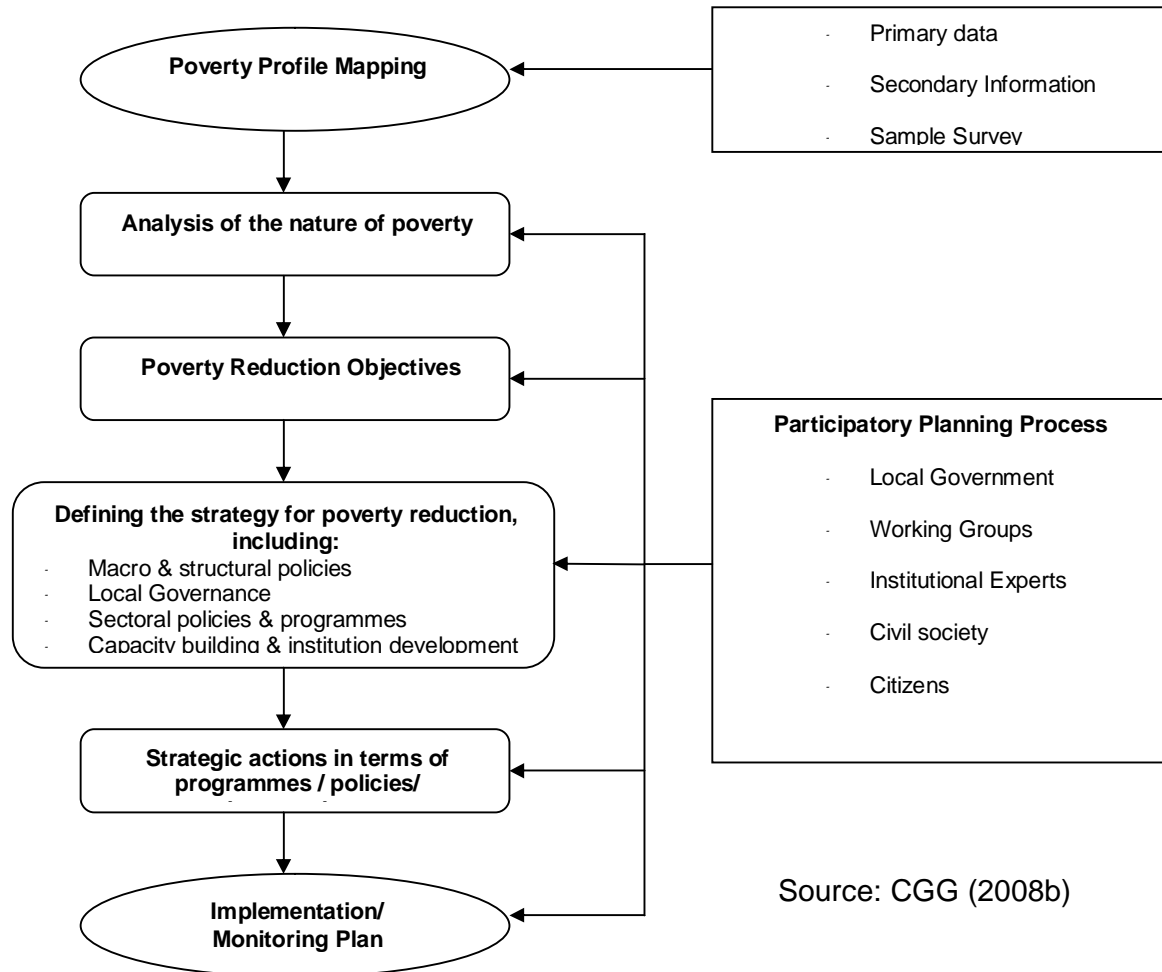
The first step of preparation of UPRS is the city and poverty profile mapping using primary data & secondary information, survey of poor settlements (in partnership with a local NGO) and participatory poverty assessments. The analysis of urban poverty needs to be carried out in the form of:

- (a) core group discussions
- (b) stakeholder consultations

The Poverty Reduction Objectives of a City need to be articulated based on the understanding and analysis carried out so that the strategy for poverty

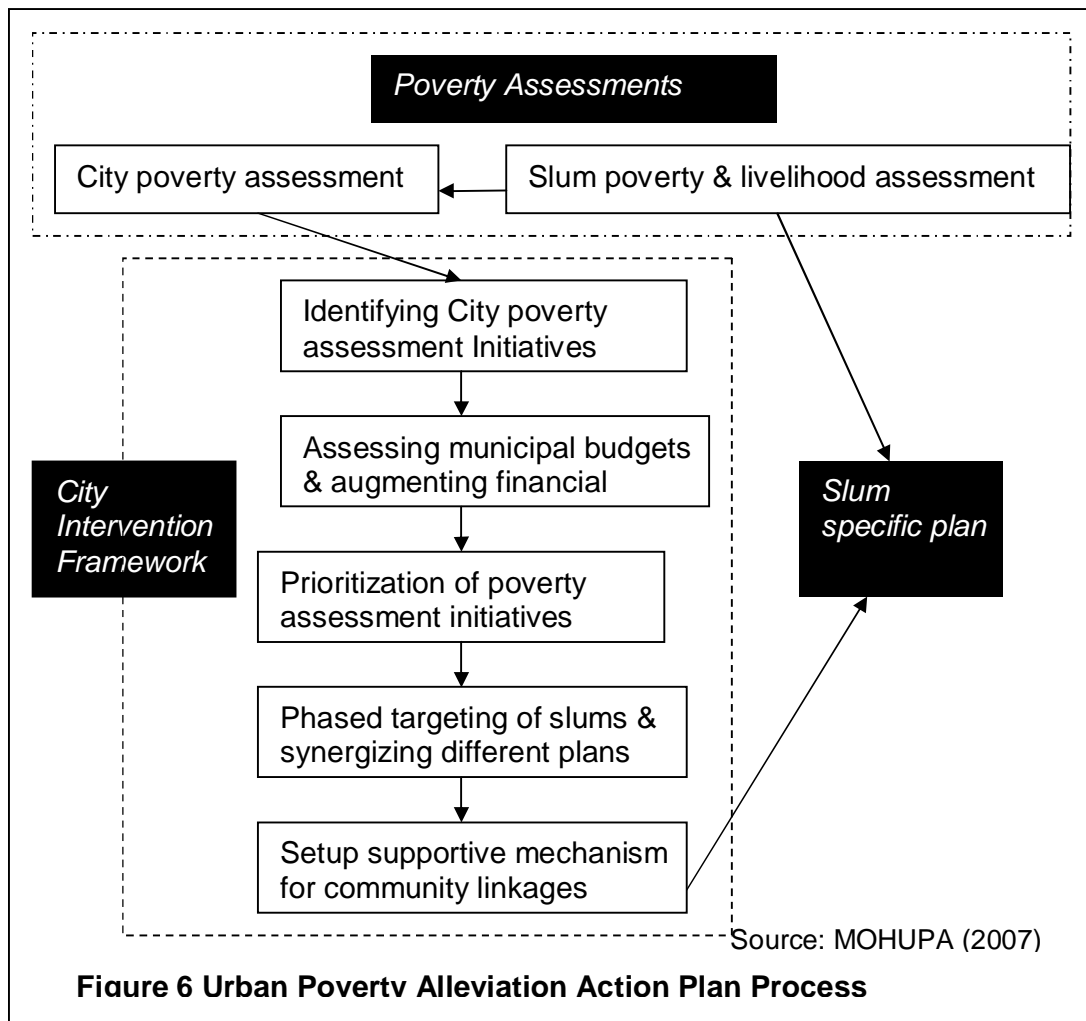
reduction can be formulated using expert assistance and in consultation with the stakeholders. The UPRS needs to outline the strategic actions in terms of the plans of Programmes/ Policies/ Interventions for urban poverty reduction. A detailed action plan may also be formulated wherever possible and an implementation/ monitoring plan with timelines may also be drawn.

Figure 5: Urban Poverty Reduction Strategy Process



5.2.2 Urban Poverty Alleviation Action Plan

An Urban Poverty Alleviation Action Plan is an important component that comprises identifying the poverty levels, service deficiencies, identification of projects and prioritization of investment. The cost of the plan proposals shall determine how they will be undertaken in a phased manner with the amount available limited by the municipal budget allocation for poverty alleviation or the programme budget of the donor/sponsor agency. The process of preparing urban poverty alleviation strategy and action plan is shown in Figure 6.



The preparation of a poverty alleviation action plan or strategy would involve two-step implementation process:

- ✓ First, a rigorous door-to-door household surveys need to be conducted in the city of concern to understand the service deficit, poverty levels and types as well as the skills that are in demand. For this, Slum Survey, Household Survey and Skill Needs Survey need to be carried out.
- ✓ Second, identification of infrastructure and development needs of urban poor in consultation with the associations of the urban poor. This can be carried out in the form of 3-tiered plans:
 - Mini-Plan at Neighbourhood Level
 - Micro-Plan at Community level
 - City Plan at City level

Few States that have undertaken initiatives with respect to the preparation of poverty alleviation action plans at neighbourhood and community levels with an active participation of community and other civil society organizations. They have done under some the poverty alleviation programmes funded by donor

agencies and the results achieved may be looked upon as the models to be emulated by other States¹. Some of them include:

- *Andhra Pradesh Urban Services for the Poor*
- *Kudumbashree Programme of Kerala*

The Urban Poverty Alleviation Toolkit published by the MoHUPA in particular would be very useful, as it also lists down the various formats for surveys and action plans.

5.3 Pro-poor Expenditure Identification

The preparation of Poverty alleviation plan has to be followed by budgetary allocations in the municipal budget, which lead to the Poverty alleviation budget (P-budget). As the revenue aspect is already covered under the constitution of BSUP Fund, it is an important to identify and book expenditure as laid down under the UPRS and UPAP, so that the funds are utilized for the planned and intended purposes in the process of internal earmarking of municipal funds. Currently, there are few frameworks, methods and guidelines for undertaking this particular task. The States may provide a model for the same which can be followed by the ULBs. There are three major strands taken towards the identification of pro-poor expenditure in municipal budgets:

- Ø Area-based approach,
- Ø Sector-specific approach
- Ø Beneficiary-oriented approach

5.3.1 Area-based approach

Under this approach, the expenditure being incurred/ planned in all Notified/Non-notified (Recognized) Slums in a ULB is estimated through the Preparation of Area Development Plans. These Area Development Plans shall have specific proposals for the development of slum areas i.e., basic civic infrastructure, livelihoods and support services.

The area development plans can be prepared at municipal ward level or at city level depending upon the geographical area and population of the city and the slum areas. The area development plans at sub-city level i.e., ward or any other area, need to be aggregated into one plan – both physical and financial – so that the same can be used in the subsequent phases.

5.3.2 Sector-specific approach

In a sector-specific approach, the pro-poor expenditure is identified by the means of the type of service on which expenditure is made by the municipality/municipal corporation. The services to slums may be categorized into two types:

- internal infrastructure in slums
- external (connectivity) infrastructure of slums

¹ To some extent, the APUSP model is now being implemented under the MPUSP and KUSP programmes of the DFID. A detailed review was done in Chapter 2.

(i) *Internal Infrastructure in Slums/Low-income Settlements* – This is primarily meant for the in-situ servicing of slum settlements and it includes both basic infrastructure as well as support services. As they provide full service benefits to the slums, expenditure is marked 100% and there is no need for apportionment. The infrastructure services include:

- Water,
- Drainage,
- Sewerage,
- Internal Roads,
- Toilets,
- Street Lighting,
- Transformers,
- Sub-stations,
- Overhead Reservoirs,
- Parks,
- Playgrounds,
- Community Infrastructure including Livelihood Infrastructure

(ii) *Part of Connectivity Infrastructure* – The external infrastructure is also important to slum settlements so as to relate themselves to the city and also from the view point of scale economies in the provision of some services at large scale to entire population. With the slums settlements being not the full beneficiaries of the city-wide external infrastructure, only part of the expenditure can be attributed to the slum settlements. Therefore apportionment of expenditure becomes necessary, for which the local government or state government may issue guidelines. The external infrastructure services may include:

- Approach Roads,
- Water Trunk Connectivity,
- Sewer Trunk Connectivity,
- Storm-water Drainage Trunk Connectivity,
- Electrical Installations etc.

5.3.3 Beneficiary-oriented approach

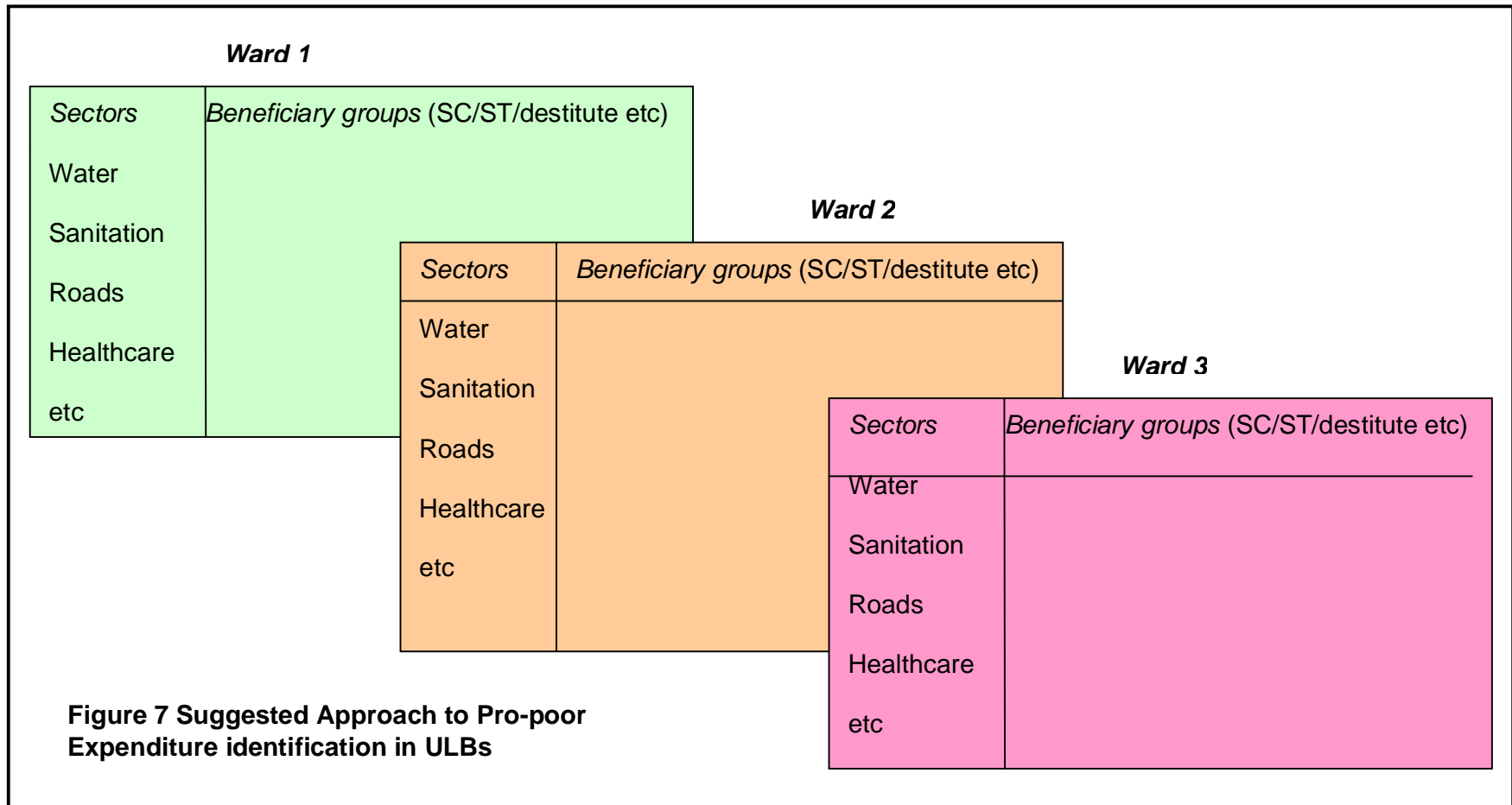
Under this approach, pro-poor expenditure is identified in terms of beneficiary categories and expenditures are identified with respect to the separate Sub-Plans or Special Component Plans prepared for that group. etc. Here, the focus is made on programmes of skill development, employment generation & social welfare/security. Already Tribal sub-plans are prepared by several states and local bodies, which may be supplemented by the inclusion of all vulnerable sections whom the poverty alleviation programmes target. The beneficiary groups may include the following:

- Schedule Castes (SC),
- Scheduled Tribes (ST),
- Differently-abled,
- Poor Women
- Vulnerable Groups

5.3.4 Suggestive Approach

All the above approaches have their own advantages – spatial approach gives ward-wise expenditure, sector approach gives service wise expenditure and beneficiary approach gives beneficiary group-wise expenditure. These three approaches may be combined and the expenditure estimates may be identified with respect to each beneficiary group as well as each service for each ward (shown in Figure 7), the aggregation of which across the wards gives rise to city level expenditures.

While identifying the expenditure estimates of service provision, apart from the spending on service provision and maintenance, the staffing expenditure with respect to it need to be covered. They include the wages of all staff engaged in Urban Community Development Department/Activities while the wage of Other Staff in ULB may be taken on an Apportionment Basis. Apportionment basis (i.e., per cent with respect to each element of service) may be either provided by State governments or worked out by the respective local government.



6. BUDGETING & ACCOUNTING ASPECTS OF BSUP FUND

6.1 P- Budget: Integration of Poverty Alleviation Planning & Budget

Poverty alleviation programmes and plans/strategies cannot be effective if the systems of implementation, monitoring, reporting and evaluation at the ULB level are not well designed. However, they also need to be well integrated with the ULB budget process so as to provide effective reflection of assessment of poverty alleviation programme needs in the ULB budget. The activity and conceptual plans under poverty alleviation strategy and action plan need to be translated into fiscal plan in terms of the expenditure needs of those activities and developments, which need to be further recast into the budget under a separate head of Poverty alleviation Budget (or P-Budget).

P- Budget is an approach for integrating planning and budgeting as outlined in the framework under Figure 8. Poverty reduction using pro-poor budgeting will be based on the strategy and action plan and earmarking of municipal funds discussed in the previous chapters.

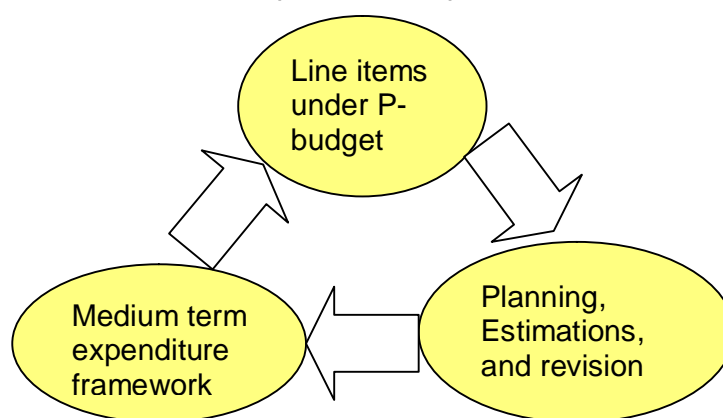


Figure 8 Integrating Planning and budgeting

The P-Budget can be developed in two stages:

First, as Programme budget, using the Medium Term Expenditure Framework (METF) concept of budget planning based on urban poverty alleviation strategy prepared for the city, which also gives direction to the development of an annual rolling plan. The estimates made under it may be ball park figures and give a sense of financial needs over a time span varying from 3-5 or even 5-10 years.

Second, as Annual budget, using the framework of line item estimates under conventional budget process based on the urban poverty alleviation action plan prepared earlier, while keeping the METF in mind. The expenditure estimates may also be some kind of calculations based on the unit costs or any other thumb rules as the case may be, when detailed action plans do not prevail.

Table 1 shows a sample P-budget prepared for Hyderabad.

Table 1 Proposed P-Budget for GHMC
GREATER HYDERABAD MUNICIPAL CORPORATION
Budget Highlights

(Rs. In Crores)

Particulars	G H M C			P-Budget		
	Latest Actual (15-02-09)	RBE 2008-09	BE 2009-10	RBE 2008-09	BE 2009-10	
I Revenue Receipts	969.00	1,656.14	1,411.17	22.28	24.97	
II Revenue Expenditure	699.00	1,023.45	1,003.01	90.95	86.15	
Revenue Surplus/(Deficit) (I-II)	270.00	632.69	408.16	(68.67)	(61.18)	
III Capital Receipts	141.81	1,529.97	2,190.56	-	601.20	
IV Capital Expenditure	810.00	1,529.97	2,190.56	430.82	744.78	
Budget Size (II+IV)		2,553.42	3,193.57	521.78	830.93	
I Revenue Receipts						
Receipts	1 Tax Revenue	246.50	486.31	561.01		
	2 Assigned Revenues	152.84	267.12	247.12		
	3 Rental Income from Municipal Properties	6.99	15.11	26.56		
	4 Fees and User Charges	498.64	749.26	431.31		
	5 Sale & Hire Charges	8.86	14.38	15.02		
	6 Revenue Grants	1.04	47.21	38.93	22.28	24.97
	7 Income from Investments	18.10	38.65	50.74		
	8 Other Income	37.03	38.10	40.49		
Revenue Receipts	969.00	1,656.14	1,411.17	22.28	24.97	
II Revenue Expenditure						
Expenditure	1 Establishment Expenses	186.00	264.40	317.32	4.64	5.29
	2 Administrative Expenses	17.77	24.01	30.98	0.53	0.63
	3 Operations and Maintenance	467.05	659.81	579.72	65.98	57.97
	4 Interest & Finance Charges	14.05	18.25	23.50	-	-
	5 Programme Expenses	14.05	56.98	51.49	19.79	22.26
Revenue Expenditure	698.92	1,023.45	1,003.01	90.95	86.15	
III Capital Receipts(Surplus, Grants, Funds & Loans)						
Receipts	1 Revenue Surplus	-	632.69	408.16		
	2 Plan Grants	141.81	409.25	956.17		441.00
	3 Regularisation fees from TP			400.00		
	4 PPP			123.16		
	5 Contributions		116.25	160.20		160.20
	6 Borrowings		371.78	142.87		
Capital Receipts	141.81	1,529.97	2,190.56	-	601.20	
IV Capital Expenditure						
Expenditure	1 Land & Land Improvements	97.50	159.14	168.35	11.14	3.00
	2 Buildings	16.09	62.45	127.41	25.14	12.30
	3 Bridges , Fly-Overs & Sub-Ways	15.27	37.61	73.50	2.59	1.50
	4 Roads & Pavements	374.54	614.07	529.35	60.07	53.85
	5 Multi-Modal Transport	0.46	8.34	362.82	-	-
	6 Storm Water Drainage	85.68	213.65	189.25	45.35	19.25
	7 Water Supply & Sewerage	27.49	48.27	36.82	26.21	21.25
	8 Street Lighting	65.13	107.58	46.00	7.15	3.50
	9 Vehicles	8.41	14.60	12.00	-	-
	10 Machinery & Equipment	4.99	10.02	12.11	1.17	0.13
	11 Furniture & Fixtures	1.06	2.24	2.95	-	-
	12 Housing	113.00	251.99	630.00	251.99	630.00
Total Capital Expenditure	809.62	1,529.97	2,190.56	430.82	744.78	

6.2 Creation of Budget Heads

Once BSUP Fund is created as laid down in the previous chapter, it is important to prepare a budgetary framework for utilizing resources under the Fund through annual budget. The method of poverty sub-plan preparation and preparing budget based on the poverty alleviation plan/ strategy has already been discussed. It is also important to ensure that the budget heads are created for utilizing annual allocations for spending on the urban poor from the Fund.

Budget heads for the transfer of earmarked funds and that of the schemes/grants subsumed may be identified and sub-heads may be created further. The guidelines laid down under the National Municipal Accounting Manual (NMAM) need to be kept in view while preparing the budget heads and sub-heads. Sub-heads may be created separately for major functions delivered by ULB viz.,

- Basic Physical Amenities
 - Housing, Water, Drainage, Sewerage, Solid Waste Management, Street Lighting, Toilets,
- Basic Social Amenities
 - Educational Facilities, Health Facilities, Welfare Institutions – Hostels, Old Age Homes etc.
- Livelihoods Facilities
 - Common Work Places, Vocational Centres, Common Facility Centres, City/Community Service Centres, Livelihoods Centres, Training Centres, Informal Sector Markets, Animal Pens etc.
- Beneficiary-oriented Programmes
 - Skill Development
 - Income Generation
 - Welfare Benefits – Old Age Pension, Widow Pension, Disabled Pension, General Insurance, Health Insurance etc.

6.3 Accounting for P-Budget

Accounting for the P-Budget needs to be carried out in the same way as it is done in the case of Municipal budget or as it is done in the case of other Funds within the Municipal budget. BSUP Fund would become a minor Fund within the major Funds of the Municipal body. Municipal accounting has to follow the Codification Procedure laid down under the National Municipal Accounting Manual (NMAM) or the State Municipal Accounting Manual prepared by the respective States with a detailed lists of major, minor and detailed account heads.

Detailed Guidelines with regard to P-budget preparation procedures need to be prepared and accounting heads at all levels need to be listed separately with the involvement of Professional Accountants. The expenditure provisions under the P-Budget need to be properly monitored, for which Internal Control Mechanisms may be required. Standing Committee on Urban Community Development may be established in all ULBs to perform oversight of the provisions made the P-Budget.

Day-to-day Checks of the P-Budget provisions may be made by Municipal Chief Executive Officer, and periodic examination of the same may be provided by the ULBs to the State Municipal Administration Department or a Specially Constituted Poverty Alleviation Authority. The ULBs may be encouraged to provide budget documents and accounting statements to the State Municipal Administration Departments at a designated frequency of once in every 3 to 6 months. The guidelines for spending and reporting provided in the Government Order of AP may be considered for this purpose (shown in *Annexure V*)

Financial Audit Procedures need to be established to promote financial accountability for the BSUP Fund in line with similar procedures established for the Municipal budget or its components. Social Accountability mechanisms for BSUP Fund may also be established so as ensure that the BSUP Fund utilization meets the objectives of the Fund and that the P-budget information may be shared with the Community/Civil Society Organisations for better understanding, transparency and accountability. These are explained in a separate Chapter.

7. GOVERNANCE ISSUES OF BSUP FUND

7.1 Social Accountability for better Governance of Fund

Governance is important and integral aspect of public finance in general and therefore that of BSUP Fund as well. The key principles of ensuring good governance of fund management is promoting accountability and improving the transparency of fund utilization planning. It is here that social accountability tools are increasingly becoming useful to public financial management. The following are some of the social accountability tools used to improve governance of fund.

7.1.1 Participatory Planning, Policy Formulation & Budgetary Analysis

Participatory planning is the process by which citizens come together to identify their needs and prioritize them within the resource envelope that can be mobilized through a socially and politically acceptable form of negotiation. To ensure realism and specificity, planning has to be vis-à-vis an indicative budget. Participatory planning is an element of participatory budgeting. In India, decentralized planning has been institutionalized in West Bengal and Kerala. Kerala has been way forward in institutionalizing participatory planning; known as people's planning in the local self government institutions. Participatory planning is only a beginning. If properly managed, it can lead to a demand-led improvement of service delivery and to responsive local government.

7.1.2 Citizens' Surveys/Citizen Report Cards

Citizens' survey methods use feedback from individual citizens and aggregate to provide report cards and survey reports on a range of issues. These could pertain to service delivery assessments, opinion polls, awareness exercises etc. While surveys have been used extensively the world over, their use to generate Citizen Report Cards have been made in India, Ukraine, Philippines etc.

Box 5
Citizen Report Cards in Bangalore

The Citizen Report Card was developed in 1993 in Bangalore, India by the Public Affairs Centre in response to public concern about the quality of services. The Citizen Report Card is an assessment of public services by the users of public services through survey methods. Over a decade, the Public Affairs Centre issued three citizen report cards: in 1994, 1999 and 2003. Unlike other technical and financial assessments of services, the citizen report card sheds light on how users benefit from services and the extent to which they are satisfied with the services they receive. The satisfaction of Bangalore citizens with all services increased significantly over a four year period. Of the nine agencies on which citizens of Bangalore provided feedback, all have received satisfaction ratings above 70 percent in 2003 compared to less than 40 percent in 1999. Report cards have been used in seven cities in India—Ahmedabad, Bangalore, Calcutta, Chennai, Delhi, Mumbai and Pune.

7.1.4 Social Audit/Participatory Expenditure Tracking

This involves citizen groups tracking how the government actually spends funds, with the aim of identifying leakages and/or bottlenecks in the flow of financial resources or inputs. Examples include participatory tracking of primary education expenditures in Uganda, Jan Sunwais or participatory audits in Rajasthan and Delhi, People's Estimate in Andhra Pradesh etc.

In addition to these methods and tools, many more exist such as people's campaign for electoral reforms, public interest litigations, etc. The Right to Information (RTI) is a key weapon in the hands of citizens which not only facilitate the application of social accountability tools but also determine the successful institutionalization of accountability mechanisms.

7.2 Promoting Budget Analysis, Advocacy and Participation

Budget Analysis engages the civic groups in scrutinizing the budgets to ascertain the extent to which the fiscal allocations truly reflect the government commitments (sector based budget allocations can also be examined like child budgeting, gender budgeting etc.). Budget Advocacy is aimed at increased participation, analysis and support of the civil society organizations in appreciating budget and budgetary decisions for better accomplishment of socio-economic goals set out in the budget.

Budget analysis can be used as a means of claiming rights for and by the vulnerable sections of society like women, children, poor, etc., and promoting good governance and vibrant democracy. Governments now are gradually recognizing the need for citizen's participation in budget formulation. The mainstay of budget advocacy is based on key principles like transparency, accountability, participation, adequacy, priority, progress and equity; one can ensure continued participation of the civil society.

Participatory Budgeting is broadly defined as a mechanism or process through which citizens participate directly in the different phases of budget cycle. Participatory budgeting can be instrumental in increasing public expenditure transparency and in improving budget targeting. Participatory budgeting has been defined as a process in which a range of stakeholders debate, analyze, probe and monitor decisions about public expenditure and investment. The stakeholders can include the public, poor and vulnerable groups including women, organized civil society, the private sector, and assembly/ parliament representative.

In general, 'participatory budgeting' can take place at three levels:

Budget formulation and analysis: citizens either determine their own priorities or hold the government accountable for previously agreed upon priorities concerning resource allocations;

Expenditure monitoring and tracking: citizens monitor expenditure to evaluate consistency between allocation and expenditure and the flow of funds to the agencies responsible for the delivery of services;

Monitoring public service delivery: citizens monitor the quality of publicly provided goods and services and their impact as well as links of these to the budget

There are few examples in India of promoting budget accountability and participation. PROOF campaign in Bangalore is a good example worth replication in other Indian cities. Box 5 gives the details of PROOF.

Box 5
PROOF Campaign in Bangalore

PROOF (Public Record of Operations and Finance) was launched in mid-2002 in Bangalore as a public campaign to improve budget accountability and citizen participation. As a result of the campaign, the city Municipal Corporation - Bangalore Mahanagara Palike (BMP) - has been releasing its quarterly financial and operations performance data, which are also discussed and debated in the citizens' forum. Citizens have been participating in public debate and discussions on the results, every quarter since then.

PROOF campaign used all major communication channels i.e., internet, news papers, FM radio and print media, to reach out the people. Training sessions on reading and making sense of municipal financial statements were also held in Bangalore in November 2002 and thereafter. The training material has been developed, maintained and circulated by *Janaagraha*, a Non-governmental organization based in Bangalore, to promote public awareness and participation in financial accounting and budgeting.

PROOF campaign has been taken forward further by making performance measurement – both financial and physical – of the Municipal corporation in the delivery of various services. Public discussion forums served as platforms for discussion and debate on the budget proposals, fiscal performance, community infrastructure and pro-poor spending. PROOF campaign is based on the

principles of transparency (disclosure), accountability (answering) and participation (public), which are three pillars of good governance.

Source: PROOF website on INDIA Together (<http://indiatogether.org/campaigns>)

8. MOBILIZING MUNICIPAL RESOURCES FOR URBAN POVERTY ALLEVIATION

8.1 Revenue Sources of ULBs

The constitution of BSUP Fund and its utilization to meet the objectives can be done effectively when there are adequate resources/funds available with the ULBs. It is therefore imperative for the ULBs to ensure that there are adequate funds available through strengthening resource mobilization. The ULBs need to have a clear understanding of the revenue base (population, economic activities, taxation rate, inter-governmental transfers and borrowings) and revenue sources (own as well as external sources) as well as their role in the overall financial position and strength. Table 2 shows category-wise sources of revenue of ULBs in India.

Table 2: Municipal Revenue Sources in India

<i>Revenue Category</i>	<i>Head</i>	<i>Sources of revenue</i>
Tax revenue		Property Tax, Octroi, Advertisement Tax, Tax on Animals, Vacant Land Tax, Taxes on Carriages and Carts
Non-Tax revenue		User Charges, Municipal Fees, Sale & Hire Charges, Lease amounts
Other receipts		Sundry receipts, Law charges costs recovered, Lapsed deposits, Fees, Fines & Forfeitures, Rent on Tools & Plants, Miscellaneous Sales etc.
Assigned revenue	(Shared)	Entertainment Tax, Surcharge on Stamp duty, Profession Tax, Motor Vehicles Tax
Grants-in-aid		(i) Plan Grants made available through planned transfers from upper tier of Government under various projects, programmes and schemes (ii) Non-Plan Grants made available to compensate against the loss of income and some specific transfers
Loans		Loans borrowed by the local authorities for capital works etc. – HUDCO, LIC, State and Central Governments, Banks and Municipal Bonds

8.2 Mobilizing Own Revenue from Local Resources

Municipal Resource mobilization needs not only strengthening the existing revenue sources but also using other sources of revenue. Therefore, both conventional and non-conventional sources need to be tapped to the extent possible within the City. The ULBs may benchmark their levy and utilization with reference to the better performing peers within the State as well as outside it. The ULBs may use the general principles of local government finance - users pay,

beneficiaries pay and polluters pay - to justify the same while ensuring that the citizens are well aware of the need for their contribution towards larger societal cause and for the services provided. A strong revenue base and larger share of own resources makes the ULB stronger and gives adequate scope for undertaking works and schemes for the urban poor.

Table 3 shows conventional and non-conventional resources that can be tapped by the ULBs. Several ULBs are yet to tap the potential of conventional property based tax revenue to the full extent. The user charge levy on the services also tends to be inadequate for maintenance of services. Several other municipal services are neither linked to cost nor to the income, which results in inadequate provision of these services for the urban poor. ULBs need to evolve two- part tariffs or cross-subsidy schemes that offer cushion to the poor and pinch the well-off population.

Table 3 Conventional and Non-conventional revenue sources in ULBs

S. No.	Service Revenue Source	Conventional Source	Non-Conventional Source
1	Property related	Composite Property Tax	Vacant Land Tax, Service Taxes, Surcharge on Land Registration Duty
2	Water Supply Related	Water Charges	Water Supply Donations, Water Supply Connection Charges, Water Benefit Tax, Water Betterment Charges
3	Sewerage Related	Sewerage Charges	Sewerage Donations, Sewerage Connection Charges, Sewerage Benefit Tax, Sewerage Betterment Charges
4	Solid Waste Management Related	Conservancy Charges	Bulk Garbage Collection Charges
5	Town Planning Related	Building Permit Fee, Development Charges	Betterment Charges; External Betterment Charges; Open Space Contribution; Impact fee; Transferable Development Right; Premium FSI, Sub-division charges; Planning Permission Betterment
6	Engineering Related	No Sources	Road Cutting Charges, Street Tax, Frontage Tax, Cess on Infrastructure, Motor Vehicle Tax/Surcharge on Tax on Petrol and Diesel
7	Trade Licensing Related	Trade Licensing Fee	Business License Fee
8	Advertisement Related	Advertisement Tax	Hoarding Charges, Advertisement Placement Fees, Cable TV Fee, TV Advertisement Charges
9	Shops and	Shop Room	Royalty on Auctions

	Establishment Related	Rent	
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8.3 Land based resource mobilization

While the services provided by ULBs may be shared by a wide range of population, the land consumed is mostly related to economic activity and wealth of citizens. Therefore, the ULBs need to exploit various land based revenues for resource mobilisation, which have greater implication to urban growth and development and concomitant problems like slum formation, redevelopment, rehabilitation and resettlement. The funds realized from land based revenue sources can be effectively deployed to the improvement of urban poor people living in the slum areas.

Several sources of land based revenue may already exist in the ULBs (apart from property tax) but the potential of the same has not been exploited to the fullest extent. Also, there are several other forms of revenues (or, variants of revenues) that are linked to the development of land and the gains accruing from it, which need to be tapped and exploited further. Table 4 lists out the various land related revenue sources that can be exploited by the ULBs for mobilizing resources.

Table 4: Exploiting Land-related Revenues in ULBs

Tax Variant	Base of Source
Site Value Tax	Current land rental or capital value of land
Land Gains Tax	Land capital gains – accruals in land Values
Betterments or Special Assessments	Increment in land values due to specific public expenditures including infrastructure
Development Gains Tax/Conversion Tax	Change of “Lower” to “Higher” land use (Once-and-for-all levy)
Purchasable Development Right	Purchase of development right
Auctionable Development Right	Purchase of development right in open auction – Land with FSI in auction in centres
Development in Kind/ Incentive Zoning	Obligation on Developers to install infrastructure or make certain land/facility available for community purpose e.g. Free land assignment
Land Transfer Tax	Stamp Duty connected with change of ‘ownership’ rather than change of ‘use’
Vacant Land Tax	Capital value of land not used for any purpose
Property Tax	Rental value or capital value of property – Self-Assessment

In addition to the above, the following Planning-related Fees & Charges may be used for tapping City Planning as a Resource, with a certain proportion of them contributing to the cause of providing basic services to the urban poor:

- Land conversion charges
- Development charges
- External development charges e.g. Haryana
- Water charges, Sewerage charges, Storm-water drainage charges – Onsite/Offsite
- Sub-division/Layout charges
- Building permit fee
- Collection of arrears of tax at the time of according Building permission
- Vacant land tax, Property tax etc.
- Open space contribution
- Parking Contribution

8.4 Other Sources

Apart from the resource mobilization from tax and non-tax revenue sources and levy of new charges/ levies for the benefit of urban poor, the following other sources may also be exploited to the extent possible:

(a) Private sector contribution

Private sector resources may be used to leverage additional resources for the urban poor by involving it in certain projects that lead to redevelopment of slum areas and renewal of blighted areas, which will bring about substantial improvement in physical, social and economic quality of life of urban poor. The competitive and efficient project execution by the private sector itself leads to time and money savings that can be better deployed for other purposes.

(b) Institutional finance

Accessing finance from institutional sources, such as LIC, HUDCO, NHB and other banks, may also complement financial resources, especially when funds are required for completing projects. Low-yield tax-concession bonds may also be floated for such purpose in association with financial institutions specialized in the provision of such services.

(c) Voluntary sector contributions

There are several voluntary organizations or NGOs e.g., SPARC, Mahila Milan, NSDF etc, that have been working in the urban poverty sector and also working closely with community with their own funds mobilized from private sources. These organizations may be made part of the plan and converging projects of ULB and NGOs may be implemented with joint financing.

(d) Elected representatives' support

The elected representatives of ULB or regional body may have access to funds that can be used for urban poor. The Member of Parliament and Legislative Assembly do have their own funds that may be used to undertake some projects that benefit urban poor and result in the development of community infrastructure.

9. DEVELOPING BSUP FUND IN ULB: ROAD MAP & GUIDELINES

9.1 Road Map for BSUP Fund Development

It is imperative that the urban poverty alleviation attempted through the initiatives of municipal bodies and other tiers of government (like BSUP of JNNURM) take a firm path. International examples demonstrate the potential use of leveraging finance against poverty to achieve better targeting and better fund deployment. Fund based approach to poverty alleviation is a potentially significant means of achieving the poverty alleviation objective; the development of BSUP Fund for serving the needs of urban poor is a step forward to it.

The constitution of BSUP Fund and its operationalisation provided in this report lay down an important approach towards poverty alleviation in urban areas. While the development of BSUP Fund is yet to take place in several ULBs, in spite of the directives issued by State governments, their operational issues need to be carefully thought of by the ULBs/ States, and they may be provided some support to implement it in respective States/ULBs.

Internal earmarking experience of some ULBs in some States also point to the successive implanting of the concept in willing ULBs and States. The States may be given free hand to fix the proportion (over and above prescribed minimum, or floor of the share) as well as the method of earmarking of funds. Also, the States may provide guidelines and directives for the identification of poor, development of poverty alleviation action plan and identifying of the urban poor as well as pro-poor expenditure, as done by few of them. Already some States have set out models for preparing poverty alleviation sub-plans and specific guidelines may be provided on the lines of SC/ST sub-plan guidelines.

Integrating budgetary processes with poverty alleviation strategy/ plan is important; it is an area where frameworks are either weak or poor. Poverty alleviation budget (P-budget) is an important step but further guidelines to prepare the same may be developed and provided to the ULBs. The progress made with regard to gender budgeting may be a good case. Accounting as well as budgeting procedures may be laid down as per NMAM. The platform for integrating budget and strategy has to extend beyond the technical issues of accounting and budgeting to the execution, monitoring, reporting and evaluation of the normal local government budgetary cycle.

The ULBs need to place adequate focus on resource mobilisation for urban poverty alleviation. Besides the conventional sources of revenue, land and non-land based revenue sources may be tapped and sources other than own revenue may be effectively channelised to meet the earmarked expenditure needs of the urban poor. Essentially, both earmarking of municipal revenues as well as expenditures needs to take place for better results on ground and for community in terms of providing basic services to the urban poor.

Figure 8 shows the suggested road map for developing BSUP Fund within the framework of ULBs in the States.

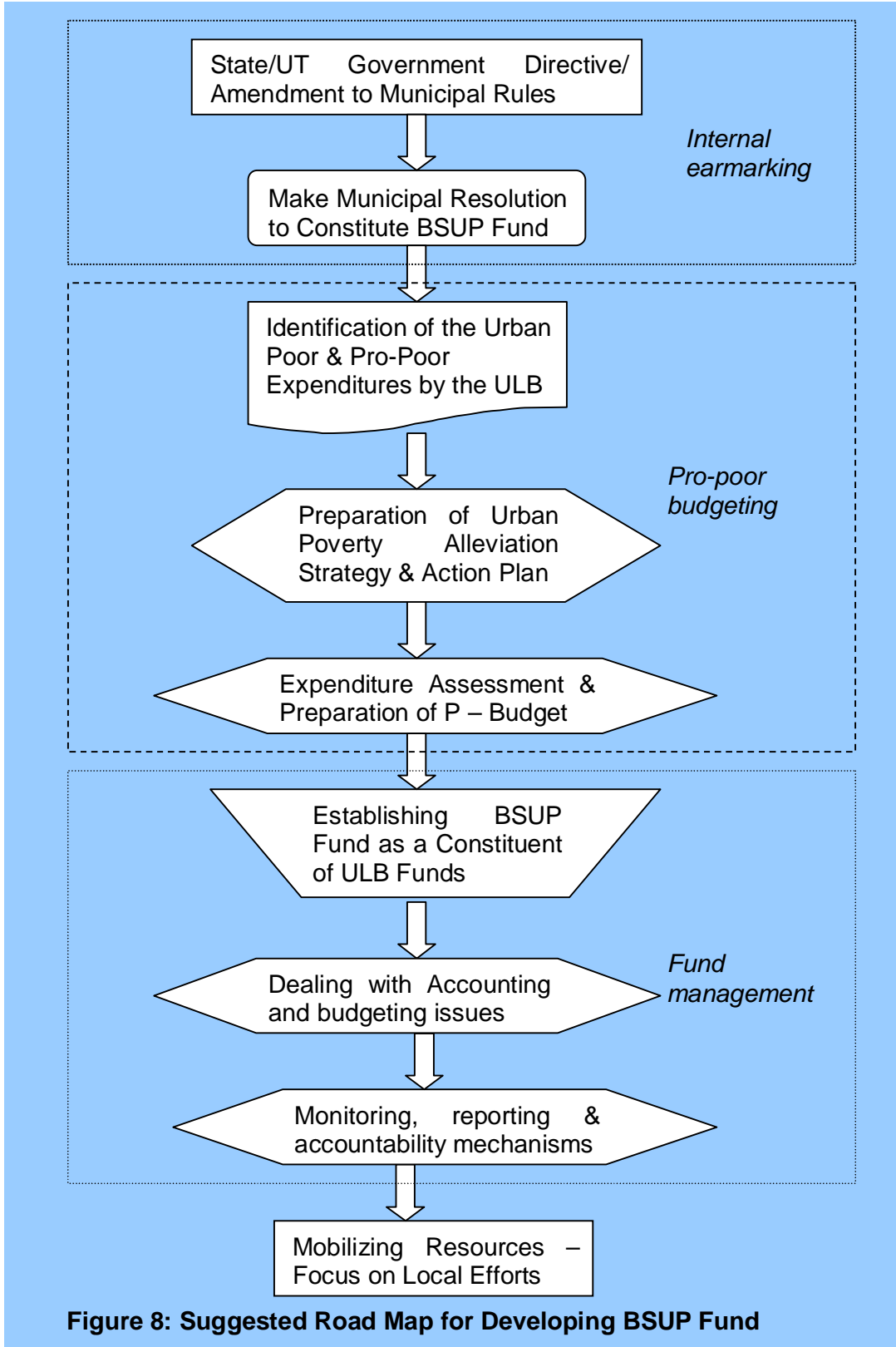


Figure 8: Suggested Road Map for Developing BSUP Fund

9.2 Guidelines for Development of BSUP Fund

In order to sustain the pro-poor service delivery and shelter provision over a long time period and make poverty alleviation an integral part of the ULB function, detailed guidelines relating to internal earmarking of municipal budgets for the urban poor by the ULBs and for the setting up of a Fund at the ULB level are required. The State governments may also provide the necessary guidelines, from time to time, applicable to the ULBs in respective States but they need to be broadly in line with the guidelines provided hereunder.

Objectives

The objectives of setting up a BSUP Fund through internal earmarking at the ULB level are as following:

- Ø Setting up a dedicated Fund at the ULB level for addressing the needs of the urban poor
- Ø Streamlining the current fund flows to ULBs for urban poverty alleviation – both external and internal funds of the ULB.
- Ø Targeting the available ULB funds for achieving the best results of poverty alleviation, thereby improving the efficacy of funds.
- Ø Creating basic civic amenities and shelter services for the urban poor living in slums and squatter settlements.
- Ø Improving the spending by ULBs on urban poor through better fund allocations for the specific activities/initiatives of urban poverty alleviation
- Ø Mainstreaming of the urban poor through internal earmarking of budgetary allocations for the urban poor.

Action Plan

To fulfill the above objectives by creating a Fund at ULB level through internal earmarking, the following points may be taken in to account:

- § Constitution of BSUP Fund or Urban Poverty Alleviation Fund within the budgetary and accounting system through amendments to Municipal Act and/or Rules appropriately;
- § Earmarking of the Municipal or ULB budgetary (own as well as shared revenue and non-plan grants) resources for the urban poor and using other funds (e.g., from donor agencies or citizens) to supplement the same;
- § Making arrangements for the management of the Fund especially for the drawing of funds and maintaining of the accounts and audits of the Fund (including publishing the same);
- § Identifying the urban poor using credible methods, especially those that lead to better targeting, and preparing poverty alleviation sub-plans starting from neighbourhood level to community level to city level;

- § Identifying pro-poor expenditure using an integrated approach across wards and functions (sectors), and preparing P-budget by integrating poverty alleviation plan as well as municipal budget; and,
- § Promoting budget advocacy and public participation in budget analysis and making, and mobilizing municipal financial resources using both conventional and non-conventional methods, especially land-based instruments.

Implementation plan

The following guidelines may be used for the implementation of internal earmarking of municipal budgets for the urban poor in this regard:-

i. Opening separate account for BSUP fund / Poverty Alleviation fund:-

All ULBs shall open a separate account for BSUP fund (or, Urban Poverty Alleviation Fund) in existing PD account to utilize internally earmarked municipal funds for urban poor living in slum areas. All ULBs shall transfer earmarked funds every quarter of a financial year from general fund account to BSUP/UPA fund account in four installments.

ii. Assessment of Net Available Resources:

Every ULB has to prepare an estimate of its own revenues that may be realized in the next financial year as provided in the Budget Estimate as shown hereunder:

- a. Tax Revenue
- b. Non-Tax Revenue
- c. Shared/Assigned Revenues
- d. Non-Plan Grants.

The ULB has to prepare an estimate of amount required for the maintenance of civic services, administrative expenditure, debt servicing (interest and principal) and other contingent expenditure so as to arrive at its net available funds/ resources for undertaking developmental activities in next financial year.

The net available funds/resources are total own revenue minus the amount required for ULB's own committed expenditure.

iii. Earmarking net funds for urban poor living in slum areas:-

After ascertaining the amount of net available funds for the next financial year as stated above, a certain proportion (not less than 25% of the amount) of the net municipal funds shall be made available for undertaking developmental activities for the urban poor living in slum areas. This amount shall be earmarked for its utilization/spending in slum areas by making a suitable provision in the budget estimate every year.

iv. Utilization of funds for the urban poor in slum areas:-

The BSUP fund shall be utilized for the following components

- a. Water supply, drainage and sewerage
- b. Construction of community toilets
- c. Solid waste management
- d. Connecting Roads
- e. Street lighting
- f. Public parks and playgrounds
- g. Community and livelihood centers
- h. Community health centres
- i. Pre-primary and primary education centres
- j. Cost escalation, if any, in housing and infrastructure facilities of sanctioned and ongoing projects of slum relocation / upgradation / rehabilitation schemes of IHSDP
- k. Funding ULB contribution to PPP initiatives for slum redevelopment,

v. Carry forward the unutilized funds:-

In case, the earmarked funds for the development of slum areas are not utilized during a particular year in any ULB, the said funds shall be carried forward to the subsequent year for the utilization in slum areas. They shall not be made lapsable at the end of financial year and shall be used in the next financial year from the BSUP/UPA Fund.

vi. Preparation of Quarterly progress reports:-

The ULBs shall prepare a Quarterly progress report of the BSUP/UPA Fund and submit it to the SLNA so as to reach by 10th of every quarter. The format to be used for reporting is shown in Table 5. The State Level Nodal Agency (SLNA) shall prepare a summary of the Quarterly progress reports of BSUP/UPA Fund received from the ULBs of the State covered under the JNNURM programmes– BSUP and IHSDP.

vii. Publishing annual report of the accounts of Fund :-

The ULB shall prepare an annual report of accounts of the BSUP/UPA Fund providing a summary of the funds earmarked, funds utilized and the balance of funds available to be transferred to next financial year.

The BSUP/ UPA Fund accounts shall be shown under separate column of the annual accounts statement of the ULB. The format to be used for publishing is shown in Table 6.

viii. Evaluation of the effectiveness of budget allocation and spending:-

An evaluation of the effectiveness of utilization of funds for the urban poor living in slum areas shall be undertaken at the State level (at a periodicity of every 3-5 years) and communicated to the Municipal administration & urban development department of State Government and to the concerned Ministry (MOHUPA) of Central Government for information and for monitoring the effectiveness.

Table 6: Annual report of BSUP/ UPA Fund

Annual report for the period of _____

Name of the ULB:-

S. No.	Description	Amount (Rs. In lakhs)
1	Total funds available for developmental activities during the financial year	
2	Funds earmarked for committed expenditure	
3	Amount earmarked for slum areas	
4	Opening Balance	
5	Amount transferred to the BSUP/UPA Fund	
6	Amount utilized under BSUP/UPA Fund	
7	Closing Balance amount	
8	Amount transferred to next Financial Year	

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