

## **Chapter-1**

### **Introduction**

#### **1.1. General Outline**

Urbanization is being happened in our country with a very rapid space. It was only about 30 percent as per census 2001. A study says “The 2011 Census has indicated that compared to 1363 in 2001, there are now 3893 census towns which fulfill the normative criteria of a minimum population of 5000, density of 400 persons per square km and at least 75 percent of the male working force in occupations other than agriculture.”<sup>1</sup> The municipal bodies are the key agents for urban development. These urban local bodies are not new ones but have been existed since ancient times. The existence of a similar system is found during Chola period in 10<sup>th</sup> and 11<sup>th</sup> centuries which was controlling the entire community life. The system of election was in existence in those days also. The Chinese traveller Megasthenes described in his book, “Indica” about the administration of towns during Mauryan period in 4<sup>th</sup> century B.c. According to his description, a town was administered by six committees each consisting of five officials. Each committee was responsible to look after separate activity like industrial arts, entertainment of foreigners, births and deaths, trade and commerce, supervision of manufactured goods and collection of commercial tax. During the Mughal period, the town was headed by an administrative officer called Kotwal, who besides his municipal functions also exercised supreme authority in magisterial and fiscal matters of town. Abul Fazl mentions the duties and functions of Kotwal in his “Aini-Akbari”. Accordingly, through the watchfulness and night-patrolling, the citizens should enjoy the repose of security. Kotwal should keep a register of houses and roads frequented, and engage the . . . . . citizens in a pledge of reciprocal assistance. In the starting of British rule in India the system of local body lost its status and power but later imperial government realized the necessity of urban local body and had taken initiative and many measures to form the urban local self government under various enactments. In this regard the first “Municipal governance in India introduced in 1687 when the Madras Municipal Corporation was formed.”<sup>2</sup> The functions assigned to this body was to provide certain amenities like education, cleaning the roads etc by collecting direct taxes from the habitat. Later this corporation was substituted by a Mayor’s court in 1926 to collect taxes for provision of local

amenities. Followed by the creation of Madras Municipal Corporation the Calcutta Municipal Corporation and the Bombay Municipal Corporation was formed in 1726. The tradition of local service delivery being the explicit mandate for local governments began with Samuel Laing, member of the Viceroys Council, in budget speech (1861-2) proposing that local services should be based on local resources. In 1850, the improvements in Towns Act were passed by the Government of India to extend the local self government all over the country that established a system of councilors and gave them administrative authority. The functions assigned to these bodies were to construction of roads, repairs of roads, cleanliness the town, lighting the streets, operation and maintenance of local body assets etc. In 1863 the Royal Army Sanitary Commission submitted the report indicating the state of affairs in Indian towns, a series of Acts were passed. Subsequently, Lord Mayo's Resolution of 1870 instituted the system of city municipalities and called for the introduction of an elected president to lead them. In 1882, Lord Ripon's Resolution of Local Self-Government created the outline and structure of municipal governance in India. It introduced a two-tier (provincial Government and Local Bodies) system of governance to increase governance efficiency through decentralization of functions. The above resolution provided for the expansion of local urban bodies, more devolution of financial resources, reducing the official element in urban local bodies to one-third and adopting election process for the constitution of these bodies. Due to far reaching approach of Lord Ripon, he is called the father of local self-government in India and his resolution is called "Magnacarta" of local self-government in India. Due to the holistic attitude of his successors, his reforms were not implemented faithfully. The Royal commission (1906) on decentralization was appointed by British government to study the failures of urban local bodies. The commission found some problems of failures of these bodies. The problems are strict official control, narrow voting rights, less resources, lack of awareness and committed persons were the main reasons for the failures. The commission recommends reforming the local bodies but no action was taken against that recommendations. Based on the 1918 Montague-Chelmsford Report, the Government of India Act, 1919 introduced the system of 'Dyarchy', where power-sharing arrangements between the state and the local bodies differed, but conformed to the same organizational pattern. For the smaller cities and towns, municipalities were formed, while big cities were governed by municipal corporations. The main provisions of the Act included increasing the taxation power of urban local bodies, expansion of franchise and reducing the

official /nominated members. The communal representation was also extended to the election of municipalities. The District Municipalities Act of 1920 transformed the Municipal Councils into elected bodies and granted them powers to flesh out their own budgets. The tax payers were allowed to vote and also stand as a representative to the councils. The Cantonment Act was passed in 1924. The Government of India Act 1935 brought local government within the purview of the state or provincial government and granted those enhanced powers. However, the Act of 1935, otherwise a progressive measure did not assign any tax to local bodies. Due to the outbreak of war, no substantial progress was made towards further strengthening of local bodies. After independence in 1947 the new constitution of India was enforced on January 26, 1950. Though the constitution made specific provision for the establishment of Panchayati raj institutions in article 40 under the directive principles of state policy, it did not make specific provision for the establishment of urban local bodies. The urban local government found mention only under entry 5 of state list of 7<sup>th</sup> schedule. This entry includes local government, that is to say, the constitution and powers of Municipal Corporations, Improvement Trusts, District Boards and other local authorities for the purpose of local self-government of village administration.

According by the constitution and powers of all local bodies are within the jurisdiction of state government. However, it should be noted that urban planning is indirectly included in “Economic and Social Planning” which is mentioned under entry 20 of the concurrent list. Its implication is that while powers and constitution of urban local bodies is the sole jurisdiction of both the state and the union government.

Prior to 1992 Indian local governments did not have a constitutional status but only a statutory status under state law. Therefore, the governance of urban areas was directly under the control of the state government. This changed with the enactment of the 74th Constitution Amendment Act, 1992. For the first time in the history of urban governance, Urban Local Bodies (ULBs) were granted a constitutional position as the third tier of government. These bodies were given a constitutional outline for conducting regular elections, powers and financial devolution. The Amendment assigned local bodies with the responsibility of providing basic services. “Today, there are around 3,700 ULBs with 100 municipal corporations, 1,500 municipal councils and 2,100 Nagar Panchayats, besides 56 cantonment boards are operating”<sup>3</sup>. The centre never intervened the affairs of running the bodies till 1992. By the 74th constitutional Amendment Bill

that gives sweeping powers to the local Authority in planning & development by involving people at all levels.

Three types of ULB have been classified under<sup>4</sup> the provision of Articles 243Q of the 74th CAA. These are Municipal Corporation for larger urban areas, Municipal Councils for smaller urban areas, and the Nagar Panchayats for transitional areas.

Municipal Corporation-Municipal Corporation is established by the act of state government for the big cities of states and by the act of parliament for the big cities of union territories. A corporation has three authorizes. First is the corporation council headed by the Mayor, who is assisted by the Deputy Mayor. The councilors and Mayor are directly elected by the people. Council is a deliberative and legislative origin of the corporation. Second organ of the corporation are the standing committees to deal with various activities like health, education, public works and are empowered to take decisions in their respective fields. The third authority of the corporation is the municipal commissioner, who is a government officer and is responsible for the implementation of the decisions taken by the council and standing committees.

Municipalities-they are setup by the acts of state legislature for the administration of small cities or towns. It also has three authorizes, first the municipal council is the legislative branch of the municipality, and is headed by the chairman, who in turn is assisted by a Deputy Chairman. The standing committees facilitate the work of municipality in various fields such as health, taxation finance etc. The third authority of the municipality is the chief municipal officer, who is appointed by the state government and is responsible for the general administration of the municipality. The municipality may be known by other names also such as municipal board, municipal council or municipal committees etc.

Nagar Panchayat- This may be created either in a town which is fast developing or which not fulfill the conditions for the creation of a municipality. It is created through a notification of the state government published in the official gazette. It is not a statutory body and all its members and chairman are nominated by the government .Its performs similar functions as performed by a municipality.

The 74th CAA lists five criteria for constituting the ULBs namely, (i) population, (ii) density, (iii) revenue generated per annum, (iv) percentage of employment in non-agricultural activities, and (v) economic importance of the local body.

These municipal bodies are vested with a long list of functions<sup>5</sup> delegated to them by the state governments under the municipal legislation. These functions broadly relate to public health, welfare, regulatory functions, public safety, public works, and development activities. Public health includes water supply, sewerage and sanitation, eradication of communicable diseases etc. Welfare includes public facilities such as education, recreation, etc. Regulatory functions relate to prescribing and enforcing building bye-laws, encroachments on public land, registration of births and deaths, etc. Public safety includes fire protection, street lighting etc. Public works measure construction and maintenance of inner city roads, etc; and development functions relate to town planning and development of commercial markets. In addition to the legally assigned functions, the sectarian departments of the state government often assign unilaterally, and on an agency basis, various functions such as family planning, nutrition, epidemic control, etc.

Development functions like planning for economic development and social justice, urban poverty alleviation programmes and promotion of cultural, educational and aesthetic aspects are also the functions entrusted to municipalities according to the 12th schedule (appendix: VII-A) of the constitution (Article 243).

## 1.2. Statement of the problems

Neo-classical economists view urban centres as the drivers of regional and national economic growth. Concentration of population and economic activity in space is regarded crucial for leveraging contains external economies that provide a base for improvement in productive efficiency, technological innovations and access to global markets [Kundu (2006)]. Research in urban economics suggests that urbanization positively impacts on economic growth.

Therefore, urban local bodies are statutorily responsible for providing basic infrastructure and services to the people of the towns & cities discharging such responsibilities. It needs adequate funds because finance is the life blood of any organisation. Without finance no work however, it is well planned cannot be carried out. But it is heartening to note that these bodies are experiencing serious fiscal stress to operate & maintain the services at satisfactory levels. According to prof. M. Venkatarangaiya<sup>6</sup> "The picture of finances in municipalities is so dismal that they have not been able to provide even at a minimum level the services they have to render.

The general growth of population increasing urbanization, the rise in prices and the demands for new and additional services has made the situation much worse in recent years." Faced with such a situation the urban local bodies are becoming more & more dependent on government help for their operations.

The district Cooch Behar in West Bengal is poor & backward. Cooch Behar is 'no industry' district. Its per capita income is lower than state average. It has large concentration of scheduled caste population which is higher than the state average. Electricity consumptions are highly inadequate and much lower than the state average.

In the light of such various constraints to development this study has focused the performance of the municipality in respect to financial resources & strength. So our study seeks to reveal the actual picture of the municipality with regard to financial strengths & weaknesses.

### **1.3. Objectives of the study**

The 74<sup>th</sup> Constitutional Act, 1992 have given the status of third tier of government to the ULBs in Indian federal polity as Institutions. The institutional mechanism for effective governance of the ULBs has not only been created but has also been strengthened both in agreeing and perspective manner. The burning issues such as providing better services (hard and soft) and development of infrastructure in urban area could effectively be solved only through effective functioning of the ULBs. The Article 243 of the Constitution states clearly the power and authority of the ULBs to enable them to function as institutions of self-government. In the twelve schedule of the constitution the subjects already have been mentioned which the ULBs are to be performed. The subjects are preparation of plans for economic development for social justice and the implementation of schemes in appropriate way. The Constitution gives empower to the ULBs functionally, financially and administratively to enable them to fulfill the aspirations and expectations of the urban peoples. Finance is the life blood of any organisation. The ULBs cannot become effective institutions of local self-governance unless they have a strong financial base. In the light of above statements the study has been taken. It is found that very few studies have been made about the local finance of the municipality in West Bengal but no one has focused attention on the micro level study of the urban local bodies promoting urban development in the district of Cooch Behar, West Bengal. The present study regarding the

financial strength & weakness of the municipality is in depth in nature covering all possible aspects. It will definitely add a new dimension to the existing field of knowledge for both academic & practical purposes.

The main objectives of the study are as follows:

- i) To study the financial resources of the municipality i.e. revenue mobilisation from own source that includes tax revenue and non tax revenue.
- ii) To study the fiscal capacity of the Urban Local Body (ULB).
- iii) To study the pattern of financial grant from governments (state & central).
- iv) To study the pattern of expenditure on various activities particularly on health & education.
- v) To study the perceptions & attitudes of the people for further mobilisation of resources for development purposes.

#### **1.4: Research Questions**

- I) Does ULBs self-sufficient in finance?
- ii) Is ULBs revenue collection effectively done?
- iii) Are ULBs dependent on government sources?
- iv) In which areas ULBs are making expenditure more?
- v) Is fiscal space adequately explored by ULBs?
- vi) Is resource mobilisation enough to fulfill the expenditure demand?
- vii) Do ULBs have autonomy in decision making of untied fund and government sources?

#### **1.5: Hypotheses Testing**

- i) ULB's are self-sufficient in finance.
- ii) Collection of revenue from tax & non-tax sources is effectively done by ULB's.
- iii) ULB's are less dependent on grants (tied & untied) from government sources.

- iv) Expenditure made by ULB's on development activities like health, education is more.
- v) Fiscal space is explored adequately by ULB's
- vi) Mobilisation of resources of ULB's is enough to fulfill the expenditure demand.
- vii) ULB's have the autonomy in decision making of the untied fund generated by own sources as well as received from government for the different expenditure purpose.

### **1.6: Review of literature**

An attempt is made here to review studies & their findings which have a close bearing on the present study.

Aijaz (2006)<sup>7</sup> observation showed that due to shortfalls in finances ULBs are unable to meet the basic service requirements of the habitat and a large number of households remain uncovered by pipe water supply facility, underground sewer facility and solid waste collection services. The study is actually a case study .Haryana (Bahadurgarh & Gurgaon), Rajasthan (Alwar, Bharatpur), Uttaranchal (Mussoorie, Nainital), these three states had taken for his study. The purpose of this study was to identify the major issues of governance at the municipal/local level in a select number of urban centers of India. This assessment is based on a review of key urban local government characteristics, namely constitution and governance, duties, composition, management and finance practices, State/Local initiatives and problems. The findings of this study show that urban local governments in India are facing various problems, which affect to perform efficiently in discharging of their duties. These problems are influence of political factors on decision making, delays in conveying municipal meeting, violations in recording minutes, lack of transparency in sharing information, unfair practice in the publicity of development works and inefficiency in financial management. In considering the significance of the prevailing issues of governance at the local level to most municipalities of India an urgent need to find appropriate solutions. To conclude, fresh thinking is necessary to resolve the problems confronting urban local governments in India.

Bandyopadhyay, Bohra & Sharma (2011)<sup>8</sup> made studies on decentralization of power in the state of Jharkhand and relate it to some major implications on service delivery. Jharkhand was formed out of its parent state Bihar on the 15th of November, 2000. It comprises

of 43 urban local bodies (ULBs) and almost an equal number of census towns which are in transition. As per the Census (2001) of India, the urban population in Jharkhand is 22 per cent of the total population, and growing at the rate of 2.3 per cent per annum. Also, the urban population is growing at a faster rate than the rural population. Urbanisation rate in Jharkhand is however less than the National Average of 28 per cent .in his study he estimated the resource capacities and have evaluated the shortfalls from actual revenues and the expenditures incurred on core services are low as per norms for Indian cities. Decentralisation of functions has effectively not taken place in Jharkhand. It has been also found that there is a lot of scope in the state for designing alternative institutional arrangements in service delivery which would reduce the expenditure and help the ULBs save a part of their resources. Out sourcing can be accepted for proving better services in the state. He also made comments that West Bengal has better fiscal indicators than those of Jharkhand.

Chattopadhyay (2003)<sup>9</sup> have taken all the states of India for his study. Mainly stressed on the large state such as Andhra Pradesh, Assam, Goa, Gujrat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil nadu, Uttar Pradesh, West Bengal and others state as accumulate. He had taken three indicators for analysis i.e RA (Revenue Autonomy), RD (Revenue Dependency), and FA (Financial Autonomy). On urban fiscal decentralization followed that the fiscal decentralization on the tax revenue generation capacity of ULBs was much greater compared to the non-tax revenue generation capacity of ULBs. In assessing the progress of the fiscal decentralization process in India it is found that the RA ratio improved in the post-amendment period (1994/95 to 1997/1998)for each tier of the ULBs .Among the ULBs ,municipal corporations for all states recorded the highest RA ratios. This analysis showed that decentralization initiatives have some positive impact on the financial health of ULBs but it is the relatively larger local bodies, with strong financial bases, that benefit the most form these initiatives.

In an interesting study of municipal finance for Commonwealth Countries Dirie (2005)<sup>10</sup>, highlighted a number of challenges facing local governments in the field of resourcing. He advocated that fiscal autonomy is very important the ULBs to became in self sufficient. It is also recognizes that a level of financial redistribution is critical. Predictability of revenue-both

locally raised and through intergovernmental transfers is critical for local government seeking to engage in more innovative forms of financing. Respective central governments have the important role to help the ULBs in different ways to access the capital market for borrowings. He also set on examples of good practice in municipal finance & infrastructure financing sources & structure.

**Dutta (1984)<sup>11</sup>** undertook a study on municipal finances in India which presented comprehensively the municipal functions, revenue mobilization, financial management of the municipality. Relaying on the data of finance commission, town and country planning organisation, national council of applied economics research and Zakaria committees report this study was made. His analysis shows the trend of budgetary position during 1970-71 to 1976-77 improved considerably. The growth in expenditure has been slower than in municipal revenues resulting in unspent surpluses, which is more pronounced in the case of corporations than Municipalities. He finds that the capital budget of the municipalities was balanced because of faster growth in receipts of municipal bodies. He emphasized on the municipal management improvement and improving organizational capability rising resources in addition to plug loop holes in resource generations reduced waste in expenditure.

**Garg (2007)<sup>12</sup>**, in his study on overview of urban infrastructure finance in india states that the resources of municipalities of India are megre and different states followed different approaches regarding taxation power. He suggested for amendments of various municipal services and recovery of cost from those services. Appropriate constitutional amendments are essential for strong city governments and in this regard support and encouragement from centre and state is required. “The TFCs recommendations for bringing about revenue balance are likely to help improve the financial position of the states. If the states succeed in sorting the revenue balance, the space created would certainly help them in raising capital expenditure, including expenditure on urban infrastructure”.

**Ghosh (1964)<sup>13</sup>** made a study in the state of West Bengal on financial structure of the Municipal Corporation & finances of Municipalities that highlighted avenues for mobilization of financial resources. He also stressed that expenditure pattern and income resources of West Bengal municipalities have not been reached at satisfactory level. Imbalance between revenue income and revenue expenditure has became a regular feature with a large number among them,

while with others budgets are preciously balanced. The fact is that the growth of municipal revenue (own source) is inadequate in relation to the growth of expenditure .The result is that the ULBs are facing problem to provide basic services. The average income and average expenditure of the municipalities are miserably low in relation to the population they are to serve and there are glaring differences between them as well in a large number among these units. From the figures of incidence of taxation and total income per capita it will be obvious how inadequate are the financial resources at their disposal.

He finds from his study that the municipalities in west Bengal remains the rates of taxation unchanged over long period of time and thus in this regard he recommends that ULB should utilize the existing powers of taxation to the full for generation of revenue for providing better services. He also recommends that the matter of long time unchanged tax amount should be brought in notice to the west Bengal valuation board for further revaluation. Author suggests that the problem of collection of property taxes may be made easy by the presence of an executive officer with independent powers to impose penal measures against the defaulters.

**Gnaneshwar (2006)**<sup>14</sup> made a study on property tax reforms in India by taking five corporation (Tamil Nadu, Karnataka, Hyderabad, Bangalore and Chennai)and pointed out that property tax continued to be the main source of revenue to the ULBs in India. ULBs collect many taxes in the name of “property tax”. Basically it comprises of general purpose tax, water tax (some cases), drainage tax, sewerage tax, lighting tax and scavenging tax. He reached a conclusion that at present Percentage in property tax collection are not in satisfactory level in India, although the government of India has been playing significant role in binding the states to reform the property tax and thus necessary statutory changes have made to implement the area-based assessment in some form instead of rental value or capital value as most of the cases of property tax assessment were struck down by courts on the grounds of equity and arbitrariness. To standarise the system plinth area and zoning system can be applied .Author rely that this standarise system can be fairer than prevailing system of assessment and valuation of property. Focus should have to be given on standardization and making the system tax payer friendly so that the reform can sustain.

**Isaac and Shaheena (2008)**<sup>15</sup>have made study on the fiscal devolution to local self governments and performance of finance commissions. His study area covers almost all the

state of India. He analyses the income sources (Taxes, Non-Taxes and Grants & other Revenues) for urban local bodies from the year 1976-1977 to 2002-2003. He made conclusion that the SFC has neither significantly enlarged the scope of the neither own taxation of LSGs nor contributed to substantial devolution from the state governments. They have been very conservatives in their approach, as if, having internalized the fiscal constraints of the state governments. The fiscal crisis of the state governments and fiscal responsibility and budgetary management act constrain the state governments from devolving greater funds to LSGs and this is dramatically exhibited by experience of Kerala . They suggest that the central finance commissions should to increase the consolidated fund of the state to supplement the resources of the ULBs in the state as the supplement resources would help the ULBs to take new development projects and besides this the ULBs can able to complete the existing projects also.

Jha (2003)<sup>16</sup> , in his study on fiscal capacity, revenue structure and trend of revenue of the ULBs of India and abroad also. He shows that in his study that own sources of revenue of the ULBs are declining over the year 1990-91 to 1997-1998. Dependence on state transfers has increased in a number of states. His suggestion is that the ULBs have to find the area of new sources for mobilisation of resources as abolition Octroi by few states facing the fiscal stress. Some municipalities of India have been taken step to introduce new taxes and user charges to come out from financial stress. Corporation of Delhi has already imposes toll tax on commercial vehicles within the jurisdiction. The rate fixes with ranges between rs.25 to rs.500 per entry. Different type of vehicles has to pay different rates. Corporation also levies a tax on consumption of elasticity at a low rate of 2 paisa per unit and yet the revenue yield is impressive. In his study on municipal finance and resource mobilization observed that effective tax administration is the key in the way of increasing revenue base of the local bodies. He suggests, enhancing revenue from property taxes a computerized property tax information system and taxpayer-friendly payment gateways has to be opened. He recommends to bring the all taxpayers under a tax net GIS based mps is important. He also stressed on public private partnership for urban services and made some examples that in Manila, Macao even in U.K water supply system has already been handed over to private party and efficiency of delivery system has increased. In India only few large cities have taken steps to go into private- public partnership system and they also able to cost savings which results additional resource generation.

Kundu (2001)<sup>17</sup> selected to study the trends and patterns of urbanization and their economic implications on urban local bodies all over India which have million plus population (Greater Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Bangalore, Ahmadabad, Pune, Kanpur, Nagpur, Lucknow, Jaipur, Surat, Kochi, Vadodara, Indore, Coimbatore, Patna, Bhopal, Vishakhapatnam, Ludhiana M. Corp., Varanasi and Madurai). He made here to assess the rates and pattern of urbanization and their implications for accessing urban resources and overall economic growth by analysing urbanization trends and fractionalizing urban growth into various components at the macro level. He advocates about the growth of population and economic implication in urban population at the recent trend is a sharp departure from the past. An analysis of changes in the system of governance, particularly in the context of access to land and capital resources for urban centers in different size and functional categories shows that large Indian cities through physical planning controls on location of economic activities and urban land-use, imposed by way of rigidities in the functioning of the market, leading to fixation of uneconomic prices and emergence of sub-optimal solutions especially in large cities. Small cities/towns, in most of the states are stagnating. They are experiencing low demographic and economic growth, increasing the distortions in settlement hierarchy inherited from the colonial period. The tragedy of a dual urban structure is reflected in the fact not many of these towns are able to attract investors from the national or world market and consequently attract little migration. Also, not many rural settlements transform themselves into vibrant urban centers. The share of agricultural income being significantly below its share in employment and the gap increasing over time, are pointers to sectoral as well as spatial barriers to mobility. A dualism in urbanization is emerging. He mentioned in his study that the towns are facing the challenge of meeting the conflicting goals of catering to the 'demands' of global capital market on the one hand and for providing access to employment, land and basic amenities to the local population on the other. He suggests supporting the less developed state from central so that those states can disburse fund to the urban local bodies for the purpose of development. This is urgently required as he finds from the study that the ULBs of those under developed states are facing problems to take infrastructural projects due to shortage of funds. If funds allotted to those states then with the development of infrastructure economic activity will be accelerate and revenue base also be strong. Finally he made statement that if the public agencies intervene only as an 'active facilitator' in the land, labour and capital market—removing its deficiencies and saving the

actors from market failures— the process of exclusionary urban growth is likely to be strengthened and rapid urbanisation will cope with such development. This development also able to adjust with the flow of migrants otherwise migrants affects the city life and permanent habitat will face various troubles in future. Shortfall of infrastructure will be affecting the normal life of the habitat. Immediate steps required for the ULBs should to take are the preparation of Master Plans, laws and building bye laws for future. In his study on urban development & infrastructure financing states that the availability of basic amenities such as water supply, toilets and electricity reflects an accentuation of regional imbalances. He stressed on taping of capital market through a credit rating system and the launching of innovating borrowing instrument for financing the infrastructure of the urban area.

**Lall and Deichmann (2006)**<sup>18</sup> have taken study on fiscal and distributional implications of property tax reforms in Indian cities. Two cities have been chosen for study, one is Bangalore and other is Pune and find that property tax is the principal source of revenue in Indian cities which is underutilized .These ULBs have been shifted from rental valuation method to area based valuation method for property tax calculation .It results that after accepting the area based assessment system increased their revenue around by 62 percent of Bangalore corporation. Their suggestion is to accept area based modern method for valuation of property instead of rental valuation method. Besides this to keep this new system active trained of more staff is necessary and establishment of central valuation board to the all state is required.

**Mathur (2003)**<sup>19</sup>, conducted a study on municipal finance & municipal services in India taking all the states of India including union territory. Analyses made on the own source of revenue and status of core municipal services mainly of water supply, sanitation and solid waste management. In the resent years government of India have taken initiative to reform in the various areas .The author analyses the impact of those reform to mobilize more resources and quantum delivery of services .But he concludes that many of the reforms and innovations are not backed by legal system, hence may not sustained for a long time. In order to achieve the objectives of Constitution Amendment Act, new life needs to be put in to the system. His suggestion is that the legal and institutional framework in the country needs to be changed appropriately. At last he highlighted on financing of urban infrastructure & services and stressed out on efficient administration of municipal tax and a national urban development fund to be

established for granting loans & financial aid to the urban local bodies for infrastructure development.

Mohanty ,Misra, Goyal, & Jeromi(2007)<sup>20</sup> made the study on municipal finance in India .They shows in their analysis that the size of the municipal fiscal sector in India is very small compared to that in many developed and developing countries and in relation to the public services that the urban local bodies are responsible to deliver. The total municipal revenue in India account for about 0.75 per cent of the country's GDP as against a figure of 4.5 per cent for Poland, 5 per cent for Brazil and 6 per cent for South Africa. In terms of both revenue and expenditure the urban local bodies account for little above 2 per cent of the combined revenue and expenditure of Central Government, State Governments and ULBs. Findings of their Study are i) Functions and finances of ULBs are mismatch ii) tax sources and non tax sources of the ULBs in India is inadequate in comparison to federal countries to provide the basic services. iii) India is still following the model of U.K and Australia for intergovernmental transfers, however, the fiscal position of the States are weak with huge amount of deficits and outstanding liabilities. iv) The study highlights deficiencies in the conventional method for assessing municipal finances in terms of analysis of revenue and expenditures of municipalities. ULBs are required to generate revenue surplus due to statutory requirements. Overall resource gaps of ULBs, as seen from municipal budgets, are not very large. However, the spending by all the municipal bodies is lower than that required for providing a minimum level of civic amenities. v) Under-spending in civic services is evidently linked to certain exogenous and endogenous factors. Exogenous factors include: delegation of revenue powers (decentralization) and dependency of ULB for resources on upper tier of government. Endogenous factors include: revenue (tax) administration, cost recovery and quality of expenditure. Inadequate assignment of tax and non-tax resources including inter-governmental transfers, incomplete delegation of revenue raising powers, inappropriate user charges, inefficiency in tax administration and under-exploitation of assigned revenues are some major factors that have contributed to the resource crisis of ULBs. The ULBs must be made an integral part of revenue mobilization in as much as they share responsibilities. The design of inter-governmental transfers from State Governments must be based on the principles of objectivity, transparency and predictability. The following criteria may be taken: (a) the transfers must imply a hard budget constraint for the municipalities and there should be no soft options at the margin; (b) the quantum and frequency of transfers must be predictable; (c)

they must be transparent through explicit and identifiable entries in government budgets; (d) they must be pre-determined rather than open-ended and (e) they must have in-built incentives for promoting local resource mobilisation and effective public service delivery. For development of urban infrastructure the following suggestion has given, they are: i) specialized banks for municipal lending, ii) municipal bond markets and iii) specialized municipal funds (e.g. Tamil Nadu Urban Development Fund). Bank lending model is used in Western Europe while the municipal bond model is adopted in North America. For accessing capital market funds, the municipalities need certain financial, structural, institutional and administrative changes. These include i) availability of buoyant sources of revenue at their disposal, ii) transformation of the urban governance system with limited control by State Governments, iii) changes in the capital market structure, iv) recovery of cost of services and v) escrowing mechanisms to make the urban infrastructure projects commercially viable. Municipal bond market should be develop in India for accessing capital to generate more funds and in this connection they also give an example of the other country who have already success in this matter .the bond may be tax-free and taxable in nature. For strengthening issuance of municipal bonds, measures such as bond insurance facility and listing of bonds on domestic stock exchanges are required. Strengthening the creditworthiness of ULBs requires that they be given autonomous authority to set realistic tax-rates and user charges for the basic services provided by them and also for pursuing right-sizing of staff.

He mentioned that the development of infrastructure role of private sector is very important .In this matter the intervention of the state and public policy and the format for such partnerships(Private & Public) must be carefully designed. It is also imperative to safeguard the ecological and equity interests of the society and enforce accountability of both public and private actors. Specialized state agencies participation is required to develop public-private partnership for development projects. It helps to reduce the wasteful expenditure of the ULBs and considerable savings can be achieved. In the area of expenditure the norms, rationalization and realistic approach must be acquire. Procurement reforms, institution of performance measurement and management system for service providers and regulators, enforcement of norms of transparency and accountability and implementation of the Right to Information Act, 2005 are bound to improve the quality of local government expenditures. Budgeting and accounting systems of urban local bodies need to be simplified; accrual-based accounting must

be put in place following the National Municipal Accounting Manual. Municipal accounts may be disclosed to the public at regular intervals in simple and easily understandable formats to induce informed debate and enforce vigilance.

In conclusion they say that borrowing constraints and inefficiency in municipal management are affecting the functioning of urban local bodies. They advised for reforms

**Nallathiga (2008)**<sup>21</sup> conducted a study on trends and perspectives of urban public finance of Francistown, Bogotá and Cali, Jakarta, Nairobi, Seoul, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, U.K. and U.S.A where he showed that municipal revenue and expenditures were very small in India (about 0.5%) when compared to western countries. Across the countries, there are differences in the political structures of government that can be distinguished as unitary and federal systems. Unitary systems have one central government and several local governments, between which the powers of decision making and finances are distributed; whereas federal systems have another tier of states/provinces with which the central/federal government shares its power of decision making, finances and other resources. The fiscal relations between local and provincial can be better understood through a review of the assigned functions such as Public utilities (water supply, sewerage & drainage, electricity and telephone), Social services (primary education, health, social welfare and housing), Transportation (highways & roads, street lighting and mass transportation), General urban services (refuse collection, parks & recreation, markets & abattoirs, cemeteries, fire protection and law enforcement). He finds from analysis that property tax revenue has been the stable income base of the local government revenues and property taxes seldom accounted for more than 20% of local current revenues in developed countries like India. He also made a statement that inter-government transfers are yet to become reliable and regular revenue sources for municipal governments. The matching of revenues with expenses is an essential indicator of financial health of local governments. In the area of expenditures ULB have little control and lesser discipline. He conclude that to exploit more revenue from non tax sources like other countries such as US, Germany and Australia a better policy has to be framed by the ULBs in this country.



17

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**Rao & Srivastava (2005)<sup>22</sup>**, edited a book named “Municipal Finance in India: Role of Twelfth Finance Commission”, where they focused the relationship between municipal finance & finance commission. At the focus of urban development in India the urban local bodies or municipal bodies are the principal body. In a fast urbanising and globalising nation cities can be managed when we have financially healthy municipalities and a good quality of life can also be present possible to the habitat. With the enactment of the Seventy Fourth Constitution Amendment Act of the year 1992, municipal bodies have been vested with more powers and provision for receiving more funds by way of devolution from the centre and the state that has to be need properly exercised. They stressed on the state of local finances, degree of delivery of municipal services and innovative methods of raising local revenues and making urban local bodies healthier and financially sustainable.

**Rao and Bird (2010)<sup>23</sup>** made a study on urban governance and finance in India. This is a practically a general study to analyse the governing systems and source of finances to transform Indian cities into centers of economic dynamism. He made statements that “no one system of urban governance is likely to work equally well for all urban local bodies. The governance system adopted should vary with the size of the urban local body and the nature of the institutions in the area where the local body is located”. Lack of clarity in the assignments system is not only between the states and urban local bodies; there are also confusing areas of concurrence between urban local bodies and independent agencies delivering various services. He reached to some decision that financing urban infrastructure and services adequately was a formidable challenge. He comments that the infrastructure finance deficit in urban areas is not only large but growing day by day .The resources available to urban local governments are scant so the result is the present poor state of urban infrastructure and significant under-provision of municipal services are their findings .They also recommend for the reform of central and state transfers to urban local governments.

**Slack (2002)<sup>24</sup>** has selected “Canada” to study the relation between the urban finance and pattern of urban growth. He expressed that a balance between the pressure to provide services to urban habitat and the desire to protect farmland, open spaces, and environmentally sensitive areas a realistic decision is required. A combination of user fees based on marginal cost pricing and development charges levied on a development-by-development basis could

encourage efficient land and infrastructure use and result in developments located closer to existing services. User charges should be based on the marginal cost of additional units of service from the infrastructure, and development charges on the marginal cost of existing infrastructures to new developments. Collection of property tax is very least and thus to provide basic services ULBs are facing very difficult situation. Current property tax system is not appropriate to gather more taxes from holdings. The main problem is that over taxation of apartments and commercial and industrial properties relative to single-family homes. He also made a view that the cities must recognize that their decisions on how to finance urban services and particularly on how they estimate the amount to be charged have an impact on the pattern of urban growth.

**Strauss & Sullivan (1998)<sup>25</sup>** expressed that the property tax is the most unpopular sources of finance in the United States. Taxpayers' complaints about its fairness in application grow, especially in its use for school finance. To some extent, the problems of the local property tax derive from its increasingly having become a residential property tax and the political difficulties that accompany the taxation of local residential real estate markets. These problems are in addition to the technical difficulties that professional assessors encounter when performing assessments. Here the authors use the Census Bureau's last effort at measuring, state by state, the uniformity in residential property assessments to ascertain why some states are much more successful than others at achieving uniformity or horizontal equity of the assessment results. While the coefficients of dispersion are dated, they still permit a comparison among the states that shows the extent to which assessment practices are uniform.

They exploring that the structure of the local assessment process is systematically related to the quality or uniformity in residential property assessment results and also examine variations in the nature of the authority accorded to the official responsible for performing residential assessments. They made comments in expressing to bring not uniformity in assessing by country general assessors and introducing of local assessors may be more realistic for property taxes.

**Unhabitat (2009)<sup>26</sup>** made studies on the municipalities of almost all continents such as Africa, Asia, Europe, Latin America & the Caribbean, North America and Oceania. Study shows that a solid financial structure is essential to the success of cities in meeting the challenges of urbanization, decentralization and globalization. He suggested that the financial structure affects the quantity and quality of services thus Local governments need to make

citizens understand that user fees are not a tax grab but the quantity of services that people want and are willing to pay for. But in conclusion it is mentioned that to mobilize more taxes from the habitat the respective government should have to give the right to set their own tax rates .unless municipalities are given the freedom to set their own tax rates, even if it means making mistakes, truly accountable and responsive municipal government will never be a reality. For the purpose of finances and infrastructure development the size of the ULB should be considered positively. Revenue tool for different municipalities will be different according to the nature. Experience has been showed that large metropolitan areas can and should have greater fiscal autonomy than other urban areas. All governments, however, need to be responsible, accountable, and efficient. To do so, they need to raise their own revenues as much possible. A visible municipal budgetary process and transparent financial management is required.

**Venkatachalam (2005)<sup>27</sup>** has selected Tamil Nadu for his study. Tamil Nadu is the first state in India to issue pulled fund bond outside the US. Many local governments in India is facing problem to finance for infrastructure development. It is evident that the state successfully raised fund from capital market through issuing pooled bond fund. It raised Rs.3000 million within five years through a series of pioneering issues. Besides this success story author express fear that lack of professional stuff in the ULBs all over the Tamil Nadu in future the problems may come. The states takes steps to construct new infrastructure and hand them over to local bodies for operation and maintenance, has pushed the ULBs farther away from developing and owing their capital investment programs. In the absence of self-reliance in financial and project appraisal skills, the ULBs would be disabled from securing the best financial terms available in the market. Almost all the ULBs in Tamil Nadu have started to restructuring of municipal accounting systems as well as automation of municipal records to access more in capital market for long term debt. But yet the financial experiments of Tamil Nadu are currently being extended across other states of India, also establishing their own municipal development funds and obtaining credit ratings for their larger municipalities. He stressed on bond market for local government finances and also express that devolution of functions should be followed by the devolution of finance and functionaries and in the absence of self-reliance in financial and project appraisal skills, the ULBs would be disable from securing the best financial terms available in the market.

Venkatachalam (2007)<sup>28</sup> made case studies to analysis the financial systems on Ahmadabad and Srinagar municipalities. This study provides an overview of local finance frameworks at city levels across the developing countries. It then studied in-depth the municipal structures and finances in the context of Indian local governments. Priority should be given for preparation of city fiscal policies and system for place before the national political economy for strengthening the decentralisation process. The evaluation should be based on the intensity and duration of conflict vis-à-vis the strength of the municipal structures and finances. One of the primary reasons may be because very few cities in developing countries, let alone conflict ridden cities, have a strong local finance framework. In such cases, the analysis of any financial impact of conflict is best undertaken at regional, provincial/ state or national level, where the government's taxing and spending powers are concentrated. At a local level, the impact of conflict may be examined vis-à-vis the fiscal institutional and administrative structures that provide the foundation for strong local finances. These include the activities of agencies and coalitions at the city, national, regional or international level, which have direct or indirect control on the municipal finances and expenditures. Where the city fiscal position is strong and reliant on own sources of revenue, the impact of confliction the sources and uses of finances is worth exploring. His paper categorises local sources of funds into economically buoyant, individual's wealth dependent and immobile revenues. The factors that affect each of these categories as well as the basis of assessment and administration of these revenues can provide specific inputs in assessing the impacts of conflict at city level. However, the duration of impact depends very much on the nature of conflict. Impact on the economically buoyant sources may have ripple effects on other local sources of revenue. The paper also underscores the practical difficulties of isolating the impact of multiple external shocks to the city fiscal systems. Once the possible high impact areas of conflict have been identified, the affected sources of funds can be further studied at sub-city level where it may be possible to establish some correlation. He suggests taking initiative for analysis of property tax and user charges in conflict area basis .the outcome of the study will be help to realize more sources removing the adverse affected reasons. He made statement that the Local expenditure being a derivative of city administrative systems and revenues can arguably be impacted directly and indirectly by conflict. He also mentioned that few local governments in developing countries are financially independent and strong; the proportion of cities that spend on growth and developmental activities is even lesser. Hence, any

destruction or displacement of people and properties affects budget on developmental expenditure as it is an additional burdens. Study should be taken on migration, if it is found that migration is happening more in ULBs jurisdiction then its impact on both local revenues and expenditure may be intensively studied. As an increasing number of developing countries are in the process of devolution and strengthening their local governments, the analysis of fiscal impact of crisis should focus on a combination of the local institutional structures and actors, and financial sources and uses. This should be coupled with the analysis of the fiscal structures at the higher levels of government. Study should be taken among the tiers of government to obtain a comprehensive overview of the different types of revenues mobilised. He finds from his case studies that conflict adversely impacts the economically buoyant sources of revenue. For political, economic and capacity reasons in developing countries movable sources of revenue are typically decentralised to local levels much more gradually than the immobile sources of revenue. The external sources of finance such as donor and private sector funding that are typically impacted by conflict may also be explored at national and sub-national levels. In sum, drawing the linkages between conflict and city finances highlights the fiscal pressure points at which the city is vulnerable and therefore undermined in terms of its own financial stability and its contribution to national revenues and growth. In conclusions he mentioned that the country is developed or developing or in transition is not a matter, the matter is that the relative levels of growth and financial autonomy should be enjoyed by its cities. Within this context, it is also important to examine the relative powers of the various local institutions and interest groups that can influence resource mobilisation and allocation. Local government's fiscal capacity should be strengthened to fight against crisis and balance has to be made on revenue sources and its proper uses.

Every study outlined above on finances of urban local bodies is based on macro level. In most of the studies it has been seen that the ULBs chosen was more than ten lakh population. An endeavor is made here to fill the gap i.e. a micro level study on financing of an urban local government is being taken whose population is less than one lakh. Hence the present study adds a new dimension to the existing field of knowledge. This work is maiden attempt in the district of Cooch Behar.

## **1.7. Methodology and sample design**

The study is based on both primary as well as secondary data. The secondary data have been collected from books, journals, and government documents, records from Cooch Behar municipality, annual reports and census report. Different information's have been collected from the office of the municipality and from concerned officers & offices of the municipality.

**Three stage simple random sampling method have been applied for the purpose. Stage - I is the choice of blocks from the district, stage – II is the choice of municipality and stage – III is the choice of households from the municipality**

The total numbers of municipalities in the district are six. For the purpose of intensive study, research work has been limited to study of municipality operating in the sadar on effective lines in block-I. Before the selection of municipality discussions were held with the officers & officials. Accordingly, Cooch Behar municipality situated at sadar was chosen on the basis of **simple random sampling technique**.

The primary data have been obtained from the survey on perceptions & attitudes of the people regarding the possibilities of further mobilization of resources. The survey covers 30 percent of the wards total being 20.

30 percent of the households of the sampled ward have been selected randomly on the basis of simple random sampling method. With the help of questionnaires necessary information's have been gathered. The study period covers eighteen years from 1990-1991 to 2007-2008. Materials regarding revenue and expenditure of Cooch Behar Municipality have been collected for the period from 1990-1991 to 2007-2008

For analyzing the data we have applied linear regression model. In the matter of revenue analysis the Total revenue(TR) is dependent variable and independent variables are Property tax(PT),Advertisement tax (Advt.T),Profession & Callings Charges (P&CC), Educational Cess (EC),Tolls & Mutation Fees (T&MF),Service Tax (ST) and Tax on Carriage & Others (TC&O).

For analyzing the expenditure total expenditure (TE) is the dependent variable and independent variables are General Administration (GA),Public Safety (PS),Public Health &

**Convenience (PH&C), Medical Service & Hospital (MS&H), Conservancy (Cons), Drainage & Sewerage/Vaccination/Burning Ghat (D&S/Vacc/BG) and PWD Expenses (PWDE).**

For analysis of variations of grants over the year principle of coefficient of variation have been applied.

### **1.8. Limitations of the Study**

The study is empirical & explanatory in nature. Data collected through sources are secondary in nature. Inadequacy of data and lack of initiatives from officers in many cases have made the scope of investigation limited. The existence of ignorance and illiteracy appear to create in getting precise information.

Ultimately, we could overcome the difficulties we faced initially while surveying with the households especially with the help of the local people and commissioners of the wards and frequent visit and interaction with the households.

### **1.9: Outline of Chapter**

The theme of the study is divided into six chapters. The first is an introductory one. This chapter contains the specific objective of the study, statement of the problems & review of literature. Methodology and limitation of the study has been discussed here.

The second chapter intends to focus on the profile of the research area. It has been discussed in terms of locations, boundary, and administrative units, Growth of population, urban-rural composition, schedule caste & tribe population, Municipal histories and profile has been enlisted here.

The third chapter deals with financial resources of the municipality in terms of tax revenue, non tax revenue, total tax revenue & total revenue.

The fourth chapter highlights the pattern of expenditure on the basis of revenue expenditure, capital expenditure. Analysis of expenditure on development activities has also been made.

The findings of the survey on perceptions & attitudes for further mobilization of resources have been set out in the fifth chapter.

In the sixth chapter some case studies of the municipalities have been given which have performed excellence in mobilizing resources to became self sufficient in finances.

Finally, the chapter seven is concluding one that presents summary and the major findings of our study relevant to different chapters. In view of the findings, it will also throws light on some recommendation to make ULB more effective bodies for becoming financial autonomy in order to accelerate urban development.

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<b>Contents</b>	<b>Page No.</b>
<b>Chapter-II : The Profiles of the District and the Municipality</b>	<b>29-43</b>
2.1: Location ,Boundary,Administrative Units	29-30
2.2: The Demography	30-31
2.3: Urban -Rural Composition	31-32
2.4: Scheduled Caste & scheduled Tribe Population	32-33
2.5: Occupational Distribution	33-34
2.6: Literacy Level	34-35
2.7: History of Cooch Behar Municipality	36-40
2.8: The Socio-Economic Profile of the Municipality	40-42
(i) Cooch Behar Municipality	40-41
(ii) Political Representation of Cooch Behar Municipality	41-42
References	43