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Increasing Municipal Revenues: Indore Municipal Corporation

Today, India's cities are challenged more than ever to increase their own revenues to meet growing needs for urban services. The USAID-FIRE(D) project supported the Indore Municipal Corporation's (IMC) efforts to increase its own revenues from existing sources and mobilize funds from new sources. This Project Note describes the challenges faced by Indore, the measures the IMC took to increase revenues from property taxes, water charges and other sources, critical enabling steps, and the convincing results of these changes, including the corporation's first bond.

Indore, with a population of 1.6 million, is the largest city in the state of Madhya Pradesh and a center of textile and automobile manufacturing and agricultural commerce. Six years ago the corporation embarked on a modernization plan, developed with extensive citizen participation, to improve urban services and increase revenues to do so. The measures described below increased revenue from its own sources from Rs. 195 million in 1997-98 to Rs. 338 million in 1999-00, and then nearly doubled it to Rs. 635 million in 2002-2003. Total revenue increased correspondingly from Rs. 625 million to Rs. 1,010 million to Rs. 1,503 million. New financial challenges led the IMC to enter into an agreement with the FIRE(D) project in 2000 to help it mobilize resources needed to meet them.¹ The National Institute of Urban Affairs (NIUA) under FIRE contracted with CRISIL Infrastructure Advisory to carry out an in-depth assessment of IMC's revenue base and identify ways to strengthen it.

CRISIL found that 35 percent of the IMC's total revenue in 2000-01 was generated from its own sources and 65 percent was received as a transfer of funds from the state government (mostly octroi compensation). That year the IMC incurred a

revenue surplus of Rs. 86 million with an overall deficit of Rs. 192 million. Projected deficits were much worse. In part, this was due to the IMC's having to compensate for past low levels of investment in infrastructure. Overdue, urgently needed investments were estimated at Rs. 1,250 million. Also the state Electricity Board began requiring the IMC to pay the full cost of electricity it consumes to pump water from the Narmada River. The IMC's liability for overdue past electricity charges was approximately Rs. 3,000 million.

Increasing Revenues

Indore increased its revenues by sustained efforts that were neither very costly nor required outside approval. These measures, then, can be replicated by other Indian cities; many face similar challenges. The IMC's own sources of revenue are primarily property taxes and water tariffs, with smaller amounts from business licenses, shop rents, and advertisement taxes.

Property tax improvements. To reform its property taxes, which average almost 50 percent of the city's own source income, the IMC shifted to a simpler, mass assessment method and introduced self-assessment of properties by taxpayers in 1997. Taxpayers provide information about their property, such as its location, size, age, and use, into a formula-based program that calculates what

¹ The FIRE(D) project is helping the IMC to improve financial management (with CRISIL), prepare an urban environmental workbook (with the Academy for Mountain Environments), develop a strategy to identify and optimally use municipal assets (with Valuers Group, C.B. Richard Ellis), and train staff (with the Institute for Management Studies). USAID is supporting the twinning of IMC with the city of Garland, Texas, under the Resource Cities and CityLinks program. USAID also supported an audit of energy use in water supply and street lighting.

Results: Accomplishments

Increased revenues from own sources. The numbers speak for themselves. In the program's first six years (1997-2003), the IMC more than tripled own source revenues from Rs. 194.9 million to Rs. 635.1 million, an annual compound increase of 21.8 percent. The increased revenues allowed the IMC to improve services and thus demonstrate visible results to its citizens.

Issuance of municipal bonds. Due to its improved performance and financial management, the corporation successfully issued a Rs. 38 million bond to private institutional investors in 2001. It used the proceeds to make capital improvements in roads and water and sanitation with active community participation.

Much remains to be done, however, to achieve financial viability while enhancing service delivery. To continue its steady improvement, the IMC aimed to increase property tax revenues by adding 30,000 properties to the database and increasing the number who pay property taxes from 100,000 to 150,000 (compared to 236,000 properties in the register). To increase water revenues, it aimed to regularize and/or detect 10,000 illegal water connections and increase collections through a coordinated enforcement drive and amnesty scheme. Targets were set to improve revenues from license fees, shop rent, and advertisement taxes. In addition to improving billing and collection of current taxes and fees, the corporation is controlling expenditures and considering raising rates to levels where they can cover expenses, including debt service, and provide good services to all citizens.

This *Project Note* was based on "Managing Innovations: Resource Mobilization in Indore", *Indian Infrastructure* (February 2003) by Nitesh Vyas, IMC Commissioner, and Chetan Vaidya, Principal Urban Advisor, FIRE(D) project, and *Strengthening the Revenue Base of Indore Municipal Corporation* by CRISIL Infrastructure Advisory (December 2002). All *Project Notes* are available online at www.indiaurbaninfo.com under *newsletters*, at www.dec.org under *title search* "FIRE(D) Project Note," and www.tcginternational.net under *documents*.

The mission of the Indo-US FIRE-D Project is to institutionalize the delivery of commercially viable urban environmental infrastructure and services at the local, state and national levels. Since 1994, the Project has been working to support the development of demonstration projects and of a sustainable urban infrastructure finance system. Now, the Project is also pursuing this mission through:

- Expansion of the roles of the private sector, NGOs and CBOs in the development, delivery, operation and maintenance of urban environmental infrastructure;
- Increased efficiency in the operation and maintenance of existing water supply and sewerage systems;
- Strengthened financial management systems at the local level;
- Development of legal and regulatory frameworks at the state level;
- Continued implementation of the 74th Constitutional Amendment; and
- Capacity-building through the development of an Urban Management Training Network.

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they owe. This helps citizens to understand how their taxes are calculated and trust that those with similar properties would owe comparable taxes.

A private firm computerized existing tax records, so bills could be printed out automatically. Properties whose owners had not filled out assessment forms, or who had not paid taxes, and their arrears, could be identified. And the city could identify its tax recovery rates. CRISIL found that property taxes were paid on approximately 80,000 properties, of an estimated total of 300,000, in a given year.

The IMC contracted with a private firm in 2001-02 to conduct a physical survey of properties in all wards to identify unregistered properties and add them to the property database. The surveyors also helped owners fill out their self-assessment forms. Un- and under-assessed properties could now be identified. The number of properties registered nearly doubled in four years, from 135,000 before the survey to 236,000 in 2003. The IMC appointed 20 surveyors to identify and enroll those properties that were missed by the 2001-02 survey.

Revenues increased due to simplified and more equitable assessments, better administration, increased coverage and billing, and more efficient collections and enforcement (described below). Complementary measures, such as verifying tax records at registration when properties were sold, and requiring that payments be made by December 31, helped. In addition, assessment rates, especially of commercial properties, were revised after a considerable period.

Water charges improvements. Water tariff revenues average slightly more than 20 percent of own source revenues. The CRISIL study found that the IMC collects only 40 percent of the water charges it should rightfully collect. It estimated that there are approximately 80,000 illegal water connections, compared to 120,000 legal connections. Only two-thirds of water charges billed were collected. Improvements in these two areas alone, without increasing rates, would have a significant impact. The study also recommended increasing rates and resuming metering for commercial and industrial users. Monthly water rates now are flat rates, i.e., Rs. 60/month for domestic users, and low in relation to costs. The rates had been last revised in 1997, when they were raised from Rs. 30 to Rs. 60 per month.

The IMC identified legal/illegal water connections during its physical survey of properties. It compared its water charges and property databases to identify residences that were not receiving or paying water bills. And it calculated arrears owed. The IMC improved collections and enforcement.

Other own revenue sources. The CRISIL study found that only half of the commercial establishments are licensed; shop rent levels are low often due to clauses in tenant agreements; and advertisement tax revenues are limited because billboards/hoardings are not auctioned regularly, rates do not distinguish between attractive and less attractive sites, and many billboards are unauthorized. The city efforts to improve collections of the license fee from shops and shop rent were very successful, but improvements in advertisement fees were less consistent

New own revenue sources. The IMC's municipal assets include city-owned land and these properties provide an opportunity to generate revenue. The FIRE project contracted with the Valuers Group to inventory the city's properties. The resulting inventory listed about 1,100 real estate properties and characteristics of each were entered into a database. FIRE then contracted with C.B. Richard Ellis to prepare a plan to increase revenues from the sale/long-term lease of a selected portfolio of these properties.

Enabling Steps

Leadership. Strong and sustained commitment of political and executive leaders was the critical element of Indore's success. The city's first directly elected mayor, Kailash Vijayvargiya, demonstrated leadership by starting the citywide visioning process that resulted in a modernization plan supported by the citizens. The municipal commissioners, Sanjay Shukla, Nitesh Vyas, and C. B. Singh demonstrated leadership by initiating the reform process and working through the comprehensive administrative changes required to make the tax administration process efficient and transparent. Most important, political leadership was demonstrated in enforcement.

Computerizing and comparing databases. Making progress requires accurate baseline data and consistent tracking. The IMC contracted with Oswal Data Processing of Indore in 1998-99 to make the technology changes to improve tax administration quickly and effectively. The firm, under a type of build-own-operate-transfer agreement, set up new computer systems and created taxpayer and property databases. Databases were designed in compatible format so they eventually could be linked to each other. Crosschecking data from different sources helped strengthen billing and collection. For example, comparing water fee and property tax databases helped identify non-payers of each. The firm made the initial investment in hardware, software, and training and recovered its costs through service charges on the bills issued.

The system was designed to facilitate collections; taxpayer information could be accessed in zonal

offices. All cash collection counters were equipped with computers and printers to record payments and issue receipts. Data from zonal offices are transferred electronically to the head office at the end of each day. Subsequently, data on revenue sources including property taxes, water charges, and beneficiaries of urban poor schemes, were posted on the web for all to see: www.indorenagarnigam.com.

Restructuring the Revenue Department. To strengthen its collection efforts, the IMC brought all billing and collection together in one department, removing them from the functional departments, in 2002. The city then reorganized the Revenue Department into two new departments: the Assessment Department and the Recovery Department. A Vigilance Team was constituted under the Recovery Department. Three smaller departments, Survey, Encroachment and Markets, were also created.

At the same time, the IMC decentralized collections by introducing cash collection counters in the 11 zonal offices and strengthened collection by staff in the field. People-friendly collection systems helped motivate citizens to pay taxes. At the same time, the IMC launched a drive to recover property tax and water bills by forming special teams and assigning them recovery targets. The IMC authorized zonal offices to attach properties and disconnect water of defaulters.

Training staff and building capacity of local officials. The Institute of Management Studies (IMS) of Devi Ahilya University in Indore, with support of the FIRE project, NIUA and the IMC, developed a training program for elected representatives and all staff of the Assessment and Recovery Departments. The IMS conducted five two-day courses from October 2002 to June 2003. The course covered the role and functions of the Revenue Department, duties and behavior of staff, the property tax assessment system, an online computer exercise on tax assessment, legal issues in assessment, and control and coordination. The mayor inaugurated the program and senior municipal officials participated as resource persons. Oswal Data Processing conducted the computer training; for many participants using computers was a new experience.

Improving accounting, budgeting, and financial management. The corporation adopted a double entry, accrual system of accounting in 1999-00 and is computerizing accounting activities. It is working with officials from Garland, Texas, under the USAID-funded Resource Cities and CityLinks program, to improve budgeting and forecasting. These changes will enable the IMC – and potential investors – to assess its financial position more accurately.

Carrying out a communications strategy. The corporation, under its first directly elected mayor,

realized the success of its efforts depended on citizen cooperation and willingness to pay for improved urban services. Officials conducted intensive outreach to citizens, meeting with resident associations. They also used multiple media channels, including newspapers, radio, cable television, short messaging service (through mobile phones), billboards along major roads, its website, and email to spread their messages. The billboards encouraged people to become model citizens by paying taxes regularly. The media provided tax education and helped involve the people in municipal campaigns. These campaigns helped bring about attitudinal change and paved the way for the reforms acceptance.

City officials also engaged the citizens through e-governance. In addition to viewing the city’s website, citizens may submit questions, suggestions and grievances to the city and receive responses via email. Another way the city established direct contact between the citizens and staff, and restored trust of citizens in the corporation, was through tax grievance redressal camps. These “camps” were organized at the zone and ward levels for fast and easy resolution of individuals’ tax problems. Similar camps were organized to legalize illegal water connections and issue new connections promptly. Sometimes amnesty provisions, as well as fear of penalties, motivated citizens to pay arrears.

IMC Revenue Receipts (in Rs. lakhs; 1 lakh = 100,000)

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Own Source Revenue						
Property tax	776	1,440	1,545	1,948	2,859	3,673
Water charges	528	518	641	1,039	1,120	1,280
License fees	15	15	15	248	225	227
Shop rents	93	138	132	125	189	149
Advertisement tax/fee	19	14	24	21	60	50
Other*	518	729	1,024	910	1,173	972
Subtotal: own source	1,949	2,854	3,381	4,291	5,626	6,351
Outside sources**	4,299	4,113	6,721	7,979	7,789	8,675
Total Revenue	6,247	6,967	10,101	12,270	13,415	15,026
Own Revenue as % of total	31%	41%	33%	35%	42%	42%

*Other own source revenue consists of a show tax, vehicle entry tax in 2001-02, income from municipal properties, and other non-tax income.

**Outside sources consist of state compensation (octroi, passenger tax, stamp duty) and revenue transfers and grants (mainly salary for water supply staff).

Sources: IMC; CRISIL Infrastructure Advisory, Strengthening the Revenue Base of Indore Municipal Corporation (December 2002); and CRISIL, Inception Report for Implementation Assistance to IMC in Revenue Generation (2003).