
UNIT 20 STRUCTURAL REFORMS: RESOURCES, FINANCES, POWERS AND FUNCTIONS

Structure

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20.0 LEARNING OUTCOME

After studying this Unit, You should be able to,

- understand the structure, powers and functions of local bodies;
- identify the infrastructure for planning;
- highlight the modalities for people participation;
- discuss the resources of local bodies; and
- define the agenda for the future.

20.1 INTRODUCTION

Indian administration has been rightly criticised as being excessively top heavy. It is a feature of colonial administration, which has persisted down the ages. As articulated in the committee on democratic decentralisation, government of Maharashtra, 1961, after independence, the government mostly relied on ad hoc bodies for implementation of programmes at the local level. This led in time to proliferation of multifarious agencies, which resulted in problems of overlap and confusion at the local level. Excessive centralisation has been the reason behind ineffective policy implementation. There is a growing body of opinion that ineffective policy implementation stems from improper policy formulation in that it is not *inclusive* enough of related concerns and does not factor the same into policy; hence does not lead to 'relevant'/'rational' policy in terms of answering directly the needs and concerns of people. Incomplete effort leads to unintended consequences in related sectors since those were not studied and articulated during the

formulation process. This leads us to 'system constraints', which do not allow factoring of such requirements. Decentralisation is being explored as an alternative that allows articulation of related concerns at local level and leads to policies that are directly related to the needs; hence relevant. In that sense it is a system change. It is also expected to rationalise the implementation process in that resource constraints and other implementation bottlenecks can be better understood and tackled at the level at which they arise and not by a distant planning body that may be insufficiently based in facts. Also, data collection and record keeping for relevant 'fact' supply needs to be arranged at the local level for accurate estimations regarding objectives, progress and targets. Since the implementation exercise partakes at/is concentrated at the field level, it is imperative to address the concerns relating to administration and planning bottlenecks at the cutting edge, that is, at the stage of interface between the government and citizens. The purport is to bring distant administration closer to the people and making it citizen centric. In this unit we will discuss structural reforms of local bodies in the context of resources, finances, powers and functions. We will also discuss available infrastructure for planning and modalities for people's participation.

20.2 STRUCTURE OF LOCAL BODIES

Following 73rd and 74th constitutional amendments a three-tier structure has been envisaged for urban and local bodies. Rural local bodies would in ascending order be, Gram Sabha (village level), Panchayat Samiti (block level), and the Zilla Parishad (district level).

The Gram Sabha is meant to impart a *social base* for grass roots democracy. The executive body of the gram sabha is the Gram Panchayat. Earlier the gram sabha used to be a body corporate with perpetual succession and common seal, of suing or being sued in its corporate name, of acquiring, holding or transferring property and of entering into contracts. After amendment this position of the gram sabha has been taken over by the Gram Panchayat, which earlier used to be the committee of the gram sabha. However, gram sabha still retains significant say in development matters. It is actively engaged in preparation of audit and accounts, annual plans annual administration reports et al and its meetings are presided over by the chairman of the gram panchayat. In some states, promotion of unity and harmony, organizing voluntary labour and contributions for community welfare programmes, identification of beneficiaries for the same are some of the important functions performed by the gram sabha. The Panchayat Samiti is the next tier. Most developmental works converge at this level. The third tier is the Zilla Parishad at the block level. Membership details of these bodies shall be dealt with in a separate Unit in the course.

Urban local bodies have also been given a uniform three-tier structure. However, these are not hierarchically ordered as the rural bodies in that each function directly under the state. These bodies are the Municipal Corporations, Municipal Councils and Nagar Panchayats. This would do away with much confusion in the urban local scene. Prior to the passage of the 1992 Act, urban local government comprised of Municipal Corporations, Municipal Councils, Town Area Committees and Notified Area Committees, with lack of uniformity across states. In this context, the structure and composition of municipalities varied considerably, with wide differences in definition and structure between states. The 1992 Act has attempted to instill some uniformity in the constitution of the municipal bodies by classifying them as Municipal Corporations for large urban areas, Municipal

Councils for smaller urban areas and what are termed *Nagar Panchayats* as suburban government bodies.

However, the arrangements in practice are giving rise to unforeseen tensions. Reportedly, as per H. Ramchandran, certain villages that will now be incorporated in municipal areas do not wish to part with their rural status as that would deprive them of the benefits of many centrally sponsored rural development schemes. In Tamil Nadu, 45 of the 67 Town *Panchayat* have sought rural status to procure benefits from centrally sponsored schemes to the tune of Rs. 500,000 to 10,00,000.

There is another equally important issue that needs to be addressed. The issue is a true federated arrangement at the local level, where a cabinet takes decisions and is accountable to a duly elected legislature. Presently, the political executive, the Mayor is a figurehead with real power vested in the commissioner who is appointed by the state. The Commissioner is appointed for a fixed term as defined by state statute. The Commissioner's term in office can be extended or reduced. The powers of the Commissioner are those provided by statute and those delegated by the Corporation or the Standing Committee. An alternative model to the prevailing Commissioner model is the one implemented in Kolkata, West Bengal, introduced in 1984 and is known as the Mayor-in-Council form of city governance that can be described as a cabinet government replicating the formula operating at the state and national levels. This system is composed of a Mayor and a ten-member cabinet with individual portfolios chosen from among the elected councillors (in the context of Kolkata there are 141 wards in a single member ward system, rather than a multiple member ward system). It is in essence a hybrid between a mayor-council CAO system and the integrated federated framework. The Municipal Commissioner serves as the Principal Executive Officer subject to the control and supervision of the Mayor as the Chief Executive Officer in this model.

The Municipal Corporation groups wards into boroughs with each one having a committee consisting of the councillors elected from the respective wards of the borough. The councillors elect one among themselves as the chairperson of the borough. The borough committees are subject to general supervision of the Mayor-in-Council, and look after sub local functions such as water supply, drainage, collection and removal of solid waste, disinfection and health services, housing services, lighting, repairs of certain categories of roads, maintenance of parks, and drains (Tiwari, 2005)

As opined by scholars, desired future state of affairs would be local governments enjoying the right as their counterparts in Brazil, South Africa and Nigeria, to decide the form of its political executive and appoint the same independently. Regarding municipal staff, ideally, it should be under complete control of local governments, cut substantially in numbers through private participation, contractual employment etc and made accountable for results.

20.3 POWERS AND FUNCTIONS OF LOCAL INSTITUTIONS

The newly introduced Seventy-Fourth Constitutional Amendment Act (CAA) of 1992 has acted upon the recommendations of the Rural-Urban Relationship Committee and seeks to provide more power and authority to urban local bodies. It is the first serious attempt to develop democratic municipal government as planning bodies through constitutional provisions that strengthen and stabilise them. The main features are:

- Introduction of the Twelfth Schedule which lists the functions of the urban local bodies, covering planning, regulation and developmental aspects;
- Establishment of District and Metropolitan Planning responsible for the election of representatives for the preparation of development plans at district and metropolitan levels;
- Proposed establishment of ward committees in areas having a population of over three hundred thousand;
- Specification by law of the powers and responsibilities entrusted to municipalities and ward committees;
- Holding of periodical and timely elections; if a municipality is dissolved for any reason it should be reconstituted within 6 months;
- Specifying by law the sources of municipal finance and their periodic review by a statutorily constituted State Finance Commission and by making it obligatory on the part of the Central Finance Commission to recommend measures needed to augment state resources to assist the municipal governments;
- Restrictions on the power of state governments to do away with democratically elected municipal governments;
- Reservation of one-third of seats for women and weaker sections in municipal bodies for minorities there are no reservations (D.P. Tiwari, 2005).

The 73rd amendment act prescribes the domain of powers and functions for rural local self-government. The 11th schedule lists 29 (see Annexure) subjects with respect to which rural local governments have been vested responsibility. However the same could be reduced to an academic exercise if most powers regarding the same remain concentrated in the bureaucracy and state or central legislatures. A shift to bottom-up policies would be imperative to affect real decentralisation at the local level.

Before the 73rd amendment, 1993, functions assigned to local bodies pertained to general welfare matters like public hygiene, sanitation etc. to which development concerns such as agriculture, animal husbandry, social forestry et al could be added. Evaluation studies have shown that local bodies have been more inclined to perform 'agency' functions more than 'statutory' ones (Report of the committee on Democratic Decentralisation, 1961).

Now the accent is on developmental planning. It is therefore a paradigm shift as far as local bodies are concerned as they are sought to be developed in a true sense as institutions of "self government." The act enjoins on the state governments to devolve powers and responsibilities with regard to *preparation of plans* for economic development and social justice and the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule. It is however left to the state governments to decide what all functions are transferred and what powers are delegated. Broadly the principle seems to be, what can be tackled at a lower level should be left to it. Brief perusal of acts in different states brings out the following *pattern in the devolution of powers and functions*:

Category A

States, viz. Uttar Pradesh, Bihar, Rajasthan, Punjab, Haryana, Assam, and Karnataka,

which have not *prioritised* activities but assigned subjects listed in the 11th schedule in addition to certain other general ones like preparation of plans and budget, maintenance of unity and harmony, relief in natural calamities etc.

Category B

States, viz. Orissa, Gujarat, Tamil Nadu and West Bengal, which have divided functions into *obligatory* and *mandatory*. In the former category are functions, which are performed subject to the availability of funds.

Category C

States which have drawn their own list following specifications in the 11th schedule. Such states are Himachal Pradesh, Madhya Pradesh, Maharashtra and Andhra Pradesh. However the exercise needs to be imparted better rationality than as obtains at present, which can be provided by constitution of expert groups and not leading the matter solely to the department concerned (Bajpai & Verma, 1995).

Development effort presently is left to the convenience and priority of different state governments since they are free to choose their own mode of decentralisation. However, leaving matters to state governments provides scope for lackadaisical initiatives in this regard, which however would have to be accepted as a constraint of a federal polity. As per Ramchandran, even after the amendments considerable amount of ambivalence persists regarding the powers and functions of these bodies at different tiers. The ambivalence is evident/articulate in the number of court cases that have been coming up between district and lower level elected bodies on the one hand, and that of the state government and its executives, on the other. In Haryana, for example, *Zilla Parishad* members have threatened to resign *enmasse*, in protest against the government failure to enforce *Zilla Parishad* Act effectively. Similarly, in Orissa and Maharashtra, presidents of *Zilla Parishad* have demonstrated over the powerless status of the *Panchayat* bodies. In Andhra Pradesh, Mandal Parishad chiefs resent curbs on their power, after the state government appointed nodal officers by-passing the elected bodies through the *janmabhoomi* scheme. Hence incongruities remain and surface on occasions, in actual implementation of the structural reform that is being brought about through the amendments acts.

20.4 INFRASTRUCTURE FOR PLANNING

The District planning Committees (DPCs) and Metropolitan Planning Committees (MPCs) would provide for integration of spatial and economic development and concerted rural and urban planning. This would address the requirement of integrated spatial/regional planning with due consideration to all involved/related aspects, namely, infrastructure, environmental conservation investment planning and their spatial and other impacts. The DPCs / MPCs need to be constituted under the State Zilla Panchayat / Regional and Town Planning Acts. Planning would be both top down and bottom up in that it would evolve as an integrated framework at successively higher spatial levels, and is being referred as multi level planning. Under this framework, Panchayats/ Municipalities would prepare plans for their areas, which would be consolidated at the district level in the form of draft district development plans. The metropolitan development plan would be prepared by the MPCs. All district and metropolitan development plans would then lead to the formulation of a plan at the state level.

District Planning Committee

The District Planning Committee would be involved in:

- 1) Preparation of draft development plans including spatial plan for the district, keeping in view matters of common interest between Panchayats and municipalities.
- 2) Providing advice and assistance to local bodies in preparation of development plans and its effective implementation.
- 3) Coordination and monitoring of the implementation of District Development plans.
- 4) Allocation of resources to local bodies for planning and implementation of local level projects contained in the District Development plans.

B) Metropolitan Area planning committee.

The functions to be assigned to MPC are as follows:

- 1) Preparation of draft development plan for the metropolitan areas.
- 2) Spatial coordination of plans prepared by the municipalities and panchayats in the metro area and recommending modifications in local area plan, if any taking an overall view.
- 3) Advise and assistance to local bodies in preparation of development plans.
- 4) Monitoring effective implementation of approved development plan of the region. Undertaking formulation and implementation of projects involving provision of infrastructure such as major roads, trunk services, electricity, telecommunications, etc.

As articulated in the *Economic Survey (2004-05)*, the empowerment of local governments to take economic service delivery decisions requires a new framework for public finance, whereby urban expenditures are driven through urban local governments. For better control of urban local bodies over delivery of public goods within their jurisdiction, they need to be vested with better control over finances, and management of services within their jurisdiction. For that, current fragmentation of authority between the state governments and local governments need to end. Two ways to augment urban finances are access to capital markets through bond schemes and selective application of subsidy and tariff protection to target only the poor. For that, better accountability mechanisms for local administration would need to be evolved. All developmental schemes need be rationalised as brought within the control of local bodies. Other parastatal developmental agencies should play a supplementary role to the urban local bodies not in the nature of usurping powers and functions of local bodies. Public private partnership in urban infrastructure development would be better secured.

Issue Areas

There is a broad consensus that more than rural development, it is urban development that needs to be attended to. The problem of urban congestion is especially acute. This is when the decadal rate of urbanisation has gone down. It is probably because of success of rural development programmes or unavailability of land for squatting in central areas, runaway migration has stopped somewhat (tenth plan, 2002-04). This is the best time to plan for urban development. The decadal rate of growth of population in urban areas during 1971-81 was 47% and came down in 1991-2001. The decadal rate of

growth in rural and urban areas was 17.9% rural and 31.2% respectively, suggesting a relatively higher rate of growth in urban areas. However, the degree of urbanisation in India is amongst the lowest in the world. United Nations Estimates for 2000 show that 47% of the total population lives in urban areas, while the proportion of urban population range between 75 and 80%. It is 36.7% in Asia. Within Asia, countries like China and Indonesia, starting from the lower levels of urbanisation in 1950 have now overtaken India with urbanisation of 31.2% and 40.9 % respectively. There is the best time to plan before development outpaces planning. It is important to remember that cities are powerhouses of growth. More than rural development it is urban development that has to be attended to. In the new environment of globalisation, privatisation and liberalisation, immense new opportunities will be created for growth in services and employment opportunities for rural youth. Massive investment needs to be put into education, particularly IT, retail sector and financial services where opportunities would increasingly come up. Dr. Amartya Sen. put the strategy as per welfare economics. Accordingly, the aim should be to create “entitlements”, by investing in education and health for a good life.

In planning, the thrust ought to be on *manpower planning*. Educational institutes could be directed accordingly to provide for job-oriented education. In this context, administrative reform would be urgently needed in that specialists would have to be granted more say as rural development, arguably, is a scientists’ field not a lay person’s. This has significant implications for organisational hierarchy in that rearrangements concerning unity of command, span of control, job description et al might need to be affected. Innovative O&M solutions would have to be devised to attune formal and informal organisation to the requirement as per the changed ecological context. Participation of the civil society is set to grow. The private sector is slated to participate increasingly henceforth, in public goods provisioning. Modalities for synergy between civil society and government would have to be devised. To reiterate, this is the right time to plan for urban development. Planning and financing would need to consider urban development even more than rural, since the latter would anyways benefit by way of spin off effects. Urban development is expected to increase rural prosperity by way of spin off effects or positive externalities. For example, improved water supply services surrounding rural areas, urban areas serve as markets for high value crops and a host of other intangible benefits that come from proximity to the urban area.

As per Debapriya Dutta (2004), the mandate for new emergent institutions also enjoins/ requires integrated spatial development planning for which collection and collation of data relating to local resources is a vital requirement as are the appropriate tools for processing the data to generate relevant information for local level planning. To address this need the government of India launched the Natural Resources Data Management System (NRDMS) programme with the purpose of developing and providing geo information and communication technologies (geo- ICTE) and tools for potential users. It was launched as an R&D programme. Since then it has developed many tools and techniques many of which have been demonstrated also to institutions of local government. However, (1) there is lack of technological capability to utilise these tools at the local level, 2) poor linkage of geo-ICT tools with the organizational work flows at the local level, (3) unavailable, standardised and up-to-date spatial data at all levels and 3) lack of data sharing for integrated inter sector planning. Hence building the requisite technological and organizational capability at the local level is an important requirement.

The National Informatics Organisation has been pivotal organisation in implementation of information technology in India. The NIC has taken several initiatives for application of

information technology at the district level. Two such initiatives are the DISNIC (district information system of the NIC) and CRISP (computerised rural information systems project). Researches have brought out that information technology has been fruitfully employed in the State of Gujarat, especially in the Integrated Rural Development Programme (IRDP). Information technology has been used for *analytical* purposes, rather than *routine operational* work, contrasted with Karnataka. In Gujarat, the application of information technology have been more widespread, since efforts have been made for *local development of applications* at the *initiative of the local staff* who have been willing to learn and work, and find innovative ways of developing relevant database for local planning. Efforts have been taken at the DRDA level in terms of arranging for training, and contractual employment of daily wage data entry operators. To further the effort, links have been established with local engineering colleges for support and training. Notable success has been achieved, especially with regard to the IRDP. Local data was developed (collected and collated) regarding each household's assets, land holdings etc. to assess the level of poverty with due weight assigned to each mentioned variable(s). This data was superimposed on the progress/execution of IRDP, which revealed region specific status regarding requirements as per the natural resources and infrastructure in the area.

The contrast in success in Gujarat and Karnataka is surprising since Karnataka has been better placed with regard to infrastructure for planning. In Karnataka, the Zilla Parishad is a more empowered planning agency and therefore in a better position to control developments and bring about desired changes. In Gujarat, on the other hand the effort is dispersed between the DRDA, which is centrally sponsored agency with little autonomy and the district panchayat, which is equivalent to the Zilla Parishad but not as empowered. The difference lies in the approach adopted by the two states. While Karnataka has relied on legislation, hence devolution of power to local decision centers (agencies), in Gujarat, the attempt has been more towards *deregulation*, where incremental changes have come about a result of locally relevant applications of planning, through local initiative, where people are active participants rather than passive recipients of state sponsored technology. The derivation is that information technology succeeds where there is a sense of ownership among people, rather than a unilateral arrangement where they receive directions from some central agency (*Journal of Global Information Technology Management*).

20.5 MODALITIES FOR PEOPLES' PARTICIPATION

There is considerable ambiguity about peoples' participation in governance. What does it mean? How it is to be secured; in what manner; in which areas? According to Hickey and Mohan (2003), participation should not be understood as *imminent*, that is one off/ ad hoc participation in some programmes but conceptualized in broader terms as part of the wider concept of citizenship which looks at participation as an *immanent* socio historical process which runs as undercurrent to all social, political and sociological processes. Hence, there is need to link citizenship to radical development agenda. Empirically, there is growing amount of evidence to suggest that where participatory approaches to development and governance have achieved sustained success in terms of challenging exclusion, redistributing resources and promoting social justice, they have tended to be located within apolitical tradition or project that adopts a specifically radical approach to development rather than as well designed institutional innovations or interventions. Hence, there is need for radical system change as per the theoretical formulation, which is referred as "critical modernism" by Giles and Mohan, where initiatives come more from

citizens than institutions. Hence, government should actively work to promote such institutional mechanisms that make real the possibility. People's participation has to move a level up from *project* level to *policy* level which can lead to political empowerment of people, rather than mere involvement in some technical studies. Example can be given of *participatory rural appraisals* (PRAs) being used currently in disaster mitigation and vulnerability studies, and participatory poverty assessments to inform policy for poverty reduction initiated by the World Bank, following criticism of aid linked to conditionality and being unrelated to actual needs (Blackburn and Holand, 1998). The links between citizenship and participatory development can to some extent be conceptualized in terms of a interactions between a series of institutional norms and agency led practices whereby; "Citizenship can be defined as that set of practices, which define a member as a competent member of society, and which as a consequence shape the flow of resources to persons and social groups" (Roberts, 1992:3).

Such broad conceptualisation takes participation beyond imminent participation in specific programmes to a historical and continuous process whereby people extend their rights as competent members of society and tinge administration with citizen centric character. Hence policy prescription in this regard would be measures to enable citizens to assert their rights as responsible citizens, which would be through better education, political communication, right to information et al. Another pertinent concept is that of 'political space'. For Webster and Engberg Peterson (2003), 'political space' comprises three analytical dimensions.

- The institutional channels, through which policy formulation and implementation could be accessed, controlled or contested by the poor.
- The Political discourses in which poverty and poverty reduction are specific issues
- The social and political practices of the poor which may be a basis for influencing decision making, agenda, policy and programme implementation.

Thus viewing participation as a corollary to citizenship perceives citizens as not external but internal/integral to the governance process. Civil society is emerging as a counterpoise to the overweening powerful *state* and rampant individualism in/of capitalism, in the *market*. Hence scholars studying 'communitarism' advocate restructuring public services in welfare states to promote self-help organisations/effort on the part of people. The collapse of the Soviet Union signaled the failure of the state. With the end of the cold war, capitalism is rampant, which is a threatening portent. Activities of the new capitalist world order, such as, Business Process Outsourcing (BPO) in the 'global village' are already generating controversy. Hence a reassertion on the part of citizens as per the original spirit of the social contract, which underlies democracy, is necessary to check the trend. Until the 1970s, the works of T.H Marshall guided views of citizenship, whereby citizenship was understood more in the sense of state guaranteed *rights* more than *duty*. Hence, government had to proactively grant equal opportunity to citizens, hence; assume increasing roles. But public bureaucracies seriously constricted citizenship by arrogating most prerogatives in policy formulation and implementation and precluding citizen deliberation. Citizenship needs to be redefined in terms of duties and obligations, which needs reassertion on the part of citizens of their sovereignty in nation states and the nature of government as instruments to exercise 'delegated power' and function in public interest (Landy, 1995).

In India, Kerala and West Bengal are good examples of 'transformative' development at the local level. Credit however, goes to the strongly reformist agenda of the communist governments in these states, which went in for paradigm shift instead of ad hoc attempts at peoples' participation which are usually not successful.

Democratic decentralisation is key to participatory governance. Participation at the local level is *institutionalised* through regular elections, council hearings and perhaps, most significantly, participatory budgeting.

The Constitution Amendment Act envisages enabling people to participate in development processes at ward, municipal, district and metropolitan regional level. The empirical evidence of such optimism could be realised only after the incorporation of the CAA in the existing Municipal Acts. Mechanism in urban governance is the ward committees at the state level and the Gram Sabhas at the rural level. Ward committees are designed to bring the administration closer to the people.

The Gram Sabha is intended to engage village peers in a form of direct democracy at the local level. Other institutions for peoples' participation in administration are the Nyaya Panchayats and Lok Adalats which are proposed to supplement traditional legal institutions for speedy justice and peoples' education in issues involved in governance. In time it is expected to raise the level of awareness among people regarding rights and duties.

According to H. Ramchandran, development strategy pursued up till now has led to increase in the powers and activities of the state. Little allowance/attempt has been made for participation of civil society. The situation needs to change in the interest of 'good governance.' For example, the Irrigation Acts vest the management and control of waters in the hands of the state, and project planning and implementation are largely internal activities of the state. In the absence of institutional arrangements for consultation and grievance-redress, the process of displacement, resettlement and rehabilitation often generates serious dissatisfactions leading in some cases to conflicts. This is in contrast to the historical situation in India, where water management, such as harvesting structures and small irrigation schemes have traditionally/historically been the primarily responsibility of the communities. Gradually, however, state acquired monopoly over these services. Citing World Bank (1999) he brings out the problems in the arrangement thus; "*First*, water is provided free of cost (up to 40 litre per capita per day), and users do not contribute to the capital cost associated with higher level of services. *Second*, ownership of rural water supply installation is not transferred to communities... Communities do not have any control over what, when, where and how installations are provided. *Lastly*, mechanisms for communicating feedback from users to water agencies are poorly developed, with few offices to which to report defunct installations. In general, water agencies are not responsive to even this limited feedback" (World Bank, 1999 in H. Ramchandran's).

Past experience with community involvement in urban basic infrastructure provision shows that community involvement reduces costs of a project considerably. Urban Basic Service Programme was launched by the central government with assistance from UNICEF. The projects covered only a few slums in select number of cities. Since, there was no institutional stipulation from the World Bank, the solutions pursued were local in nature. It was realised, as the scheme developed, that community involvement not only results in effective implementation of the projects but also leads to better designing and substantial reduction in operational costs. Subsequently, community was often involved not just for project implementation and supervision of work but also in designing the project. All these

initiatives notwithstanding, community participation remained a state sponsored activity until the late seventies. Community participation as a component of development strategy gained currency in the eighties since public agencies largely failed in providing basic services to requisite quality. It was observed that beneficiary involvement in development projects cut costs considerably, since they helped mobilise resources through self- help and even contributed labour at cheap cost or even none at all. The most innovative form of community participation in infrastructural projects, which has been hailed as a major achievement in the nineties, is the neighbourhood and slum networking schemes, launched with substantial financial support from the state or central government (Kundu 2002). However, there has to be attempt at institutionalizing community participation to clear the confusion regarding modality, and provide kegal provisions in this regard. Some of the tried and tested examples are Water Users Association in irrigation projects, Watershed Association in watershed management, JFM committees in forest areas, VEC in Primary education and SHG in micro credit and Resident Welfare Associations (RWAs) or Neighbourhood User Groups (NUGs) in urban areas. However such bodies would have to be brought within the Panchayat arrangement, probably through committees. The concept of development funds allocated to Members of Parliament and Members of Legislative Assembly is another in congruency, which needs to be resolved in the context of the Panchayat Raj

Currently activism on the part of people is evident against the emerging right wing forces. People have challenged industries that threaten the environment. There are numerous instances of such informed activism on the part of people. The Orissa High court has asked the state government not to evict residents of a village for the proposed Tata Steel plant at Gopalpur. The directives came in the wake of petitions filed by the village *Panchayat* president and the Orissa Unit of People's Union for Civil Liberties. A *Gram Panchayat* in Himachal Pradesh, has decided to file a petition in the High Court against state government's decision to privatise the golf course in its area. Looking at the examples cited above, right to information appears the appropriate remedy for checking corruption through enforcing accountability of the local population (H. Ramchandran).

20.6 RESOURCES OF LOCAL BODIES

Studies suggest that even local bodies in relatively affluent states like Maharashtra, Gujarat, Andhra Pradesh, and West Bengal have failed to make use of their powers of taxation. They have levied taxes on perhaps two of the available items including profession tax, special tax on land and buildings and tax on public entertainment. User fees also have been inadequately levied and all the more improperly collected. This coupled with the poor resource position of state governments largely explains the resource crunch of local bodies. Citing the observations of the Ashok Mehta Committee, Bajpai and Verma (1995) explain that there needs to be a rational relation between the size of the panchayat and its viability as an economic unit. Presently, this is scarcely so.

Finances of Rural Local Bodies

Article 243-H of the Constitution enjoins on the state legislature to:

- a) authorise a Panchayat to levy, collect, and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
- b) assign to a Panchayat such taxes, duties, tolls, and fees levied and collected by the State government for such purposes and subject to such conditions and limits;

- c) provide for making such grants in aid to the Panchayats from the Consolidated Fund of the State; and
- d) provide for constitution of such Funds for crediting all moneys respectively by or on behalf of the Panchayats and also for the withdrawal of such moneys there from as may be specified in the law.

It is clear that local bodies do not have independent resource raising powers of their own. The State governments are enjoined the responsibility to look after financial requirements at the local level. There is need for more proactive steps in this regard. It is imperative that local bodies raise their own resources. In this respect the supervisory role of the state government in the sense of making certain taxes and user fees obligatory would be crucial. Linking assistance to reform and resource mobilisation effort could work.

Municipal Finances

As brought out by Abhijit Datta, (2005), unlike the Indian States, the local (including municipal) governments do not share in the revenues of the central government. The arrangement however is quite common in federal constitutions like, Brazil, Nigeria and South Africa. In Brazil and Nigeria, local governments have a fixed share of federal revenue, while in South Africa, the Financial and Fiscal Commission, allocates this to the sub-national Governments on an examination of their revenue potential and revenue raising effort. The South African Constitution terms this, 'equitable division of revenue raised nationally among the National, Provincial, and local spheres of government.

Since, the Indian Practice is limited to central revenue sharing by states, the municipalities are dependant on cash starved state governments for finances. Besides, "global tax sharing" arrangement, whereby funds are transferred from the States to municipalities on the recommendation of the State Finance Commission, has blurred the distinction between specific tax sharing and tax compensation, especially in the erstwhile Octroi States. This is important for two taxes-motor vehicle tax and octroi compensation. Automotive taxes are regarded as genuine municipal source due to municipal responsibility for road maintenance, upkeep of street furniture and provision of street lighting. Octroi compensation needs to be viewed in the wider context of the absence of a Municipal Business Tax. In the wake of VAT, fixed percentage allocation for municipalities should be considered. According to Abhijit Datta, (2005) "in future, global state revenue sharing with the municipalities might be replaced by specific sharing of automotive taxes and the VAT. Municipal bodies (corporations and councils) are prescribed to perform a vast array of functions (obligatory and discretionary) for which adequate financial resources should be available. State would be able to exercise better restraint on municipal finances if local bodies are granted requisite autonomy in raising revenue and in expenditure decisions, through measures like linking grants to fiscal prudence.

Hence, there is no separate list of taxes exclusively for municipal bodies. Many Commissions like the Local Finance Inquiry Committee (1951) and Taxation Inquiry Commission (1953-1954) have been set up from time to time to look into the issue of municipal finance. However, municipal finance was left to the discretion of the respective state governments to specify by law, matters relating to imposition of taxes. User fees have no been levied properly. Minimal charges have been collected lackadaisically.

This has been the lament regarding municipal finances.

Municipal Revenues are basically of the following types:

- Tax revenue;
- Non-tax revenue;
- Grants-in-aid;
- Borrowings or loans.

A) Tax Revenue

Major taxes levied by urban local government are the following:

- Tax on property including service levy for water supply, conservancy, drainage, lighting and garbage disposal;
- Tax on entry of goods into a local area for consumption use of sale therein, popularly known as octroi;
- Tax on Professions;
- Tax on vehicles (other than motor vehicles).

The scope of taxation of Municipal Corporations is broader; they are generally empowered to impose or increase taxes within the limits laid down in the State Acts.

Property tax

Generally property tax is the largest single source of revenue for municipal bodies in the states where there is no provision for octroi. Property tax is levied on buildings and lands. Its basis of taxation is the annual rateable value frozen in fiscal terms and also implemented improperly. Alternate ways of computation based on area wide assessment or capital value assessment should be attempted to make the tax buoyant. A municipal body can impose, suspend, reduce or abolish the tax or partly/wholly exempt any person or class of persons of any such tax on any property or description of property by a resolution passed at a special meeting and confirmed by the state government. There is need for property tax reform (Tenth Plan, 2002-07). According to Abhijit Datta (2005), problems with property tax stem mainly from states' policy on urban development, e.g. interventions in urban land use (conversion tax), ownership dispersal (land ceiling), rent control, penal taxation, (stamp duty, land value increment tax) etc. which have led to generation of black money in the property market. Desirable state of affairs regarding property tax is "municipal autonomy in its utilisation in a relatively free property market." Other core reforms include introduction of e-governance for property tax collections, with the goal of at least 85 per cent collection efficiency within five years and the introduction of similar practices in the case of financial accounting systems, work management, water tax billing and collection systems, the trade licensing system and the approval of building plans.

Octroi

It is the tax levied on entry of goods into a local area for consumption or sale therein. It accounts for about 60 to 80 per cent of total revenue of the urban local bodies where it is imposed. In the states of Rajasthan, Gujarat and Maharashtra for example, this tax is the major source of revenue. However, due to scathing criticism from many front states such as Andhra Pradesh, Assam, Bihar, Karnataka, Kerala, Madhya Pradesh, Nagaland, Sikkim, Tamil Nadu, Tripura, Himachal Pradesh, Manipur and Meghalaya have abolished

octroi. The state of Gujarat has taken a policy decision to abolish octroi and introduce an entry tax. Criticism regarding Octroi was that it hampered inter state trade and there was considerable corruption in its implementation.

B) Non-tax Revenue

Every Municipal Act has provisions, for issue of licenses. Every local authority is empowered to charge and collect fees both regulatory (for license issued) and for services provided. There is a vital difference between tax and fee: tax is a compulsory levy, while a fee is a charge made in return for a benefit allowed as per the principle of *quid pro quo*. When the service is extensively used and it takes on the character and form of a public utility, then the fee charged is called a user charge or a user fee. Normally a user fee is to be charged for public utilities, parking, entry fees for play ground, swimming pools etc.

As articulated in the Tenth plan, the state government unilaterally decides rates of taxes mentioned above and concerned parastatal agencies in case of water and power supply etc. without reference to local bodies that are affected by these decisions. There is ineffective devolution of decision making authority in this respect. This bottleneck should be suitably remedied. User charges are also inadequate. There is need for revision of user charges and strict compliance therewith for better financial position of local bodies. Besides, costs should be better controlled, particularly establishment costs and better utilization of municipal assets should be ensured for better financial position.

C) Grants-in-aid

An important element of municipal finance is grants-in-aid. There are two types of grants: a general-purpose grant (GPG) and a specific purpose grant (SPG). The GPGs are intended to augment the revenue of the local bodies for discharging their normal functions. The SPGs are used for specific requirements, e.g. the increase of wage bills due to inflation, education grants, public health, road maintenance etc. Grants are ad-hoc and discretionary in nature. Central plan assistance is extended through schemes such as the Integrated Small and Medium Town Development (ISDMT), Accelerated Water Supply Programme (AUWSP), and the Mega City scheme. Plan assistance is also routed through programmes such as the NCR plan, and the Tax-free bonds scheme, which was introduced during the ninth five year plan period. External assistance comes from agencies like the Asian Development Bank, ADB, World Bank and bilateral agencies. Innovative partnerships with the private sector should be considered in infrastructure development, particularly housing.

D) Borrowings and Loans

Municipal bodies can borrow from the state government and other agencies when they cannot afford to meet their expenditures with their existing revenues. The borrowing power of a local government is regulated under Local Authorities Loans Act (1914). This act provides that Municipal Corporations can borrow for development activities and for payment of debt charges. Local bodies are permitted to borrow for the following activities:

- Construction of municipal works;
- Provision of relief and the establishment or maintenance of relief work in times of scarcity or famine;

- Prevention of the outbreak of any dangerous epidemic disease;
- Acquisition of land;
- Repayment of outstanding loans.

Though market borrowings are not a traditional source of municipal finance a beginning needs to be made in specific sectors such as water supply where debt funds can be used to supplement resources from grants in aid and own resource.

The State Finance Commission

With the increasing pace of urbanisation, municipal bodies are finding it difficult to deliver the required level of services. Moreover, with the Constitutional Amendment Act (1992) and the addition of eighteen functions in the Twelfth Schedule, the functional responsibilities of municipalities have extended into development planning which extends the scope of local functions much beyond provisions of civic amenities. Local Bodies are expected to play a crucial role in the preparation of plans for local development and in the implementation of development projects. In view of this, proper assessment of the resources of the municipal bodies is required. Thus, the Seventy-Fourth Constitutional Amendment Act under article 243-I proposes the setting up of State Finance Commission. The Governor of the State constitutes a State Finance Commission within one year from the commencement of the Constitutional Amendment Act. Its term is for 5 years. The recommendations of the State Finance Commission will be in the following aspects:

- Distribution between the state government and municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the state;
- Allocation of a share of such proceeds between the municipalities at all levels in a state;
- Determination of taxes, duties, tolls and fees to be assigned or appropriated by the municipalities;
- Grants-in-aid to municipalities from the consolidated fund of the state;
- Measures needed to improve the financial position of municipalities.

Under the new Amendment, it is at the discretion of the Governor to refer any matter to the Finance Commission. This Commission chalks out its own procedure within the framework of powers given to it by state law. Another important aspect is that the Governor has to present to the state legislature every recommendation made by the Finance Commission along with explanatory notes on the actions taken. The setting up of a Finance Commission as proposed by the Constitutional Amendment Act will thus help the urban local bodies to deliver the increased level of services, which are required in the context of increasing urbanization. These additional responsibilities allotted to them under the twelfth schedule also make it imperative to make regular assessment of financial resources of the local bodies. Regular assessment of the financial resources, would help in the proper channelisation of resources as well as the devolution of resources from state to local government and give the local bodies a firm footing.

The challenge before the state finance commissions would be to strike the balance between rural and urban concerns, and there might be natural tendency to tilt towards rural concerns. The other consideration would be achieving the right mix between own

resources and transfers from the state (Tenth Plan). Besides, membership of the State Finance Commission would be crucial. Its efficacy would depend on the expertise of the members placed therein. Quick perusal of acts in various states suggests that

Issues in Budgeting

While increase in user charges is being widely recommended, the converse argument is equally potent. Increased user charges would further pressurize the have-nots in city who would be asked to pay more. However, as the same is an essential requirement for making local bodies viable units of self-government, ways would have to be found to identify the losers in the policy design and compensate adequately for better net social welfare. Also budget process would have to invite more people's participation to know what the requirements are and whether they are being met in the present dispensation. For example, local governments would have to grapple with poverty in the first instance since they operate at the cutting edge between citizen and the administration. Needs of vulnerable groups like, migrant workers, AIDS affected people, street beggars, homeless, child labour, et al would have to be dealt with at the local level. According to Minar Pimple of YUVA, and Sita Shekhar of Public Affairs Center, Bangalore, different local governments have different demographic profile and occupational pattern, nature of poverty unemployment etc. Hence uniform prescription may not be advisable. Broad differences were seen in the growth and composition of revenue and expenditure between the municipalities. While Bangalore had only grown 1% in income, Mumbai had increased by 7%, while Chennai's 36% spent on education dwarfed the 8% allocated in Pune. Operating expenses varied from 6-14% of the budget and per capita expenditure was more than triple in Mumbai that of Chennai. In the composition of allocations within sectors, salaries only made up 5% of the education sector in Ahmedabad and an incredible 97% in Bangalore. It is here that civil society activism is pertinent by way of research studies or policy analysis.

Hence intense academic analysis pertaining to each local government unit for rational resource allocation in the budget would be required. The call is for inclusive budgetary process with requisite involvement of subject matter specialists in civil society.

20.7 AGENDA FOR THE FUTURE

The present CAA in India is a step towards bringing about changes in the existing framework of urban local bodies and is in conformity with the worldwide trend towards pluralism and inclusiveness of the political process. It is expected to be a harbinger of change, by making the urban local bodies efficient and a democratic form of government in the true sense.

The reforms required by urban local bodies are multifaceted covering political, social, administrative, financial and technological aspects. The act provides a constitutional form of the structure and mandate for municipal bodies to enable them to function as effective democratic institutions of local self-government. However, it is worth mentioning that the constitutional status alone is not sufficient to make the municipal bodies vibrant and effective institutions of democracy. There has to be genuine transfer of responsibilities from the states to the local bodies accompanied by requisite devolution of power and authority with respect to decision making, especially in financial resources.

As articulated in the Tenth plan, the desired role of local bodies would be to:

- Be responsive and accountable to the community,
- To develop cities with standards of service comparable to the best in that particular category.
- To constantly improve their capabilities so as to equip themselves to undertake their tasks in resource- raising, service provision and poverty alleviation.

Substantial progress has already been achieved through projects such as the Mega City Project for five selected cities, The Integrated Development of Small and Medium Towns (IDSMT) and the Accelerated Urban Water Supply Programme (AUWSP) has also functioned with fair success.

There is need for transparency through Right to Information regarding municipal matters, since the bodies are closer to the taxpayers' money. Peoples' participation could be secured by involving bodies like Residents Association more closely in urban planning. The chief arena where private sector scores over government is accountability mechanisms, which are allegedly woefully inadequate in public administration, particularly in India and quite efficient in private enterprises. That is an area of procedural reform that needs to be attended to. The Urban Local Bodies have been guilty of spillage and wastage in tax collections. For populist reasons they have been unwilling to levy taxes and user fees.

Fundamental requirement would be gradual transition from centralized planning to development planning from below, which would be possible only through genuine devolution of powers and functions to local bodies and generation of resource capability in local bodies.

20.8 CONCLUSION

Hence, radical changes are called for, for infusing efficiency in local governance. Though the recent amendments are a step forward, structural reforms towards a truly federated arrangement are still needed. The present arrangement still suggests colonial hangover. Citizen participation has to be ensured in keeping with the spirit of fundamental duties enshrined in the constitution. The same would need to be institutionalized. Effective devolution of powers and functions needs to be affected especially with regard to finances. Urban local bodies should henceforth be looked upon as planning units rather than instrumentalities of state governments for carrying out relatively unimportant tasks.

20.9 KEY CONCEPTS

- Privatisation** : Privatisation encompasses many policies, including reduced public funding of services, government contracting with non- profit and for profit organisations, fees for services, vouchers for public education and a greater role for community organisations in addressing public concerns. (Ingram & Smith 1995),
- Civil Society** : Civil Society is the new hope of the globalised world. The Civil Society it is hoped would deliver us from the evil of rampant capitalism and the all-powerful state. Civil society includes non- government organizations and social action groups, and also

voluntary activity on the part of one person for social benefit. The arena of action for civil society is the intervening space between the state and market, including sometimes, government and market agencies in synergistic/facilitating association.

Participation

- : Participation is being looked upon as a *transformative* approach to development. It is being studied as part of the wider analysis of citizenship, which partakes in governance as a matter of legitimate right and duty. Accordingly, welfare states need to reorganise public services to institutionalize this basic precept of democracy. Participation is being increasingly discussed under sub fields like decentralization, social capital, social movements, social justice issues like women's empowerment et al in World Bank publications.

20.10 REFERENCES AND FURTHER READING

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20.11 ACTIVITIES

- 1) Prepare an assessment report regarding the performance of the municipality in your area. To what extent do you think the proposed amendments will ameliorate the situation? Write in the context of powers, functions and resources of local bodies.

ANNEXURE

11th Schedule of the Indian Constitution, 73rd Amendment Act, 1993.

- 1) Agriculture including agriculture extension.
- 2) Land improvement, implementation of land reforms; land consolidation, and soil conservation.
- 3) Minor irrigation, water management and watershed development.
- 4) Animal husbandry, dairying and poultry
- 5) Fisheries
- 6) Social Forestry and Farm Fisheries
- 7) Minor Forest Produce
- 8) Small scale industries, including food processing industries
- 9) Khadi, village and cottage industries
- 10) Rural housing
- 11) Drinking water
- 12) Fuel and Fodder
- 13) Roads, culverts, bridges ferries, waterways and other means of communication
- 14) Rural electrification, including distribution of electricity.
- 15) Non conventional energy sources
- 16) Poverty alleviation programme
- 17) Education, including primary and secondary schools
- 18) Technical training and vocational education
- 19) Adult and non formal education
- 20) Libraries
- 21) Cultural activities
- 22) Markets and fairs
- 23) Health and sanitation including hospitals, primary health centers
- 24) Family Welfare
- 25) Women and Child Development
- 26) Social welfare including welfare of the handicapped and mentally retarded.
- 27) Welfare of the weaker sections and in particular of the scheduled castes and the scheduled tribes
- 28) Public Distribution System
- 29) Maintenance of community assets.

Twelfth Schedule of the Seventy-Fourth Constitutional Amendment Act (1992)

- 1) Urban planning, including town planning
- 2) Regulation of land use and construction of buildings
- 3) Planning for economic and social development
- 4) Roads and bridges
- 5) Water supply for domestic, industrial and commercial purposes
- 6) Public health, sanitation conservancy and solid waste management
- 7) Fire services
- 8) Urban forestry, protection of environment and promotion of ecological aspects
- 9) Safeguarding the interests of weaker sections of society, including the disabled and mentally retarded
- 10) Slum improvement and upgrading
- 11) Urban poverty alleviation
- 12) Provision of urban amenities and facilities such as parks, gardens playgrounds
- 13) Promotion of cultural, educational and aesthetic aspects
- 14) Burials and burial grounds, cremations, cremation grounds and electric crematoriums
- 15) Cattle pounds; prevention of cruelty to animals
- 16) Vital statistics including registration of births and deaths
- 17) Public amenities including street lighting, parking lots, bus stops and public conveniences
- 18) Regulation of slaughter houses and tanneries