



Working Paper

22

**Financial Management
in Local Government**

Forum Dave
May 2016



**Sardar Patel Institute
of Economic &
Social Research**
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Abbreviations

- ULB Urban Local Bodies
- CAA Constitutional Amendment Act

Financial Management in Local Government

Forum Dave*

Abstract

The theory of Fiscal Federalism highlights the dynamics of decentralization of power through a system of multi-layer governance. Several developing countries have initiated some or the other form of transfer of political power and functional responsibilities to their local units of governance. This decentralization leads to new structures that assign added functions, finances and accountability to local governments. This paper, based on the theoretical underpinning, attempts to provide an overview of and justification for increasing role of rural and urban local governments in India, It addresses questions like: How the 73rd and the 74th constitutional amendments have emerged as path breaking endeavors towards achieving democratic decentralization in the country. However, the focus of the paper is the strength and weakness of urban local governance structure in Gujarat, in view of the fact that Gujarat is one of the highly urbanized states with 42 percent of total population residing in urban areas.

Key Words: Decentralization, Urbanization, Urban Local Government

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Financial Management in Local Government

1. Introduction

The theoretical justification for a multi-layer government in a diverse country like India emanates from the theory of fiscal federalism. The theory of fiscal federalism offers economic justification for multi-level government institutions. It argues that if there is no significant cost difference of provision of goods and services to communities, it could far better if local government anchors provision of local goods and services to its citizens (Dave, 2011).

According to this framework, a federal structure with multi-level government, in which the powers and functions are devaluated at each level, is considered to be the best suited and optimal form of arrangement (Rao & Bird 2010). The rationale behind such an argument is that such arrangement will reap the benefits of the economies of scale added with the advantages of decentralization. One could argue that under such dispensation, local issues could be resolved locally, with significant people's participation, which is a major plank of any democratic society. Thus, the rationale for local level government both urban and rural has strong foundation in theory and practice.

At this stage, it will, be prudent to acknowledge the contribution of political scientists in furthering the concept and understanding of local governance and its emanating structures, in power hierarchy and sharing of powers among various layers of local and national governments. They diligently underline the way power has been shared among different political agencies and agent at various level of governance. However, their major focus had been power structures and power sharing. They were not so much concerned with economic underpinnings of overall governance. In this direction, economists like Oates (1972) have been propounded 'economic theory of decentralization'. Oates (1972) argues that taste and preferences of different regions that vary do widely, can be better understood by local government. Given its wide

cultural diversity, as reflected in food habits, dressing pattern, taste preferences, housing, life-style, economic base etc., India is suitable case for such decentralized structure of governance. Local government may provide innovative ways and means in the production and provision of public goods. They do have the local solution for local problems which may be suitable to a specific geographical or economic unit, only due to its distinct character. Decentralization also provides opportunities for efficient utilization of resources due to income constraint to satisfy the preferences of local residents.

According to Majumdar (2006), one of the main objectives of decentralization is efficiency in production and delivery of local public goods and services. It provides market driven solutions to the problems of production as well as efficient provision of output for some public goods. Hence the country like India having wide range of variations both in culture and geography, thereby taste, preferences, etc., must adopt decentralization. It will also satisfy the Pareto Optimal condition of providing public goods and services. Tiebout (1956) also emphasized the market failures and their impact on provision of public goods. In his theory of 'walking with vote' he emphasized that individuals select the local community whose provision of local public goods and tax-prices best satisfy their preferences. Hence the flavor of competition in providing the combination of goods along with tax prices will help in improving the administration ability of local government.

The theory of fiscal federalism also makes use of cost-benefit analysis in allocation of various functions to different levels of government. Hence, the decentralization theory of fiscal federalism postulates that if there is not much cost difference it would be more efficient for Central/State government to hand over the responsibilities for provision of public goods and services to local government(Dave, 2011). This will not only ensure the economies of scale but also accountability of spending. The revenue resource collection should be based on the 'spatial mobility'. The sources which are immobile such as property tax should go to local government (Kamer, 1983) and those having mobile source base must go to Central government. It is easy

to scrutinize instantly the provision of goods and services, as efficient administration is locally based. The case of vertical federal finance imbalance occurs when mobile and more elastic sources of revenue are with the local government and less mobile or immobile and less elastic sources of revenue are with higher level of government (Kamer, 1983).

Therefore the role of financial allocations is done by central institutions such as Finance Commission. The financial transfer from higher level of government to lower levels is further justified by externalities (Musgrave, 2000). Both the external cost and benefit in providing public goods require an action from central agency having various efficient institutions such as urban and rural governments at the local level. An effort has been made to suggest some locally plausible recommendations for selected urban local government.

2. History and Structure of Urban Local Government in India

Historical evidence suggests that urbanization process is inevitable and universal. It is progressive concentration of population in urban areas. The first phase of urbanization in the Indian sub-continent is associated with the Indus valley civilization i.e. the present day state of Gujarat (Bhattacharya, 1979) and part of Pakistan. It contains major ancient metropolitan cities in the Indus valley such as Lothal and Dholavira. There are many historical evidence of establishment of prosperous cities in ancient India. It is important to note that local self-institutions in urban areas did exist in one form or the other in ancient India. In the modern era, according to an Indian definition the following criteria were adopted for treating a place as urban in the 2011 census.

1. All statutory towns i.e. all places with a municipal corporations, municipal board, cantonment board, notified area etc.
2. Census towns which are non-statutory towns and are actually rural areas but satisfy the following criteria
 - a) Minimum population of 5000

- b) At least 75 percent of the male working population engaged in non-agriculture activities
- c) A density of population of at least 400 persons per sq. km.

To manage these local urban regions administrative unit is required at local level. Having missed the opportunity in the 65th Amendment bill(1989), local self-government, paved the way for 73rd and 74th Constitutional Amendment Act (CAA) in 1992. This constitutional amendment act of India provided a direction and laid down a frame-work for action to strengthen local-self-government in all aspects. The 74th Amendment Act led to bottom up approach which is essential for the democratic set up like India. The devolution of not only function and responsibilities but also the financial powers is an important aspect for the growth of these bodies. As per Twelfth Schedule of Article 243W of 74thCAA, Urban Local Body should provide certain services and is entitled to certain powers (Mathur, 2007). These are: Urban Planning including town planning and Regulation of land use and construction of buildings, planning for economic and social development. It also includes construction of Roads and bridges and Fire service. Urban local bodies also provides water supply for domestic, industrial, and commercial purpose. It also provides services like Public health, sanitation, conservancy, and solid waste management. The other social functions are protection of the environment, urban forestry, and promotion of ecological aspects; safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded. Slum improvement and up gradation; urban poverty alleviation. Urban Local Bodies (ULBs) also provides urban facilities such as parks, gardens and playgrounds, burials and burial grounds; cremation grounds and electric crematoriums, Cattle pounds, prevention, registration of births and deaths, vital statistics, including registration of births and deaths. It also provides public amenities including street lighting, parking lots, bus-stop, and public conveniences, regulation of slaughter-houses and tanneries. It also helps in promotion of cultural, educational and aesthetic aspects.

3. Urban Local Bodies in Gujarat

Gujarat, situated on the west coast of India, is the seventh largest state in the country in terms of area (1, 92022 Sq. Km) and tenth in terms of population (6.03 crores as per 2011 census). Moreover, the level of urbanization in Gujarat has been always high and in top list of states throughout last five decades. According to 2011 census, Gujarat state is urbanized with 42.1 percent (as against 37.35 percent in 2001). As administrative bodies such as urban local government, urban development, municipality's etc. support the process of urbanization, the role of urban local bodies is very important. In Gujarat the urban local bodies have always played a vital role. Today 159 municipalities and eight municipal corporations in Gujarat follow the Bombay Municipal Act, 1949 and Gujarat Municipal Act, 1963. All the activities performed by these authorities are dependent on their finance. Therefore the focus of this study is to examine the finances of 'ULBs' (Urban Local Bodies) in Gujarat.

4. Research Design

The analysis of finances of Urban Local Bodies in Gujarat has been undertaken in historical perspective. Gujarat is a heterogeneous state in terms of economic and geographical parameters. This spatial study was conducted to analyze the finances of selected urban local bodies in Gujarat. The MANOVA analysis was used to investigate the relationship between financial positions of municipalities. Gujarat state was divided into five major zones according to the geographical classifications (see table 1)

Table 1: Selected Zones and Districts of Gujarat

Zone	District
Central	Ahmedabad, Kheda, Anand
North	Banaskantha, Patan, Mehsana, Sabarkantha, Gandhinagar
South	Godhra, Dahod, Bharuch, Narmada, Surat, Vadodara, Dang, Valsad, Navsari, Tapi
Saurashtra	Jamnagar, Rajkot, Porbandar, Junagadh, Amreli, Bhavnagar, Surendranagar

Source: Gujarat State Portal

The criteria of developed and less developed municipalities were adopted based on classification of municipalities according to the Constitution. Two zones namely, Saurashtra and North Gujarat are taken as sample as one zone has maximum number of Municipal Corporations and other zone has none. It is postulated that Municipal Corporations with large population, larger resources, both physical and financial, and wider revenue based would help attain the benefits of economies of scale. Multivariate analysis is used to check following hypothesis

- a) The average income (Revenue and Capital) of developed municipalities is similar to that of developing municipalities.
- b) The average expenditure (Revenue and Capital) of developed municipalities is similar to that of developing municipalities.
- c) There is no difference between average of Capital Expenditure of North Gujarat and Saurashtra Municipalities.
- d) There is no difference between average of Revenue Expenditure of North Gujarat Municipality and Saurashtra Municipalities.

Financial Analysis of Developed and Developing Municipalities

$$Y_{ij}^{RE} \quad Y_{ij}^{CE} \quad X_i \quad Z_i \quad ij \quad (1)$$

$$Y_{ij}^{RY} \quad Y_{ij}^{CY} \quad X_i \quad Z_i \quad ij \quad (2)$$

Financial Analysis of North Gujarat and Saurashtra

$$Y_{id}^{RE} \quad Y_{id}^{CE} \quad X_i + B_{id} \quad Z_i + ij \quad (3)$$

Where:

$$Y_{ij}^{RE} \quad Y_{ij}^d \quad Y_{ij}^{DI} \quad (\text{where } Y_{ij}^{RE} \text{ sum of revenue expenditure in developed } (Y_{ij}^d) \text{ and developing } (Y_{ij}^{DI}) \text{ municipalities})$$

$Y_{ij}^{CE} = Y_{ij}^d + Y_{ij}^{DI}$ (where Y_{ij}^{CE} sum of capital expenditure in developed (Y_{ij}^d) and developing (Y_{ij}^{DI}) municipalities)

$Y_{ij}^{RI} = Y_{ij}^d + Y_{ij}^{di}$ (where Y_{ij}^{RI} sum of revenue expenditure in developed (Y_{ij}^d) and developing (Y_{ij}^{di}) municipalities).

$Y_{ij}^{CI} = Y_{ij}^d + Y_{ij}^{di}$ (where Y_{ij}^{CI} sum of revenue expenditure in developed (Y_{ij}^d) and developing (Y_{ij}^{di}) municipalities).

$Y_{id}^{RE} = Y_{id}^{NG} + Y_{id}^S$ (where Y_{id}^{RE} sum of revenue expenditure in North Gujarat (Y_{id}^{NG}) and Saurashtra (Y_{id}^S) municipalities).

$Y_{id}^{CE} = Y_{id}^{NG} + Y_{id}^S$ (where Y_{id}^{CE} sum of capital expenditure in North Gujarat (Y_{id}^{NG}) and Saurashtra (Y_{id}^S) municipalities)

i = Five year period (from 2005-06 to 2009-10)

j = zone (1 = north, 2 = Saurashtra)

d = Developmental criteria (developed and developing municipalities)

β_{ij} = covariance constant

X_i = Developed municipalities of i^{th} year

Z_i = Developing municipalities of i^{th} year

The analysis is based on secondary data obtained from mainly “varshik-hisab” or “yearly financial account” of urban local government. Local government budget reflects the overall health of the local economy and is the place where public scrutiny is focused. The time period selected was 2005-06 to 2009-10. The year 2005 was declared as “The Urban Year” by Government of Gujarat. The Government provided special 'Urban Year' grants for urban infrastructure and services to various urban local bodies¹. To carry out a comparative analysis between two zones, multivariate analysis is being used².

5. Municipal Finance in Gujarat

The four municipalities selected are Jetpur, Vanthali (from Saurashtra Region), Patan and Chanasma (North Gujarat region). The Jetpur is class one municipal region in Rajkot district and just 60 km away from Junagadh. This municipality has population of 118,302 according to 2011. The city is famous for cotton sarees and is major exporter of khanga and kitange (fabric used by native African for various purposes). It is one of the major industrial towns in Gujarat surrounded by Rajkot and Junagadh Municipal Corporation. Vanthali on the other hand is developing municipality of class IV category, situated in Junagadh district. According to 2011 census it has population of 14,554. Patan is municipal region situated in North Gujarat; it can take pride in being the capital of Gujarat during ancient time. According to 2011 census its total population was 125,497. Mehsana and Patan are two major cities of North Gujarat region. The small mining and textile industries are there apart from tourist place such as *raan-ki-vaav*. Chanasma is class IV in Patan district. Though Gujarat Industrial Development Corporation (GIDC) established an industrial estate in Chanasma, there is no great benefit this urban region has received, it has population of 15,932 according to 2011 census.

¹The implementation and its effects can be observed only in later years. Hence the next five years has (2005-06 to 2009-10) been taken as to understand the impact of allocated funds for the urban regions

²The suggestions by various officers, head of different department from various layers of government agencies have been incorporated to understand the grass-root level scenario.

5.1. Expenditure of Urban Local Government

The pattern of expenditure of ULBs. What follows is detailed analysis of the trend in expenditure for four municipalities. The revenue and capital expenditure of municipalities indicate the trend of expenditure of selected municipalities.

Figure 1: Revenue expenditure across municipalities in Gujarat

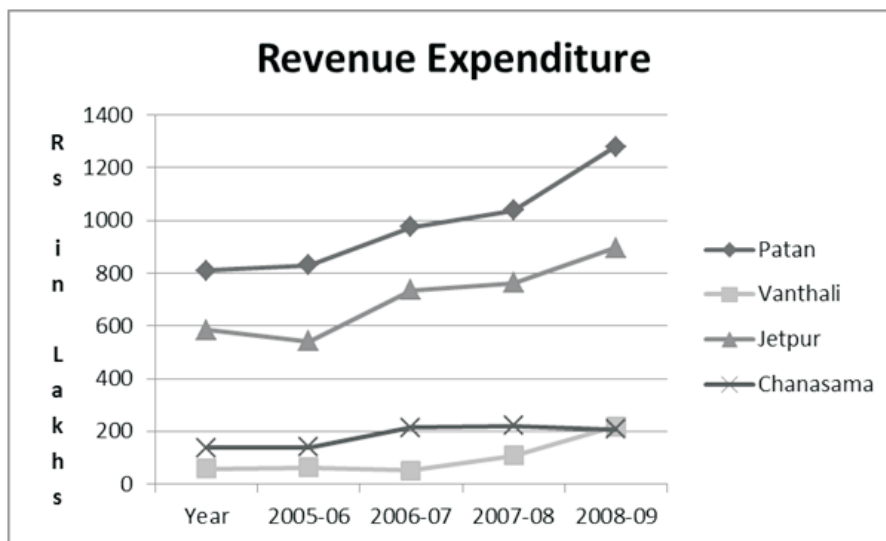
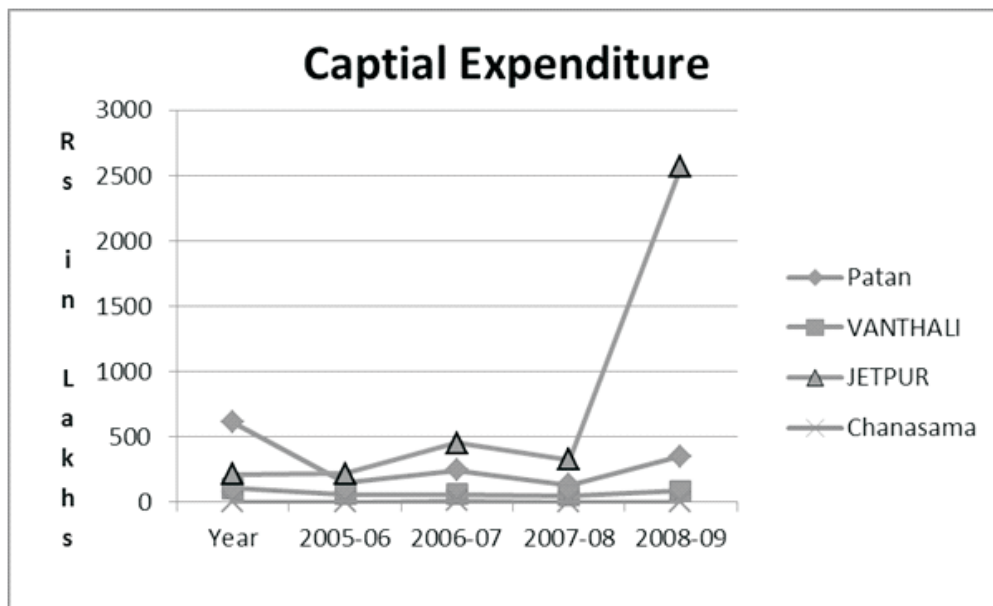


Figure 2: Capital expenditure across municipalities in Gujarat



Source: Appendix:2 for figure 1 &2

Patan indicate positive trend in revenue account. Capital expenditure mainly consists of grant expenditure, tied or untied. Hence there shows no clear trend, for selected years.

Table 2: Distribution of Revenue Expenditure

Chanasama	Administrative	As % to total Exp.	Social	As % to total Exp.	Socio-Economic	As % to total Exp.	Economic	As % to total Exp.
2005-06	2104401	6.00	1863929	5.3	1555160	4.44	6263533	17.87
2006-07	1441982	7.25	1679411	8.4	2060659	10.36	5628450.	28.3
2007-08	1557143	5.44	2571848	9.0	1996388	6.97	10107539	35.29
2008-09	2551746	6.88	3055890	8.2	2628696	7.08	10031800	27.04
2009-10	1405695	5.83	2149911	8.9	2471096	10.25	11033356	45.77
Patan								
2005-06	13089166	7.24	9395345	5.2	54851294	30.33	3080857	1.7
2006-07	14437567	11.93	7486055	6.2	57992319	47.90	2608807	2.15
2007-08	14320845	9.97	9318269	6.5	70532444	49.08	2758772	1.92
2008-09	14292929	10.86	7014774	5.3	78507339	59.63	3147442	2.39
2009-10	18946882	10.26	8843860	4.8	96061218	52.04	2881573	1.56
Vanthali								
2005-06	2040500	11.95	350000	2.1	3390000	19.86	N.A.	N.A.
2006-07	1856213	13.94	241167	1.8	3810318	28.61	N.A.	N.A.
2007-08	4519000	32.40	160000	1.1	1820000	13.05	N.A.	N.A.
2008-09	2978309	17.40	355728	2.1	5907133	34.52	N.A.	N.A.
2009-10	3236225	14.75	725278	3.3	5837064	26.61	N.A.	N.A.
JETPUR								
2005-06	9904201	9.78	10187184	10.1	38223411	37.76	N.A.	N.A.
2006-07	8517531	9.07	7646908	8.1	36992829	39.40	N.A.	N.A.
2007-08	10669733	6.95	8411676	5.5	53470149	34.82	N.A.	N.A.
2008-09	10265741	7.97	8220215	6.4	56758582	44.06	N.A.	N.A.
2009-10	10166513	2.64	9756026	2.5	67075396	17.40	N.A.	N.A.
2009-10	10166513	2.64	9756026	2.5	67075396	17.40	N.A.	N.A.

Source: Budget of various municipalities, 2005-06 to 2009-10

Note: This table does not include capital expenditure and therefore the total shall not add up to 100. The revenue expenditure is indicated as a percentage to total expenditure. N.A. indicates data is not available.

Capital expenditure consists of only that expenditure which is incurred from capital grants provided by higher level of government. The expenditure grants are divided into revenue grants and capital grants. The cost to carry out various urban functions out-weigh the revenue funds hence higher level of government (Central and State) is required to support them through transfer of funds and grants. Total revenue expenditure is divided into three major heads namely; tied, untied and special. The grant of tied revenue is around 10 percent for developed municipalities and 23 percent for developing municipalities. This clearly indicates that the funds have been allocated for the development of special heads or infrastructure. Appendix-1 provides details of total expenditure which includes expenditure grants too. The development of infrastructure requires capital grant. It is found that developed municipalities generally spend more on construction of infrastructure (Appendix 1)

Out of the selected municipalities, municipality of Patan has spent more than 46percent on infrastructure such as construction of public amenities i.e. Public garden, hall etc. While Jetpur, has spent more than 29 percent of its expenditure on development of urban areas which includes basic amenities like development of fire station, building water tank etc. The developing municipalities like Chanasma and Vanthali has spent more than 20% on infrastructure development.

There are certain revenue generation stream of urban local bodies such as a dairy business, a shop for cement, and nut-bolt and screw shop (*economic activities*). It is basically indicating the purpose of earning by ULBs.

The trend in expenditure pattern³ shows focus area of development by municipalities. In case of developed municipalities the center point is development of *socio-economic activities*. However in case of Jetpur, the expenses are from grant income which again is on the area of activities related to socio-economic development only.

³Total expenditure is divided into revenue expenditure and capital expenditure. Revenue expenditure (salary expenditure, water expenditure, cost on solid waste management etc.) further divided into various categories such as administrative expenditure, social expenditure, economic expenditure, socio-economic expenditure, and revenue grants expenditure. Capital expenditure is consisting of only capital grant expenditure etc. Most of which is based on state government budget

The local government of urbanized state must focus on development of infrastructure and services. Hence the allocation on socio-economical sector will be highest. It does not include essential goods like water but also public construction work. Appendix-1 provides overall distribution of total expenditure. Here the revenue expenditure has been presented in table 2. In case of developed municipalities such as Patan, the expenditure on water is around 20 percent. Jetpur has highest expenditure on solid-waste management followed by expenditure on water and streetlight.

In case of developing municipalities such as Chanasma, highest expenditure is on street light followed by water and solid-waste management. Vanthali spends maximum on solid waste management and streetlights. The state has major emphasized on zero waste urban regions and availability of potable water as basic needs. This is amply which is reflected well in the budgetary allocations of various municipalities. The government is termed as welfare government; hence it is essential to carry out functions which lead to positive externalities in society. Those functions are called 'social functions' in municipal budget. The expenditure on social activity is hardly 5 percent of total expenditure for in selected municipalities. In case of developing municipalities it is, by and large, in single digit only.

Oates (1972) in his book “fiscal federalism” pointed out that establishment of any layer of government itself incurs the cost viz., the cost of establishment and maintenance. The onerous expenditure i.e. as administrative expenditure is around 10 percent of total expenditure for almost all municipalities more or less. However it is important to note that there is no specific trend. It is interesting to note that in case of developed municipalities Patan with 42 per cent has the highest growth rate of administrative expenditure.

5.2 Income of Urban Local Government

The revenue account consists of revenue receipts and capital income. The trend as depicted indicated in appendix2. Revenue receipts of municipalities include current (yearly) income from various sources such as own-income, revenue grants, others.

The trend line in general indicates rising revenue for all the selected municipalities. Moreover the revenue account growth is overall positive for developed municipality except for one year in case of Patan. The growth rate (CAGR) for the developed municipality's viz. Patan, and Jetpur are 0.06, and 0.20 respectively. The developing municipalities also indicate promising growth rates. For example, Chanasma and Vanthali indicate overall positive growth rates, except for one year.

Since capital income consists of mainly grant income, one would expect some variations in the trends. For example, Jetpur has negative growth rate for one year. The developing municipalities also have negative growth rates for at-least two years. The income from grants is greater than the own income in all selected municipalities, developing and developed. This indicates that the reduction in the financial ability of the local bodies, as the dependency on the grants is higher. Moreover horizontal imbalances is widening due to variation in the fiscal instability. The details of income presented in Appendix-2.

Distributions of total revenue by own income and other income: Total revenue income is divided into income earned through own sources of income and income through other sources. Other sources of income in urban local bodies consist of loan, advances, deposits and miscellaneous income earned through various sources by urban local bodies. If we compared developed and developing municipalities in that case, such as Patan and Jetpur, (developed municipalities) their own income constitutes the major source of revenue, indicating that local government bodies have strengthened their revenue base. In contrast, grants are the major source of revenues for developing municipalities. Source of revenue is presented in Tabel-3. The detail distribution of revenue income by own income and others is depicted in table 2 in appendix.

Table 3: Distribution of Total Income (by own income, grants and others)

Municipality/ Years	Own income	Grants	Others	Municipality/ Years	Own income	Grants	Others
Patan				Chanasama			
2005-06	59.4	19.57	21.03	2005-06	44.16	50.79	5.05
2006-07	58.64	27.54	13.82	2006-07	49.34	46.1	4.56
2007-08	54.21	36.29	9.51	2007-08	48.38	49.13	2.49
2008-09	68.8	17.71	13.5	2008-09	42.77	57.08	0.15
2009-10	66.85	26.28	6.87	2009-10	67.2	29.47	3.33
Jetpur				Vanthali			
2005-06	17.29	60.5	22.21	2005-06	13.5	83.6	2.9
2006-07	17.61	68.85	13.54	2006-07	39.52	55.61	4.86
2007-08	14.13	70.85	15.02	2007-08	35.65	61.41	2.94
2008-09	24.78	57.8	17.42	2008-09	36.78	55.43	7.79
2009-10	13.76	71.39	14.86	2009-10	71.2	19.47	9.33
2009-10	13.76	71.39	14.86	2009-10	71.2	19.47	9.33

Source: Budget of various municipality, 2005-06 to 2009-10

Own income of municipalities consists of tax income, non-tax income and income from other miscellaneous sources such as town planning fund, auction of old furniture or store room items, vehicles, etc. The share of tax and non-tax income as percentage of total own income is presented in Appendix-2. The developed municipalities of Patan clearly indicated share of tax income is great than non-tax income. It could be due to higher shares of property tax and water tax. However in case of Jetpur the share of non-tax is higher compared to tax revenue, which appears due to higher share of non-tax income i.e. fee which includes license fee, notice fee, property transfer fee, shop registration fee etc. In case of developing municipalities, except Vanthali, the major share of revenue comes from non-tax income. Vanthali has

major share of income from property tax; and, it was octroi too till the year 2006-07. The major share in non-tax revenue income is from miscellaneous non-tax income in case of Chanasama.

The developed municipalities received major share of grants income in their capital account as shown in appendix-2. However, revenue grants contribute only marginally in total income of the selected municipalities. In case of Patan and Jetpur the income from capital grants contributed highest to their total income from grants. Even in case of capital grants, the urban development and miscellaneous grants are major contributory factors for Jetpur municipality. In total capital grants for Patan municipality share of Infrastructure development is major one. The grants to own income ratio indicate dependency ratio of urban local government which is highest for Patan.

The Grant helps to reduce horizontal equity, as each municipality has diverse ability as well as tax base to augment income. In case of developed municipalities such as Patan and Jetpur, their own income constitutes the major source of revenue income, indicating that local government bodies have strengthened their revenue base. In contrast, grants are the major source of revenues for developing municipalities. Sources of revenue are presented in Tabel-3. The detail distribution of revenue income by own income and others is depicted Appendix:2.

5.3 Deficit in Budget

The total deficit is depicted to understand the gap between income and expenditure of municipalities. Therefore, we have attempted to analyses revenue and capital deficit. For, the budget of an urban local body is a financial statement of urban local government. It indicates the planning and priorities of an urban local government.

Table 4: Deficits in Budget

Rs. in crores

	TD	RD	KD		TD	RD	KD
Patan				Chansam			
2005-06	-1.07	2.31	-3.37	2005-06	-1.27	-0.02	-1.23
2006-07	0.99	-0.54	1.54	2006-07	0.16	0.01	0.14
2007-08	2.51	-0.32	2.79	2007-08	0.21	-0.2	0.43
2008-09	0.55	-0.02	0.56	2008-09	-0.25	-0.25	-0.01
2009-10	0.88	0.11	0.77	2009-10	0.22	0.12	0.09
Jetpur				Vanthal			
2005-06	0.12	-0.92	-4.97	2005-06	0.01	-0.24	0.24
2006-07	3.12	0.03	-2.55	2006-07	0.008	-0.02	0.02
2007-08	3.49	0.16	-4.74	2007-08	-0.066	-0.13	0.24
2008-09	3.41	0.64	2.77	2008-09	0.908	-0.05	0.79
2009-10	-6.35	1.26	-7.6	2009-10	-0.54	0.21	-0.75

Source: Calculated from income and expenditure of various Municipal Budgets**Note:** TD= Total deficit, RD= Revenue deficit, CD= Capital deficit

The table 4 provides detail information on various deficit parameters. The municipality-wise analysis is presented in what follows.

The Patan municipality indicates overall deficit for the first year of the study followed by surplus in the next year. The deficit is due to higher capital expenditure for public amenities spending. The revenue account indicates surplus for the first year followed by deficit for the next two year i.e. 2006-07 and 2007-08. This indicates overall higher administrative and socio-economic expenditure. The capital account indicate deficit for the year 2005-06, followed by surplus for the next four year of the study. The deficit budget in the Patan municipality is only for the financial year 2005-06. Capital Account faced the deficit due to larger spending by municipalities for the construction of infrastructure such as public hall.

The overall budget of Jetpur Municipality indicates surplus except for the last year of the study i.e. 2009-10. The revenue account indicates surplus for the first year of the study. The surplus indicates higher contribution from non-tax income.

Moreover, sanitation tax and streetlight fee contribution leads to surplus in the revenue account. In case of capital account there is deficit for all the five year of the study except 2008-09. Capital (grant) expenditure is found to be increasing. In case of developed municipalities the adequate revenue in the budget will provide better services hence will have comparatively stronger fiscal position. This has help in creating of basic infrastructure and public places in the city. Big cities (Class A type city) provide employment opportunities hence attract the population from nearby rural and semi-rural regions. It thus reduces the financial pressure of municipal corporation of the district i.e. Rajkot. The detail of total income, expenditure as well as revenue and capital income, expenditure is indicated in appendix-1 and appendix -2.

The first year indicates deficit budget for Chanasma followed by surplus for the next two year of the study however 2009-10 indicates deficit in the overall budget of the municipality. The first year of the study indicates deficit in the revenue account followed by surplus. Again the year 2007-08 and 2008-09 indicates deficit followed by surplus in the account. The capital account of the municipality is having deficit for the first year of the study followed by surplus in the account for the next two year. The year 2008-09 indicate deficit but once again the year 2009-10 indicates surplus in the capital account. Chanasma municipality indicated deficit for the year 2005-06 and 2008-09 which is due to deficit in both revenue and capital account. In 2009-10, there is reduction in capital grants (income), while spending remains intact leads to deficit in capital account. However to continue constructional activities own funds was utilized which leads to deficit in revenue account.

The Vanthali municipality indicates overall surplus for the first two year of the study followed by deficit in the year 2007-08; however 2008-09 is having surplus in the budget once again. The capital account indicates surplus in the budget except the year 2009-10 which is due to reduction of grants received from higher layer of government. Revenue account faced deficit in the year 2007-08 due to high administrative cost. We have attempted quantitative analysis to understand the nature and degree of dependency of municipalities on various sources of revenues.

5.4 MANOVA

We have carried out a multivariate analysis (MANOVA), to understand the dynamics of revenue and expenditure of the two zones viz. Saurashtra and North Gujarat. Our endeavor is to understand whether or not, the different components of municipal budget such as expenditure, income and deficit, component of income and component of expenditure, etc. differ significantly between the regions and types of municipalities. The model for testing is presented in the form of equations. We postulate that there is no significant difference between municipalities of these two regions and also across developed and developing municipalities. The result and analysis of MANOVA equation-1 indicates expenditure (revenue and capital) of developed and developing municipalities has been presented in table 5. While table 6 highlights the result for MANOVA equation-2 indicating revenue and capital income of developed and developing municipalities. The MANOVA results of zonal comparison of Municipalities of North Gujarat and municipalities of as indicated in equation -3 has been provided in table 7.

Table 5: Revenue & Capital Expenditure

Revenue Expenditure	Mean	Sample Size(N)	Revenue Expenditure	F-Ratio
Developed Municipalities	8.6600	10		104.29*
Developing Municipalities	1.3780	10		
Total	5.0190	20		
Intercept			198.17*	
Capital Expenditure			Capital Expenditure	
Developed Municipalities	7.2410	10		7.50**
Developing Municipalities	.8250	10		
Total	4.0330	20	11.86*	
Intercept				
R Squared	.853 (Adjusted R Squared = .845)			

Note: *represent 1% level of significance and ** represent 5% level of significance

Table 5 shows that the average of revenue expenditure and average of capital expenditure of developed municipality is much higher than the developing municipalities. All four test significant display F value. There is significant difference between average of revenue expenditure and average of capital expenditure between developed and developing municipalities. Higher administrative as well as socio-economic cost leads to higher revenue expenditure of developed municipalities. Overall development especially infrastructure indicates higher capital spending for developed municipalities. Almost 85 percent of variation in revenue and capital expenditure of developing and developed municipalities is explained by the model.

Table 6: Revenue & Capital Income

Revenue Expenditure	Mean	Sample Size(N)	Revenue Expenditure	F-Ratio
Developed Municipalities	8.93	10		93.01*
Developing Municipalities	1.32	10		
Total	5.13	20		
Intercept			168.800	
Capital Expenditure		10	Capital	
Developed Municipalities	5.76	10		11.08**
Developing Municipalities	.82	20		
Total	3.29	10		
Intercept			19.677	
R Squared	.838 (Adjusted R Squared = .829)			

Note: *represent 1% level of significance and ** represent 5% level of significance

The table 6 shows that the average of revenue income and average of capital income of developed municipality is much higher than the developing municipalities. This is due to higher share of own income on and average remain high. All four test significant display F value. There is significant difference between average of revenue income and average of capital income between developed and developing municipalities. It is clearly indicated that 83.8 percent of variation in revenue and capital income of developing and developed municipalities is explained by the model.

Table 7: Municipalities of North Gujarat and Saurashtra

Revenue Expenditure	Mean	Sample Size(N)	Revenue Expenditure	F-Ratio
Developed	10.0060	5		6.21*
Developing Municipalities	7.3140	5		
Total	8.6600	10		
Intercept			257.01	
Capital Expenditure			Capital Expenditure	
Developed Municipalities	2.9760	5		4.71**
Developing Municipalities	11.5060	5		
Total	7.2410	10		
Intercept			13.56	
R Squared	.437 (Adjusted R Squared = .367)			

Note: *represent 1% level of significance and ** represent 5% level of significance

Table7 shows average of capital expenditure of Saurashtra Municipality is much higher than that of municipality of North Gujarat. However in case of Revenue Expenditure the average of North Gujarat is higher than Saurashtra. The investment in infrastructure will further enhance the overall development. Capital expenditure indicates investment in various long term projects which will provide higher returns in future. However greater revenue expenditure implies that exhaustive spending is higher which does not lead to any return in future. All four tests of significant display F value which results into rejection of the null hypothesis and establishes that there is significant difference between average of revenue expenditure and mean of capital expenditure between North Gujarat and Saurashtra. Almost 44 percent of variation in revenue and capital expenditure of North Gujarat and Saurashtra is explained by the model.

6. Conclusion

Urbanization is major criteria to check the progress of any society. Many problems of urbanization which cannot be handled at centre or state level could be best handled at local level. Hence, decentralization and devolution of powers and authority have been favored by various political dispensations across the globe. The 74th Constitutional Amendment Act (CAA) in 1992 was promulgated to promote decentralization and strengthen the grass root level governance. As per Twelfth schedule of Article 243W of 74th CAA, an Urban Local Body should provide certain services such as fire, road, health, solid-waste management, water for various purposes, etc. This calls for fiscal autonomy along with functional responsibilities. However the municipality with better financial resources and economic opportunity stand to gain more compared to the smaller one. The smaller one are likely to depend heavily upon higher level of government i.e. State and Central governments for fiscal support.

This study highlights the fact that developed municipalities are financially better off than developing municipalities. Hence one can conclude based on the analysis that autonomy provided to local government (Urban Local Government) under 74th Constitutional Amendment Act is strengthening economically better off municipalities.

However higher capital deficit of Jetpur clearly indicate that infrastructure expenditure is increasing tremendously due to opportunity region is providing. Hence the concentrations of municipal corporations in Saurashtra zone clearly indicate higher investment in infrastructure and capital related activities. However, both the zone is required to invest heavily in e-government, environmental related issues such as solid-waste as well as focus should be reduction of deficit.

During the field visits, there were discussions on how to augment the revenue resources with various officers as well as heads of departments from different layers of the government. These discussions highlight that the increase in revenue expenditure needs to be controlled for the efficient usages of available resources.

An efficient and technical staff is required to handle operations efficiently. Municipalities are required to create new and innovative sources of income to cover the increasing expenditure; however for this understanding of the region is important. The staff, including chief officer must be appointed from the local area for the better understanding of economic and social aspects of region. The municipalities can generate funds from public for various social purposes.

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APPENDIX
Appendix 1: Total Expenditure (Rs in Lakhs)

Appendix: 1.1

Patan		2005-06	2006-07	2007-08	2008-09	2009-10
		130.89	144.38	143.21	142.93	189.47
	as % of total exp	7.24	11.93	9.97	10.86	10.26
Economical		30.81	26.09	27.59	31.47	28.82
	as % of total exp	1.70	2.15	1.92	2.39	1.56
Others		5.37	4.32	3.93	5.58	6.33
	as % of total exp	0.30	0.36	0.27	0.42	0.34
Social		93.95	74.86	93.18	70.15	88.44
	as % of total exp	5.19	6.18	6.48	5.33	4.79
Socio-economical		548.51	579.92	705.32	785.07	960.61
	as % of total exp	30.33	47.90	49.08	59.63	52.04
Revenue Grant.		1.97	1.17	1.64	3.96	7.21
	as % of total exp	0.11	0.10	0.11	0.30	0.39
Capital Grants		610.24	146.46	243.52	134.74	353.08
	as % of total exp	33.74	12.10	16.95	10.23	19.13
Total Grants		612.20	147.63	245.16	138.70	360.29
	as % of total exp	33.85	12.19	17.06	10.54	19.52
Total Capital Expenditure		610.24	146.46	243.52	134.74	353.08
Loan		3.95	20.45	17.71	4.56	18.98
	as % of total exp	0.22	1.69	1.23	0.35	1.03
Extra		0.00	0.00	0.00	0.00	0.00
Deposits		193.52	181.89	175.75	94.67	138.07
	as % of total exp	10.70	15.02	12.23	7.19	7.48
ADVANCE		189.53	31.08	25.22	43.41	54.88
	as % of total exp	10.48	2.57	1.75	3.30	2.97
Total Expenditure		1808.74	1210.62	1437.06	1316.55	1845.88

Appendix: 1.2

VANTHALI		2005-06	2006-07	2007-08	2008-09	2009-10
Administrative		20.41	18.56	45.19	29.78	32.36
	as % of total exp	11.95	13.94	32.40	17.40	14.75
Economical		0.00	0.00	0.00	0.00	0.00
	as % of total exp					
Others		0.00	0.00	0.00	0.00	0.00
	as % of total exp					
Social		3.50	2.41	1.60	3.56	7.25
	as % of total exp	2.05	1.81	1.15	2.08	3.31
Socio-economical		33.90	38.10	18.20	59.07	58.37
	as % of total exp	19.86	28.61	13.05	34.52	26.61
Revenue Grant		1.24	6.87	4.16	4.55	3.60
	as % of total exp	0.73	5.16	2.98	2.66	1.64
Capital Grants		108.75	64.11	64.40	53.77	88.62
	as % of total exp	63.71	48.13	46.18	31.42	40.39
Total Grants		109.99	70.98	68.56	58.31	92.22
	as % of total exp	64.43	53.29	49.16	34.08	42.03
Total Capital Expenditure		108.75	64.11	64.40	53.77	88.62
Loan		0.00	0.00	20.00	0.00	0.00
	as % of total exp			1.43		
Extra		0.00	1.67	1.61	2.03	0.00
	as % of total exp	0.00	1.20	0.89	0.92	
Deposits		1.71	0.59	1.56	5.20	21.98
	as % of total exp	1.00	0.44	1.11	9.35	10.02
ADVANCE		1.00	2.42	0.00	2.31	0.51
	as % of total exp	0.59	1.82		1.35	0.23
Total Expenditure		170.71	133.19	139.47	171.12	329.40

Appendix: 1.3

JETPUR		2005-06	2006-07	2007-08	2008-09	2009-10
Administrative		99.04	85.18	106.70	102.66	101.67
	as % of total exp	9.78	9.07	6.95	7.97	2.64
Economical		0.00	0.00	0.00	0.00	0.00
	as % of total exp					
Others		0.00	0.00	0.00	0.00	0.00
	as % of total exp					
Social		101.87	76.47	84.12	82.20	97.56
	as % of total exp	10.06	8.14	5.48	6.38	2.53
Socio-economical		382.23	369.93	534.70	567.59	670.75
	as % of total exp	37.76	39.40	34.82	44.06	17.40
Revenue Grant		1.83	4.23	10.77	8.24	25.43
	as % of total exp	0.18	0.45	0.70	0.64	0.66
Capital Grants		216.59	220.34	451.55	326.65	2566.31
	as % of total exp	21.40	23.47	29.41	25.36	66.56
Total Grants		218.43	224.57	462.32	334.89	2591.74
	as % of total exp	21.58	23.92	30.11	26.00	67.22
Total Capital Expenditure		216.59	220.34	451.55	326.65	2566.31
	as % of total exp	0.04	0.53	0.01	0.12	0.01
Loan		15.69	23.08	69.68	12.10	16.40
	as % of total exp	1.55	2.46	4.54	0.94	0.43
Extra		116.71	70.01	120.98	38.40	66.92
	as % of total exp	11.53	7.46	7.88	2.98	1.74
Deposits		48.02	45.17	37.52	13.18	173.12
	as % of total exp	4.74	4.81	2.44	1.02	4.49
ADVANCE		29.99	39.48	119.33	135.60	137.23
	as % of total exp	2.96	4.21	7.77	10.53	3.56
Total Expenditure		1012.35	938.90	1535.52	1288.14	3855.86

Appendix: 1.4

Chanasama		2005-06	2006-07	2007-08	2008-09	2009-10
Administrative		21.04	14.42	15.57	25.52	14.06
	as % of total exp	14.57	9.73	6.49	11.35	6.41
Economical		62.64	56.28	101.08	100.32	110.33
	as % of total exp	17.49	27.65	34.33	26.77	44.14
Others		62.64	56.28	101.08	100.32	110.33
	as % of total exp	17.87	28.30	35.29	27.04	45.77
Social		18.64	16.79	25.72	30.56	21.50
	as % of total exp	5.32	8.45	8.98	8.24	8.92
Socio-economical		15.55	20.61	19.96	26.29	24.71
	as % of total exp	4.44	10.36	6.97	7.08	10.25
Revenue Grant		1.02	2.87	8.67	0.07	0.51
	as % of total exp	0.29	1.44	3.03	0.02	0.21
Capital Grants		200.30	44.00	39.46	142.00	19.87
	as % of total exp	57.13	22.12	13.78	38.27	8.24
Total Grants		201.32	46.86	48.13	142.07	20.38
	as % of total exp	57.42	23.57	16.80	38.29	8.46
Total Capital Expenditure		201.32	46.86	48.13	142.07	20.38
Loan		1.47	2.48	19.82	0.00	9.64
	as % of total exp	0.42	1.25	6.92	0.00	4.00
Extra		5.23	5.06	3.81	4.30	1.33
	as % of total exp	1.49	2.54	1.33	1.16	0.55
Deposits		0.23	1.15	0.87	0.00	0.39
	as % of total exp	0.07	0.58	0.30	0.00	0.16
ADVANCE		0.39	0.49	2.20	00	00
	as % of total exp	0.11	0.25	0.77	0	0
Total Expenditure		350.60	198.86	286.44	371.04	241.05

Appendix 2: Total Income (Rs. in Lakhs)

Appendix: 2.1

Total Income (Rs. In lakhs)					
Patan	2005-06	2006-07	2007-08	2008-09	2009-10
Own income	992.49	746.32	888.81	948.90	1249.98
As % to Total Income	59.40	58.64	54.21	68.80	66.85
Grants	326.94	350.58	595.01	244.20	491.36
As % to Total Income	19.57	27.54	36.29	17.71	26.28
loan	0.00	0.00	0.00	40.00	0.00
As % to Total Income	0.00	0.00	0.00	2.95	0.00
Advance	173.77	32.03	42.28	56.76	60.81
As % to Total Income	10.40	2.52	2.58	4.12	3.25
Deposit	177.67	143.82	113.59	89.38	67.64
As % to Total Income	10.63	11.30	6.93	6.48	3.62
Extra	0.00	0.00	0.00	0.00	0.00
As % to Total Income					
TOTAL INCOME	1670.9	1272.8	1639.7	1379.2	1869.8

Appendix: 2.2

Chanasama	2005-06	2006-07	2007-08	2008-09	2009-10
Own income	98.90	105.79	148.65	146.07	175.44
As % to Total Income	44.16	49.34	48.38	42.77	67.20
Grants	113.74	98.86	150.94	194.95	76.93
As % to Total Income	50.79	46.10	49.13	57.08	29.47
loan	5.71	3.01	1.77	1.50	9.03
As % to Total Income	2.55	1.41	0.58	0.44	3.43
Advance	0.39	0.49	0.70	0.00	0.00
As % to Total Income	0.17	0.23	0.23	0.00	0.00
Deposit	0.26	1.16	0.86	0.01	0.40
As % to Total Income	2.55	1.41	0.58	0.44	3.43
Extra	4.94	5.11	4.31	0.00	1.27
As % to Total Income	2.20	2.38	1.40	0.00	0.48
TOTAL INCOME	223.9	214.4	307.2	342.5	263.1

Appendix: 2.3

Jetpur	2005-06	2006-07	2007-08	2008-09	2009-10
Own income	182.08	220.65	265.11	411.59	455.95
As % to Total Income	17.29	17.61	14.13	24.78	13.76
Grants	636.91	862.53	1329.22	960.18	2366.1
As % to Total Income	60.50	68.85	70.85	57.80	71.39
loan	11.11	12.47	12.29	70.15	21.47
As % to Total Income	1.06	1.00	0.66	4.22	0.65
Advance	20.68	15.36	116.22	117.67	124.80
As % to Total Income	1.96	1.23	6.19	7.08	3.77
Deposit	80.93	56.64	31.21	31.02	256.98
As % to Total Income	7.69	4.52	1.66	1.87	7.75
Extra	121.10	85.11	122.12	70.56	89.18
As % to Total Income	11.50	6.79	6.51	4.25	2.69
TOTAL INCOME	1052.8	1252.8	1876.2	1661.2	3314.5

Appendix: 2.4

Vanthali	2005-06	2006-07	2007-08	2008-09	2009-10
Own income	23.45	54.22	53.98	92.39	116.60
As % to Total Income	13.50	39.52	35.65	36.78	71.20
Grants	145.13	76.30	92.98	139.25	31.88
As % to Total Income	83.60	55.61	61.41	55.43	19.47
loan	0.10	0.00	0.60	3.29	5.38
As % to Total Income	0.06	0.00	0.40	1.31	3.28
Advance	1.00	2.37	0.00	2.42	0.73
As % to Total Income	0.58	1.73	0.00	0.96	0.45
Deposit	0.83	1.77	1.20	11.46	4.63
As % to Total Income	0.48	1.29	0.79	4.56	2.83
Extra	3.10	2.54	2.65	2.40	4.55
As % to Total Income	1.79	1.85	1.75	0.96	2.78
TOTAL INCOME	173.6	137.2	151.4	251.2	163.8

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