

MANUAL

For

Capacity Building of Local Self-Government Institutions in Punjab



**Centre for Research in Rural and Industrial Development,
2-A Sector 19-A, Madhya Marg, Chandigarh (INDIA)**

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PROJECT TEAM

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PREFACE

It is difficult to conceive prefacing a study of a multi-disciplinary nature. The study has been successfully carried out by our centre. However, an attempt has been made to record some important impressions and events that have been formed as well as taken place during the span of one year, the period for which the project was sanctioned by the European Commission.

The informal as well as formal interactions that took place between the experts of six member states of European Union and the project team headed by my distinguished colleague Mr. JP Gupta, during this period were both educative and rewarding in learning from experiences of each other and thereby developing strong possibilities of carrying out this programme for the benefit of the people and states of respective countries. The exposure of the project team and also the elected representatives of Local Self-Government and Grassroot Institutions to European countries and the visits of their counterparts to India which comprised eminent experts, parliamentarians and academicians have left a deep impression and the need to widening the sphere of this activity on long-term basis. Though, the project was titled as '*Capacity Building of Local Self-Government Institutions in Punjab*', the in-depth knowledge, experience and concern of distinguished participants and also the colleagues from the partner institutions of Europe have left a deep impression in the minds of all of us that European Union and India can make a significant contribution in widening the relationship in areas of social, cultural as well as economic and scientific co-operation for mutual benefit. This is also the mandate of European Commission to expand the process of co-operation between member states of European Union and India.

Amongst notable events, it may be pertinent to record the interest taken by other senior members of the team and on top of it by distinguished members of the Governing Body of the Centre comprising well known scholars, diplomats, planners and administrators. They backed all activities of the project by providing their valuable input to make it a success story that should receive desired consideration by European Commission for its replication elsewhere.



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We are earnestly thankful to Professor OP Mathur, Professor George Mathew, Professor MP Mathur, and Dr. Mahipal for their academic contributions presenting papers in the National Seminars and National Conference.

Our sincere thanks are due to our own esteemed colleague Mr. M Satyapal, Senior Advisor, CRRID for his valuable contribution and assiduously editing the manuscript of the publication by spending long hours spread over several days.

Finally, we must acknowledge highly supportive response and co-operation of members of our own faculty, computer, library and administrative staff, without which the successful and timely completion of the project would have been unconceivable.

The inspiring intellectual leadership of Dr. Rashpal Malhotra, Director-General, CRRID motivated the project team to put in their best. The various aspects and issues were continuously discussed and debated with him culminating in successful implementation of the project and finalization of this publication. His advice and guidance has been invaluable indeed.

Last but not the least, our thanks are due to all the members of the team of this project and to those who have provided help directly or indirectly to this project but preferred anonymity.

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EXECUTIVE SUMMARY

A project titled "**Capacity Building of Local Self Government Institutions in Punjab**" was assigned to **Centre for Research in Rural and Industrial Development (CRRID), Chandigarh** by Delegation of European Commission in New Delhi in October 2005. **The Study Group for European Policies (SEP)**, a non-profit making organization at Brussels (Belgium), is the Partner in the project. SEP is a highly respected research group comprising eminent scholars and researchers connected with the development of 'Regions' and are entrusted with the study of 'Territorial Cohesion' by the Committee of the Regions of the European Union.

The aim of the project is to strengthen the local self-government institutions in the state of Punjab through induction of best management practices gathered on experiences of local governance in other states in India and selected members states of European Union. The project provided opportunity to learn about the functioning of local governments in the European countries of Finland, Spain, United Kingdom, Italy, Netherlands and Belgium and also in the progressive Indian states of Gujarat, Maharashtra, Madhya Pradesh, Karnataka and Kerala. Wide ranging views exchanged between the teams from Punjab and officials and elected representatives of visited places made valuable contribution to the practical understanding of the basic concepts for effective functioning of local governments. Two seminars and one conference helped to identify and incorporate major areas of interest in local governance, such as role of e-Governance, transparency, accountability, effective community participation, tax reforms, waste management, user charges and involvement of stakeholders in the provisioning of civic services.

The federal structure of Indian Constitution provides for a central government at New Delhi and state governments in 29 states. The 73rd and 74th Constitutional Amendments, 1992 are a milestone in the history of rural and urban local self-government institutions in India. The amendments assign these institutions a pivotal place in Indian democracy. Consequently, the local self-government institutions are now an integral part of the Indian federal polity; the Government of India at central level, the state governments at middle level and the local self- governments institutions as the third tier of governance at the lowest level.

The conformity legislations passed by the Government of Punjab in 1994 has ensured continuity to these institutions and secured participation of the underprivileged sections of the society. Though this is a happy augury, but even after more than a decade of adoption of 73rd and 74th Amendments, these institutions have not been effectively integrated within the democratic system. The functional and fiscal devolutions as envisaged have not taken place and the local self-government institutions continue to suffer for want of powers, functions and functionaries. The functioning of local self-government institutions varies widely across the country. Some of the states like Kerala, Karnataka, Madhya Pradesh, Maharashtra, and Gujarat have performed better in terms of decentralization. On

the other hand, the process of institutionalization of reforms is rather slow in Punjab. This is in part also due to poor capacity of local self-government institutions to act as effective institutions of local self-government.

Serious efforts are yet to be made to give autonomy to local self-government institutions despite the Constitutional amendments. Article 243 of the Constitution, which defines powers, authority, and responsibilities of the municipalities, has not been implemented. Similarly, power to impose taxes is still exercised by the state government and not by the municipalities and Panchayati Raj Institutions (PRIs). The rates and taxes are fixed by the state government and development grants and transfers are decided by the state government.

Although, decentralized democratic institutions of local self-government have come into being after direct elections, the elected representatives do not have adequate managerial capabilities and are generally unaware of management principles, accounting practices and fiscal responsibilities. There is thus need to plan for major capacity building programme including training and adoption of best practices of governance for upgrading the operational efficiency of the elected representatives as well as functionaries of local self-government institutions. It was in this context that the European Commission-CRRID project envisaged Capacity Building of Local self-government Institutions to enhance effectiveness of governance for social and economic development and to strengthen the democratic institutions in Punjab.

Presently, considerable reluctance persists to transfer functions, funds and functionaries to local self-government institutions on the plea that the capacity of elected representatives is poor for undertaking the responsibility of governance. On the other hand, European countries have robust and long experience in local governance. It has been noted that there is a considerable and valuable experience available in similar institutions in selected European countries, which can help in evolving a plan of action for strengthening the local governance in Punjab.

Western European local government systems are grouped into following three categories: "Franco Group" of countries includes France, Italy, Belgium, Spain, Portugal and Greece. Local governments enjoy constitutional status and have a political rather than a functional role. They have a low degree of autonomy and higher levels of government have formal control over them. The second category, "Anglo Group" of countries is typically represented by United Kingdom. Local government is far more autonomous but it has no constitutional status. They are relatively free from the control of higher levels of government.

Local governments in the 'Middle and Northern European Group' (Norway, Sweden, Denmark, Finland, Austria, Switzerland, Germany, and Netherlands) enjoy the highest degree of autonomy and a strong constitutional status as well as financial independence.

The working of local self-government institutions in six European countries namely United Kingdom, Belgium, Netherlands, Finland, Italy, and Spain selected for study revealed that the civic facilities like provision of water supply, sewerage, sanitation, lifting, transportation, and disposal of household waste have been offloaded to private sector for which householders pay directly to contracting companies on the basis of tariffs approved by respective regulatory authorities. As a result of transfer of civic services to the private sector, the local self-governments in Europe are extensively involved in welfare activities, which constitute their major activity. Through the extensive involvement of the citizens, democracy has been taken to the doorsteps of the people.

Rural development is an important policy matter in the European Union. In Europe, there is no division like urban councils or rural councils. The system provides civic services in rural as well as urban areas by the city, district and county councils formed on geographical basis. The European Commission has adopted the future vision of rural society as a part of an 'Integrated Economic and Social Unit'. These entities include villages, small cities and rural municipalities. The voice of local citizens and their participation to shape their own future with technical and financial support of higher levels of government is encouraged through LEADER (Liaison Entre Actions de Development de l'Economic Rurale). The 'bottom up approach' promotes decision making by the community through Local Action Groups (LAGs).

The European Union has decided to implement the 'European Union Rural Development Policy' during the period of 2007-2013. The main objective is to increase the competitiveness of the agricultural and forestry sector, sustain environment in the countryside improve overall quality of life in rural areas and to checkmate migration to urban areas. Provision of Urban Services in Rural Areas (PURA) includes super markets, hospitals with facilities for old age care, women and child health care facilities, schools and libraries, banks and post offices, entertainment facilities, rest houses, quality basic services like housing, water supply, electricity and roads in rural areas.

The working of local self-government institutions was studied by experts from Punjab in six European countries namely United Kingdom, Spain, Finland, Belgium, Neighterlands and Haly. In **United Kingdom (UK)**, the city, district and county councils are responsible to promote economic, social and environmental well-being of their areas. Districts councils are responsible for leisure, environmental health, housing, rubbish collection, and local roads. Counties are responsible for more strategic services such as education, libraries, roads, social services, trading standards and transport. The main feature of the working of the councils is transparency and accountability. All authorities and functions are vested in the elected councils and are exercised usually by committees or subcommittees of councils. The delegation of authority to a number of elected bodies is the crux of the local self-governance in United Kingdom.

The area committees bring councilors and the people closer to each other and help in preparing area plans, neighbourhood renewal plans, ensure best value and performance management by the city council and promote community participation. The community is extensively and liberally encouraged to participate in the discussions that end up in participatory democracy involving the citizens as stakeholders.

People's participation is an important feature in the working of the city councils through number of legal rights given to the citizens to participate in the working of the elected councils. They can attend meetings of the council, the cabinet and committees except where personal or confidential matters are being discussed; participate in the council's question time and also in scrutiny committee hearings and can see reports, background papers and records of decisions made by the council; directly complain to the council about delivery of services; complain to the Ombudsman and seek justice; complain to the council's standards committee or the standards board for United Kingdom, if there is evidence that a councilor has not followed the council's code of conduct; inspect the council's accounts in the statutory period and make their views known to the external auditors.

The councils whatever their size have legal obligation to minimize the generation of waste and its disposal through recycling, composting and landfills. The directives from European Commission relating to waste management and waste control have been extended to cover the storage, treatment, recycling and transportation of waste.

The transfer of funds from the central government is largely 'on assessed needs' depending on the existing level of expenditure and the future development plans and availability of the funds with the central government.

The regulator has a vital role in fixing water, sewage tariffs and rates of other civic amenities. For instance water tariffs are subject to strict scrutiny of the regulator and the local bodies in urban as well as rural areas act as facilitators to ensure right quality and quantity of drinking water to the households with almost cent percent coverage.

The constitution of **Spain** guarantees autonomy to municipalities. Democracy has been brought closer to the citizens by organizing debates between the ruling party and opposition party on issues of assigning development tasks to the counselors of municipalities by the ruling party. Also, e-Democracy has given public the opportunity to play a direct role in day-to-day working of municipalities.

People pay progressive garbage tax according to their income and water charges according to the amount of water consumed. Neighborhood associations are encouraged for the promotion of community participation and involvement of community in the operation and maintenance of civic services. There is complete transparency and dissemination of information about the financial affairs of the municipalities.

In **Finland**, municipalities perform the functions without interference of the state. Though there are successful examples of municipalities forming joint municipal boards in order to provide infrastructure needing larger investments, the formation of joint municipal boards does not affect the autonomy of an individual municipality.

In **Belgium**, the Municipalities Act of Belgium 1995 is exhaustive. It provides that the number of candidates of one sex may not exceed two third of the total seats of a municipal council. This is a way to protect the rights of the women candidates. The municipal bodies have extensive fiscal autonomy. They have authority to set tariffs and rates, grant exemptions and deductions of taxes levied by them. The law however imposes maximum rates of such taxes. Infact, the financial autonomy of the municipalities depends on the resources allotted by higher authorities because such transfers have specified restrictions as in other countries of Europe. The Constitution of Belgium implicitly forbids decision-making through referendums. The higher levels of government can intervene in decision making in Belgium.

The **Netherlands** is a decentralized, unitary state with no rural-urban divide. The town-country relationship is very strong. The Midden Delfland Municipal Council, which is responsible for the governance of urban and rural affairs, provides a good example of Public-Private-People's Partnerships (PPPPs) in provision and maintenance of services. The citizen's participation is ensured through referendums. The major thrust in Netherlands is to involve citizens to solve the problems at neighbourhood level with the support of stakeholders, which is part of the national urban policy. With an effective legislation and regulating system, municipalities are assured of the financial resources they need to perform the tasks for which they are responsible.

In **Italy**, the objective of privatization is to ensure efficiency and competitiveness. Urbino and Florence Municipalities in Italy demonstrate an efficient system of solid and liquid waste management. The municipality of Urbino has outsourced most of its functions relating to water supply, sewerage and solid waste management to the private organizations or public-private companies. Thus the municipalities in Italy are left with a regulatory role, which has resulted in better coverage and quality of municipal services.

The management practices in European Countries promote extensive participation of the citizens and public-private-partnerships, which result in transparency and accountability. The local self-governments in Europe operate largely as facilitators for ensuring delivery of civic services like water supply, sewerage, garbage disposal, roads, etc. by offloading these activities to the private sector companies authorizing them to bill and collect the bills directly on the rates fixed by an independent regulator.

The extensive involvement of local bodies in welfare measures like disbursement of pensions, running of old age homes and taking care of the homeless and the poor are the other distinguishable functions of local bodies in Europe. The local self government

institutions raise adequate funds through their own taxes and levies which are appropriately matched by grants from higher levels of government to cope with the future development needs and day-to-day running of local bodies efficiently.

The visiting team from Punjab noted that **Kerala** has decentralized powers, functions, funds and functionaries to its local self-government institutions. The participation of women, scheduled castes and scheduled tribes has strengthened the participatory democracy at local level. 'People's Planning Campaign' is a landmark development of democratic decentralization, which enabled the participation of representatives and members of all sections of the society in execution of local development plans. The democratic decentralization has ensured active participation of women in the functioning of governments at local level.

A separate budget document for local governments has been established by assigning a specific 'head of account', which specifies grants to local self-government institutions and allows 'head of departments' to transfer and credit the amount to the local self-government institutions. This gives freedom to the elected representatives to formulate development programmes according to their own needs and aspirations. Community participation is ensured in the formulation and implementation of policies in villages and cities. This has established transparency and accountability in the functioning of these institutions.

Complete information and database, transparency, accountability, enhanced participation, involvement of Non-Government Organisations (NGOs) and other civil society groups in the functioning of local government institutions has made democratic decentralization possible in Kerala.

In **Madhya Pradesh**, several structural, institutional, fiscal and functional reforms have been initiated to strengthen the local self-government institutions. The people's participation has promoted decentralization process. The fiscal decentralization initiatives in the state have resulted in higher rate of growth in the revenue income of local bodies. The distinguishing feature is the institutionalization of the Mayor-in-Council in case of municipal corporations and President-in-Council in municipal councils for the administration of municipal bodies.

Geographical Information system is used to collect information about physical location of properties, roads and lanes and also of drinking water distribution system. In all, 13000 new properties have been identified and brought under property tax. Property Index Numbers (PINs) have been allotted to owners of properties for easy identification. The people participation has been ensured for implementing the plans prepared by these institutions.

Maharashtra is the third largest in terms of area and second most populous state of India. Mumbai is its capital and India's largest city. Wide ranging issues of slum management,

traffic management, pollution control, solid/liquid waste management, administration and governance at local level have been matter of concern in Maharashtra. Notwithstanding wide ranging issues in the development process, Maharashtra has many success stories of private sector participation improved civic services, efficient administration, and effective planning.

The focus on solid and liquid waste management in Maharashtra is to save underground and river water from pollution. The delegation of powers to the local self-government institutions is extensive which has taken democracy to the door steps of citizens in urban and rural areas.

e-Governance in Maharashtra has improved the functioning of local self-government institutions by providing speed and efficiency for effective delivery of services. The 'citizen centric services' are effectively monitored through integrated on-line functioning. Municipal Corporation of Mumbai has set up a number of 'Computer Facilitation Centres' and their inter-connectivity has reduced correspondence and paper work.

The main features of e-Governance are good horizontal integration; paperless and cashless transactions; single window for all services; integrated help desks, complaint desks, delivery counters, cash counters for payment of bills, fees and taxes.

In addition, the issue and renewal of certificates and licenses, issue of birth and death certificates across the counter, easy follow-up of complaints and grievances, online supply of blank application forms, online acknowledgements, printed complaint token numbers, and facilities to users beyond office hours and on holidays are the other usual facilities available to the citizens.

Gujarat has witnessed a number of innovative measures to involve peoples participation in urban as well as rural areas. The area-based property tax assessment system has resulted in easy calculation and collection of property tax which has increase its yield.

Ahmedabad Municipal Corporation was the first municipal body in India to access the capital market to raise finances for infrastructure projects. In Gujarat, the progressive town planning schemes have promoted urban development on equitable basis. The private colonizers have been successfully persuaded to make available land for planned development like roads, water bodies and community institutions. This has reduced litigation and promoted the growth of planned urban development. In Ahmedabad, a slum rehabilitation programme for upgrading the quality of life of slum dwellers with the involvement of private sector, NGOs and beneficiaries is a big success. The basic services in the slums are provided on equitable cost sharing basis. Stakeholders contributed in part to the capital cost of the services provided to them. The decentralization has taken democracy to the doorsteps of the stakeholders. Quite a few civic services have been

progressively transferred to the private sector. This has reduced the financial burden of the local self-government institutions.

In **Karnataka**, Geographical Information System (GIS) is used for location of properties for assessing the property tax, preparing town planning schemes and to check unauthorized construction and unplanned growth of the city.

e-Governance has taken roots in the functioning of the urban as well as rural local bodies.

The Government of Karnataka has transferred all the functions specified in the Eleventh Schedule and also funds and functionaries to the rural local self- government institutions.

In Karnataka, a gram panchayat has autonomy and control on administrative setup, which is an unique system in the state. The gram panchayat have powers to spend funds out of statutory grants on the basis of 'assessed needs' and assessments made by a gram sabha. The social auditing has been made mandatory in the state to bring transparency in the working of gram panchayats.

The urban local bodies are promoting and adopting modern urban management practices including double entry system of accounting to obtain credit rating for raising funds from capital market. This enables municipal bodies to implement development projects for the benefit of the citizens.

The best management practices in local self-government institutions in selected Indian states and European countries are proposed to be replicated in Punjab within the framework of 73rd and 74th Constitutional Amendments. The upgradation of the managerial skills of elected representatives and functionaries to strengthen the local self-government institutions is in line within the specific objectives of the European Commission-CRRID project.

The process of capacity building will involve sensitizing local self-government institutions to adopt and improve management practices. This is in the form of initiating training programmes and CRRID, already engaged in this task, will upgrade the scope of this programme with material and information generated under the European Commission-CRRID Project.

INTRODUCTION

The federal structure of the Indian Constitution provides a Central Government at New Delhi and State Governments at state level in 29 states. A third level of governance has been created as a result of 73rd and 74th Amendments to the Constitution passed by the Indian Parliament in 1992 and due to this constitutional change, village councils and urban local bodies have been established extending the democratic form of governance at local level through direct electoral franchise. The constitutional amendments provide for transfer of 29 functions to village councils and 18 functions to municipal councils.

However, local level governments in Punjab do not have defined powers like the higher levels of government namely states and central governments. Historically, the state government has controlled the local self-governments and has not devolved adequate powers and responsibilities to local self-governments. The capacity of the local self-governments through devolution of powers has still not been augmented to cope with the growing challenges of development, poverty, environment, infrastructure and civic services.

Punjab a moderate size state in north western border of the country with a population of 25 millions is a prosperous and developed state with low poverty rate. By the end of 1990s, more than 94 per cent of Punjab's citizens were above the poverty line, 70 per cent were literate, 94 per cent children of school going age were enrolled in primary schools. The average life expectancy of its citizens was 68 years. According to India's National Human Development Report (2001), Punjab ranks second only to Kerala in terms of human development among the major Indian states. World Bank in a recent Report on Punjab observed that *'most of the citizens of Punjab have thus already achieved a level of socio-economic status that the majority of Indian citizens are unlikely to experience in their lifetime.'* Yet, the development of Punjab in many ways is paradoxical. Its private sector is one of the most prosperous in the country but its government has yawning gaps in its expenditure and revenue income. Punjab has the dubious distinction of being one of the most indebted states in the country. The quality of delivery of public services in urban as well as rural areas remains poor because of poor fiscal health of the state.

The pioneering role played by Punjab in Indian agriculture is well known. The green revolution in the mid 1960s aided by public investments in infrastructure and price incentives revolutionized wheat and rice production in the state. Punjab as the dominant 'food grain surplus' state is known as food basket of the country. Punjab contributes about 45 per cent of all rice and wheat procured by the Government of India. The fiscal performance of Punjab however is not commensurate with its relative economic prosperity.

In Punjab, there are 12,443 village councils (panchyats) 140 blocks councils (panchayat samitis) and 17 district councils (zilla parishads) with more than 90,000 elected

representatives in all the three tiers of the Panchayati Raj Institutions (PRIs). Similarly, there are 134 municipal corporations and councils with 2,200 elected representatives. In addition, there are approximate 5,000 functionaries in the local self-government institutions at various levels of municipal management. The total number of elected representatives and functionaries under the local self-government institutions is approximately 1,00,000.

Of late, the growth of the economic process in the form of rapid industrialization and economic development including globalization has led to the emergence of vibrant urban centres in India. The existing concerns and challenges of urbanization and local urban governance in India are serious enough because Punjab has emerged fifth major urbanized state in the country. The problems of housing, poverty, environment, infrastructure and delivery of civic services are major issues facing state and citizens of urban centres.

The urban local bodies in Punjab are responsible for providing essential civic services to over 8.5 million people including roughly one-third of Punjab's urban poor. The services include water supply and sewerage, sanitation, public health, housing, land registration, approval of construction plans and other administrative services. Urban local bodies in Punjab range in size from nagar panchayats with little more than 5,000 people to the municipal corporations, two of them with million plus population. In Punjab, the importance of urban local bodies as service providers is increasing both as a result of rapid urbanization and because the 74th Amendment to the Constitution requires state government to devolve greater responsibilities and also funding to local governments. The cities in Punjab are the engines of economic growth and successful management of their expansion is essential for Punjab's development. The management challenges are becoming greater as cities grow in size, the complexity and bottlenecks in the provision of urban infrastructure and deterioration in the quality of basic services are becoming apparent. Nearly 20-25 per cent of urban households have inadequate access to piped water and another 50 per cent to 60 per cent have no access to sanitation services. Municipal towns have seen a rise in the number of households without adequate shelter.

The situation in rural local bodies commonly known as 'Panchayats' is not different. The emphasis in rural areas is on development of agriculture through improved practices like use of better quality seeds, intensive use of fertilizers and promotion of ancillary agriculture and connected activities like poultry and animal husbandry. The panchayats (rural municipalities) continue to be intimately concerned with agricultural activities as village communities are largely dependant on agriculture. Over the years, there has been little effort to provide civic services in the form and scale as in urban areas. In Europe, there is no urban and rural divide for provision of civic services as local bodies are constituted on geographical basis and look after provisioning of civic services in rural and urban areas. The civic services as provided by panchayats in Punjab are rudimentary and the best of these services merely include paving the village streets with bricks and providing open drains for discharge of effluents generated by households in ponds or

nearby open spaces as cesspools. There is no provision in the budget of a rural local body to provide piped water supply or to lift, transport and dispose off solid waste. There is no drainage system to discharge the excess rainwater. This is so because the revenue income of panchayats in Punjab is nominal and the elected representatives of PRIs continue to look towards government for grants with no matching effort on their part to raise resources for providing civic and social services to improve the quality of life.

The history of local self-government indicates that the local self-government institutions have not been empowered to meet growing challenge of growth in the state. No serious efforts have been made to improve the capacity of officials and elected representatives of local self-government institutions. Hence strategies need to be developed to improve the capacity of local self-government institutions in Punjab which are responsible to meet the basic civic needs of the people. The Constitution of India has inserted the subject of local self-government in the Seventh Schedule, which gives authority to the state government to decide financial and fiscal jurisdiction of the local self-government institutions.

There is considerable reluctance on the part of the state government to transfer functions to the local self-government institutions on the plea that their capacity is poor to perform these functions effectively. The state government is equally unwilling to transfer fiscal resources to local self government institutions. The urban and rural local bodies are not sufficiently authorized to raise resources of their own through taxation or otherwise. The transfer of functions even if it is agreed to, without matching transfer of financial resources will be an infructuous exercise. Being a relatively new experience in democratic decentralization, the representatives of local self-government institutions are not adequately trained to deal with the new responsibilities intended to be devolved on them. Therefore, there is a need to build their capacity in local governance.

With this background, a proposal was conceived to initiate a project for capacity building of local self-government institutions in Punjab with assistance of European Commission. The European countries have robust and long experience in local governance. A variety of problems are being faced by local self-government institutions of Punjab which include fiscal, institutional, administrative and implementation issues. The project envisages exchange of information and ideas between selected representatives of local self-government institutions and officials in selected European countries and also in selected progressive Indian states through an interactive process involving discussions, seminars, study visits, and sharing of experiences of running local self-government institutions. The goal stated in the project is to disseminate information on the best management practices that could be adopted at local level institutions of Punjab on the basis of experiences of the functioning of such institutions in European countries and in India.

The project formulated by the Centre for Research in Rural and Industrial Development (CRRID) was accepted by the European Commission through delegation of the European Commission in New Delhi to be completed in 12 months starting from 1st May 2005.

The total cost approved by the delegation of the European Commission is EURO 133,026.68. The European Commission through its representative office in New Delhi agreed to finance maximum of EURO 99,770.25 equivalent to 75 per cent of the total cost. The balance was provided by CRRID from its own resources.

The basic objective of this European Commission-CRRID project is intended to improve the functioning of local self-government institutions by upgrading their capabilities to discharge their responsibilities. This involved sensitizing local bodies including state government about the functioning of similar bodies in progressive states of India and in selected European Union countries, essentially to motivate them to adopt better management practices. This will involve training of representatives and functionaries of local self-government institutions of Punjab. Centre for Research in Rural and Industrial Development (CRRID) over several years is already engaged in this task and implementation of the project will help to amplify the scope of this activity with inputs about the best management practices gathered by on the spot visits to Indian states and European countries. Its implementation will ensure continuity by CRRID through its training programme and adoption of selected management practices from Indian states and European countries. Institutional level sustainability of the capacity building programme of local self-government institutions is assured as the training programmes will continue under the auspices of CRRID. A major outcome is the networking established with political and administrative decision makers which will benefit local self-government institutions in Punjab.

The Study Group for European Policies (SEP), Brussels is a partner in this project. SEP is a leading think tank in European Union with links in member states of European Union, engaged in research and studies and involved in regional and local level democracy in European Union and has considerable background and experience in the working of local self-government institutions in European countries. SEP played a key role in the implementation of the project and provided support to perform various activities. In particular, SEP provided relevant literature on the functioning of local self-government institutions in European countries-their history, present working methods and procedures, powers and responsibilities exercised by them, community participation, devolution of functions, and means of raising financial resources and other relevant aspects of the functioning of local self-government institutions in Europe. SEP provided logistical support for the study visits of Indian delegation from local self-government institutions in Punjab to meet their counterparts in selected European countries for exchange of ideas and experience.

SEP nominated Professor Laurent Van Depoele as Associate Project Director to provide support to the Project Director by providing information on best practices in local self-government institutions in Europe, selecting resource persons, participants for seminars and conferences and help in arranging study visit to European local government institutions.

The project provided an opportunity to representatives and functionaries of local self-government institution from Punjab to have personal interaction with their counterparts in selected member states of European Union to discuss and deliberate and exchange ideas and information for the benefit of local self-government institutions in the state of Punjab. Ten representatives from Punjab selected in consultation with state government and EU partner in Brussels were deputed to six member states of European Union namely United Kingdom, Netherlands, Italy, Spain, Finland and Belgium. The project also provided visit of elected representatives and officials to five progressive Indian states.

CRRID organized two National Seminars, 'Functioning of Local Self-Government Institutions in Punjab and EU Countries' on 16-17 August 2005 and 'Management Practices and Provision of Civic services in European Countries and Progressive Indian States' on 29-30 November 2005 and National Conference on 'Capacity Building of Local Self-Government Institutions in Punjab' on 7-8 March 2006. The selections of the participants for the seminars and conference were made in consultation with the state government to ensure that delegates chosen to attend the seminars and conference were suitable persons to benefit optimally from the deliberations of the seminars and conference.

The following participants from European countries participated in Two National Seminars, study visit to Indian states, and National Conference.

First National Seminar on 16-17 August 2005

- i. Prof. Laurent Van Depoele Associate Project Director,
Executive Director, Vice President
Study Group for European Policies (SEP), Brussels
- ii. Dr. Prof. Frank Delmartino
Leuven University, Department of Political Science
E.Van Evenstraat 2-B, 3000 Leuven/Belgium

Study Visit to Karnataka on 23-31 October 2005

- iii. Mr. Andrew Thomas, Head of Regeneration Policy, Leicester City Council, London (United Kingdom) accompanied the Indian team to Karnataka to study the working of urban and rural local bodies of the state. On his return, he interacted with the faculty of CRRID.

Second National Seminar on 29-30 November 2005

- iv. Mr. Jos Chabert
Vice President of the Brussels Parliament
and Former President of the Committee of the Regions, Belgium

- v. Mr. Timo Linkola,
International Project Activities
The Association of Finnish Local and Regional Authorities
Kuntaliitto, Toinen Linja 14, 00500 Helsinki
Finland
- vi. Mr. Christiaan Van Der Kamp
Alderman
Midden Delfland Council
The Netherlands
- vii. Mr. Piara Singh Clair
Councilor
Leicester City Council
London
- viii. Mr. Jorma Virtanen
Mayor of Kemi
Finland

National Conference on 7-8 March 2006

- ix. Professor Yuri Kazepov
Deputy Head, Department of Sociology,
University of Urbino,
Via A. Saffi 15
610 ZR Urbino, Italy
- x. Ms. Cristina Ayala Santamaria from Spain could not visit India because of her official engagements in her country.

The participants from India in the seminars and conference comprised national level experts in local self-government, representatives of local self-government institutions from Punjab, functionaries of local self-government, political leaders involved in the decision-making on the devolution of powers, functions, and funds to local self-government institutions.

The two-day First National Seminar organized in collaboration with SEP was inaugurated by Hon'ble Minister for Local Self-Government, Punjab. Hon'ble Minister for Finance and Planning, Punjab also addressed the participants. Professor Laurent Van Depoele, while describing the social shift, stated that in European countries, people from cities are moving to rural areas because of good infrastructure exists in rural areas. Professor (Dr.) Frank Delmartino expressed similar views and stated that people do not want agriculture

to disappear from Europe as it is necessary for its existence. He stated that existing regional disparities in European states deserves to be removed.

It was highlighted by the participants from India that the powers, authority, and responsibilities have not been delegated to the elected bodies of local self-government institutions in accordance with 73rd and 74th Amendments of the Indian Constitution. The devolution should include power to impose taxes and spend revenues for the benefit of local residents through active participation of the elected representatives of local self-government institutions.

Two key papers one on working of urban local bodies and other on working of rural local bodies (panchayati raj institutions) prepared by CRRID were circulated amongst the participants of the first national seminar.

The two-day Second National Seminar was also organized in collaboration with SEP on 29-30 November 2005. The experiences of study visits to six member states of European Union namely United Kingdom, Netherlands, Italy, Spain, Finland and Belgium and four progressive Indian states namely Karnataka, Kerala, Madhya Pradesh and Maharashtra were discussed and shared with the participants. The Principal Secretary, Local Self-Government, Punjab inaugurated the seminar and addressed the participants. The Secretary to Government of India, Department of Panchayati Raj also addressed the participants of the seminar. Five experts from European countries participated in the seminar and made power point presentations and enriched the discussions on the best management practices and provision of civic services in European countries. The Indian experts who made their presentations developed on the best management practices in four progressive Indian states.

Two-day National Conference on 'Capacity Building of Local Self-Government Institutions in Punjab' was held on 7-8 March 2006 as provided in the project report. A document on 'Capacity Building of Local Self-Government Institutions in Punjab' was circulated to the participants of National Conference. It contained an account of study tours arranged by CRRID in collaboration with Study Group for European Policies (SEP) to six European countries in the last week of September 2005 and visits to four progressive Indian states in the last week of October 2005 and to one state in the last week of January 2006. The summary of reports submitted by the experts was incorporated in this document for quick understanding of the system of governance and management practices followed in European countries and progressive Indian states. About 200 participants were invited in the national conference.

The information and data so generated and conclusions arrived at as a result of interaction between local self-government institutions in European countries and in India has been documented in the form of this manual which can also be used as background material for training and capacity building of local self-government institutions. The

recommendations made in this manual are expected to contribute to a rapid evolution of the effective functioning of local governments, which will infuse confidence in the state government for transfer of functions assigned in the constitutional amendments.

The project awarded by the European Commission has been implemented according to the conditions of the contract executed with the Delegation of the European Commission in India. The financial monitoring and evaluation parameters were strictly adhered and Commission's Office in New Delhi kept informed through Quarterly Reports in the prescribed formats. The final report together with the requisite financial statement and copies of the publications including manual has been furnished to the Delegation of the European Commission in New Delhi well before the target date i.e. 31st July 2006.

CHAPTER 1

HISTORY, STRUCTURE, RESPONSIBILITIES AND CAPACITY OF LOCAL SELF-GOVERNMENT INSTITUTIONS

Part-I Urban Local Bodies

The focus of the chapter is on history, structure and capacity of urban local self-government institutions in Punjab, selected Indian states (Kerala, Karnataka, Madhya Pradesh, Maharashtra and Gujarat) and European countries (United Kingdom, Belgium, Netherlands, Finland, Italy and Spain).

The process of urbanization and local self-government institutions has close linkages. When an area develops to the size of a city/town, the need of a local self-government arises to provide and manage the necessary infrastructure and services to the people. India considered to be a country of villages, has been witnessing steady growth in its urban population. The level of urbanization in India has grown from 17.3 per cent in 1951 to 19.9 per cent in 1971 and 27.8 per cent in 2001. The total urban population of India has touched the tag of 285.4 million in 2001 residing in 4,378 towns. India has become the second largest urban system in the world after China.

Urbanization is a complex process, which is the consequence of demographic, economic and industrial developments. It has its both positive and negative implications. With urbanization, economy of the cities grows. At the same time, environmental infrastructure, quality and coverage of civic services often do not keep pace and tend to deteriorate. The addressing of the negative consequences of urbanization has been a major challenge for the local self-government institutions.

The concept of local self-government in India as an organized system of governance emerged during the late seventeenth century with the setting up of the Municipal Corporation of Madras by the East India Company in 1688. Subsequently, Mayor's Courts were set up in the presidency towns of Madras, Bombay and Calcutta in 1720. This followed the empowerment of the Governor-General in Council to appoint justices of peace in the presidency towns in 1793 mainly to levy taxes on houses and lands to provide sanitation in the towns. Efforts were made to further strengthen the municipal functioning through resolutions by Lord Mayo, the then Governor-General of India in 1870 and by Lord Ripon in 1882, which approved non-official majorities in all municipalities and replaced the district collector by a non-official chairman. A Royal Commission on Decentralization (1907), the Government of India Act, 1919, the Simon

Commission Report, 1925, and the Government of India Act, 1935 replacing the Government of India Act, 1919, are important events during the British rule aiming at empowerment of local self-governments in India. The Government of India Act, 1919, enlarged the scope of taxation by local self-governments and introduced a diarchical system of governance empowering the provincial governments to control the local institutions through a minister. Local self-governments continued to function under the control of provincial governments and the district administration as per provisions of Punjab Municipal Act of 1911.

The Constitution of free India inserted the subject of local self-government in the Seventh Schedule, which gave autonomy to state governments to decide functional and fiscal jurisdictions of the local government institutions. Many initiatives such as the Local Finance Enquiry Committee, 1951; the Taxation Enquiry Commission, 1955; the Rural Urban Relations Committee, 1963; and the Committee on Augmentation of Resources of Local Bodies, were taken in Punjab to have a close look at the problems of local government institutions. The Seventh and the subsequent Finance Commissions, the Planning Commission's Task Force on Housing, 1983 and the National Commission on Urbanization, 1988, all statutory bodies set up by the Government of India, did not change the destiny of local self-governments in the states, which continued to suffer from lack of functional clarity and financial autonomy. The Punjab Municipal Corporation Act, 1976 did make an attempt to categorize specific functions of the municipal corporations under two heads, obligatory functions and discretionary functions.

The Constitution (74th Amendment) Act, 1992 (herein after referred as CAA), a landmark in the history of urban governance in India, prompted the Punjab Government to frame a comprehensive Municipal Bill in 1999, in place of the earlier Municipal Acts. However, its implementation awaits approval of the central government.

In Punjab, the municipalities have been organized into three categories, namely, nagar panchayats for transitional areas, municipal councils for smaller urban areas (further classified in to Class A, Class B, and Class C municipalities on the basis of their population and revenue generation capacity), and municipal corporations for the larger urban areas with a population of three lakh or more and a minimum revenue generation capacity as specified by the state government, from time to time by notification as below:-

| Sr.No. | Class or Urban Local Bodies | Population | Revenue generated |
|---------------|------------------------------------|-------------------|---------------------------|
| 1. | Municipal Corporation | 3 lakh or above | Rs. 2 crore or above |
| 2. | Municipal Council Class-I | 50,000 to 3 lakh | Rs. 50 lakh to 2 crore |
| 3. | Municipal Council Class-II | 10,000 to 50,000 | Rs. 15 lakh to 50 lakh |
| 4. | Municipal Council Class-III | upto 10,000 | Upto Rs. 15 lakh |
| 5. | Nagar Panchayat | 5,000 and above | More than Rs.150 per head |

At present, there are 137 urban local bodies in Punjab, comprising five municipal corporations (Ludhiana, Amritsar, Jalandhar, Patiala and Bathinda), 25 Class I municipal

councils, 42 Class II municipal councils, 33 Class III municipal councils and 32 nagar panchayats. These municipalities are governed by the Punjab Municipal Act, 1911, the Punjab Municipal Corporation Act, 1976, as amended in 1994 to bring the two Acts in conformity with the 74th Constitution Amendment Act, 1992. Despite these developments, local government institutions in Punjab continued to function without significant functional, jurisdictional and financial autonomy. Whatever was done to empower the local bodies exposed them to administrative lapses due to lack of administrative experience and shortage of funds.

The major responsibilities of municipalities in Punjab comprise public health, sanitation, conservancy and solid waste management, fire services, slum improvement and upgradation, urban poverty alleviation, provision of urban amenities and facilities such as parks, gardens and playgrounds, burials and burial grounds, cremations, cremation grounds, electric crematoriums, slaughter houses, vital statistics including registration of births and deaths, cattle ponds and prevention of cruelty to animals, public amenities including street lighting, parking lots, bus-stops and public convenience etc. But the implementation of Article 243W, the most important Article of CAA has been poor in Punjab, though it clearly spells out its necessity for enabling ULBs to function as 'institutions of local self-government'. Twelfth Schedule lists 18 functions/subjects important from the point of view of local governance. These functions along with necessary powers, authority and resources are expected to be transferred to ULBs. But even after more than a decade of passing of CAA, majority of important functions are being performed by the parastatal agencies/line departments of the state government. The devolution of funds is at the sole discretion of the state government as local government is a state subject listed in the Seventh Schedule of the Constitution.

The trend of urbanization is in favour of larger towns and the spatial/ribbon pattern of urbanization is creating demographic imbalances. The existing concerns and challenges of urbanization and local urban governance in Punjab owe a lot to the history and growth of urbanization and urban governance at the national level. Table 1 gives the growth pattern of urbanization in Punjab.

Punjab is the fifth major urbanized state after Tamil Nadu, Maharashtra, Gujarat and Karnataka. How local self-governments meet the challenges of rapid urbanization and the problems of housing, poverty, environment, infrastructure and services, will largely determine the future of Punjab. But the history of urban local self-governments indicates that they have not been empowered to meet the growing challenges of urban growth in the state. No serious effort has been made during the last century to improve their capacity. The deficiencies in coverage and quality of urban infrastructure and services continue to affect quality of life in urban areas. Situation is worst in small and medium towns. Water supply is not adequate. Sewerage is a big casualty. Solid waste management is very poor. The lack of segregation of waste at source of generation, poor recycling, unscientific disposal and almost near absence of facilities for treatment of liquid and solid waste are

Table 1
Growth of Urbanization in Punjab

| Year | Total population | Urban population (%) | Urban population (%) | Decadal growth of urban population (%) / absolute | Total number of UAs/ towns | Annual compound growth rate (ACGR) (%) | |
|------|------------------|----------------------|----------------------|---|----------------------------|--|-------|
| | | | | | | Total | Urban |
| 1951 | 9,160,500 | 1,989,267 | 21.72 | 20.02/331,853 | 110 | - | - |
| 1961 | 11,135,069 | 2,567,306 | 23.06 | 29.06/578,039 | 106 | 1.96 | 2.78 |
| 1971 | 13,551,060 | 3,216,179 | 23.73 | 25.27/648,873 | 106 | 1.98 | 2.27 |
| 1981 | 16,788,915 | 4,647,757 | 27.68 | 44.51/1,431,578 | 134 | 2.16 | 3.75 |
| 1991 | 20,281,969 | 5,993,225 | 29.55 | 28.95/1,345,468 | 120 | 1.90 | 2.57 |
| 2001 | 24,289,296 | 8,245,566 | 33.95 | 37.58/2,252,341 | 157 | 1.82 | 3.24 |
| 2011 | 29,088,860 | 11,344,249 | 39.00 | 39.00/3,098,683 | - | 1.82 | 3.24 |
| 2021 | 34,836,818 | 15,607,417 | 44.80 | 44.80/4,263,168 | - | 1.82 | 3.24 |

Source: *Census of India* 1951, 1961, 1971, 1981, 1991 and 2001.

Note: Projections for 2011 and 2021 are based on Annual Compound Growth Rate (ACGR) of 1991- 2001 decade.

affecting management of this important municipal service. The coverage of other important municipal services such as municipal roads, streets, drainage, streetlights, parking, parks etc. is also poor in most of the towns.

The urban management practices like budgeting, accounting, billing and collection practices are outdated and time consuming. Administration and collection of taxes and user charges leaves much to be desired. Property tax has not been exploited to its full potential due to its assessment on Annual Rental Value (ARV) basis and its linkage with Rental Laws. Pricing and cost recovery of user charges particularly water supply, sewerage, solid waste management is so poor that even 50 per cent of operation and maintenance (O&M) cost is not recovered. Use of information technology in municipal affairs has not been applied except in municipal corporations. The over all situation indicates that the capacity of local self-government institutions (LSGIs) is poor and they are not capable of performing the existing functions, leave aside the functions devolved after 74th Amendment. Some important strategies need to be developed to improve the capacity of LSGIs particularly in the context of CAA.

Local Self-Government Institutions in Kerala, Karnataka, Madhya Pradesh, Maharashtra and Gujarat

The extent of urbanization and history of local self-government institutions in Kerala, Karnataka, Madhya Pradesh, Maharashtra and Gujarat vary widely. After Tamil Nadu, Maharashtra is the second most urbanized state followed by Gujarat, Karnataka, Madhya Pradesh and Kerala. Table 2 shows the growth trends in urbanization in six states.

Table 2
Growth Trends in Urbanization in Six States (per cent)

| Census Year | India | Punjab | Madhya Pradesh | Gujarat | Kerala | Karnataka | Maharashtra |
|-------------|--------|--------|----------------|---------|--------|-----------|-------------|
| 1961 | 17.9 | 23.1 | 14.3 | 25.8 | 15.1 | 21.2 | 28.2 |
| 1971 | 19.9 | 23.7 | 16.3 | 28.1 | 16.2 | 23.6 | 31.2 |
| 1981 | 23.3* | 27.7 | 20.3 | 31.1 | 18.8 | 28.9 | 35.0 |
| 1991 | 25.7** | 29.6 | 23.2 | 34.5 | 26.4 | 30.9 | 38.7 |
| 2001 | 27.8 | 34.0 | 26.7 | 37.4 | 26.0 | 34.6 | 42.4 |

Source: Census of India, 1961, 1971, 1981, 1991 and 2001.

* The 1981 Census figures have been interpolated for Assam where Census could not be held

** The 1991 Census figures include interpolated population of J and K where Census could not be held.

The rapid urbanization is putting tremendous pressure on local self-government institutions in these states. Although some of the states have initiated reforms to strengthen the functional and fiscal domains, institutional, managerial and technical capabilities of municipalities, but still a lot needs to be done. Legislative and legal developments are necessary to strengthen the autonomy of local self-government institutions and streamline their day-to-day functioning. The history, structure, responsibilities and capacity of local self-government institutions in the five states selected for study are given in the following paragraphs.

Kerala

After the formation of the Kerala state in 1956, Government of Kerala initiated the process of democratic decentralization. A Committee namely the Administrative Reforms Committee submitted its recommendations in 1958. The Kerala Municipalities Act, 1960; The Kerala Municipal Corporation Act, 1961 and The Guruvayur Township Act, 1960 were passed to accord recognition to local governments and devolve on them local responsibilities. But no significant progress in this direction took place for about four decades. Meaningful reforms in Kerala actually started with the passage of the CAA and a conformity legislation by the state government. The Kerala Government passed Municipality Act in 1994 (May 30, 1994, Amended Act of 20 of 1994); The Kerala Local Authorities (Constitution and Preparation of Electoral Rolls) Act, 1994; Constitution of District Planning Committees in 1995; launching of People's Plan Campaign in 1996; acceptance and implementation of recommendations of Sen Committee on Decentralization of Powers in 1997, recommendations of the First and Second State Finance Commissions were landmark developments in the history of local self-government in Kerala.

The level of urbanization in Kerala has declined from 26.44 per cent in 1991 to 25.97 per cent in 2001. The number of towns has also decreased from 197 to 159 in the corresponding period. Table 3 given the trends in urbanization in Kerala.

Table 3
Trends in Urbanization in Kerala, 1951-2001

| Year | Total Population | Urban Population | Urbanization (%) |
|-------------|-------------------------|-------------------------|-------------------------|
| 1951 | 13549118 | 1825832 | 13.48 |
| 1961 | 16903715 | 2554141 | 15.11 |
| 1971 | 21347375 | 3466449 | 16.24 |
| 1981 | 25453680 | 4771275 | 18.74 |
| 1991 | 29098518 | 7680294 | 26.39 |
| 2001 | 31838619 | 8267135 | 25.97 |

Source: *Census of India*, 1991 and 2001

At present there are 53 municipal councils and five municipal corporations. The range of population of municipalities in Kerala is in Table 4.

Table 4
Population of Municipalities in Kerala

| Range of Population | No. of Municipalities |
|-----------------------------|------------------------------|
| Below 25,000 | 6 |
| Between 25,000 and 40,000 | 18 |
| Between 40,000 and 50,000 | 10 |
| Between 50,000 and 60,000 | 6 |
| Between 60,000 and 75,000 | 9 |
| Between 75,000 and 1,00,000 | 1 |
| Above 1,00,000 | 3 |

Source: Report of the Second State Finance Commission, Government of Kerala.

In Kerala there is considerable similarity in size between village panchayats and Urban Local Bodies (ULBs). Kerala has a long seacoast. Thirteen municipalities and four corporations face the sea. In this state, there is no great propensity to move to big towns and hence there is not even a single metropolitan town in Kerala. The population of five municipal corporations in Kerala is given in Table 5.

Table 5
Population of Five Municipal Corporations

| Name of Municipal Corporation | Population |
|--------------------------------------|-------------------|
| Thiruvananthapuram | 7,04,375 |
| Kochi | 5,64,589 |
| Kozhikode | 4,19,831 |
| Kollam | 3,49,348 |
| Thrissur | 2,99,042 |

Source: Report of the Second State Finance Commission, Government of Kerala.

Functions of a Municipality

Section 30(A) of First Schedule of Kerala Municipal Act 1994 has enumerated 30 mandatory functions of the municipality such as regulating building construction, protection of public land from encroachment, conservation of traditional drinking water sources, preservation of ponds and other water tanks, maintenance of waterways and canals, collection and disposal of solid waste and regulation of disposal of liquid waste, storm water drainage, maintenance of environmental hygiene, management of public markets, regulation of slaughtering of animals and sale of meat, fish, control of eating houses, prevention of food adulteration, maintenance of roads and public properties, street lighting and its maintenance, immunization measures and programmes for prevention and control of diseases, establishment and maintenance of burial and burning grounds, issue of licences for dangerous and offensive trades and industries, registration of births and deaths, providing bathing and washing ghats, arranging ferries, providing parking spaces for vehicles, construction of waiting sheds for travelers, providing toilet facilities at public places, regulating the conduct of fairs and festivals, issue licence to domestic dogs and destroy stray dogs, providing basic facilities in slum areas, amenities including foot path and road crossing facilities for pedestrians, preparation of detailed town planning formulation, action plan for implementation in a phased manner. It has also provided 14 general functions and a large number of sector wise functions under Agriculture, Animal Husbandry and Dairy Farming, Minor Irrigation, Fisheries, Social Forestry, Small Scale Industries, Housing, Water Supply, Electricity and Energy, Education, Public Works, Public Health and Sanitation, Social Welfare, Eradication of poverty, Development of the Scheduled Caste/Scheduled Tribe, Sports and Cultural Affairs, Public Distribution System, Natural Calamity relief and Co-operation.

Municipal Corporation of Cochin

Cochin, the commercial capital of Kerala, is the second most important port city on the western coast of India. The Cochin Municipal Corporation came in to existence on 1st November 1967 after merger of three municipalities i.e., Fort Cochin, Mattancherry and Ernakulam. There are 66 wards/divisions in the corporation. The Kerala Municipal Corporations Act 1961, governed the municipal corporation before the Unified Kerala Municipalities Act 1994 was enacted. The mayor, an elected functionary, is the executive head of the municipal corporation. The corporation has seven standing committees i.e., finance, development, welfare, health and education, works, town planning and appeals relating to tax. Cochin Corporation has a population of 5,64,589 and total area of 94.88 sq. km. The Municipal Corporation of Cochin is managed through proper delegation of functions to seven standing committees.

Karnataka

In the princely state of Mysore, a three-tier structure of union panchayat, taluka boards and district boards were established under the Mysore Local Boards Act, 1902, with a

minority of elected members, the rest being either nominated or appointed as ex-officio members. In the new state of Mysore, which came into existence in 1956, a new local self-government setup was introduced under the Mysore Village Panchayats and Local Boards Act, 1959.

This was followed by the Karnataka Municipalities Act 1964 and the Karnataka Municipal Corporation Act 1976. Another major act governing planning and development of urban areas is Karnataka Town and Country Planning Act 1961. After enactment of CAA, the State Government enacted the Conformity Legislation and 12th Schedule was incorporated. A provision was made in Karnataka Municipalities Act 1964 and Karnataka Municipal Corporation Act 1976 authorizing municipalities and municipal corporations to prepare development plans at municipal level to be submitted to the metropolitan planning committee or the district planning committees.

Karnataka is ranked as the fourth most urbanized state among the major states in India with approximately 34 per cent of the states population living in urban areas. Karnataka has 226 ULBs. These include six city corporations; 41 city municipal councils; 82 town municipal councils; 91 town panchayats and six notified area committees. City corporations are big urban local bodies and account for about 70 per cent of the total receipts and expenditure of the urban local bodies. The urban local bodies function under the control of the state government. Table 6 gives number of urban local bodies along with their population.

Table 6
Urban Local Bodies in Karnataka

| S.No | Type of ULBs | Number of ULBs | Population (Lakhs) |
|------|---------------------------|----------------|--------------------|
| 1 | City Corporations | 6 | 73.49 |
| 2 | City Municipal Councils | 41 | 57.72 |
| 3 | Town Municipal Councils | 82 | 30.48 |
| 4 | Town Panchayats | 91 | 16.87 |
| 5 | Notified Areas Committees | 6 | 0.60 |
| | Total | 226 | 179.16 |

Source: State Finance Commission, Karnataka

The responsibilities of the municipalities in Karnataka are almost similar to those in Kerala State.

Maharashtra

The Maharashtra state is divided into 35 districts grouped into six administrative divisions. Mumbai is the capital of the state and India's largest city. Maharashtra has three-tier system of governance. The history of urban governance in the state goes back to

British period. The Bombay Municipal Corporation Act 1888 provided base to the formulation of similar acts in other states. The process of devolution to LSGIs was poor not only in British period but even in Independent India. The situation changed only after 74th Amendment in the Constitution and Conformity Legislation by Maharashtra government. The third tier of governance in Maharashtra comprise, 250 ULBs consisting of 22 municipal corporations with population of three lakh and above, 18 Class A municipal councils for population of one to three lakh, and 203 Class B and C municipal councils for population upto one lakh, three cantonment boards, and four nagar panchayats.

Maharashtra is the second most urbanized state of the country in terms of level of urbanization but the number of persons living in urban areas is the highest among all the states. In Maharashtra, the number of towns has increased from 266 in 1961 to 378 in 2001. The share of urban population living in class I towns has increased from 65.8 per cent in 1961 to 79.7 per cent in 2001 with corresponding increase in share of class I settlements from about 4.5 per cent to 10.6 per cent. About 86 per cent population lives in class I (79.7 per cent) and Class II towns (6.7 per cent). There are seven towns in Maharashtra with a population of more than million each.

The rapid growth of urban population in class I towns is a major challenge for LSGIs. In Maharashtra, the slum population is growing rapidly and it reached 10.6 million in 2001. The slum population in Mumbai is one of the highest. It is 5.8 million i.e., 48.9 per cent of the city's population of 11.9 million. Serious efforts are required to provide the slums with basic civic services.

Mumbai and Pune

The Municipal Corporation of Greater Mumbai was constituted in 1865. The corporation is one of the largest corporation in the world employing about 1,41,000 employees on its rolls. Mumbai has been a major city of the state as 29 per cent of the total urban population of the state was living in it in 2001. The population of Greater Mumbai, the largest city of the country was 11.9 million, which accounts for 16 per cent population of 27 million-plus-cities of India (excluding eight urban agglomerations). The city attracts a large number of migrants from all over the country and is popular as Bollywood due to predominance of film industry. The city has an area of 437.71 sq km. The average population density of Mumbai is 21,190 persons/sq km. The city has six zones divided in to 24 wards.

Pune has experienced very fast growth in its population during 1990s. It touched the tag of 2.5 million in 2001.

Gujarat

The history of local self-government institutions in Gujarat is very old. The Municipalities Act 1964, Municipalities (Amendment and Validating Provisions) Act 1973, Nagar

Panchayats Act 1979 amended from time to time have governed the municipalities in Gujarat. At the end of September 2002, the state had 149 ULBs comprising six municipal corporations; 85 municipal councils; and 58 nagar panchayats. Gujarat has been one of the most urbanized states in the country and the process continues. The growth of urban population during last decade at 33.15 per cent is double that of the growth of rural population at 16.78 per cent. Table 7 gives urbanization trends in Gujarat.

Table 7
Urbanization Trends in Gujarat

| Census Year | No. of Towns | Total Population | Urban Population | Percentage to Total Population |
|--------------------|---------------------|-------------------------|-------------------------|---------------------------------------|
| 1951 | 243 | 16,262,657 | 4,427,896 | 27.23 |
| 1961 | 181 | 20,633,350 | 5,316,624 | 25.77 |
| 1971 | 216 | 26,697,475 | 7,496,500 | 28.08 |
| 1981 | 255 | 34,085,799 | 10,601,653 | 31.10 |
| 1991 | 264 | 41,309,582 | 14,246,061 | 34.49 |
| 2001 | 242 | 48,387,270* | 18,227,051* | 37.67* |

* Excludes areas of Kachchh, Jamnagar and Rajkot, where Census 2001 could not be conducted due to earthquake.

Gujarat ranks 10th in population among the states of India but it is third most urbanized state of the country after Tamil Nadu and Maharashtra. The district wise trends in urbanization indicate that Ahmedabad is the most urbanized district in the state. The level of urbanization of Ahmedabad is almost 'equal to that of several European countries'. The state has been experiencing explosion in population of class I towns. There has been four-fold increase in their numbers during the last three decades. Table 8 gives growth trends in urban population in class I towns.

Table 8
Growth Trends of Urban Population in Class I Towns

| Census Year | No. of Towns | Population | Percentage to Total Urban Population |
|--------------------|---------------------|-------------------|---|
| 1951 | 6 | 1,597,361 | 36.07 |
| 1961 | 6 | 2,255,532 | 42.42 |
| 1971 | 7 | 3,380,646 | 45.10 |
| 1981 | 11 | 5,316,142 | 50.14 |
| 1991 | 21 | 8,539,515 | 59.94 |
| 2001 | 27* | 13,943,312 | 76.50 |

* Does not include Morvi, Bhuj and Gandhidham Municipalities with more than one lakh in 1991, but where Census 2001 could not be conducted due to earthquake.

Table 8 is indicative of rapid growth of class I towns. The percentage of urban population living in class I towns has doubled after independence.

Madhya Pradesh

The Madhya Pradesh Municipal Corporation Act 1956 and The Madhya Pradesh Municipalities Act 1961 were the major acts enacted by government of Madhya Pradesh after independence.

After the implementation of the CAA, the Madhya Pradesh Nagar Palika Amendment Act 1997 was enacted and implemented on 21st April 1997. Out of 368 towns, the state has ULBs in 334 towns. The size and number of the ULBs in Madhya Pradesh is given in Table 9.

Table 9
Number of ULBs according to the Size of the Population

| Sl. No | Type of ULB | Number of ULBs | Population in the category | Average population | %age of total urban population of ULBs |
|--------|------------------------|----------------|----------------------------|--------------------|--|
| 1 | Municipal Corporations | 14 | 70,71,237 | 5,05,088 | 47.12 |
| 2 | Municipal Councils | 85 | 45,95,057 | 54,059 | 30.62 |
| 3 | Nagar Panchayats | 235 | 33,39,397 | 14,210 | 22.26 |
| | Total | 334 | 1,50,05,691 | 44,927 | 100.00 |

Out of six states under consideration, Madhya Pradesh is the least urbanized, with only 26.67 per cent urban population as per census of 2001. The number of towns in the state has increased from 253 in 1981 to 350 in 1991 and 368 in 2001. Most of the towns are small and medium towns. The class I cities, have increased from 18 in 1991 to 26 in 2001. The concentration of population in class I cities is increasing as their share in total population has increased from 49.70 per cent in 1991 to 55.72 per cent in 2001. Two cities namely Indore and Bhopal are million plus metropolitan towns. Four cities are in the population range of five lakhs plus, and 10 towns have population between one to five lakhs.

Bhopal Municipal Corporation

Bhopal, the capital of Madhya Pradesh (MP) and known as city of lakes, is the largest corporation town of MP. The population of Bhopal was 14.34 lakhs in 2001. The municipality of Bhopal was elevated to municipal corporation in 1967 under Madhya Pradesh Municipal Corporation Act 1956. The city with 66 wards is governed by the mayor-in-council system. The system of direct election of mayor is followed by the city. The corporation has strengthened its capacity by initiating several innovative management practices including improved management information system to enhance collection of revenues, development of a bio-compost plant and slum networking project.

Local Self-Government Institutions in Europe

The decade of 1990s is considered a milestone era in the history of devolutionary process in European countries as major constitutional, legal and institutional developments towards strengthening functional, fiscal and organizational base of local authorities were witnessed during this period. The United Kingdom established the Local Government Commission in 1991 and enacted Local Government Act (England and Wales) in 2000. Belgium amended its Constitution in 1993, which placed municipal authorities under the control of regions. This legislation was amended in 2001 to give responsibilities and powers to local bodies and regional authorities. In Netherlands, Municipal Law of 1986 was revised in 1994 and Referendum Act was passed in 2002 to authorize the people to take major decisions through 'Referendums'. In Finland the act of 1995, defined powers, rights and obligations of local authorities. Italy enacted a law in 1990, which affirmed the principle of statutory self-governance of local authorities. In 1993, direct election of mayors was introduced. In 1997, several administrative powers were transferred to the municipalities. The Constitutional Amendment of 2001 implemented in 2003, ended the state supervision on local and regional authorities. In Spain, through a national consensus in April 1999, measures for developing local government and transferring powers to local authorities were adopted. The law of 1999 provided autonomy to the local authorities in matters connected with elections and local affairs of the local bodies.

Structure and Responsibilities of Local Self-Government

United Kingdom

UK has a three-tier system of governance at national, regional, and local level. Besides central government, there are nine regional councils, 34 county councils, 47 English-shire unitary councils, 36 metropolitan district councils and 238 district councils. At regional level, Greater London Authority (GLA) has 33 London boroughs including City of London. In UK, the Deputy Prime Minister is in charge of local governance.

County administrative responsibilities: The county councils are responsible for education, traffic, transport and highways, social services, refuse disposal, libraries, consumer protection, fire services and law and order, urban planning*, museums, parks and recreation facilities* (* shared responsibilities).

District administrative responsibilities: The district councils are responsible for housing, health protection, measures to combat pollution, building regulations, refuse collection, urban planning*, museums parks and recreation facilities* (*shared responsibilities). In certain areas, especially urban areas, a single "unitary" level of local government is responsible for these functions.

Parish Councils (England) and Community Councils (Wales) are responsible for planning permission for housing estates, public buildings*, major roads*, urban planning*,

planning of open-air sports facilities*, other recreational facilities, cemeteries*, car parks*, lighting and pavement maintenance* (responsibilities marked by * shared with district councils).

In UK, there is no division like urban councils or rural councils. The system provides civic services in rural as well as urban areas by the city, district and county councils formed on geographical basis.

All councils are responsible to promote economic, social and environmental well-being of their area. Districts are responsible for leisure, environmental health, housing, rubbish collection, and local roads. Counties are responsible for more strategic services such as education, libraries, main roads, social services, trading standards and transport. Unitary authorities exercise all these functions.

Councilors represent geographical wards and serve for four years. A ward may be represented by one, two or three councilors depending on population. County councils, London boroughs, Scottish and Welsh unitaries elect their councilors every four years. Metropolitan districts elect one-third of their councils in each of the three years out of four, which are not county election years.

All authorities and functions are vested in the elected councils and are exercised usually by committees or subcommittees of councils. The delegation of authority to a number of elected bodies is the crux of the local self-governance in UK. The community is extensively and liberally encouraged to participate in the discussions, which ends up in participatory democracy involving the citizens as stakeholders in urban as well as rural areas.

City Council of Leicester

Leicester is the largest city in the administrative region of East Midlands and the tenth largest in UK. It is governed by a Constitution divided into 16 Articles. The city council is composed of 54 councilors who meet each year to decide the councils overall policies and approve the budget. The council elects a cabinet comprising of 10 councilors including a councillor elected as Lord Mayor to undertake the task of developing and implementing the policy on behalf of the council.

The Leicester City Council is intensely involved in the provision of leisure facilities like maintenance of a large numbers of parks and playgrounds, renewal of old housing, provision of housing for the homeless and ‘bread and breakfast’ for homeless and the aged. The civic facilities like provision of water supply, sewage, sanitation, lifting and transportation and disposal of household waste have been offloaded to private sector for which the householders pay directly to the contracting companies on the basis of tariffs approved by respective regulatory authority.

It provides education, construction and maintenance of roads, library and reading rooms, and social care services.

The responsibilities of local government at all levels are collection of council taxes, local planning, environmental health, recreation, leisure and amenities and housing. All district and county councils have their own constitutions. Management issues are similar, if not identical, in all councils in UK, whether urban or rural.

Rutland Rural County Council

Rutland County Council, despite being a rural county council has number of urban county towns in its jurisdiction. They are Melton, Loughborough, Bellfoundry, Harborough, Oakham and Ashby. Rutland County Council provides services similar to those available in towns under the control of bigger counties namely city councils.

The success story of this county council lies in offloading activities like water supply, sewage and household waste to private parties on the basis of payment of user charges directly collected by the contracting firms. This has enabled the Rutland County Council to concentrate on social and welfare activities, which include providing affordable housing, maintenance of roads and other welfare measures particularly the care of children, the aged and handicapped persons.

Belgium

Belgium became independent from Netherlands in 1830 but remained occupied by Germany during World Wars I and II. It has prospered over the past half century as a modern, technologically advanced European state and presently is a member of European Union. Belgium since middle ages has been one of the richest and most developed regions in the world. During the half century before World War I, Belgium was reckoned as the fourth economic power in the world. The wealth of Belgium can be attributed not to its natural resources, which are rather scarce but to industrial development and trade, which is facilitated by Belgium's location in Western Europe. Tensions between the Dutch-speaking Flemings of north and French-speaking Walloons of south have led to constitutional amendments granting these regions, recognition and autonomy.

Belgium is a federal state composed of communities and regions. It is subdivided into three tiers with regions and communities at the top, provinces in the middle and municipalities at the local level. The regions have statutory powers to supervise general administration of provinces and municipalities, municipal groupings and urban agglomerations. Municipal governments are vigorous political entities with powers to perform functions devolved on them by higher levels of government.

Article 41 of the Constitution provides that 'Interests which are exclusively of a municipal or provincial nature are performed by municipal or provincial councils, according to

the principles established by the Constitution'. These local authorities make their own rules for staff employment, within the statutory framework and decide conditions for the recruitment and promotion of staff.

Structure of the Federal State in Belgium

Chart I

| Level | Institutions | | | |
|----------------------|--|--|---|-------------------|
| I. Federal Level | 1. King 2. House of Representatives 3. Senate 4. Federal Government | | | |
| II. Community Level | German Speaking Community | French Community | Joint Community Commission French Community Commission Flemish Community Commission | Flemish Community |
| III. Regional Level | Wallon Region | Brussels-Capital Region | Flemish Region | |
| IV. Provincial Level | Five Provinces of Wallon Region | Brussels-Capital Bilingual Territory | Five Provinces of Flemish Region | |
| V. Municipal Level | Municipalities of Wallon Region | Nineteen Municipalities of Brussels-Capital Region | Municipalities of Flemish Region | |

Besides the central government, there are three community councils (German, French and Flemish) and a joint community commission. At regional level, there are three regions (Walloon, Brussels capital region and Flemish region). There are 10 provincial councils (five Walloon and five Flemish) at provincial level. Under the Walloon provinces, there are 262 Walloon municipalities, under Brussels capital regions 19 municipalities and in Flemish provinces, there are 308 municipalities. Table 10 gives the number, the average size and population of communities, regions, provinces and municipalities.

Table 10
Local and Regional Authorities in Belgium

| Local and Regional Authorities | Total Number | Average Size in Hectares | Average Population |
|---------------------------------------|---------------------|---------------------------------|---------------------------|
| Communities | 3 | Not Applicable | Not Applicable |
| Regions | 3 | 1017597 | 3376858 |
| Provinces | 10 | 246218 | 917899 |
| Municipalities | 589 | 5120 | 17000 |

Table 11 gives number of municipalities according to their population size in Belgium.

Table 11
Number of Municipalities according to Population Size

| Population Size | Number | Percentage |
|------------------------|---------------|-------------------|
| I. 0-1000 | 1 | 0.17 |
| II. 1001-5000 | 97 | 16.46 |
| III. 5001-10000 | 167 | 28.35 |
| IV. 10001-50000 | 297 | 50.42 |
| V. 50001-100000 | 19 | 3.22 |
| VI. 100001-500000 | 8 | 1.35 |

More than 50 per cent municipalities have population between 10000 to 50000 persons and further if II, III and IV categories are clubbed, then more than 95 per cent municipalities are in the range of 1000 to 50000 population.

Structure of Municipal Governance

Municipalities have municipal councils comprising of directly elected members called the councilors. The number of council members depends on the size of population of the municipality but has to be in odd number. The number of candidates of one sex may not exceed two-thirds of total seats of a municipal council. The elections are held every six years on the second Sunday of October. The municipal councils meets at least ten times in a year.

The mayor and aldermen (two to ten) constitute the executive body to carry out day-to-day management and implement the decisions taken by the council.

The mayor, head of the municipality, is appointed by the Crown from among the elected members of municipal council or in exceptional cases with the approval of the provincial executive, from among the non-councillors who are registered voters of the municipality and is 25 years or more of age. He is responsible for maintaining public order, enforce the decisions of higher authorities and has power of enforcement of law. He may delegate some or all of his powers to aldermen.

Responsibilities of the municipalities

Administrative responsibilities of the municipalities comprise maintenance of public order, organization of election, registering of births, marriages and deaths, issuing of administrative documents, planning permissions, maintenance of road infrastructure, social welfare and the general affairs of the municipalities like the provisioning of civic services and amenities.

Netherlands

Netherlands has a three-tier system of governance at national, regional and local level. Besides central government, there are 12 provinces at middle level and 467 municipalities at local level. The number of municipalities has decreased from 1,015 in 1950 and 572 in 1997 due to abolition of old ones or mergers and boundary changes. Table 12 gives number of provinces and municipalities in Netherlands.

Table 12
Number of Provinces and Municipalities

| Particulars | Provinces | Municipalities |
|--------------------|------------------|-----------------------|
| 2005 | 12 | 467 |
| 1997 | 12 | 572 |

*January 1, 2005

An elected municipal council is responsible for the general administration of the municipality and has the power to pass bye-laws. The council is chaired by the burgomaster, who may not vote and acts only in an advisory capacity during council meetings. Council meetings are in principle held in public. The municipal council is elected every four years by the residents of the municipality who have reached the age of 18 and are not disqualified from the franchise. Just as at national and provincial level, the electoral system at municipal level is on proportional representation. Different national political parties are represented in most municipal councils. The day-to-day running of municipal affairs is the responsibility of the municipal executive consisting of the burgomaster and aldermen. The number of aldermen depends on the size of the municipality. It may not exceed 20 per cent of the number of councilors, but the minimum is two.

Method of election or appointment

The aldermen are appointed by council from among its members to serve for a period of four years. Under the law of 1994, it may be possible for aldermen to be appointed from outside the council. After their appointment the aldermen become members of the council.

Political head of the local/regional authority

Although he is not formally the head of the municipality, the burgomaster is regarded as symbolizing the municipality. He represents the municipality in and out of law.

The burgomaster is above the political parties represented in the municipal council. The burgomaster is entrusted by law with a large number of duties. He has the duty of supervising the activities of the council and the municipal executive; if he considers that a decision taken by one of these bodies is illegal or contrary to the public interest, he refers it through the provincial executive to the Crown to be suspended or quashed.

Although the burgomaster is appointed (and dismissed by royal decree), the burgomaster's role is confined exclusively to the municipality and he has no superiors in the provincial or national hierarchy. He is accountable only to the municipal council.

Head of administration

The municipal secretary is the head of the local government administration. The secretary assists the municipal council, the municipal executive, the burgomaster and committees appointed by them in the exercise of their duties. The secretary attend meetings of the municipal council and the executive. The council issues instructions containing rules governing the duties and powers of the municipal secretary.

Responsibilities of the municipalities

Spatial planning and urban development, housing, tourism and recreation, public works and transport, public health, education and social welfare fall in the jurisdiction of municipalities.

Midden Delfland Council

The Midden Delfland is a new municipality, which came into existence in 2004 with merger of municipalities of Massland and Schipluiden. The Midden Delfland Council is located in South Holland between The Hague, Rotterdam, Delft and the Westland. It is a typical case of a well-planned elected municipal body to promote and manage civic functions of a town.

Finland

Finland has a three-tier system of government comprising central administration, provincial administration, and municipal local government. The responsibilities of the municipal government comprise education, culture, health care, social welfare, technical infrastructure, control of environment and managing of financial and budgetary affairs. Municipalities formulate, publish, and frequently revise five-year plans covering administration, financial affairs, economic growth, and land use with the help of experts from national government institutions.

Structure of Municipal Governance

The municipal structure in Finland has a municipal council at the top, municipal executive board in the middle, and municipal committees at the bottom. The members of the municipal council are elected by universal suffrage for four-year terms. The chairman of the municipal council is indirectly elected from among its members that vary from minimum of 17 to maximum of 85 depending on the population in the municipality area.

The council elects the Municipal Executive Board (MEB) consisting of at least seven members, which is responsible for day-to-day administration of the municipal council. Municipal executive board guarantees seats to all political parties in proportion to the number of their seats in the council. This ensures political accountability for regional development.

The elections to the local self-government entities are held on party lines. A municipal manager is appointed by the municipal council and is responsible for all administrative activities of the municipality.

Cooperation among Municipalities: Joint Municipal Boards

One of the distinct features of the municipalities in Finland is the establishment of Joint Municipal Boards (JMBs). Individual municipalities enter into mutual contract to form a joint municipal board to work in cooperation for providing infrastructure for essential civic services in the member municipalities. These joint authorities are independent legal public entities separate from its member municipalities, with separate finances and administrative set up. A joint municipal board is not entitled to levy taxes; its revenues being mainly in the form of state grants and contributions made in agreed proportions by the member municipalities.

There are 236 joint municipal boards in Finland. The infrastructure created by the joint municipal board in Finland in 2003, included regional hospitals, health centres, centres for services for the disabled, centres for family advisory services and child protection, centres for services to the elderly, vocational education centres and other education centres. Regional councils are set up for electricity and water supply and other services.

The Constitution of 1919 states that 'the administration of the municipalities shall be based on the principle of self-government by the citizens, as provided in the specific laws'. The governing authority is vested in the local councils directly elected by the residents. The Finnish constitution ensures full autonomy and devolution of funds, functionaries and functions without any instructions or interference of the provincial government.

The Finnish Constitution provides that '*the provincial government has no right to interfere in municipal affairs nor to give command to a municipality. The municipalities are not*

under the administration of the provincial government. If a municipality has not performed its task defined in the law, the Provincial Government may command the municipality to complete such a task. The Administrative Court, which acts independently of the Provincial Government in each province looks into the legal complaints against decision of the municipality.'

Italy

The Republic of Italy has a three-tier system. At national level there is a central government. The Parliament has a *Senate of the Republic* with 315 members elected for a five year term and *Chamber of Deputies* with 630 members elected for a five year term. The second tier has *Regional Governments* comprising five 'special statute' regions and fifteen 'ordinary regions' with *regional councils*. At local level, there are 100 provinces with provincial councils, 14 metropolitan areas and 8,103 local authorities.

Municipal Responsibilities: The municipalities may adopt their own statutes. Administrative functions are delegated to the municipalities under the principle of subsidiarity, unless they are delegated to the provinces, metropolitan cities and regions to ensure harmony. The functions of municipalities are:

- a. Duties related to personal services
- b. Municipal administration duties
- c. Support of economic development and productive activities

Spain

Spain has a three-tier government comprising central, regional and local government. It is divided in 17 autonomous communities or regions, which are sub-divided into provinces and then in municipalities. There are 50 provinces and 8,016 municipalities in Spain. The reorganization and democratization of local administration was completed with the passing of 'Basic Law' on local government. This law outlines the basic authority of institutions and their responsibilities at different tiers of administration. Local self-government institutions are politically dependent on autonomous communities, and to a large extent financially dependent on central government.

The responsibilities of the municipalities vary depending on their population size. More than 50 per cent of municipalities in Spain have a population less than 1000. The government is considering of clubbing the smaller municipalities with the larger municipalities. Table 13 gives number of municipalities and population distribution in Spain.

Table 13
Number of Municipalities and Population Distribution

| Population | Number of Municipalities |
|-------------------|---------------------------------|
| 0 - 999 | 4885 |
| 1000 - 4999 | 2066 |
| 5000 - 9999 | 524 |
| 10000 - 49999 | 506 |
| 50000 - 99999 | 61 |
| 100000 and above | 55 |

Source: Ministry of Public Administration, Directorate General for Territorial Cooperation, 1996, Spain

The civic services provided to the community in the municipal areas include maintenance of roads, water supply and street lighting, waste disposal, upkeep of cemeteries, slaughter houses, and heritage conservation and law and order.

Municipalities with more than 5,000 inhabitants have additional responsibilities of providing markets and public parks, libraries, and sewerage and waste treatment facilities. Municipalities with more than 20,000 inhabitants have additional responsibilities to provide emergency and fire-fighting services, social security, and sports facilities. Municipalities with more than 50,000 inhabitants ensure environment protection, and urban public transport facilities.

The main thrust of Spanish Constitution is to give autonomy and promote authority of the local self-government.

The Part-VII, Chapter-2 of Spanish Constitution envisages that *'The constitution guarantees the autonomy of municipalities. They shall enjoy full legal identity. Their government and administration shall be vested in their Town Councils, consisting of Mayor and councilors. Councilors shall be elected by residents of the municipalities by universal equal, free, direct and secret suffrage, in the manner provided for by the law. The Mayors shall be elected by the councilors or by the residents. The law shall lay down the terms under which a council of residents may perform its functions'*

Structure of Municipal Governance

Municipalities are the legal entities with administration vested in the municipal councils consisting of mayors and councilors. Elections to the council are held every four years and the council cannot be dissolved. The members of the council are directly elected by universal suffrage and according to proportional representation. Mayor, the head of the council, is indirectly elected by the members of the council and who, in most cases, is the leader of the majority party of the council.

The total population of the municipality determines the number of council members; law requires a minimum of five councilors. There is no limit to the number of times councilors may be re-elected. If a councillor dies, resigns or is dismissed, the next person on electoral

list of his/her political party replaces him/her. Thus, there are no by-elections. Municipalities with fewer than 100 inhabitants have an open council system, wherein residents elect a mayor directly and function as a council.

Summary, Conclusions and Lessons

The history of local self-government institutions in India including Punjab can be classified in three phases i.e., first phase during British period (before 1947), second phase after Independence (during 1947 to 1992) and third phase of post 74th Amendment period (after 1992). The LSGIs had their revolutionary phase during British period but no significant devolution took place and no genuine efforts were made towards democratic decentralization. LSGIs continued to suffer for want of powers, functions, funds and functionaries even in post independence India. It was only after CAA, a beginning was made to recognize existence of LSGIs and to realize that a devolution process is necessary to strengthen the institutions of local self-government. Although devolution varies from state to state, the pace of devolution process in general including Punjab has been poor. Several important Articles of the CAA have not been implemented despite being incorporated in the conformity legislations of the states. This has affected the capacity of the local government institutions.

Some of the Indian states identified for the study are on the forefront in implementing the CAA and improving the capacity of their LSGIs through devolution of powers, functions, funds and functionaries. Kerala provides a good example of democratic decentralization to LSGIs. Although it initiated reforms early but meaningful reforms started with the passage of the CAA and after the passing of conformity legislation by the state government. The constitution of District Planning Committees (DPC); launching of People's Plan Campaign; acceptance and implementation of recommendations of Sen Committee on Decentralization of Powers; First and Second State Finance Commissions and importantly its decision of devolution of 35-40 per cent of plan funds to LSGIs are landmark developments in the history of local self-government.

Although the level of urbanization in Kerala increased during 1981-1991 but it has declined marginally during 1991-2001. The major feature of urbanization in Kerala seems to be the trend to settle in small and medium towns rather than in metropolitan towns. This has resulted in fairly uniform pattern of demographic growth and less stress on urban infrastructure and services in big and large towns. The municipal functions have been divided into three categories i.e., mandatory, general and sectoral functions. The Municipal Corporation of Cochin (Kochi) and Municipality of Kodungallur are seen to be performing their functions effectively. For example in Kochi, Exnora launched the "Clean Kochi Tomorrow" project and ward wise zero-waste management programme was implemented to improve sanitation. Kodungallur Corporation is emphasizing on partici-

patory planning and trying to mobilize its resources through such participation. The analysis of history, structure and responsibilities of LSGIs in Kerala shows that their institutional capacity has improved considerably particularly in post 74th amendment period.

Karnataka is ranked as the fourth most urbanized state among the major states in India. Karnataka has taken several initiatives to promote participatory governance and also strengthen the process of local planning. The functional and fiscal domain of local self-government institutions in Karnataka is strong, as most of the recommendations of State Finance Commissions have been implemented.

Maharashtra state is highly urbanized and has a long history of local self-government. The first municipal corporation act was passed in Mumbai about 115 years ago. Over a period of time, the corporation has acquired maturity and has strengthened its organisational and institutional capabilities. The municipal corporations of Mumbai and Pune have initiated several reforms to cope with rapid growth of urban population. The state government of Maharashtra has been keen to strengthen functional and fiscal domains of ULBs, particularly of the corporation towns. The municipalities perform all major functions listed in the Twelfth Schedule of the Constitution and have introduced innovative urban management practices such as preparation of environmental status report, e-Governance, computerization, introduction of Geographical Information System (GIS) for assessment of property tax, accounting reforms etc. The strong fiscal capability of LSGIs particularly of corporations such as Mumbai is visible through its broad revenue base and its capacity to take up mega projects. The municipal corporations of Mumbai and Pune have improved their capacity by introducing reforms in fiscal and financial management practices.

In Gujarat, analysis of the growth of LSGIs indicates that several initiatives for improving their capacity have been taken by the state. The Ahmedabad Municipal Corporation (AMC) was the first to raise funds through municipal bonds from the capital market. It initiated several reforms to mobilize its resources particularly from property tax, octroi, water and sewerage charges etc. Financial discipline was imposed after plugging leakages and checking tax evasions. e-Governance was introduced and city civic centres were set-up to facilitate hassle free delivery of services. AMC also initiated slum cleaning programme with public private partnerships and made efforts to conserve heritage institutions. Surat Municipal Corporation initiated several reforms to improve waste management and environmental conditions. It also introduced a monitoring system in performance management. Vadodara Municipal Corporation introduced energy efficient street lighting system and Rajkot Municipal Corporation privatized public toilet maintenance, drainage management, transportation and collection of solid waste. The state has efficiently introduced e-Governance, accounting and fiscal and financial management

reforms to improve the capacity of local self-government institutions and cope with the problem emerging due to rapidly growing urban population.

Madhya Pradesh is the least urbanized among the five states selected for the purpose of the study. The history of local self-government institutions in the state is as old as of other states. The functional and fiscal domains of municipalities have improved considerably after implementation of CAA. Madhya Pradesh has taken several steps to improve the functioning of LSGIs Bhopal Municipal Corporation, which is governed by 'Mayor-in-Council' system, has strengthened its capacity by initiating several innovative management practices including improved management information system to enhanced collection of revenues, development of bio compost plants and slum networking project etc. Khandwa Municipal Corporation has won an award in urban development category. The corporation has taken several initiatives towards resource mobilization, computerization of records concerning property, water and electricity, tax collection and double entry system of accounting. Narsimhagarh Municipal Council, a new municipality has taken several initiatives for resource mobilization, improvement of health services, sanitation and environmental infrastructure.

In Europe, the devolution process has taken place in three phases i.e., first phase (second half of 19th century), second phase (20th century-up to 1990) and third phase (post 1990 period). Amongst the six selected member countries of EU, UK, Belgium, Netherlands and Finland are leading countries to initiate devolution process and enacted laws and acts to strengthen functional and fiscal domain of their local authorities. Italy and Spain were rather slow in initiating devolution process. Devolution process in Spain was initiated about three decades ago when it framed a democratic constitution and gave constitutional guarantee to local authorities. Major legal developments aimed at devolving powers to the local authorities and strengthening their institutional mechanism has largely taken place during the subsequent period. The decade of 1990s is considered the era milestone development in the history of devolution process in European countries as major constitutional, legal and institutional developments towards strengthening functional, fiscal and organizational base of local authorities were witnessed during this decade.

The structure of governance in European countries is almost similar to that of India. The major difference lies in the powers, functional responsibilities and fiscal autonomy of LSGIs. The municipalities in member states of the European Union perform a wide range of responsibilities. The county councils in UK are responsible even for traffic, transport, highways, law and order. District and parish councils share large number of local responsibilities alongwith the county councils. Leister City Council is intensely involved in the provision of all important municipal services including social welfare. The provision and operation and maintenance (O&M) of several important municipal services such as water supply, sewerage and sanitation have been offloaded to the private sector.

In Netherlands, municipalities are responsible for spatial planning and urban development, housing, tourism, recreation, public works, transport, public health, education and welfare etc. Midden Delfland, although a new municipality, is focusing on establishing and maintaining a framework for town and country planning, managing 'green areas' within municipal area and around the towns, augmenting recreational facilities, protecting nature and valuable countryside and improving agriculture. It has established Midden Delfland fund/land bank and is trying to become intermediary between the producers and the consumers of 'green products and services'.

In Finland, while the statutory powers of local authorities cover health, social security, education, youth work and land use the general powers comprise culture, leisure and recreation, promotion of local economic development, maintenance of public roads, water supply, electricity etc.

In Italy, the administrative functions have been delegated to the municipalities under the principle of subsidiarity to ensure harmonious functioning between various levels of authorities. Municipalities have the functions/duties related to personal services and support to promote economic development and productive activities. The municipalities carry out tasks such as elections, registration of births, marriages and deaths, and maintains statistics. Urbino, the hilly municipality, performs all major functions and is concentrating on augmenting environmental infrastructure particularly reforming water supply and sanitation. The municipality is managing its solid waste scientifically by concentrating on recycling the disposal of waste. The regional authority of Florence is implementing *Regional Health Plan* and *Regional Integrated Social Plans* in Tuscany region. The emphasis is on involving local authorities and citizens in management and provision of health and social services and also on progressive recovery of user charges.

In Spain, several mandatory responsibilities have been given to the municipalities on the basis of their population base. A municipality having more than 50,000 persons is responsible for public transport. Civil defence, fire services, environmental protection and social services are mandatory responsibilities for a municipality with over 20,000 inhabitants and a municipality with a population of 5,000 or more is required to take care of its waste disposal.

The broad conclusion is that member states of the European Union are generally far ahead of India in the matter of decentralization of governance to the local level. In India, many states have made considerable progress but Punjab still lags behind in the devolution of powers and functions to local institutions.

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Part-II

Panchayati Raj Institutions

The focus of this part of the chapter is on the historical backdrop and main features of the local self-government institutions (LSGIs) working for the development of rural areas in Punjab, selected Indian states and member states of European Union.

Introduction/Historical Backdrop

Decentralization has been a major instrument for the extension of the democratic process at the grass root level and to involve the local communities in decision making in matters concerning their basic civic and other needs. Beginning from the 19th century, this process gathered momentum in the later half of the twentieth century. The local-self government institutions (panchayats and municipalities) in rural and urban areas have remained the main instruments of democratic decentralization in India. The 'panchayat' in rural India and municipalities in urban India are defined in the constitution as institutions of local-self government. The popular saying of 'panch-parmeshwar' and 'panch-pardhan' from the ancient times connotes that the 'panchayat' had deep roots in the Indian culture. After the 73rd Amendment to the Indian Constitution, 'Panchayati Raj System' has come to occupy a pivotal place in the Indian democratic system. With this land mark amendment, the local governments have become the third-tier in federal system after the union and the states. However even after more than a decade of passing of the historic constitutional amendments of 1992, the local governments have not been made effective in many states. Their functioning varies from state to state and in many states, the devolution of functions, functionaries and funds to the local governments has not taken place as envisaged in Part IX and IXA of the Constitution. On the other hand, considerable progress has been made in the member states of European Union in effective decentralization of powers and functions to the communities at the local level. In fact, unlike in India there are no separate local level institutions for rural and urban areas in the memberstates of European Union. The local level institutions are regional and area based, covering both- urban and rural communities.

Panchayats in Ancient Times

The panchayats in India have a long history, before earning a coveted place in the Indian Constitution. The significance of the system has been chronicled during different periods of Indian history. It is not a flight of fancy, but the truth is that, ancient Indian history has provided evidence of the existence of village panchayats comprising five informally elected elderly members to settle disputes in the village. A reference to an organized system of rural local self-government (panchayat) has been found in ancient Vedic literature. ***Rig Veda*** has mentioned about 'Gramini', the village head employed by the king for civil and military purposes; while ***Atharva Veda*** envisaged the institution of 'sabha', 'samiti', 'sabhapati' and 'sabhasad' primarily performing judicial functions. A mention of village institutions had been made in the great epics, the ***Ramayana*** and the ***Mahabharat***, where the

gramini was responsible for collecting state dues, keeping village records, settling disputes and controlling crime. Kautaliya's *Artha Shastra* gives a comprehensive account of the system of village administration prevailing in ancient India. Besides, evidence of the village panchayats is also discerned in the Maurya and Chola dynasties and during the golden era of the Guptas.

Panchayati Raj System during Medieval and British Period

The medieval period was comparatively an uneventful period in the history of panchayat system in India. The system was largely ineffective during Mughal rule. Except Akbar, it appears that no other Mughal ruler assigned importance to the panchayats. In the same vein, during the initial years of British rule, the autonomy of the panchayats gradually got diluted with the establishment of local civil and criminal courts, revenue and police administration. However, the British rulers were well cognizant of the role played by self-governing communities at the village level. Sir Charles Metcalfe, a British governor in India during 1852 called panchayat as 'the little republic', but with some reservations because a caste ridden feudal system with power concentrated in the hands of a few landlords would be inconsistent with the sole mission of decentralization. This is amply reflected in the East Indian Company Resolution of 1865 which said:

'The people of this country are perfectly capable of administering their local affairs. The municipal feeling is deeply mooted in them. The village communities are the most abiding of Indian institutions. They maintained the framework of society while successive swarms of invaders swept over the country'.

The initiative taken by the Viceroy, Lord Mayo, in 1870 through a resolution for decentralization of power was aimed at improving administrative efficiency. In 1882, Lord Ripon resolved in favour of progressive extension of local governing bodies with the avowed purpose of imparting political education to the people in general and rural people in particular. The Royal Commission on Decentralization in 1907, recognized the importance of the panchayats at the village level, which recommended association of the people with the task of local administration. A few subsequent initiatives focused on decentralization during British Raj are Montague Chelmsford Act, 1919; the Simon Commission report 1925 and Government of India Act, 1935. With these initiatives, by 1925 eight provinces had passed Panchayat Acts and by 1926 six Indian princely states also passed panchayat laws. By 1948, 20 other native states had village panchayat Acts.

Panchayati Raj System after Independence

After independence, the process of empowering panchayats gathered momentum. Mahatma Gandhi, the father of the nation, while emphasizing on 'Gram Swaraj' (village autonomy) strongly advocated that:

‘Independence must begin at the bottom. Thus every village will be a republic of panchayat having full power.’

The spirit and importance of panchayati raj system found place in Article 40 of the Directive Principles of State Policy of the Constitution of India, which says:

‘The state shall take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.’

Pandit Jawaharlal Nehru the first Prime Minister of India, considered panchayats as an important socio-economic and political institution at the village level. While inaugurating the panchayati raj in Rajasthan in 1959, he underlined the importance of people taking responsibilities:

‘To uplift millions of villages is not an ordinary task, the reason for the slow progress is our dependence on official machinery. An officer is probably necessary because he is an expert. But this can be done only if the people take up the responsibility in their own hands. The people are not merely to be consulted, but effective power has to be entrusted to them.’

The then Rural Development Minister Shri S K Dey, stated:

‘In Panchayati Raj System, the people of India would govern themselves through their representative institutions, from the panchayat to Parliament and thus democracy would travel from Gram Sabha (village parliament) to Lok Sabha (Lower House of the National Parliament)’⁶

Former Prime Minister Rajiv Gandhi, while emphasizing on the significance of panchayats had remarked:

‘We must put an end to planning from above. We must put an end to priorities being conceived and decided at ethereal heights, far from the ground realities.’

While delineating a few functions of the local self-governments, Pandit Jawaharlal Nehru, advocated:

‘The panchayati raj bodies should assume the responsibilities of looking after the needs of everyone in the village and thus become an insurance against illness, unemployment, illiteracy and other disabilities.’

The First Five Year Plan also recognized the need for disaggregated planning through a process of democratic decentralization incorporating the idea of a village plan and a

district development council. The Government of India constituted several committees at different points of time to strengthen the local self-government institutions. The first one was the Balwantray Mehta Committee constituted in 1957. The committee recommended the urgency of democratic and elected institutions at the lowest level and suggested a three-tier system at the district, intermediate and village levels. K Santham Committee constituted in 1959, in its report in 1965, recommended setting up of a Panchayati Raj Finance Corporation and district election commissions. Ashok Mehta Committee (1977) recommended a two-tier set-up at district and village level. The Sarkaria Commission on Centre-State relations appointed in 1983 recommended in its report that the objectives of decentralized planning cannot be achieved unless the panchayati raj and other local bodies are allowed to perform their assigned role. Instead of playing their role, ironically, these institutions have been allowed to stagnate. Elections to these bodies had not been held regularly and often they remain superseded for a long period. The Sarkaria Commission recommended that it was necessary to hold elections regularly and adequate funds devolved to these institutions. The GVK Rao committee, 1985, emphasized the need for regular elections to the panchayati raj institutions (PRIs). A committee headed by PK Thungon, 1986 recommended that panchayati raj bodies should be constitutionally recognized, should have provision for timely and regular elections and their term should be five years. While the L M Singhvi Committee of 1987 recommended that the PRIs should get constitutional safeguards and financial resources should be devolved to them.

Taking into consideration all these recommendations and success of West Bengal, Karnataka and Andhra Pradesh experiments and the prevailing mood for decentralization, Prime Minister Rajiv Gandhi introduced the 64th Constitutional Amendment Bill in 1989, which was passed by the Lok Sabha, but failed to get the concurrences of the Rajya Sabha.

Later, a cabinet committee was constituted to look into the contents of the Panchayati Raj Bill of 1989 afresh and a comprehensive amendment was introduced in the form of the Constitution 73rd Amendment Bill in 1992 during the Prime Ministership of P V Narasimha Rao, which was passed by both the Houses of Parliament and came into effect on April 24, 1993. Shortly after the aforesaid amendment, in his letter of May 5, 1993 to panches and sarpanches, he had mentioned:

‘Democracy and devolution of powers to panchayats have now become part of the most sacred document of this nation: the Constitution of India. No one can now snatch democratic practices from your panchayat.... The Constitutional changes will prove to be a major landmark in the history of development of rural areas of this country.... They will be vibrant institutions performing necessary development, regulatory and general administrative functions’.

History of Panchayati Raj Institutions in Punjab

The panchayat system in Punjab was introduced with the enactment of the Village Panchayat Act in 1912 and its scope was substantially expanded thereafter from 1919

onwards under the Montague-Chelmsford Act. The Punjab Village Panchayat Act, 1921 replaced the 1912 Act. Then the Village Panchayat Act of 1939 replaced the Punjab Village Panchayat Act of 1921. One of the key features of the 1939 Act was the formation of district boards in the districts of the state. These boards did good work in the areas of education, construction of roads and health care. After independence, the Punjab government formulated the Gram Panchayat Act 1952, which replaced the Village Panchayat Act 1939. In 1961, the Government of Punjab decided to organize a panchayati raj system based on the recommendation of Balwant Rai Mehta Committee. As a result, a three-tier system comprising gram panchayats at the village level; panchayat samitis at the block level and zilla parishad at the district level was constituted and the district boards were abolished. The panchayat samitis and zilla parishads functioned as representative bodies up to 1970 and again from 1975-78 (in the intervening period from 1970-75, they had been dissolved). There after these two tiers remained in force till 1994. However, elections to gram panchayats were held regularly (1952, 1957, 1962, 1968, 1973, 1978, 1983, 1992, and 1998) since independence, with the exception of 1988 due to the turbulent situation in the state. With the passage of the 73rd Constitutional Amendment Act, 1992, the state government enacted in April 1994, the Punjab Panchayati Raj Act, 1994, which replaced the Gram Panchayat Act, 1952.

History of Panchayati Raj Institutions in Progressive Indian States

The LSGIs in Gujarat first came into being under the Bombay Panchayat Act 1933. In the 1960s, the gram panchayat was seen as the focal unit of development through an integrated structure of three-tiers, each organically linked to the other. The new Panchayati Raj Act, after 73rd constitutional amendment was passed and adopted on 1993.

The history of panchayati raj system in Karnataka reveals that in the old state of Mysore, a three-tier structure of union panchayats, taluka boards and district boards was established under the Mysore Local Board Act, 1902. This was replaced by the Mysore Village panchayats and Local Boards Act, 1959 and a three tier structure was introduced on the recommendations of Balwantrai Mehta Committee. In 1983, on the recommendations of Ashok Mehta Committee, the Karnataka Act of 1983 was enacted. It demonstrated for the first time the willingness of a state government to divest substantial powers in favour of sub-state institutions. The new Panchayati Raj Act after 73rd constitutional Amendment came into being in 1993.

The history of panchayat in Kerala shows that before the formation of Kerala in 1956, there were panchayats and urban local bodies in the three different regions of the state, namely Travancore, Cochin and Malabar. The Kerala Panchayat Act 1960 provided that government could authorize the panchayats to exercise functions such as collection of land revenue, maintenance of survey and village records, collection of village statistics, supervision and control over primary schools, health centers, public health, child welfare and

maternity institutions and execution of community development works. The Act was amended in 1964, 1967 and 1978, before the conformity Act came into operation in 1994.

History of panchayats in Madhya Pradesh dates back to 1920 when the panchayats were setup in the central provinces under the Village Panchayat Act 1920. After the formation of Madhya Pradesh in 1956, the new Panchayat Act was enacted in 1962. The chronology of panchayat legislation in present Madhay Pradesh include: Madhya Pradesh Panchayat Act, 1962; Panchayat Act, 1981; Panchayati Raj Act, 1990; and finally Panchayati Raj Act, 1993 with eight amendments between 1994 and 1999.

Village panchayats in Maharashtra had traditionally functional as the main centers of administration. The first formal initiative was taken with the enactment of Bombay Village Panchayat Act in 1920. The panchayat legislation was amended from time to time: Bombay Village Panchayats Act, 1933; Bombay Village Panchayat (Amendment) Act 1939; Bombay Village Panchayat Act 1958 before the formation of Maharashtra in 1960. After the formation of Maharashtra state, Zilla Parishads and Panchayati Samitis Act was enacted in 1961. Three important committees were set up in the state namely as 'Panchayati Raj Committee' in 1970; Panchayati Raj Review Committee 1973 (Bongirwar committee) and Panchayati Raj Review Committee of 1984 (Patil Committee). The District Planning and Development Councils (DPDC) were formed during this period. The new Panchayati Raj Act came into force in the state on 2nd April 1994.

Panchayati Raj System after 73rd Amendment

The 73rd amendment of the Constitution is an epoch making event in the history of democratic decentralization in India. While introducing the constitutional amendment bill in Parliament on December 1, 1992, the then Cabinet Minister of Rural Development observed:

‘This casts a duty on the centre as well as the states to establish and nourish the village panchayats so as to make them effective self-governing institutions and by introducing this Act, the government was fulfilling Mahatma Gandhi's dream of Gram Swaraj.’

With 496 panchayats at the district level, known as district panchayat (DP) zilla parishad (ZP); 5905 at the intermediate level, known as block samitis/intermediate panchayat (IP); and 230762, at the village level known as gram panchayat (GP), India today has the world's largest functioning democracy at the grassroots. These elected democratic institutions are manned by 3.4 million elected representatives, including more than one million women; 0.36 million Scheduled Castes and 0.26 million Scheduled Tribes (Kurukshetra, 2002).

Table 14
Number of PRIs and its Elected Representatives in Progressive Indian States and in Punjab as on 1.4.2004

| State | Gram Panchayat | | Intermediate Panchayat | | District Panchayats | |
|----------------|----------------|-----------------|------------------------|-----------------|---------------------|-----------------|
| | Number of GP | Elected Members | Number of IP | Elected Members | Number of DP | Elected Members |
| Gujarat | 13819 | 83213 | 225 | 2768 | 25 | 544 |
| Karnataka | 5659 | 53421 | 175 | 2162 | 27 | 591 |
| Kerala | 991 | 8458 | 152 | 1009 | 14 | 202 |
| Madhya Pradesh | 22029 | 208356 | 313 | 4297 | 45 | 486 |
| Maharastra | 28553 | 178132 | 349 | 2877 | 33 | 1423 |
| Punjab | 12445 | 48860 | 140 | 5257 | 17 | 190 |

Source: Ministry of Panchayati Raj, Government of India, website

In conformity with the Constitutional amendment, all the states have amended their state Acts by repealing the then existing ones. Today the PRIs constitute the potential instruments for effective implementation of India's rural development and poverty alleviation programmes. It is true that, if effectively empowered, the PRIs have the potential to build a progressive India (which veritably lives in its villages) in harmony with the felt needs and aspirations of the people.

The structure of the PRIs of a few states is given in Table 15. In Kerala on an average one panchayat caters to the needs of 23,785 rural population, where as in Punjab one panchayat deals with 1289 rural population. Each panchayat in Kerala and in Karnataka consists of wards, which are looked after by ward members of the panchayat. The division of panchayat into wards thrust responsibilities on the ward members to look after the needs of their ward population. This results in effective functioning of panchayat in Kerala and Karnataka.

Table 15
Structure of Population and at Different Institutions in a Few States

| States | Average rural population per gram panchayat* | Average number of villages per gram panchayat* | Average number of gram panchayat per panchayat samitis** | Average number of panchayat samitis per zilla parishad** |
|----------------|--|--|--|--|
| Gujarat | 2294 | 1.3 | 73.1 | 9.6 |
| Karnataka | 6152 | 5.2 | 4.7 | 9.0 |
| Kerala | 23,785 | 1.4 | - | - |
| Madhya Pradesh | 2010 | 2.5 | 41.0 | 10.2 |
| Maharastra | 1952 | 1.5 | 82.8 | 10.3 |
| Punjab | 1289 | 1.0 | 92.8 | 9.8 |

Source * As per census 2001.

**Panchayati Raj Institutions in India, Ministry of Rural Development, 1991.

Features of 73rd Constitutional Amendment

The main features of the 73rd Constitutional Amendment are: (i) Establishment of a three-tier structure: village panchayat (gram panchayat); intermediate panchayat (panchayat samiti) and district panchayat (zilla parishad); (ii) Regular elections every five years; (iii) Reservation of seats for the Scheduled Castes and Scheduled Tribes in proportion to their population; (iv) Not less than one-third reservation of seats for women at three different levels of PRIs; (v) Establishment of State Finance Commissions to recommend measures to improve the finances of panchayats; (vi) Establishment of State Election Commissions to conduct election to the PRIs; (vii) Establishment of District Planning Committees to prepare development plans for the districts; (viii) Preparation of plans for economic development and social justice and implement 29 subjects listed in the 11th Schedule of the Constitution; (ix) Establishment of grama sabhas (village assemblies) and their empowerment as a decision making body at the village level; and (x) Rotation in accordance with the reservation of seats for women and the Scheduled Castes in the PRIs. The key features as envisaged in the 73rd constitutional amendment are given in Table 16.

Table 16
Key Features of 73rd Constitutional Amendment

| S.No | Key Features | Provision in the Act |
|------|--|---|
| 1 | Three Tier Structure at the District Level | Article 243-B envisages, Gram Panchayat at Village level, Intermediate Panchayat at Block Level and District Panchayat |
| 2 | Elections at every five years | Article 243-E tells, Every Panchayat shall continue for five years from the date appointed for its first meeting and no longer. |
| 3 | Reservation of seats for Scheduled Castes and Scheduled Tribes | Article 243-D envisages, reservation of seats for the Scheduled Castes and Scheduled Tribes in proportion to their population for membership of panchayats. |
| 4 | Reservation of seats for women | Article 243-D (3), provides that not less than one third (including the number of seats reserved for women belonging to Scheduled Castes and Scheduled Tribes) of the total number of seats to be filled up by direct election in every panchayat shall be allotted by rotation to different constituencies in a panchayat. |
| 5 | Establishment of State Finance Commissions | Article 243-I provides for constitution of State Finance Commission to review financial position of the PRIs and to make recommendations to the Governor and distribution between the state and the PRIs of the net proceeds of the taxes, duties, tolls and fees leviable by the state. |
| 6 | Establishment of State Election | Article 243-K provides for the establishment of State Election |

| | | |
|---|---|---|
| | Commission | Commission. The superintendence, direction and control of the preparation of electoral rolls for and the conduct of all elections to the panchayats shall be vested in the State Election Commission. |
| 7 | Establishment of District Planning Committee (DPCs) | Article 243ZD provides for the constitution of DPCs to consolidate the development plans prepared by the gram panchayat. |
| 8 | 29 duties and responsibilities | Article 243 (G) made addition of Eleventh Schedule and assigning duties and responsibilities on 29 subjects. |
| 9 | Establishment of Gram Sabha | Article 243 provides for Gram Sabha to exercise such powers and perform such functions at the village level as the legislature of a State may by law provides. |

With the enactment of 73rd constitutional amendment and formulation of Panchayati Raj Acts by different state governments, the State Election Commissions have been established, helping the state governments in holding periodic elections to PRIs. Almost all states have constituted State Finance Commission; despite the fact that their recommendations are being poorly implemented by many state governments. A large number of women, Scheduled Castes and Scheduled Tribes have been elected to these bodies and a tradition of social justice and gender equality in political representation has been widely established. Bihar government recently has declared 50 per cent reservation of seats for women in PRIs. Punjab Panchayati Raj Act has made reservation for other backward castes (OBCs).

Table-17
Representation of Women, SCs, and STs in PRIs as on 1.4.2004

| PRIs | Scheduled Castes | Scheduled Tribes | Women |
|------------------------|------------------|------------------|--------|
| Gram Panchayat | 346002 | 233765 | 838227 |
| Intermediate Panchayat | 22333 | 8210 | 47455 |
| District Panchayat | 2201 | 1322 | 4923 |
| Total | 370536 | 243297 | 890605 |

Source: Website of Ministry of Panchayati Raj, Government of India

Features of Punjab Panchayati Raj Act 1994

With the passage of the 73rd Constitutional Amendment Act, 1992, the state government enacted, the Punjab Panchayati Raj Act, 1994, which replaced the Gram Panchayat Act, 1952. The Act proposed to endow the panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government. Some of the important features of Punjab Panchayati Raj Act which are in conformity with the 73rd

Amendment Act, 1992 of the Government of India, are: (i) establishment of a three-tier system of panchayats in the state i.e gram panchayats at the village level, panchayat Samitis at the block level and zilla parishad at the district level; (ii) elections to gram panchayats, panchayat samitis and zilla parishads to be held once in five years; (iii) reservation of seats for the Scheduled Castes in proportion to their population and reservation of not less than one-third of seats for women at all levels; (iv) reservation of one office of panch for the Other Backward Classes (OBCs) in a gram panchayat, where their population in the gram sabha areas is more than 20 per cent of the total population; (v) devolution of powers and responsibilities to gram panchayats, panchayat samitis and zilla parishads in respect of matters listed in the Eleventh Schedule of the Constitution of India; (vi) constitution of District Planning Committees (DPCs) and standing committees at the gram panchayat, panchayat samiti and zilla parishad level; (vii) constitution of State Election Commission (viii) constitution of a gram sabha for a village or a group of contiguous villages with a population of not less than 200.

The features of the Panchyati Raj Acts of the progressive Indian states are more or less same with little variation, however, their functioning differs because of level of devolution of powers to the PRIs in these states.

Constitution and Functions of Panchyati Raj Institutions (PRIs)

PRIs comprise of three institutions namely gram panchayats, panchayat samitis and zilla parishads, The constitution and functions of these three organizations are given below:

Gram Panchayat

A gram panchayat consists of a sarpanch and five to 13 elected panches depending upon the population. The members of village panchayats are elected by the same Electoral College, which elects members of the Legislative Assembly of the state and the Lok Sabha (the lower house of Parliament). The State Election Commission prepares the electoral roll for PRIs elections. Under the 1994 Punjab Panchayati Raj Act, it is envisaged that a village panchayat will discharge duties and responsibilities relating to the subjects mentioned in the Eleventh Schedule of the Constitution. Important functions of the gram panchayat include preparation of annual development plans, its budget; construction, repair and maintenance of community assets; khadi and village industries; rural housing; rural electrification; non-conventional sources of energy; poverty alleviation; education; public health and family welfare; adult and non-formal education; cultural activities; fairs and festivals; promoting agriculture, including animal husbandry; dairying and poultry; fisheries; social and farm forestry; women and child development; social welfare and public distribution system.

Panchayat Samiti

There is a panchayat samiti in each development block, a compact development area. Its membership comprises:

- a. 15 to 25 directly elected members from territorial constituencies.
- b. Members of the Punjab Legislative Assembly, major portion of whose constituency falls in the panchayat samitis area shall also be members of the panchayat samitis.

The Punjab Panchayati Raj Act, 1994 has assigned the panchayat Samitis 26 functions. The important functions are agricultural improvement, land improvement, irrigation and water management and promotion of animal husbandry and dairying and poultry, fisheries, roads, social services, social welfare, technical training, poverty alleviation, and rural electrification.

Zilla Parishad

Every district has a zilla parishad, having jurisdiction over the entire district excluding the areas included in a municipality or a cantonment board. The directly elected members of zilla parishads vary from 10 to 25. The Additional Deputy Commissioner (Development) of the district is the ex-officio Chief Executive Officer of the zilla parishad. The members of the zilla parishad are:

- i. Directly elected from demarcated constituencies;
- ii. All chairpersons of panchayat samitis; and
- iii. Members of Parliament/Members of Legislative Assemblies whose constituencies fall in the jurisdiction and geographical area of the zilla parishad.

The Punjab Panchayati Raj Act of 1994 assigns 22 functions to the zilla parishads. The functions include agricultural development, irrigation; ground water resources and watershed development; horticulture; statistics; rural electrification; distribution of essential commodities; soil conservation; animal husbandry and dairying; fisheries; small-scale industries including food processing industries; rural roads; health and hygiene; rural housing; education; social welfare and welfare of the weaker sections; poverty alleviation; social reform activities; weights and measures and promotion of thrift and savings through small savings campaigns.

Constitution and Functions of PRIs in Progressive Indian States

In Gujarat the sarpanches (president) of the village panchayats are elected directly by adult franchise and up sarpanches (vice-president) are elected by the elected members of the village panchayats. The same procedure is followed in the intermediate panchayats and district panchayats. In Karnataka, both the adhakya (president) and upadhakya (vice-president) are elected indirectly by the elected members of the gram panchayats. The same procedure is followed in the Intermediate and district panchayats.

Table-18
Head of the PRIs and Procedure of Election

| Panchayati Raj Institutions (PRIs) | Procedure of Election of Head of PRIs | | |
|---|--|---|---|
| | Village Panchayat | Intermediate Panchayat | District Panchayat |
| Gujarat | Sarpanches are directly elected by the people and up-sarpanch are indirectly elected by the elected members of panchayats. | Chariman of Intermediate Panchayat is directly elected by the people and the Vice-Chairman is elected by the elected members of the intermediate panchayat. | Chariman is directly elected by the people and Vice-Chairman of district Panchayat is indirectly elected. |
| Karnataka | Adhakya and Updhkya are indirectly elected by the members of panchayat. The post of Adhakya is on rotation basis, 2.5 and 2.5 year each. | Adhakya and Updhkya are indirectly elected by the members of Taluka Panchayat. | Adhakya and Updhkya are indirectly elected by the members of Zilla Panchayat. |
| Kerala | President and Vice-President are indirectly elected by the member of the village panchayat. | President and Vice-President are indirectly elected by the members of the block panchayat. | President and Vice-President are indirectly elected by the member of the district panchayat. |
| Madhya Pradesh | Sarpanch and Up-sarpanch are indirectly elected. | President and Vice-President are indirectly elected by the members of the block panchayat. | President and Vice-President are indirectly elected by the member of the zilla panchayat |
| Maha-rashtra | Sarpanch and Up-sarpanch are indirectly elected. | President and Vice-President are indirectly elected by the member of the block panchayat | President and Vice-President are indirectly elected by the member of the district panchayat |
| Punjab | Sarpanch is directly elected by the people. | Chairman of the Panchayat Samiti is directly elected by the people of the block. | Chairman of the Zilla Prishad is directly elected by the people of the district. |

Election of head of the PRIs through indirect election resembles with the system adopted by the legislative assembly and parliament. The rotation of seats of the head and vice-head of the PRIs as practised in Karnataka would create opportunity for others.

The powers for impeachment of the sarpanch and members of the village panchayat in Punjab lie with the Directorate of Rural Development and Panchayats, a bureaucratic machinery, where as the impeachment of the panchayat personnel in Kerala is done by the ombudsmen and in Gujarat zilla parishad is empowered to take decision regarding the impeachment of personnel of panchayat including its president.

In all states panchayat secretaries look after the administrative and financial matters of panchayats. The panchayat secretary works in close coordination with panchayat.

However, the work of intermediate and district panchayat is being carried out at the block headquarters and district headquarters with the help of block and district staff.

Standing Committees under PRIs

Provision of standing committees has been made under the Panchayati Raj Acts of different states at the village, intermediate and district panchayat levels for effective implementation of various rural development programmes. The provision of standing committees made by the Punjab Panchayati Raj Act, 1994 at different levels of panchayats are discussed below:

Standing Committees of Gram Panchayat

The Punjab Panchayati Raj Act envisages the constitution of standing committees in every village panchayat. Each standing committee consists of not less than three and not more than five members including the sarpanch. The sarpanch is the ex-officio member and chairman of all the standing committees. The standing committees at the village panchayat level are:

- a. Production Committee;
- b. Social Justice Committee; and
- c. Amenities Committee.

Standing Committees of Panchayat Samiti

The standing committees at the panchayat samiti level are:

- a. General Committee;
- b. Finance, Audit and Planning Committee; and
- c. Social Justice Committee.

Each standing committee consists of not more than six members including the chairman of the panchayat samiti and other elected members of the panchayat samiti.

Standing Committees of Zilla Parishad

The standing committees at the zilla parishad level are:

- a. General Management Committee;
- b. Finance, Audit and Planning Committee;
- c. Social Justice Committee;
- d. Education and Health Committee; and
- e. Agriculture and Industry Committee.

Each standing committee consists of not more than five members, including the chairman and the elected members of the zilla parishad.

The functions of the committees as envisaged in the Punjab Panchayati Raj Act 1994 are given in Table 19.

Table 19
Functions of Standing Committees in Three Tiers of PRIs in Punjab

| PRIs | Name of the Standing Committees | Key Functions |
|------------------|--|--|
| Gram Panchayat | 1. Production Committee | i. Promotion of agricultural production, animal husbandry and rural industry and poverty alleviation programmes. |
| | 2. Social Justice Committee | i. Promotion of education, economic, social, cultural and other interests of the Scheduled castes, Backward class and other weaker sections. ii. Protection of such castes and classes from social injustice and any form of exploitation iii. Welfare of women and children |
| | 3. Amenities Committee | i. Performing functions in respect of education, public health, public works and other functions of Gram Panchayat |
| Panchayat Samiti | 1. General Committee | i. General Standing Committee shall perform functions relating to the establishment matters, communications, building rural housing, village extension, relief against natural-calamities, water supply and all miscellaneous residency matters. |
| | 2. Finance, Audit and Planning Committee | i. Budget, Scrutinizing proposals for increase of revenue, examination of receipts and expenditure statement, consideration of all proposals affecting the finances of the Panchayat Samiti and general supervision of finances of Panchayat Samiti. |
| | 3. Social Justice Committee | i. Promotion of education, economic, social, cultural and other interests of the Scheduled Castes and Backward Classes and other weaker sections of the society. ii. Protecting them from social injustice and all other forms of exploitation. iii. Social justice to the SCs, OBCs, women and other weaker sections. |
| Zilla Parishad | 1. General Committee | i. Establishment matters and functions relating to communications, building rural housing, village extensions relief against natural calamities. |
| | 2. Finance, Audit and | i. Framing of budgets, scrutinizing proposals for increase of revenue, planning committee consideration of proposals relating to finance of Zilla Parishad. |

| | |
|---------------------------------------|--|
| | ii. Allocations of outlays to developments, horizontal and vertical linkages, implementation of state government guidelines, regular review of planning programmes. |
| 3. Social Justice Committee | (i) Promotion of education, economic, social, cultural and other interest of SCs, and OBCs. (ii) Protecting the SCs and OBCs from social injustice (iii) Ameliorate the lot of the SCs and OBCs. |
| 4. Education and Health Committee | (i) Promotion of educational activities in the Zila Parishad. (ii) Planning of education in the district. (iii) Survey and evaluation of educational activities. (iv) Maintenance of drainage, health services, hospitals, water supply, family welfare and other allied matters. |
| 5. Agriculture and Industry Committee | (i) Agricultural production, animal husbandry and co-operation. (ii) Village and cottage industries (iii) Promotion of industrial development of the district. |

Source: Punjab Panchayati Raj Act, 1994.

In practice, there are no standing committees in any PRI in the state, but committees are constituted on an adhoc basis for specific projects or programmes either by the Non-Government Organizations (NGOs) or government departments as required. For example, Village Education Committees (VEC) and Water and Sanitation Committees (WSCs) are formed in many panchayats under Sarv Sikshya Abhian and Total Sanitation Campaign (TSC). The constitution of standing committees at all levels of panchayats would help to thrust responsibilities on the members of these panchayats. Uptil now for all practical purposes the heads of the PRIs are supreme and its members are not closely involved in panchayat activities in the absence of the constitution of the standing committees.

Standing Committees in Progressive Indian States

For the effective functioning of the PRIs, the Panchayati Raj Act of each progressive Indian state has made provision of standing committees. These committees look after the sectoral developmental activities such as education, public works, health and family welfare, welfare of Scheduled Castes and Scheduled Tribes, etc.

Table 20
Number of Standing Committees in PRIs of Progressive Indian States

| States | Gram Panchayat | Intermediate Panchayat | District Panchayat |
|----------------|---|--|--|
| Gujarat | Executive Committee Social Justice Committee | Executive Committee Social Justice Committee | Executive Committee Social Justice Committee Education Committee Public Health Committee Public Works Committee |
| Karnataka | Production Committee Social Justice committee Amenities Committee | General Standing Committee Finance, Audit and Planning Committee Social Justice Committee | General Standing Committee Finance, Audit and Planning Committee Social Justice Committee Education and Health Committee Agriculture and Industries Committee |
| Kerala | Finance Committee Development Committee Welfare Committee | Finance Committee Development Committee Welfare Committee | Finance Committee Development and Committee Welfare Committee Public Works and Committee Health and Education Committee |
| Madhya Pradesh | General Administration Committee Construction and Development Committee Education, Health and Social Welfare Committees | General Administration Committee Agriculture Committee Education Committee Communication and Public Utility Service Committee Cooperation and Rural Industry Committee Health and Welfare of Women and Child Development Committees Forest Committee | General Administration Committee Agriculture Committee Education Committee Communication and Public Utility Service Committee Cooperation and Rural Industry Committee Health and Welfare of Women and Child development Committee Forest Committee |
| Maharashtra | Statutory Committees are obligatory and Village Panchayat is empowered to form one or more committees | Statutory Committees are obligatory and Intermediate Panchayat is empowered to form one or more committees | Finance Committee Work Committee Agriculture Committee Health Committee Education Committee Social Welfare Committee Animal Husbandry and Diary Committee Women and Child Welfare Committee Water Conservation and Drinking Water Supply Committee |

The functions of these committees are almost similar to their counter part committees in Punjab. However, their functioning varies greatly from state to state and widely from Punjab. In some states, standing committees are functioning effectively at the district level, whereas in other states the same are functioning effectively even at the village level. The standing committees in the zilla panchayat of Gujarat and Maharashtra and standing committees in the village panchayats of Kerala and Madhya Pradesh are playing important role in executing sectoral development programmes in their jurisdiction. For example, these committees are supervising the construction of schools, health centers, water works, roads, sanitation etc. The Water and Sanitation Committees set up by the village panchayats are successfully running many water supply schemes in Karnataka and Gujarat. In Karnataka many of these Committees are functioning equally efficiently at district and

village level. Study team visited one of the gram panchayat of Karnataka and found that the Village Water and Sanitation Committee was doing well in providing drinking water facilities to people. Some of the functions of the committee are (i) conducting monthly meetings of the VWSC; (ii) collection of water taxes; (iii) maintenance of accounts; (iv) recruitment of watermen; (v) operation and maintenance of water supply schemes; and (vi) hearing and redressal of complaints of the beneficiaries. Study team observed in Baroda district of Gujarat that all the standing committees of the district panchayat as envisaged in the Gujarat Panchayati Raj Act have not only been formed but also were effectively functioning; they are involved in the implementation of health, public works, education, developmental programmes for the Scheduled Castes and Scheduled Tribes, at the village level. These committees monitor the developmental activities in the district. There is close coordination between these committees and the DDO (District Development Officer), the administrative head of the district panchayat. The district panchayats of Gujarat have their own secretariat and a separate administrator. Karnataka and Maharashtra have also the same pattern as that of Gujarat.

In Kerala and Madhya Pradesh, standing committees as envisaged in the Panchayati Raj Act have been constituted and are effectively functioning at the village panchayat level. In these two states the village panchayats are more active as compared to the intermediate and district panchayats.

Practices in Member States of European Union

The local self-government institutions functioning in rural areas of European countries are informally known as rural municipalities, however, there is in fact, no difference between LSGIs in the rural and urban municipalities in Europe. In Belgium, the larger municipalities are in urban areas; where as smaller municipalities are in the rural areas. The number of councilors directly elected by the people varies from seven to 55. The mayor and alderman are the top executives of the municipalities. The mayor and alderman are from among the councilors. In United Kingdom (UK), the councilors are directly elected and mayors are chosen from amongst the councilors. In Netherlands, the municipalities are run by the municipal council comprising of mayor, alderman and councilors. The mayor and aldermen are chosen from among the councilors who are elected directly by the people.

In Finland, there are 318 rural municipalities. The Constitution Act of 1919 states in Article 51 that 'the administration of the municipalities shall be based on the principle of self-government by the citizens, as provided in specific laws'. The structure of municipal organization consists of municipal council on the top; municipal executive board in the middle; and municipal committees at the bottom. The municipal council is the supreme local government authority, which comprises of chairman and other elected members, which varies from a minimum of 17 to maximum of 85 depending on the population. The chairman is the head of the municipal council elected indirectly from among its members. Municipal managers look after the administration and day-to-day activities with the help of other staff.

In Spain, members of municipal council (councilors) are directly elected by the people and the Mayor; the head of municipal council is indirectly elected from among the elected councilors. Mayor appoints 'deputies' for the smooth functioning of municipalities. The people directly elect mayors of smaller municipalities. The administrative affairs of the municipalities are looked after by the secretaries and secretarial staff of the municipalities. In Italy, the people directly elect mayor and councilors of the municipalities.

There is a lot of similarity in the structure of municipalities in the member states of European Union. There are also differences. The structure of the Scandinavian countries for example, Finland, is simpler than that of other the member states of EU. Typically municipalities in Scandinavian countries enjoy greater autonomy. Municipalities of all European nations, except UK derive their power from written constitutions of these countries. It is pertinent to note here that despite the absence of a written constitution, the municipalities in UK enjoy a great deal of autonomy.

In European countries, municipalities functioning in rural areas are performing the same duties and responsibilities as of PRIs in India but with greater degree of autonomy, accountability and transparency .The constitution of Spain has entrusted their municipalities (rural as well as urban) with the following powers:

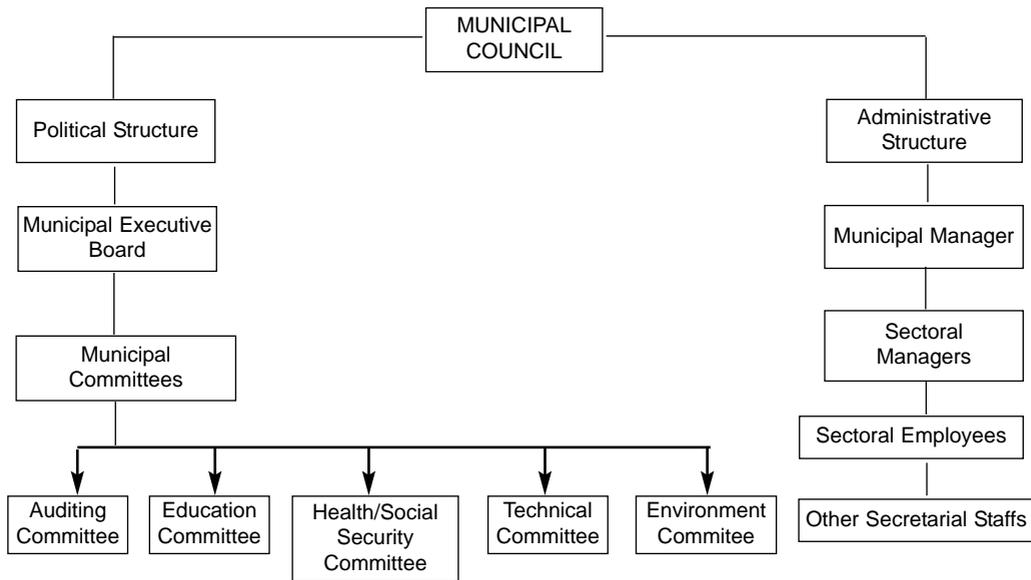
(i) law and order; (ii) road network maintenance; (iii) water supply and street lighting; (iv) waste disposal; (v) heritage assets conservation. The main functions of rural municipalities of Finland are: (i) education; (ii) health care; (iii) social welfare; (iv) technical infrastructure; and (v) control of environment.

The local governments in UK, Belgium, Italy and Netherlands are exercising functions in the areas of sanitation, health care, social welfare, waste management and education.

The municipalities of Finland, rural as well as urban, have two distinct structures such as political and administrative. Administrative department through the municipal committees executes the technical work. The municipal council appoints these municipal committees. Typical committees are educational committee, health and social welfare committee, technical committee, environment committee, etc. Different municipalities can have different committees according to their need.

Municipal council also appoints an 'Auditing Committee', an obligatory requirement. Its task is to assess annually whether the operational and financial targets of the municipality have been achieved. Professional independent auditor appointed by the council makes the financial auditing annually. Report of auditor and auditing committee are annually presented to the council.

Chart II
Structure of M-G in Finland



The municipalities in UK have a number of area committees, which help the authorities of municipalities and the people they serve to come closer together. The main role of these committees are as follows:

- i. Help influence decisions affecting the area;
- ii. Engage the community in development activities;
- iii. Prepare area community plans;
- iv. Help to scrutinize municipal council decisions from a local perspective;
- v. Develop local working partnership; and
- vi. Improve community cohesion and co-operation.

The process of democratic decentralization has made rapid strides in India and European Union countries since 1990s. The scanning of literature and interaction with the experts and representatives and functionaries of the local self government institutions in progressive Indian states such as Kerala, Karnataka, Gujarat, Maharashtra and Madhya Pradesh and selected European Union countries such as UK, Finland, Spain, Italy, Netherlands, Belgium and Spain during the study tours to these states and countries reveal that the process of devolution varies from state to state in India and from country to country in Europe. But by and large with the exception of Kerala, the PRIs in other states are still struggling to achieve autonomy. The standing committees as envisaged in state Panchayati

Raj Act still have not been constituted in many PRIs. However in European Union member states LSGIs are enjoying far greater autonomy and standing committees are effectively functioning and are involved in the welfare activities of the community.

Karnataka and Gujarat formulated their Panchayati Raj Act in 1993 in conformity with the Central Act. Kerala formulated its Panchayati Raj Act in 1994, yet it has been making necessary amendments to state acts from time to time to vitalize the PRIs in the state. The strong historical background in Karnataka and Gujarat and equally strong political, administrative tradition and peoples' will in favour of democratic decentralization in Kerala are the factors behind the successful functioning of panchyati raj system in these states.

As far as the functioning of three tier institutions in these five progressive Indian states is concerned, the district panchayats are more powerful as compared to village and intermediate panchayats in Gujarat and Maharashtra. In Kerala and Madhya Pradesh, village panchayats are powerful as compared to intermediate and district panchayats; where as in Karnataka, both the village and district panchayats are effectively functioning and are involved in the well-being of the people.

In Punjab, the Punjab Panchayati Raj Act was adopted in 1994, but the devolution process started after a decade in 2004. Thus the pace of PRIs reform process is very slow in Punjab as compared to other progressive states of India. The lack of political and bureaucratic will in favour of empowerment, poor level of literacy and lack of enthusiasm among the representatives of PRIs are the reasons for the slow down. In the feudalistic society of Punjab, candidates seek election to PRIs for the sake of aura or name and fame rather than to serve the people. This leads to indifference among the local people. A peoples' movement in favour of democratic decentralization is necessary in the state.

European Union member states have a system of institutional municipal decentralization on geographical basis and do not have separate arrangements for rural and urban areas as in India. The devolution varies from country to country in European Union member states. In Finland, the process of democratic decentralization is far ahead than in other EU countries. In Spain, Italy, Netherlands and even UK the institutional arrangements for democratic decentralization are at a lesser pitch than in Scandinavian countries.

The Local Self-Government Institutions in UK and Finland have a system of standing committees for effectively running of municipal affairs. In India, the situation varies from state to state. In Gujarat, standing committees have been constituted and are functioning effectively. In Kerala and Madhya Pradesh, standing committees particularly at the village panchayat level are functional and effective. Punjab should learn from the experience of EU countries and progressive Indian states to start the process of effective decentralization and make standing committees functional at all levels of PRIs as mandated in Punjab Panchayati Raj Act of 1994.

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CHAPTER 2

DEMOCRATIC DECENTRALIZATION FOR EMPOWERMENT OF LOCAL GOVERNMENT INSTITUTIONS

Part-I Urban Local Bodies

The focus of this chapter is on salient features of National level initiatives towards democratic decentralization such as the Constitution (74th Amendment) Act, 1992 and the proposed Model Municipal Law (MML) covering towns and cities.

The status of local self-government institutions in Punjab after decentralization initiatives, decentralization initiatives in selected progressive Indian states and in member states of the European Union are important components of this chapter.

1. National Initiative towards Democratic Decentralization

(i) The Constitution (74th Amendment) Act, 1992

The Constitution (74th Amendment) Act, 1992 (CAA) is a milestone development in the history of urban governance in India. It came into force on 1st June 1993. Since local government is a state subject included in the Seventh Schedule, all state governments were asked to pass conformity legislations to incorporate provisions of the CAA in the respective state municipal acts to strengthen the local democratic institutions. The CAA provided statutory status to LSGIs and ensured their continuity. It also ensured regular and time bound elections and reservation for under privileged sections including women. The inclusion of Twelfth Schedule (Article 243W) is an important aspect of the CAA. The Twelfth Schedule provides an illustrative list of 18 functions, which a municipality should perform. The CAA also provides for constitution of State Election Commission, State Finance Commission, Constitution of District Planning Committees, Metropolitan Planning Committees and Ward Committees (WCs). According to the CAA, the municipalities are to function as institutions of self-government, prepare plans for economic development and social justice. The CAA 1992 stipulates that:

- a. The municipalities are to function as ‘institutions of self-government’, prepare ‘plans for economic development and social justice’, perform functions and implement schemes as entrusted to them by the state governments including functions listed in the Twelfth Schedule [Article 243W (a)].

- b. With a view to reducing the distance between the local communities and the local government, the CAA provides for the constitution of WCs in cities with a population of three lakh or more [Article 243S(1)]
- c. The State Election Commission is to superintend, direct and control the preparation of electoral rolls, and conduct elections to the urban local bodies [Article 243K (1)]
- d. The State Finance Commission is to review the financial position of the urban local bodies and make recommendations to the state government regarding (i) the 'principles' which should govern the distribution of resources between the state and the local bodies, the determination of the revenue sources to be assigned and appropriated by the local bodies, and the grants-in-aid from the State Consolidated Fund; (ii) the 'measures' needed to improve the financial position of local bodies; and (iii) any other matter as the Governor may refer to it in the interest of sound finances of the local bodies [Article 243Y (1)]
- e. The District Planning Committees (DPCs) are required to be constituted to 'consolidate' the plans prepared by the panchayats and the municipalities of the district and to prepare a draft development plan for the district as a whole [Article 243ZD(1)]
- f. The Metropolitan Planning Committees (MPCs) are to prepare draft development plans for the concerned metropolitan areas as a whole [Article 243ZE (1)].

The basic aim of the CAA is to ensure continuity of LSGIs, establish three tier system, participation of women and Schedule Castes/Schedule Tribes (SCs/STs), define powers, authority and functions, create ward level and district level institutional mechanism to improve the functioning and capacity of LSGIs. It also aims to strengthen the fiscal domain of LSGIs. The salient features of the CAA are given in Box 1.

Box 1
Salient Features of the Constitutional (74th Amendment) Act, 1992

Continuity: CAA has ensured continuity of the municipalities with five years duration for an elected municipality and re-election of municipalities before the expiry of the five-year term or within six months of their dissolution.

Three-tier system: A uniform structure of three tiers i.e., municipal corporations for large urban areas, municipal councils for small urban areas and nagar panchayats for transitional areas has been provided. The constitution and composition of the municipalities has been left to the wisdom of the state, subject to all seats being filled by elected persons from the respective municipal constituencies.

Reservation of seats: In every municipality, reservation of seats for the Scheduled Castes/Scheduled Tribes(SCs/STs) has been provided in the CAA on the basis of proportional representation. Such seats may be allotted by rotation to different constituencies in a municipality and not less than one-third of the seats so reserved are further reserved for women belonging to the SCs/STs. And also, not less than one-third of the total number of seats in a municipality are reserved for women and such seats may be allotted by rotation by different constituencies in a municipality.

Powers, authority and functions: The CAA has provided for states to endow municipal powers and authority to enable them to function as institutions of self-governance. The municipal functions envisaged under Article 243W are of development nature. The performance of functions and implementation of schemes including those in relation to matters delegated through the Twelfth Schedule may be entrusted to the ULBs.

Constitution of Ward Committees: The CAA makes it mandatory to constitute ward committees in municipalities with a population of over 3 lakh with representation of women, SCs/STs and citizens' groups. The major objective of constituting the ward committees is to bring governance closer to the people and enhance their participation in local affairs including those listed in the Twelfth Schedule.

Constitution of District Planning Committees: The CAA provides for the constitution of the DPCs with representation of elected local representatives to effect spatial and economic development by integrating rural and urban plans at the district level.

State Finance Commission: The CAA mandates the constitution of a State Finance Commission (SFC) every five years to strengthen the financial domain of the ULBs. The Commission reviews the financial position of the urban bodies, their revenue and capital account requirements, recommends devolution of taxes, charges, fees, tolls, duties, shared revenues, inter-government transfers and grants from the state to the municipalities and suggests measures for the mobilization of municipal resources. After considering recommendations of the State Finance Commission, the Central Finance Commission has been mandated to suggest measures for augmenting the consolidated fund of the state, for supplementing the resources of the ULBs.

State Election Commission: The CAA provides for the constitution of a state election commission (SEC) every five-year to regulate municipal elections. It is a progressive step towards ensuring democratic process at the local level. The SEC has a mandate to oversee, direct and control the preparation of electoral rolls and conduct elections of municipalities. The SEC will also ensure that elections to municipalities dissolved by the state government, are held within six months.

The CAA is to bring the structural, institutional, functional and financial improvements in the functioning of local self-government institutions and improve their overall capacity but the response to CAA has been rather slow, as many states have not implemented CAA in letter and spirit. Only following aspects of the CAA have been implemented:

- a. Constitution of municipalities (Article 243 Q)
- b. Composition of municipalities (Article 243 R)
- c. Reservations of seats (Article 243 T)
- d. Duration of municipalities (Article 243 U)
- e. Dis-qualification of membership (Article 243 V)
- f. Constitution of State Finance Commission (Article 243 I)
- g. Constitution of State Election Commission (Article 243 K)
- h. Elections to the municipalities (Article 243 ZA)

In Madhya Pradesh and West Bengal, municipalities have Mayor/President in councils. Two municipal elections have taken place. The first and second State Finance

Commissions constituted under Article 243 have given their recommendations after reviewing the financial position of the municipalities under Article 243 Y. Although, not all recommendations have been implemented in several states. The third series of state finance commissions have been constituted. Following aspects of the CAA have not been implemented in full in most of the states.

- a. Constitution and Composition of Ward Committees (Article 243 S)
- b. Powers, Authority and Responsibilities of Municipalities (Article 243 W)
- c. Power to impose taxes by, and funds of, the Municipalities (Article 243 X)
- d. Committee for District Planning (Article 243 ZD)
- e. Committee for Metropolitan Planning (Article 243 ZE)
- f. Implementation of Recommendations of State Finance Commissions (Article 243 Y)
- g. Augmentation of Consolidated Funds of the State to supplement the resources of the Municipalities [Article 283 (3) (C)]

In the context of functional and fiscal domain, the most crucial aspect of the CAA is the poor implementation of Article 243 W and Article 243 Y. Despite conformity legislations, many states have not given serious thought to assign all the functions listed in the Twelfth Schedule to the municipalities. The parallel participation of para-statal continues to effect functional domain of the municipalities. The involvement of Water Supply and Sewerage Boards, State Water Authorities, Town and Country Planning Departments, Improvement Trusts, Slum Development Boards, Urban Development Authorities in municipal functional domain is against the spirit of the CAA. The most important function of local nature such as preparation of plans for economic development and social justice, town planning are still not being performed by urban local bodies. The non-constitution of ward committees is affecting growth of participatory development in urban areas. The people are unable to identify their needs and prioritize the development according to their choices, as there is no platform for them at local level. The DPCs are to play very important role by consolidating development plans prepared by panchayats and municipalities. Except in few states, district planning committees are not functioning effectively. It is pertinent to note that small and medium municipalities are likely to be effected more than the larger municipalities as the latter have comparatively better capabilities of preparing development plans for the city. The small and medium municipalities have limited resources and their technical and managerial capabilities are also poor.

(ii) The Model Municipal Law

To meet the demands of rapidly growing urban population for quality infrastructure and services, it is necessary to build the capacity of local self-government institutions. People must be involved for evolving participatory grass-root democracy in the country. Legislative reforms in age-old state municipal acts have become necessary to improve the capacity of local self-government institutions. Government of India prepared a Modal

Municipal Law (MML) in 2003 to address the problem of differences and deficiencies in state municipal acts. The salient features of Modal Municipal Law are as below:

- a. A unified law for three levels of ULBs;
 - b. Executive power of a ULB to be exercised by the 'Empowered Standing Committee';
 - c. Municipal Fund with separate accounts for various services;
 - d. Indirect election of Mayor/Chairperson for a five year term;
 - e. Constitution of Wards and Ward Committees;
 - f. State Level Municipal Audit Commission to review the staff status;
 - g. Classification of functions into:
 - i. Core municipal functions (including water supply, drainage and sewerage, solid waste management, roads etc.),
 - ii. Functions assigned by government, and
 - iii. Other functions.
- The 'functions assigned by Government' may be undertaken subject to the underwriting of the cost by the concerned levels of government;
- h. State government may dissolve an elected body if it shows default in performance or abuse of powers, after giving due notice and review by a committee constituted by the state government. Election to take place within six months;
 - i. A State Municipal Accounting Manual with improved system of accounting including double entry system;
 - j. State government can appoint a professional chartered accountant as Auditor of a ULB;
 - k. Each ULB to prepare an Annual Balance Sheet of the Assets and the Liabilities;
 - l. Appointment of a Municipal Accounts Committee similar to Public Accounts Committee;
 - m. ULB to prepare an Inventory of Properties of Municipality each year;
 - n. State government to frame a Debt Limitation Policy laying down the general principles of borrowings commensurate with ULB's financial capacity;
 - o. Empower ULBs to generate internal revenues, particularly through Property Tax Assessment System on Area or Capital Value basis;
 - p. Participation of private sector in construction, financing and delivery of services including billing and collection;
 - q. Provision of a State Municipal Regulatory Commission to determine user charges and standard of services, to suggest avenues of private sector participation and ensure fair deal to citizens;

- r. Provides for the representation of ULBs in District/Metropolitan Planning Committees, and Provision for implementation of development plans by ULBs; and
- s. ULBs to prepare annual Environmental and Subsidy Reports.

Some state governments have initiated revision of their municipal laws in the light of Model Municipal Law. The Government of Uttaranchal formed a committee headed by the Minister, Urban Development to prepare the new state municipal law. The committee reviewed various policy options given in the draft MML option paper and selected appropriate options for the state. Now the state policy option paper is being drafted. The Government of Orissa promulgated Orissa Municipal Corporations Ordinance 2003 incorporating many suggestions of draft MML. The Delhi Municipal Corporation is reviewing the Revenue Chapter of the Delhi Municipal Corporation Act. Given the importance of this activity, the Government of Andhra Pradesh identified the HRD Reddy training institute as the nodal agency to prepare new State Municipal Act and has revised its municipal law. Government of Karnataka is also planning to revise its municipal law.

The progress towards creating municipal fund with separate accounts for various services is also poor. Jawaharlal Nehru National Urban Renewal Mission (JNNURM) envisages a nodal agency at state level for taking forward JNNURM reforms. Karnataka has assigned this role to Karnataka Urban Infrastructure Development Finance Corporation (KUIDFC), Tamil Nadu have given this role to Tamil Nadu Urban Development Fund (TNUDF). Maharashtra, Madhya Pradesh, West Bengal and Rajasthan are planning to establish these funds to spearhead JNNURM supported reforms as well as assist ULBs in project development process at state level.

The term of the mayor/chairperson of municipal corporations/councils vary from state to state i.e., from one year to five years. Ward committees have not been constituted in several states, which is a must to have a participatory democracy at local level. The State Level Municipal Audit Commission to review staff status has not been constituted. The State Municipal Accounting Manual has not been prepared by several states to switch over from single entry system of accounting to accrual based double entry system of accounting. Only Bihar, Chhattisgarh, Delhi, Goa, Himachal Pradesh, Kerala and Rajasthan are preparing state specific accounting manuals while Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Tamil Nadu and Uttaranchal have implemented accounting reforms. The pace of Punjab towards accounting reforms is slow. States such as Arunachal Pradesh, Haryana, Jammu and Kashmir, Jharkhand, Maharashtra, Manipur, Orissa, Sikkim, Tripura, Uttar Pradesh and West Bengal have taken only policy decisions and have constituted steering committees to facilitate the preparation of State Municipal Acts in the light of Model Municipal Law.

The municipalities have not developed the tradition of annual balance sheets of the assets and liabilities. No efforts have been made to appoint a Municipal Accounts Committee on

the pattern of Public Accounts Committee (PAC). Only a few municipalities have prepared inventory of their properties. The ULBs have not been empowered to generate internal revenues particularly through reforms in property tax assessment system. Annual rental value (ARV) is most popular method of valuation of property tax. The involvement of private sector in development, financing, and operation and maintenance of municipal services is confined to only few larger municipalities of the country. No efforts are being made to set up the State Municipal Regulatory Commission to determine user charges and standard of services. The annual subsidy reports and environmental status reports are not prepared by most of the municipalities. Only Mumbai and a few other municipalities have started preparing Annual Environmental Status Report.

2. Democratic Decentralization in Punjab in the context of 74th Amendment

The pace of democratic decentralization to local self-government institutions is very slow in Punjab. According to Gupta and Teotia (2005) the urban governance in Punjab is at crossroads. Historically, local self-governments have been depending on budgetary transfers from the higher levels of government. No serious efforts have been made to give autonomy to the local institutions despite the Amendment to the Constitution of India in 1992 and the Conformity Legislation passed by the State in 1994. The process of democratic decentralization comprising devolution of funds, functions and functionaries to the local governments is tardy and several provisions of the Conformity Act have not been implemented in letter and spirit.

The ULBs in pre-independence period worked under bureaucratic control without any functional, financial and jurisdictional autonomy. In the post-independence era, the local government, under the Constitution of India, was made a state subject. The ULBs in Punjab are still governed by the age-old Punjab Municipal Act (PMA), 1911, and the Punjab Municipal Corporation Act (PMCA), 1976, as amended in 1994 essentially to bring the two Acts in conformity with the CAA.

(i) Composition of Municipalities (Article 243R)

In Punjab, the municipalities comprise elected members, nominated members and ex-officio members. Punjab's amended Municipal Bill, 1999, provides that the minimum number of elected members in a municipal corporation should not be less than 50 and not more than 100; in class A municipal councils, not less than 20 and not more than 50, in class B not less than 15 and not more than 30, and in class C not less than 10 and not more than 15. In nagar panchayats, the number of elected members should not be less than nine and not more than 15. The Punjab Municipal Bill (PMB) of 1999 provides that the number of nominated members in municipal corporations should not exceed five in municipal corporations, three in municipal councils and two in nagar panchayats. According to Article 243 R (2) of the CAA, they shall be persons having special knowledge or experience in municipal administration. The nomination of ex-officio members incorporated in PMB, is in conformity with the Article 243 R (2) of the CAA.

(ii) Constitution and composition of ward committees (Article 243S)

Ward committees as provided in the CAA have not been constituted in the state even twelve years after coming into force of the 74th CAA. The state has, however, incorporated provisions relating to ward committees in the Punjab Municipal Bill, 1999 which provides that every municipal corporation and municipal council with a population of more than one lakh, shall constitute, as soon as may be, after its first meeting, such number of wards committees as may be determined by the municipal corporation or the municipal council, as the case may be: provided that the territorial area of each ward committees shall comprise not less than five and not more than 10 contiguous wards.

(iii) Reservation of seats (Article 243T)

The amended Act of 1994 provides that not less than one-third of the seats reserved for women belonging to the Schedule Castes and not less than one-third (including the number of seats reserved for women belonging to the Schedule Castes) of the total number of seats to be filled by direct election in every municipality, shall be reserved for women and such seats may be allotted by rotation to different wards in the city. The reservation of seats, as provided in Article 243 T of the CAA, stands implemented.

Provision for reservation of offices of mayor and presidents: It has been provided in the Act of 1994 that the offices of mayor/presidents of the municipal corporation/municipality in the state shall be reserved by rotation as prescribed. The elections of mayors and presidents of ULBs in Punjab were held in 1998 and 2003 keeping in view these provisions, which are in conformity with the 74th CAA.

(iv) Duration of municipalities (Article 243U)

This aspect of the 74th CAA has been implemented by the government of Punjab through amendment Act of 1994 which provides that every municipality shall continue for five years.

(v) Powers, authority and responsibilities of municipalities (Article 243W)

One of the most important Articles of the 74th CAA is the inclusion of Article 243W, which defines the powers, authority and responsibilities of the municipalities. Article 243W provides that subject to the provisions of the Constitution, the legislature of a state may, by law, endow -

- a. The municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provision for the devolution of powers and responsibilities upon the municipalities, subject to such conditions as may be specified therein, with respect to -

- i. the preparation of plans for economic development and social justice; and
 - ii. the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matter listed in the Twelfth Schedule.
- b. the Committees with such powers and authority as may be necessary to enable them to carry out the responsibilities conferred upon them including those in relation to the matters listed in the Twelfth Schedule.

The First Punjab Finance Commission (FPFC) raised many questions regarding functional devolution and autonomy of local self-government. It observed that functional domain of the municipalities in Punjab suffers from lack of clarity. The functional domain also lacks stability, as over a period, the functional responsibilities of the municipalities have either been modified/diluted or taken over by state agencies. There has, in fact, been a tendency towards the reversal of some of the responsibilities of the local bodies. The state government has taken over a number of functions, such as education, health, food, administration, regulation of weights and measures, which have traditionally been the domain of the municipalities. Even in the performance of the functions, which are strictly the functions of the municipalities, such as water supply and sewerage, there is parallel participation of the state through parastatal agencies such as the Punjab Water Supply and Sewerage Board. This tends to dilute the authority and autonomy of the municipalities.

On parastatal agencies, the Second Punjab Finance Commission (SPFC) observed that the department of local self-government was in agreement with the view of the commission that parastatals should not overshadow the functional domain and authority of the municipalities. The state government is however still reluctant to transfer to the ULBs several major functions listed in the Twelfth Schedule.

'Though the Constitution through the CAA envisages empowered units of local self-government, executive powers vest in appointed bureaucrats. The State Municipal Acts make the bureaucracy the supervisory and controlling authority of the municipal bodies. Elected members of the municipal bodies feel that the executive wing of the state government is influenced by Members of the Legislative Assembly (MLAs) and Members of Parliament (MPs) who look upon the elected members of the local municipal bodies as trespassers in the game of power sharing. Devolution of functions and tax authority and fiscal autonomy to the ULBs, therefore, demands a fresh look at the existing laws and, above all, a strong political will to translate the spirit of the CAA' (Gupta and Teotia, 2002).

The state government, despite the observations and recommendations of the First and Second Finance Commissions, has not armed the municipalities with the power and authority to function as institutions of self-government and have not devolved power to the municipalities to prepare a plan for economic development and social justice through an Act of the state legislature. Table 21 shows performance of municipal functions in Punjab.

Table 21
Performance of Municipal Functions in Punjab (Article 243W)

| Municipal Functions listed in the O&M Schedule | Performed by |
|--|--|
| 1. Urban planning including town planning Urban Development Authority | Town and Country Planning/Punjab |
| 2. Regulation of land use and construction of Buildings. | Town and Country Planning/Punjab Urban Development Authority |
| 3. Planning for economic and social development. | Planning and Social Welfare Department |
| 4. Roads and bridges | Public Works Department (PWD) |
| 5. Water supply for domestic, industrial and commercial purposes | PWSSB and municipalities |
| 6. Public health, sanitation conservancy and solid waste management) | ULBs (solid waste management and PWSSB (sewerage) |
| 7. Fire services | Fire Department/Corporations |
| 8. Urban forestry, protection of the environment and promotion of ecological aspects. | Forest Department, State Pollution Control Board, State Council for Science, Technology and Environment & ULBs |
| 9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded | Social Welfare Deptt. |
| 10. Slum improvement and upgradation | Urban Local Bodies |
| 11. Urban poverty alleviation | Urban Local Bodies/State Urban Development Agency |
| 12. Provision of urban amenities and facilities such as parks, gardens and playgrounds | Urban Local Bodies |
| 13. Promotion of cultural, educational and aesthetic aspects. | Depts. of Culture, Education and Public Relations |
| 14. Burials and burial grounds, cremations, cremation grounds and electric crematoriums. | Urban Local Bodies |
| 15. Cattle ponds and preventions of cruelty to animals | Urban Local Bodies |
| 16. Vital statistics including registration of births and deaths | Urban Local Bodies |
| 17. Public amenities including street lighting, parking lots, bus-stops and public convenience | Urban Local Bodies |
| 18. Regulation of slaughterhouses and tanneries. | Urban Local Bodies |

(vi) Power to impose taxes by, and funds of, the municipalities (Article 243X)

Article 243X of the CAA provides that the legislature of a state may, by law- (a) authorize a municipality 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 municipality 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 municipalities from the consolidated fund of the state; and (d) provide for the constitution of such funds for crediting all moneys received, respectively by or on behalf of the municipalities and also for the withdrawal of such moneys there-from, as may be specified in the law.

In Punjab, the power to impose taxes is exercised by the state government and not by the municipalities as envisaged in the 74th CAA. Budget estimates are approved by the higher levels of the government. The rates of municipal taxes are fixed by the state government and development grants and transfers are decided by the state government. There was no tradition to share state taxes with the municipalities before the 74th CAA. It is only after the CAA that the State Finance Commission recommended a share of state taxes to be devolved to the municipalities.

Sections 61 of PMA, 1911, and Section 90 of PMCA, 1976, deal with taxation powers of the ULBs in terms of taxes and fees. Though a number of tax and non-tax sources have been mentioned in these Acts, octroi, property tax and water supply and sewerage charges are the major sources of income of the ULBs. But their income is not growing due to variety of deficiencies in their assessment, collection and administration.

Borrowings, with the approval of the state government, have been very limited. Except the Ludhiana Municipal Corporation (LMC), which issued bonds for Rs. 17.84 crore in 1999 through private placement, no ULB in Punjab has raised any loan from the capital market. The ULBs receive 'transfers' and 'grants' from the state and the central governments, which are highly erratic and unpredictable, depending upon the exigencies of the state's own financial resources.

The ULBs do not have adequate powers to impose taxes and manage funds according to their priorities. This is severally affecting the fiscal autonomy of the ULBs as envisaged in the 74th CAA. This is due to the fact that the state government has not authorized the municipalities to levy and collect taxes and duties through an Act of the legislature, as provided under Article 243 X of the CAA.

vii. Finance Commission (Article 243Y)

Article 243Y (1) of the CAA provides that the Finance Commission constituted under Article 243-I shall review the financial position of the municipalities and make recommendations to the Governor as to-

- a. the principles which should govern-
 - i. the distribution between the state and the municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under this part and the allocation between the municipalities at all levels of their respective shares of such proceeds;

- ii. determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the municipalities; and
- iii. grants-in-aid to the municipalities from the consolidated fund of the state.
- b. measures needed to improve the financial position of the municipalities.
- c. any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the municipalities.

Article 243Y (2) of the CAA provides that the Governor shall cause every recommendation made by the commission under this article together with an explanatory memorandum as to the action taken thereon to be laid before the legislature of the state.

Article 243Y of the CAA has been implemented by the Government of Punjab. The FPFC was constituted on 24th April, 1994, which submitted its report in December, 1995. The SPFC was set up in September 2000, and it submitted its report in February, 2002. The recommendations of both the commissions were accepted by the state government and action taken reports were placed before the legislature of the state. The SPFC has made a detailed analysis on recommendations of the FPFC and their implementation. It has stated that -

- a. 20 per cent share of five state taxes as recommended by the FPFC was not devolved to the ULBs in full. Against the original budget provisions of Rs.180.65 crore, only Rs. 78.04 crore was transferred to the ULBs with a shortfall of Rs. 102.61 crore during 1996-97 to 2000-01. The shortfall is likely to affect the fiscal base of the ULBs.
- b. The general purpose, specific purpose and incentive grants recommended by the FPFC were not given to the ULBs.
- c. The additional excise duty payable to the ULBs from seven per cent to 10 per cent on country liquor was accepted by the state government, but no action has been taken on the recommendation to enhance the additional excise duty from 16 per cent to 20 per cent and its payment to the ULBs. Out of the amount of Rs. 283.07 crore due as their share of auction money and excise duty, only Rs. 231.87 crore was released to the ULBs.
- d. Other recommendations of the FPFC regarding rationalization of user charges, reforms in octroi, property tax and other taxes have also not been implemented. The deficiencies in administration, collection and management of tax and non-tax revenues continue even after the recommendations of the SPFC. Tax on professions, trades, callings and employments have not been introduced. The municipalities have been unable to cash in on the potential of tax on advertisements and hoardings. There is no periodic revision of non-tax levies and state control on the fixation of rates of local taxes continues. The result of this apathy is that the municipalities continue to experience fiscal stress and are unable to take up necessary infrastructure projects.

The Second Punjab Finance Commission recommended that

- a. Four per cent of the net receipts from all state taxes may be transferred to the local bodies during the period 2002-03 to 2005-06 and the amount may be allocated between the ULBs and PRIs in the ratio of population living in areas of ULBs and panchayats as per the census of 2001, viz 32.43 per cent and 67.57 per cent or say 32.5 per cent and 67.5 per cent respectively. The estimated amount of taxes to be transferred to the ULBs is Rs. 324.27 crore during the above period.
- b. The SPFC has recommended the setting up of an incentive fund of Rs. 10.00 crore for the ULBs to promote reforms in municipal resource mobilization. This is a good recommendation for promoting resource mobilization efforts of the ULBs from tax revenue and user charges and reduction of wasteful expenditure on establishment. It has suggested performance-linked incentives, computerization to check tax evasion and improve tax administration and also economy in expenditure.

Though the state government accepted the recommendations of the SPFC, it did not implement them in letter and spirit.

viii. Devolution of grants by Central Finance Commission [(Article 280(3)(c))]

Article 280 (3)(c) provides that the Central Finance Commission may suggest measures needed to augment the consolidated fund of a state to supplement the resources of the municipalities in the state on the basis of the recommendations made by the finance commission of the state. The Tenth Finance Commission (TFC) made an ad hoc provision of Rs. 1,000 crore for all the states out of which, based on the ratio of the slum population (1971), Punjab got 3.06 per cent of the total grant, which amounted to Rs. 30.60 crore for the period 1996-97 to 1999-2000.

The Eleventh Finance Commission (EFC) recommended Rs. 2,000 crore for urban local bodies of the country @ Rs. 400 crore per annum, for the period 2000-2001 to 2004-05. Out of this, Punjab was allocated Rs. 54.70 crore @ Rs. 10.94 crore per annum.

The EFC has suggested several measures to augment the consolidated fund of the state for municipal resource mobilization. These include land taxes, surcharges/cess on state taxes, which could devolve on local bodies and profession tax. Suggestions have been made for local resource mobilization from property tax and fixation of user charges in such a way that they recover the full cost of operation and maintenance.

It has been observed that the state government does not release in time the funds received on the recommendations of the Central Finance Commission nor an effort is made to implement measures to augment the resources of the municipalities through suggested measures. These include property tax and user charges to recover full cost of operation and maintenance of the services provided by the municipalities.

3. Democratic Decentralization by Selected Progressive Indian States

Kerala, Karnataka, Madhya Pradesh, Maharashtra and Gujarat initiated several measures towards democratic decentralization for empowerment of LSGIs. The functional and fiscal decentralization initiatives have politically empowered the local governments. The transfer of funds, functions and functionaries to local government has strengthened the local bodies. Large number of people from all sections of the society including scheduled castes, scheduled tribes and women have been elected to run LSGIs. The pattern of local urban leadership is changing in these states. The states are promoting bottom-up participatory urban planning, governance and development practices. A brief state wise analysis of democratic decentralization initiatives is given below:

(i) Democratic Decentralization in Kerala

'Decentralization involves a number of changes in administrative structure, allocation of functions and powers, and control of resources. All three are interrelated and to an extent would have to be introduced simultaneously' (Isaac 2000). The Government of Kerala was quick to decentralize powers, functions, funds and functionaries to local self-government institutions in the state. It has achieved remarkable progress in terms of devolutions and decentralization after enactment of CAA. The democratic decentralization aiming at strengthening grass root level democracies has transformed the local governance, which were at cross roads before the conformity legislation enacted by the Government of Kerala in 1994. The strong local governance system has enabled people to freely articulate their choices and get fulfilled their interests. The local organizational structures created after passing of the conformity legislations have become important instruments of local political participation. The 'People's Planning Campaign' launched by the state government in 1996 was an important political initiative which resulted in a 'social movement' for strengthening local self-government. The community participation has been ensured in formulation and implementation of policies in the cities. The preparation of 'development plans' by the local self government institutions have strengthened their information and database which in turn has improved the planning capability of these institutions and has also established transparency and accountability in the functioning of these institutions.

The participation of women, scheduled castes and tribes has strengthened the participatory democracy at local level in Kerala. The caste system, which was dominant in the state before implementation of the 74th Amendment, seems to be fading with growing participation of all sections of society in decision-making. In the plan fund devolution programme, proportionately good weightage has been given to the Special Component Plan (SCP) and Tribal Sub Plan (TSP) targeting welfare of SCs and STs. Although SCP and TSP were initiated in Kerala in mid-1980s, it was reinforced and strengthened after implementation of the 'Peoples Planning Campaign'. The campaign enabled the participation of representatives and members of the SCs and STs communities and resulted in a significant increase in the funds spent for SCs and STs. The flow of resources for the welfare of weaker sections has increased considerably after Peoples Campaign.

a. Functional Decentralization

At present all the municipalities are performing functions as envisaged in the 74th Amendment and incorporated in the conformity legislations of the state. Twelfth Schedule (18 functions) have been devolved to the ULBs. Kerala Municipal Act defines the functional domains of various tiers of local self-government. The functional demarcation between different tiers in major sectors of development at local level is clear and precise.

The Second State Finance Commission of Kerala has analyzed extent of decentralization. In the health sector, all institutions other than medical colleges and big regional speciality hospitals have been placed under the control of the local self-government institutions. In the education sector, all schools in urban areas have been transferred to the urban local bodies. The responsibility of poverty alleviation has gone to the LSGIs. As regards social welfare, barring statutory functions relating to juvenile justice, all the responsibilities have gone to LSGIs.

The Integrated Child Development Scheme (ICDS) is implemented by urban local bodies. Care of the disabled, to a substantial degree, has become a local government responsibility. Barring highways and major district roads, connectivity has become a local government responsibility. The sanitation and almost the entire rural water supply have moved over to LSGIs. Promotion of tiny, cottage and small industries is mostly local government responsibility. All the welfare pensions are administered by the LSGIs.

b. Fiscal Decentralization

The budget of Kerala government presented in February 1996, is considered an important milestone towards the beginning of process of fiscal decentralization. According to the Report of the Second State Finance Commission, it expanded the concept of untied funds. The budget enshrined two important procedural innovations. First the idea of a separate budget document for local governments was established. To this was added the innovation of assigning specific head of account, which indicated grants to local self-government institutions and allowed heads of department to transfer/credit the amount to the LSGIs. Thus the local governments got legislative approval for their resource allocation and a separate sub-system of grants-in-aid, which could flow only to LSGIs, was created.

The other innovation relates to bringing certain departmental Plan schemes into the system and constituted "state sponsored schemes" which constitute about a tenth of Plan grant-in-aid to LSGIs. Such schemes are implemented by LSGIs according to the guidelines issued by the state or central government. The most important landmark in

the decentralization process is the decision to earmark 35 to 40 per cent of the Plan resources to LSGIs and the launch of the People's Plan Campaign in August 1996 to provide a framework for decentralization.

c. Non-Plan Grant-in-Aid

There is a provision non-plan grant-in-aid for running/maintaining the institutions/ transferred to local government institutions. The state government meets the salary expenses as well as O&M expenses such as supply of medicines in hospitals, infrastructure and provisions of services in schools and also on roads in municipal areas. Although, non-plan grants given to LSGIs are not adequate but the message is clear that government is willing to strengthen the fiscal domain of LSGIs for meeting establishment cost.

d. Institutionalization and Institutional Strengthening

The decentralization has strengthened the institutional mechanism at local level. The recommendations of committee on decentralization of powers were implemented and people's planning campaign was started to build the capacity of elected representatives, functionaries and civil society groups and individuals to help the local self-government institutions in efficiently performing the devolved functions.

The state government amended Kerala Municipality Act of 1994 as per the recommendations of the Sen Committee. Neighbourhood groups, area development societies, community development societies, ward sabhas and district planning committees were constituted and their capacity was built to institutionally strengthen the participatory democracy in the state.

e. People's Planning Campaign: A Move towards Real Democratic Decentralization

People's Planning Campaign is considered a landmark development in the history of democratic decentralization in Kerala. It mobilized people to participate in local planning and development practices beyond the party politics. The campaign has succeeded in setting the agenda for decentralized development and has evolved a concrete methodology for preparing participatory plan for local development.

The important phases of the methodology comprise 'needs identification', situation analysis, strategy setting, projectisation, plan finalization, plan vetting and plan approval. Table 22 gives a brief overview of various phases, objectives and activities of People's Plan Campaign.

Table 22
Different Phases of the Peoples Campaign 1997-98

| Phase | Period | Objective | Activities | Mass Participation |
|------------------------------|----------------------------|---|--|--|
| I Gram sabha | Aug.-Oct. (1997) (1997) | Identify the felt needs of the people | Gram sabha in rural areas and ward conventions in Urban areas | 2.5 million persons attended Gram sabhas |
| II Development Seminar | Oct.-Dec (1997) | Objective assessment of the resources, problems and formulation of local Development perspective. | Participatory studies: Preparation of development reports, organisation of Development seminars. | 300000 delegates attended seminars |
| III Task forces | Nov. 1997- March, 1998 | Preparation of Projects | Meetings of task forces | 100000 volunteers in task forces |
| IV Plans of Grass Root Tiers | March- June (1998) | Formulation of plan of grass-root tiers | Plan formation meetings of elected representatives | 25000 volunteers involved in formulation of plan document. |
| V Plans of Higher Tiers | April-July (1998) | Formulation of plan of higher tiers | Plan formation meeting of elected representatives | 5000 volunteers involved in formulation of plan document. |
| VI Volunteer Technical Corps | May-Oct. (1998) | Appraisal and approval of plans | Meetings of expert committee | 5000 volunteer technical experts worked in the Appraisal Committees. |

The People's Plan Campaign has strengthened decentralized planning process by ensuring freedom of planning and preparing of projects according to local priorities. Effective capacity building efforts were taken up under People's Planning Campaign. About 600 Key Resource Persons (KRPs) were identified at the state level both from government and outside, representing various disciplines. At the district level, about 10,000 District Resource Persons (DRPs) and at the local government level about 100,000 Local Resource Persons (LRPs) were selected. All the DRPs and LRPs were selected by the LSGIs from government officials, professionals and activists. Institutions like Medical College, Agricultural University, Centre for Water Resource Development and Management (CWRDM) etc., are utilized to provide high quality technical training to members of Task Forces in their respective disciplines. In addition, LSGIs, which have evolved successful models, are now utilized to train neighboring LSGIs by exposing them to the models evolved'.

The democratic decentralization has ensured participation of poor women in the planning and implementation process of anti-poverty programmes. The constitution of neighborhood groups, area development societies and community development societies, and the implementation of Kudumbashree through these structures, has gained national and international acclaim as an ideal and workable development model based on the principles of democratic decentralization.

(ii) Democratic Decentralization in Madhya Pradesh

The Government of Madhya Pradesh has taken several initiatives towards democratic decentralization particularly after enactment of 74th Amendment. Several structural, institutional, fiscal and functional reforms have been initiated to strengthen the local self-government institutions in urban areas. Except the function of town planning, all major functions listed in the Twelfth Schedule of 74th Amendment have been devolved to the local self government institutions. The people's participation has promoted decentralization process. With the constitution of *Mohalla Samiti* in slum areas under The Madhya Pradesh Nagar Palika *Mohalla Samiti* Rules 2001 and wards committees, democracy has reached the local level. While a *Mohalla Samiti* is constituted for about 50 to 1,000 families with seven to 15 members, the ward committee is constituted at ward level. The samitis, after preparing proposals for neighborhood development, submit the plans to ward committees. The fiscal decentralization initiatives have resulted in higher growth rate of various sources of income.

One of the most important features of urban governance in Madhya Pradesh is the institutionalization of the mayor-in-council in case of municipal corporations and president-in-council in case of municipal councils. This system represents decentralized model of governance at local level. Box 2 given the salient features of mayor/president-in-council system in Madhya Pradesh.

Box 2

Mayor-in-Council System in Madhya Pradesh

The voters constituting the municipal body directly elect the Chairperson of that particular municipal body, Mayor in case of Municipal Corporation and President in case of Nagar Panchayat and Municipal Council.

The system that has been institutionalized in all the urban local bodies in the state comprises of Mayor-in-Council in case of Corporation and President-in-Council in case of Nagar Panchayat and Municipal Councils. The Council here comprises of elected councilors nominated by the Chairperson, 10 in case of Corporation and seven and five in case of Municipal Council and Nagar Panchayat respectively. The members of the council hold office during the pleasure of the President/Mayor.

Each member of the President/Mayor-in-Council is in-charge of a department of that particular municipal body. The Council has been empowered with specific financial and other substantive powers under the municipal acts of the state.

The Chairperson of the municipal body has been directed under the state act to form Advisory Committees for each department of the municipal body. The Advisory Committee will comprise of nine, five and three members in case of municipal corporation, municipal council and nagar panchayat respectively. The members in the Advisory Committee will be elected councilors other than the members in Mayor/President-in-Council.

The Advisory Committees are expected to meet once every month and have the mandate to advise in the affairs of the concerned departments of the municipal body. The member in-charge of the department in President/Mayor-in-Council is responsible to convene and preside over the meeting of Advisory Committee.

The system of Advisory Committee is expected to broad base the decision-making process within the local body. This is also to ensure continued involvement and participation of elected members in the affairs of the local body.

The Municipal Governance of the Municipalities is vested in the General Body of the Municipalities. This implies that the final authority with respect to decision-making within the local body rests in the General Body.

To ensure functional activity of the General Body the state acts have stipulated that the meeting of the General Body be held once every two months. In case of Municipal Corporation the Speaker presides over these meetings and in case of Nagar Panchayat and Municipal Councils the President of the Municipal Body presides over the meetings.

Source: Mishra, HM & A K Singh (2005), A Decade of Urban Decentralization: An Impact Assessment with Special Reference to Madhya Pradesh in Shelter, HSMI: New Delhi, pp 57-67

(iii) Democratic Decentralization in Karnataka

The Government of Karnataka amended the Karnataka Municipal Act 1964 and Karnataka Municipal Corporation Act 1976 to incorporate the salient features of 74th Amendment and initiate the process of decentralization. Two municipal elections (in 1996 and 2001-2002) have been held after enactment of conformity legislations. The 74th Amendment has not been implemented in full. Only 11 out of 18 functions (Twelfth Schedule) were devolved to the LSGIs. The functions such as urban and town planning, regulation of land use and construction of buildings, fire services, urban forestry/protection of environment, slum improvement, planning for economic and social development and poverty alleviation listed in the Twelfth Schedule have not been transferred to the ULBs. The states parastatals such as Town Planning Department, Urban Development Authorities/Planning Authorities (Bangalore Metropolitan Regional Development Authority), Slum Clearance Board, Karnataka Water Supply and Drainage Board, Karnataka Urban Infrastructure Development and Finance Corporation etc. continue to encroach on municipal functional domain.

Although state is slow towards devolving functions to LSGIs yet it has politically empowered the under privileged sections including women by ensuring their participation even beyond the reservations. The women and SCs/STs councillors have good representation in the municipal corporations/councils and their standing committees.

The Bangalore Municipal Corporation has constituted 13 ward committees to institutionalize people's participation. In addition urban poor prepare neighborhood development plans, which are amalgamated into the town level action plan by the Town and Urban Poverty Eradication Cell and Community Development Societies. The DPCs have been constituted in 16 districts to consolidate the plans prepared by the municipalities and panchayats at district level. The president of district panchayat is chairman of the DPC and the mayor/chairperson of the headquarter municipality is the vice chairperson of the DPC.

The First State Finance Commission recommended the transfer of 36 per cent of state's Non Loan Own Gross Revenue Receipts (NLOGRR) to be distributed between ULBs (15 per cent) and PRIs (85 per cent). The Second State Finance Commission recommended the transfer of 40 per cent of state's NLOGRR to be distribute between ULBs (20 per cent) and PRIs (80 per cent). Karnataka has the distinction of implementing property tax reforms by introducing area-based system and introducing self-assessment system to improve its administration and collection efficiency. e-Governance has been introduced in several departments to streamline the local management and implementation of decentralization agenda.

(iv) Democratic Decentralization in Gujarat

Gujarat has included all the functions enlisted in the 12th Schedule in its conformity municipal legislations. Gujarat is considered a well-governed state at local level, as system of local urban governance was quite strong even before enactment of the 74th amendment and conformity municipal legislations by the state. It has ensured continuity of LSGIs, reservations of SCs/STs and women and constituted the state election and state finance commissions. The devolution of grants to the ULBs particularly for the decentralized district planning, education department, health department, water supply department and urban development department was only Rs 149.5 crore (about 10 per cent of total income of ULBs in 1995-96). The commission recommended the devolution of Rs 2044.7 crore to ULBs out of major state taxes. Fiscal empowerment of LSGIs has been ensured by reforming property tax and adopting area-based system of property tax (hybrid of capital value method and ARV) as recommended by the state finance commission. Initially, it has been introduced in Ahmedabad and Vadodara municipal corporations but government is determined to extend this growth-oriented system to other ULBs also. The Municipal Corporations of Ahmedabad, Vadodara and Rajkot etc. have introduced several reforms to institutionalize political, functional and fiscal decentralization. The Slum Networking Project and Community Waste Management and Community Health Infrastructure by NGO Socio Economic Welfare Association (SEWA) in Ahmedabad are good examples of involvement of local urban poor/women and their contribution in handling the health and environmental infrastructure, the major responsibilities of the municipality.

(v) Democratic Decentralization in Maharashtra

Maharashtra initiated the process of democratic decentralization very early by holding elections in Mumbai in 1968 and making reservations for scheduled castes councilors in 1976. But major initiatives were taken after enactment of the conformity legislations in 1994. Functions such as planning for social and economic development, urban forestry and protection of the environment and promotion of ecological aspects are some the obligatory functions of the municipalities.

To strengthen the institutional mechanism and enhance the people's participation in local municipal affairs and decision-making, government has formed the ward committees in municipal areas.

The First State Finance Commission of the state was set up in 1994. The commission recommended devolution of 25 per cent to 100 per cent of entertainment taxes collected from municipalities of different grades, 25 per cent of vehicle tax and 10 per cent of professional tax to the ULBs. It recommended devolution and increase of grants-in-aid particularly for primary education, DA grants, grant out of the land revenue, minor mineral grants, grants for slum improvement, grant to six hill station municipalities, tourism development grant and incentive grants. It also suggested tax reform particularly property tax reforms and adoption of maximum rates for octroi. The reform in non-tax revenue comprises levying service charges on government properties, proper use of vacant land and periodic revision of user charges.

4. Democratic Decentralization for Empowering Local Government: Lessons from Europe

In Europe, the LSGIs are becoming effective instruments of democracy for providing infrastructure and services of local nature. Although, there are variations among European countries in terms of levels of democratic decentralization but LSGIs in general enjoy a great deal of autonomy as they have been empowered with a large number of functions and funding options.

Thus, the local authorities are increasingly playing an active role in economic and welfare matters, confirming the trend to build a municipal welfare system. This type of system is set to become wide spread in all EU member states, not only because of the weak and dwindling state role in welfare, but also because of the growing realization of the value of subsidiarity, whereby social integration and welfare delivery is best provided by the tier of government nearest to the citizens, or by non-profit organizations or by the private sector.

In countries with a strong regional tradition (Spain), regional politicians are calling for a wide range of measures to extend regional autonomy or exert some form of regional

sovereignty and the right of community self determination. The devolution process in the United Kingdom (UK) is dynamic and is producing distinct forms of autonomy. In Italy, regional institutions are under going a transition. Netherlands has substantially devolved decision-making powers and responsibilities to local authorities. Finland, soon after it attained sovereignty in 1917 established a system of local government through an Act of 1919. The devolution demonstrating exemplary democratic spirit and civic awareness has been an important municipal tradition in Finland.

i. Democratic decentralization in Italy

According to the report of Committee of Regions (CoR) "federalism is an ongoing process in Italy. A new legal framework for governance has thereby been created, and new criteria for the distribution of administrative duties amongst the state, regions, municipalities, provinces and metropolitan cities have been established.

In 1997, a significance law called Bassanini Law devolved functions/responsibilities to the local authorities. As a consequence about 40 per cent of functions of the central government were transferred to the regional and provincial authorities and the municipalities. The important stages targeted at democratic decentralisation during last decade of 20th Century are given in Table 23.

Table 23
Important Stages and Acts in Reform Period 1990-2000

| Year | Particular | Law |
|---------|--|--|
| 1990 | General reform of local authorities | Law 142/90 |
| 1993 | Election of Mayors and Presidents of Provinces | Law 81/93 |
| 1997/98 | Decentralizations of duties and resources Bureaucratic simplification | Law 59/97 and following Decree 127/97; 191/98 |
| 2000 | Consolidated Law on local authorities | T.U. 265/00 |

Source: Yuri Kazepov (coordination), Marco Arlotti, Eduardo Barberis and Silvia Righettini (2005), The Role of Local Authorities in Italy, an unpublished paper presented by Prof Yuri Kazepov in the National Conference organized by CRRID (March 7-8, 2006), Chandigarh: CRRID

As a result of democratic decentralisation own revenues of municipalities as percentage of total current revenues increased considerably (Table 24).

Table 24
Own Revenues* as a percentage of Total Current Revenues

| Particulars | 1990 | 1999 | 2000 |
|----------------|------|------|------|
| Regions** | 3,3 | 44,4 | n.a. |
| Provinces | 14,5 | 57,1 | 64,1 |
| Municipalities | 34,9 | 61,6 | 65,3 |

* Own revenues = fiscal revenues + other revenues ** Special statute regions not included; Source Same as in Table 23

Local authorities are now empowered to decide their own taxes and revenues. The local authorities also share the national revenues.

Table 25 gives expenditure of the state, regions and local authorities as a percentage of GDP and total public spending.

Table 25
Expenditure of the State, Regions and Local Authorities as a percentage of GDP and Total Public Spending

| Years | GDP | Public Expenditure ¹ | State (Central Govt.) | | Regions | | Local governments | |
|-------|------------------------|---------------------------------|-----------------------|----------------------|---------|---------------------|-------------------|---------------------|
| | | | %GDP | % Public Expenditure | %GDP | %Public Expenditure | %GDP | %Public Expenditure |
| 1990 | 1.306.833 ² | 493.401 ² | 21.6 | 57.3 | 8.7 | 22.9 | 7.5 | 19.7 |
| 1995 | 1.772.254 ² | 653.190 ² | 21.3 | 57.7 | 8.9 | 24.2 | 6.7 | 18.1 |
| 1997 | 1,993,850 ² | 642.882 ² | 17.4 | 53.9 | 8.4 | 25.9 | 6.5 | 20.1 |
| 2000 | n.a. | 362.793 ³ | n.a. | 51.0 | n.a. | 27.8 | n.a. | 21.2 |
| 2001 | 1.218.890 ³ | 376.084 ³ | 14.5 | 47.1 | 9.3 | 30.2 | 7.0 | 22.7 |

¹ Without interests and social contributions ² Absolute values in current billions lira

³ Absolute values in current millions euro ; Source: Same as in Table 23

The increasing share of regions and local authorities in public spending is indicative of progressive democratic decentralization in Italy. The devolutions to municipalities have strengthened their functional and fiscal domains. The role of bureaucracy is declining due to administrative reforms initiated by the government to enhance the role of elected local bodies. There is paradigm shift in financing pattern. The transfers are declining and the local taxes are becoming buoyant. The state is playing merely a complementary role to meet the funding requirements of local authorities.

(ii) Democratic decentralization in United Kingdom

In United Kingdom significant changes have been made in late 1990s in local self-governments. The system of metropolitan local government (particularly Greater London Authority) was revived and strengthened. Government has been continuously making efforts towards strengthening democratic decentralization process. First it passed several legislations to devolve the powers and functions to local authorities and then it focused on strengthening a network of local institutions. The centralized unitary structure is changing with growing devolution and therefore the role of central government towards local authorities is also undergoing significant changes. The Local Government Act 2000 and the Greater London Authority Act 1999 have strengthened the functional and fiscal domains of local authorities. The Local Government Act 2000 has devolved considerable powers to local authorities in terms of performing necessary functions for improving

economic, social and environmental conditions at local level. The act has also provided a strong regulatory framework for managing the local affairs efficiently. The Greater London held its election in May 2000 and directly elected the Mayor. The Local Government Act provides several forms and instruments of direct democracy such as holding of 'referendums'.

The political decentralization has followed fiscal decentralization to local authorities. The council tax, taxes from business and transfers from the central government are the main sources of revenue of SGIs. The households pay council tax based on the value of property. Business tax is collected on behalf of the government, which is divided, between the central government and local councils. For the purpose of grants from the central government, government through its auditors deputed for the purpose work out the total funds required known as 'Total Assumed Spending' (TAS).

There are two types of grants - general and specific. The general grant is called Revenue Support Grant (RSG) and other is specific grant, which can only be used for the purposes specified by the government. The 'needs assessment' takes into account the population and social structure of the council on which the total expenditure for the year is assessed. Normally, the total assumed spending is assessed to ensure smooth working of a council. The role of the government to meet the need-based requirement of the councils is thus well recognized.

All authorities and functions are vested in the elected councils and are exercised usually by committees or subcommittees of councils. The delegation of authority to a number of elected bodies is the crux of the local self-governance in UK. The community is extensively and liberally encouraged to participate in the discussions, which ends up in participatory democracy involving the citizens as stakeholders in urban as well as rural areas.

The local governance consisting of the county councils, borough/district councils, and parish councils have been devolved large number of functions. In case of the bigger towns, the parish level does not exist, and the borough/district takes on the work of the parish councils. County councils provide education, library, highways and social care services for all the districts. The main responsibilities of districts and boroughs are the functions relating to electoral and council taxes; refuse collection (except disposal), local planning, environmental health, recreation, leisure and amenities and housing. All district and county councils have their own Constitution and face the same kind of performance management regimes. Management issues are similar (if not identical) in all councils in UK, whether urban or rural. Responsibilities of parish and town councils include cemeteries, footpaths, recreation and other functions delegated by the county council or district/borough councils.

A Local Area Agreement (LAA) is a new type of agreement between central government and local authorities and their partners. The LAA is aimed at improving public services and providing better outcomes for local people, dovetailing central government priorities with local priorities, providing the possibility of freedom and flexibility to support the objectives of the LAA. In effect an LAA will involve the 'pooling' of a wide range of existing government funding streams, allowing councils and their partners to deliver shared priorities.

Leicester City Council has provision for a number of scrutiny committees, which monitor the decisions of the cabinet and their implementation. They can also recommend policies to the cabinet and council. They allow citizens to have a greater say in council matters and are consulted by the cabinet on developing policies. The council also appoints regulatory committees to perform the council's regulatory functions. There are a number of 'regulatory' type committees such as Development Control Committee (largely planning applications), Licensing Committee (mainly policy) and Licensing Enforcement Sub-Committee (licensing hearings). Leicester City Council has set up Area Committees to help bring councilors and the people they represent closer together. Area Committee meetings are open to anyone to attend. These committees make and influence decisions affecting the area, engage the community, prepare area community plans, take forward neighbourhood renewal, help scrutinize council decisions from a local perspective, help the council and service providers to manage best value and performance management, develop local partnership working and improve community cohesion. This is an important example of decentralized management and development of affairs at local level.

(iii) Democratic decentralization in Netherlands

The Royal Constitution of the Netherlands has devolved large number of functions to municipalities. The municipalities are responsible for social welfare, public health, housing, traffic and road maintenance, economic affairs, education, culture, sports, public order and safety. Some subjects such as spatial planning and environment are managed jointly with the national and/or provincial governments. The Municipalities Act 1994 has delegated functions, powers and responsibilities to three organs of municipal government i.e., the municipal council, the municipal executive and the burgomaster. In addition, committees have been set up which have advisory as well as decision-making powers. The decentralization of powers and functions has been a major thrust to take government closer to the people. The interference of state and provincial governments in local municipal affairs has decreased over a period of time.

The participation of local citizens is ensured for decentralized management of civic affairs. There is provision for a referendum which ensures direct citizen participation in decision-making. The local citizens may be appointed in various municipal committees. There are neighborhood councils and sub municipal councils for participatory local development. Municipalities are empowered to prepare and adopt a local plan for un-built up areas under

their jurisdiction. The views of the people of the areas for which the plan is prepared are obtained before finalization of the plan.

The municipalities in Netherlands have a strong fiscal base. The per capita municipal investments and capital expenditures are significantly large. In late 1990s the central government took an important decision to enhance the municipal budget for investments. The property (real estate tax) tax on occupants, owners and business units is a major source of own revenue of municipalities. Betterment levy, dog tax, tourist tax, temporary residence tax and recently introduced advertising hoardings tax and taxes on movable residential and industrial premises are other sources of tax revenue. The municipalities and provinces levy a surcharge on motor vehicle tax. The municipalities have been empowered to decide the rates of taxes to be imposed. A municipality is free to impose and recover betterment levy but not exceeding 100 per cent of the costs incurred for providing the services. The non tax income comprises refuse collection charges (households and businesses), sewerage charges, water pollution levy, tax on encroachment over public land, funeral charges, building fees, parking fees and market trading fees. Besides rent from the properties, assets and interest, the municipalities generate income from utility companies. The municipalities also receive two types of grants i.e., general grants transferred from the Municipality Fund and specific grants under Grants to Local Government Act. The specific grants are the largest source of municipal income and are provided for fulfillment of statutory duties relating to education, urban regeneration and social services. The government has established 'the Netherlands Municipalities Bank' to meet the loan requirements of the municipalities. Local bodies may also borrow from the capital market, banks and institutional investors. The functional and fiscal domain and institutional base of local authorities in Netherlands is strong and government has shown its seriousness to empower local authorities in letter and spirit.

iv. Democratic decentralization in Spain

Spain is a country with a strong base in decentralization. Autonomy to local self-government is one of the goals of Spanish Constitution. The devolution is an on going process and is an important issue in the country. The present form of local self-government was established under the Local Government Act 1985. The Act provided transfer of important public services such as safety, traffic, education, waste disposal etc to the local government institutions. The 'Province' coordinates to ensure that adequate services are provided throughout the provincial area. The Act also provided formation of groups of municipalities (voluntary associations), districts (autonomous communities) and metropolitan areas (groupings of municipalities) for joint and better management of services at local level. A law was passed in 1988 to evolve the principles of autonomy and financial self-sufficiency for local bodies. It was only in 1990s, after a local movement for devolution, it was agreed to further strengthen local governments. The framework of a system of local government financing is emerging slowly. In 2002, a law was passed to introduce a strong financing system, provide greater autonomy to the local authorities with more shared fiscal responsibility for meeting local requirements.

The major functions devolved to LSGIs comprise management of urbanization, health, environment, social services, culture and sports, markets and licenses. The municipalities have been empowered to meet social needs of the community. The Act of 1985 provides that the provision of social services is an obligatory function of municipalities with over 20,000 inhabitants. The spending on social services is shared between national and regional authorities.

Own sources and transfers from the central government are the basic sources of funding of local authorities. Own taxes comprise local taxes, credit operations, fines and penalties. In 1988, three major taxes namely property tax, tax on economic activity and motor vehicle tax were allowed to strengthen the fiscal domain of local authorities. Besides income tax, property tax, garbage tax, vehicle tax, enterprise tax, energy tax and water tax are levied. The value added tax on urban land is another important tax. Local self-government decides the rate of taxes in their respective municipalities. A legislation of 2004 gives local authorities a larger share in the state revenues. A town with the population of 75000 and above receives a.) share in high yielding sources of revenue such as income tax, VAT, special taxes on beer, spirits and wine and b.) an index based percentage share of supplementary fund of the state. Although financial powers of local authorities have been considerably enhanced but their public spending is still relatively low.

(v) Democratic decentralization in Finland

Finland, a sovereign parliamentary republic, has a democratic administration and governance consisting central-state, intermediate-regional and municipal-local government. The municipalities have been devolved important functions such as education, health care, social welfare, technical Infrastructure and environmental preservation. The process of democratic decentralization for empowerment of local governments has been very successful in Finland. The local government enjoys full autonomy and complete freedom to run its affairs without any interventions from either the national or the provincial government. The Finnish Constitution has clearly envisaged that:

"The provincial government has no right to interfere in municipal affairs nor to give command to a municipality. The municipalities are not under the administration of the provincial government. If the municipality has not performed its task defined in the law or state subsidies, the Provincial Government may command the municipality to complete such a task. The Administrative Court, which acts independently from the Provincial Government in each province studies the legal complaints against decision of the municipality."

Some of the key features of autonomy of municipalities are given bellow:

- a. Municipalities are self-governing units where the highest decision-making authority is vested in local councils elected by the residents.

- b. Municipalities provide adequate and quality basic services relating to social welfare, health care, education, management of schools, vocational training, libraries, culture, environment and infrastructure such as urban streets, water supply, sewerage, electricity, waste management, etc.
- c. The fiscal domain of municipalities is very strong. The budget of municipalities and the joint local authorities exceed 27 billion EURO.

The municipalities have complete autonomy to manage their finances. The main revenue sources of municipalities are taxes, central grants, sales of goods/services and borrowings. Municipal income tax, real estate/property tax; and corporate income tax (tax on companies opening their enterprises in municipal council area) are important sources of income. In 2005, the various sources of revenue of municipalities were taxes (47 per cent), state grants (17 per cent), sales of goods and services (27 per cent), borrowings (six per cent) and other revenues (three per cent). It indicates that municipalities have strong tax base and dependency on the state grants/transfers is not as high as in many other countries of Europe. The independent sources of revenue of municipalities give them self-governing status with less dependence on state.

The enhanced revenues have strengthened the spending capacity of municipalities over a period of time. The expenditure pattern of municipalities in 2005 indicates that municipalities are committed to spend maximum on social welfare and health care (50 per cent) followed by education and culture (26 per cent), operation and maintenance of capital assets (20 per cent) and financing and other expenditure (four per cent). Out of total expenditure; 41 per cent is spent on salaries and wages; 12 per cent on social security funds and pensions; 26 per cent on purchase of goods and services; six per cent on subsidies; and 15 per cent on other miscellaneous items.

The government is promoting participatory governance and development at local level. Different committees on education, health and social security, environment etc. are constituted for enhancing the participation of people and effective implementation of sectoral plans and activities. The growing participatory governance is indicated by the continuously increasing participation of women in local self-government, which has increased from 22.2 per cent in 1980 to 30 per cent in 1992 and to 36.3 per cent in 2004. The most important aspect of autonomy of local governments is that they have been empowered to appoint their own staff.

(vi) Democratic decentralization in Belgium

Belgium, located in Western Europe, became a federal state in 1993. It is a parliamentary monarchy having a bicameral system of government. The country is divided into two regions i.e., the Walloon region and the Flemish region and has linguistic cleavages. The regions are further divided into ten provinces. The co-existence of communities and regions is the most striking feature of Belgian model of federalism. There are national,

regional, provincial, and local governments. The municipalities (589) are being devolved powers and responsibilities to take care of local issues. The mayor has been empowered for enforcing all statutes, orders, ordinances and decrees. The municipal council disposes of all matters concerning the municipality and implements the decisions taken by the council or the higher level of authorities.

The municipalities have only a few exclusive functions, as most of the functions are shared with the state and provinces. Major functions of municipalities comprise general administration (with state), education (with state and province), public health (with state and province), social welfare (with state and province), housing and town planning (with state), environment and public sanitation (with state), culture, leisure and support (with state and province), traffic and transport (with state and province) etc. The inter-municipal bodies governed by public law are involved in water, gas, electricity, television programme distribution, economic development, social development, land and housing development, waste treatment and management, crematoria, tourism and medico-social matters.

The municipalities have extensive fiscal autonomy to set the base and the rates, as well as other elements, exemptions, deductions of the taxes they decide to levy. Taxes are on issuance of administrative documents, building permits, sewerage and water supply systems, urbanization. In addition surcharge on rent income from property, local surcharge on personnel income tax, additional 10 per cent on the tax on automotive vehicles are some other sources of revenue. The local authorities have discretion in setting the rates of local taxes, however, the law imposes maximum rates of such taxes. Vehicles licensing tax on motor vehicles registered in municipality area is a general tax of which the municipalities receive a fixed proportion. Municipalities receive revenue from several other sources such as entrance charges to public institutions, parent's contribution to education costs, electricity and gas supply charges, rents on burial plots, sale of goods or hiring out of the municipal plant and equipment, farming, dividends an equity investment in inter-municipal association, interest received on loans, sale of capital equipments, sale of government securities and debentures etc. There are two type of grants- general and restrictive grant. The state, communities and regions as well as the provinces may allocate grants to the municipalities. The municipalities can barrow on term or type of expenditures to be covered.

The higher authority has supervisory control over the budgets and accounts of local authorities. Infact the financial autonomy of the municipalities depends on the resource allocated to them by the higher authorities. The regions have statute powers to supervise local authority. However, the federal authority is competent to exercise the administrative supervision of the municipalities in the German speaking region.

The Constitution (74th Amendment) Act, 1992 is a milestone development in the history of urban governance in India. It ensures regular and time bound elections and reservation

of under privileged sections including women. The inclusion of Twelfth Schedule (Article 243W) is an important aspect of the CAA. The Twelfth Schedule provides an illustrative list of 18 functions, which a municipality should perform. The CAA also provides for constitution of State Election Commission, State Finance Commission, Constitution of DPCs, Metropolitan Planning Committees and Ward Committees. According to the CAA, the municipalities are to function as institutions of self-government, prepare plans for economic development and social justice.

However, even after 14 years of passing CAA, its several important features remain unimplemented. In the context of functional and fiscal domain of municipality, the most crucial aspect of the CAA is the poor implementation of Article 243 W and Article 243 Y. Despite conformity legislations, many states have not given serious considerations to assign functions listed in the Twelfth Schedule to the municipalities. The parallel participation of para-statal continues to effect functional domain of the municipalities. The involvement of Water Supply and Sewerage Boards, State Water Authorities, Town and Country Planning Departments, Improvement Trusts, Slum Development Boards, Urban Development Authorities in Municipal Functional Domain is against the spirit of the CAA. The most important function of local nature such as preparation of plans for economic development and social justice, town planning etc., are still being performed by departments of the state governments. The non-constitution of ward committees is affecting growth of participatory development in urban areas. The people are unable to identify their needs and prioritize the development according to their choices, as there is no platform for them at local level. Similarly, DPCs can play important role by consolidating development plans prepared by panchayats and municipalities. This organizational structure has important role from neighborhood level to the district level but unfortunately it has not been created in many states. Barring exceptions, DPC wherever they have been constituted are not functioning effectively. It is pertinent to note that small and medium municipalities are likely to be affected more than the larger municipalities as the latter has comparatively better capabilities of preparing development plans for the city. The small and medium municipalities have limited resources and their technical and managerial capabilities are poor.

The urban governance in Punjab is at cross roads. The pace of democratic decentralization of local self-government institutions is very slow. No serious efforts have been made to give autonomy to the local institutions despite the amendment to the Constitution of India in 1992 and the Conformity Legislation passed by the State in 1994. The process of democratic decentralization comprising devolution of funds, functions and functionaries to the local governments is tardy and several provisions of the Conformity Act have not been implemented in letter and spirit. The ULBs of Punjab are still governed by the age-old acts, as amended in 1994 essentially to bring the two Acts in conformity with the CAA.

On the other hand state governments of Kerala, Karnataka, Madhya Pradesh, Maharashtra and Gujarat have initiated several measures towards democratic decentralization for

empowerment of local self-government institutions particularly in the context of CAA. The functional and fiscal decentralization initiatives have politically empowered the local governments. The transfer of funds, functions and functionaries to local government has strengthened the local bodies. A large number of people from all sections of the society including SCs, STs and women have been elected to run LSGIs. In addition, the states are promoting bottom up participatory urban planning, governance and development practices.

Kerala has taken lead in democratic decentralization. The 'People's Planning Campaign' launched by the state government in 1996 was an important political initiative which resulted in a social movement for strengthening local self-government. Functions, funds and functionaries have been transferred to the LSGIs. The community participation has been ensured in formulation and implementation of policies in the cities. The preparation of 'development plans' by the LSGIs has strengthened their information and database which in turn has improved the planning capability of these institutions and has also established transparency and accountability in the functioning of these institutions. Madhya Pradesh has also taken initiatives towards democratic decentralization. Several structural, institutional, fiscal and functional reforms have been initiated to strengthen the LSGIs in urban areas. The people's participation has been core constituent of decentralization process. The fiscal decentralization initiatives taken after accepting the recommendations of State Finance Commissions has resulted in higher growth rate of various sources of income. One of the most important features of urban governance in Madhya Pradesh is the institutionalization of the mayor-in-council in case of municipal corporations and president-in-council in case of municipal councils. This system represents decentralized model of governance at local level. The mayor/president in council system constitutes Parliamentary form of government.

Although Karnataka has not implemented 74th Amendment in full, but intention is clear that all the functions as envisaged in the Twelfth Schedule will be transferred to LSGIs alongwith financial resources. It has politically empowered the under privileged sections including women by ensuring their participation even beyond the reservations. The standing committees have also been empowered to sanction projects costing between Rs. 15 lacs to 25 lacs against Rs. four lacs in pre-74th Amendment period. The process of constitution of ward committees to institutionalize people's participation has been initiated by the the Bangalore Municipal Corporation. The system of preparing neighborhood development plans is also innovative. The DPCs have been constituted to consolidate the plans prepared by the municipalities and panchayats at district level. Karnataka has the distinction of implementing property tax reforms by adopting area-based system and introducing self-assessment system to improve its administration and collection. e-Governance has been introduced in several areas to streamline the local urban management and smoothen the implementation of decentralization agenda.

Gujarat has included all the functions enlisted in the Twelfth Schedule in its conformity municipal legislations. Gujarat is considered a well-governed state at local level, as

system of local urban governance was quite strong even before enactment of the 74th amendment and conformity municipal legislations by the state. Maharashtra initiated process of democratic decentralization very early but major initiatives were taken after enactment of the conformity legislations. To strengthen the institutional mechanism and enhance the people's participation in local municipal affairs and decision-making, government has formed ward committees in municipal areas. DPCs have been constituted. The state has passed an enabling legislation to constitute metropolitan planning committees.

In Europe, the empowered LSGIs through democratic decentralization are becoming very effective instruments of democracy for providing infrastructure and services of local nature. LSGI enjoy greater autonomy, as they have been devolved a large number of functions and funding options. The local authorities have been devolved the functions relating to economic development policies (promotion of enterprise development schemes, spatial development), social and cultural policies (socio health policies, polices to help the most vulnerable groups, culture and education) and urban and spatial policies (town planning, infrastructure, urban regeneration, environment). Therefore decentralization has enabled them to play an increasingly active role in economic and welfare matters, confirming the trend to build up a municipal welfare system.

In Italy, local institutions are in transition. The process of decentralization has been fast in the last decade of 1990s. In 1997, a law was passed to devolve functions/responsibilities to the local authorities. The first innovative act concerning local authorities was passed in 1998, which provided for autonomous statutes, additional municipal duties, partnerships between municipalities, limits on state monitoring, local finance and management. As a consequence about 40 per cent of functions of the central government were devolved to the regional, provincial authorities and the municipalities. As result of democratic decentralisation revenues of municipalities have increased considerably. The Constitutional Law passed in 2001 further devolved powers and duties to local authorities. It has modified the relationship between the state, regions and the local authorities. An important Article in Italian Constitution, which provided the regional control over local authorities, has been abolished. Now local authorities have been empowered to decide their own taxes and revenues. The devolutions to municipalities have strengthened their functional and fiscal domains. Institutional and administrative capabilities of municipalities are also improving along with political and fiscal reforms. Introduction of elections has strengthened the local democracy. The role of bureaucracy is declining due to administrative reforms initiated by the government to enhance the role of elected local bodies.

The devolution process in the United Kingdom is dynamic and is producing highly distinct forms of autonomy. The Government of United Kingdom has been making efforts towards strengthening democratic decentralization process. It passed several legislations to devolve the powers and functions to local authorities and then it focused on strength-

ening a network of local institutions. The centralized unitary structure is changing with growing devolution and therefore the role of central government towards local authorities is also changing. The Local Government Act 2000 and the Greater London Authority Act 1999 have strengthened the functional and fiscal domains of local authorities. The Local Government Act 2000 passed by the UK Parliament has devolved considerable powers to local authorities in terms of performing necessary functions for improving economic, social and environmental conditions at local level. The act has provided a strong regulatory framework for managing the local affairs efficiently.

The political decentralization has followed the fiscal decentralization to local authorities. All authorities and functions are vested in the elected councils and are exercised usually by committees or subcommittees of councils. The local governance consisting of the county councils, borough/district councils, and parish councils have been devolved a large number of functions.

Netherlands has substantially devolved decision-making powers and responsibilities to local authorities. Although the country is a unitary state, the Constitution of the Netherlands provides decentralized form of governance. Major policy areas at local level fall under the municipal jurisdiction. They have exclusive functional domain over important areas. The Municipalities Act 1994 has delegated functions, powers and responsibilities to three organs of municipal government i.e., the municipal council, the municipal executive and the burgomaster. The municipal Act provides for autonomous powers of municipalities. The municipalities in Netherlands have a strong fiscal base. The per capita municipal investment and capital expenditures is considerably high. The government has established 'the Netherlands Municipalities Bank' to meet the loan requirements of the municipalities. There is provision of referendum for direct citizen participation in decision-making. The local citizen may be appointed in various municipal committees. There are neighborhood councils and sub municipal councils for participatory local development.

Spain is a decentralized country and autonomy to local self-government is one of the goals of Spanish Constitution. The devolution is an on going process and is an important issue in the country. The Municipal Act provides transfer of important public services such as safety, traffic, education, waste disposal etc to the local government institutions. The framework of local government financing system is building slowly. A law was passed in 1988 to evolve the principles of autonomy and financial self-sufficiency for local bodies and empowerment of local authorities for managing their revenue resources.

The devolution with its parameters of democratic spirit and civic awareness has been an important municipal tradition in Finland. The country has a democratic administration and governance consisting central-state, intermediate-regional and municipal-local government. The municipalities have been devolved important tasks such as education,

health care, social welfare, technical infrastructure and environmental preservation. The process of democratic decentralization for empowerment of local government has been very successful in Finland. The local government enjoys full autonomy and freedom to run its affairs without any interventions from either the national or the provincial government. Municipalities are self-governing units where the highest decision-making authority is vested in local councils elected by the residents. Municipalities provide adequate and quality basic services. The fiscal domain of municipalities is very strong. The independent sources of revenue of municipalities give them strong self-governing status with less dependence on state.

The co-existence of communities and regions is the most striking feature of Belgian model of federalism. There are national, regional, provincial, and local governments and the municipalities are being devolved powers and responsibilities to take care of local issues. The mayor has been empowered for enforcing all statues, orders ordinances and decrees. The municipalities have extensive fiscal autonomy to set the base and the rates of levy. Taxes are relating to issuance of administrative documents, building permits, sewerage and water supply systems, urbanization. In addition surcharge on the rent income from property, local surcharge on personnel income tax, additional 10 per cent on the tax on automotive vehicles are some other sources of revenue. The local authorities have discretion in fixing the rates of local taxes. However, the law imposes maximum rates of such taxes.

The progressive democratic decentralization through delegation of powers, functions and funds and transfer of functionaries is the distinctive feature of the working of local self-institutions in Kerala, Gujarat, Madhya Pradesh, Maharashtra and Karnataka. To sustain it, an appropriate strategy for a well-planned capacity building is needed. Kerala model of 'People's Planning Campaign' is ideal for introducing decentralized planning as envisaged under the Article of 243-Z of the Constitutional Amendment. Under this campaigning, people's aspirations and requirements are ascertained through ward sabhas followed by debates and seminars. The plans developed at local level are consolidated and finalized. Adequate transfer of plan grants enables implementation of decentralized agenda. Decentralized governance will pave way for good urban governance and sustainable development of urban centres in Punjab. This strong institutional mechanism at local level will help to address the local problems effectively. Strengthening of local elected leadership is equally necessary to enable them to play their role in governance, management, financing and development of their towns and cities.

The municipal functions relating to socio-economic development and urban planning, environmental conservation are crucial for sustainable urban development. In most of the European countries, these functions are performed by the local authorities. This results in better human development, planning and governance at local level. The extensive transfer of municipal functions in Netherlands, UK, Finland, Spain and Italy place these countries very high on devolution scale.

With robust urban economy and excellent human capital, the functional devolution and

planned development should revolutionize the urban scene in the state of Punjab.

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Part-II

Panchayati Raj Institutions

The focus of the chapter is to analyze the devolution of functions, functionaries and funds to PRIs in Punjab and juxtaposition to that undertaken by selected progressive Indian states and local self-government institutions in member states of the European Union.

Introduction

The 73rd Constitution Amendment provides for devolution of functions and transfer of functionaries and funds to the three tiers of panchayati raj local self-government institutions. According to article 243G of the Constitution:

"subject to the provisions of the Constitution, the legislature of a state, by law, may endow the panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon panchayats at the appropriate level, subject to such conditions as may be specified therein, with respect to:

- a. *The preparation of plans for economic development and social justice; and*
- b. *The implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to matters listed in the Eleventh Schedule."*

Article 243G of the Constitution of India embodies the spirit of democratic decentralization.

Devolution of Functions

According to the 73rd Constitutional Amendment, the state governments are supposed to transfer the functions and powers pertaining to 29 subjects listed in the Eleventh Schedule of the Constitution to the panchayats.

In the states of Kerala and Karnataka, 29 subjects and in Madhya Pradesh 18 subjects have been transferred to the Panchayati Raj Institutions (PRIs) as in Table-26. In these states, panchayats are running schools, supervising dispensaries, are engaged in group farming, harvesting rain water and even setting up small power plants. But village panchayats in many other states are dependent on the respective governments as functions; functionaries and funds have not been transferred to the PRIs. A high-powered Task Force of the Union Ministry of Rural Development (2001) pointed out that the functions devolved to the PRIs were in the nature of subjects rather than in terms of activities or sub-activities. Therefore, the Ministry of Rural Development (Panchayati Raj Division) constituted a Task Force in 2001 on devolution of powers and functions upon PRIs. The Task Force in its report (August 2001) has enclosed a detailed activity mapping of the 29 duties and responsibilities.

ties assigned to three-tier PRIs. The Karnataka Panchayati Raj Act 1993 has a detailed activity mapping for three tier PRIs with regard to 29 subjects transferred to these institutions. But other states do not have any such activity mapping in their Panchayati Raj Act. The State government of Punjab has framed an activity mapping for the three tier PRIs of six departments transferred to these grassroots level institutions (Annexure I). Broadly under the activity mapping, the panchayats have been entrusted with selection of beneficiaries and implementation of the programme, panchayat samitis to provide guidance and support to panchayats in the smooth implementation of programmes and zilla parishad to allocate the centrally sponsored schemes to panchayats and monitor them.

However, the PRIs in Punjab do not enjoy autonomy in discharging their functions in the subjects transferred to them. For example, although the selection of beneficiaries for various rural development schemes is done by a panchayat, yet the final decision to select beneficiaries is taken by the concerned department of the state. Although the role given to the PRIs is based on activity mapping but it is only consultative in nature.

Table 26
Status of Transfer of Functions to PRIs in Selected States

| States | Number of subjects transferred to the PRIs |
|----------------|--|
| Gujarat | 20 (68.96) |
| Karnataka | 29 (100.00) |
| Kerala | 29 (100.00) |
| Madhya Pradesh | 23 (79.31) |
| Maharashtra | 18 (62.07) |
| Punjab | 6 (20.69) |

Note: Figures in parentheses show percentages of total 29 departments/subjects transferred to panchayats.

Source: Kurukshetra, June 2002.

The Government of Punjab, in January 2004, through a notification transferred six subjects to PRIs. The subjects transferred to the PRIs are as follows:

- i. Social Security, Women and Child Development;
- ii. Welfare of Scheduled Castes and Backward Castes;
- iii. Public Health;
- iv. Rural Development and Panchayati Raj;
- v. Health and Family Welfare; and
- vi. School Education.

The PRIs are merely assisting the departments of the government and the final decisions rest with the government officials. This is however, not the case in other states. The distribution of functions among the three tiers of PRIs in other states varies from state to

state. Some state governments have assigned larger number of functions to block and district level panchayats, whereas other states have ignored the district panchayats and the intermediate panchayats and given more powers to gram panchayats. For example the Maharashtra and Gujarat governments have assigned more functions to block and district panchayats, while Madhya Pradesh and Kerala governments have assigned more powers to the gram panchayats. In Karnataka, the gram panchayats have literally replaced the bureaucracy. In Kerala, the village panchayats prepare village plans and annual reports and are responsible for accountability and transparency of local governance. As a result of de-bureaucratization, the functioning of local governance has improved to meet the aspirations of the people.

Management Practices in Member States of European Union

In European countries, the local self-government looking after the villages is called a rural municipality. These municipalities enjoy substantial autonomy and have been delegated a lot of functions, which they deliver without interference of the state. For example, the Finish Constitution has envisaged:

"The provincial government has no right to interfere in municipal affairs nor to give command to a municipality. The municipalities are not under the administration of the provincial government. If the municipality has not performed its task defined in the law or state subsidies, the Provincial Government may command the municipality to complete such a task."

In Finland, rural municipalities provide health care, educational facilities and housing for elderly. Besides, with the help of private companies these municipalities are ensuring urban civic amenities in rural areas such as garbage management, safe drinking water, super market, etc. The municipalities perform these functions without interference from the state government. Two or three municipalities form joint municipal boards in order to provide infrastructure needing larger investment such as big hospitals and colleges. However, it is to be noted that the formation of joint municipal boards does not affect the autonomy of individual municipalities.

The responsibilities of the local government in United Kingdom (UK) are refuse collection, local planning, environmental health, recreation, leisure and amenities and housing. In rural areas of UK, municipalities ensure water supply to the people through private agencies and manage wastes of the municipalities and make provision of health care, social welfare and education. In UK, social welfare and health care are given special attention, which includes support to children and parents, help people with disabilities and the growing number of elderly. The councils help people with physical and sensory disabilities, people with mental health problems, with terminal illness and young offenders and asylum seekers.

In rural areas of Netherlands, the municipalities build and manage social housing; manage land belonging to the community; manage public primary schools and cover all the expenses of private primary schools in their areas; are responsible for social welfare and measures to help the unemployed, disabled and elderly people; to develop and maintain municipal streets and roads.

Apart from this, in Netherlands rural municipalities play active role in the growth of dairy farming which is highly mechanized. The computerization of dairy farming has resulted in higher efficiency and lowering of cost. In Netherlands, the effectiveness of local governance and planning is visible in the form of excellent civic infrastructure like roads and solid and liquid waste disposal, environmental and healthy living conditions. Municipalities promote these services through the help of neighborhood societies and private partnership. The other important functions of municipalities are housing, tourism, recreation, public works and transport, public health, education, social welfare, etc.

In Spain there is division of portfolios among the elected members of the rural municipalities, which assign responsibilities to its members. This facilitates decentralization from the head of the rural municipalities to its members. Members in a municipality share following major departments:

- Urbanization
- Budget
- Health
- Environment
- Social Security
- Culture
- Sport
- Marketing
- Licenses

Debates in the city hall between the ruling party and opposition party promote "healthy democratic practices" in local self-government. Thus democracy has been brought closer to the citizens.

Devolution of Functionaries

Considering the workload, duties and responsibilities of the Panchayati Raj Institutions, it seems pertinent that the functionaries of line departments have to be placed under administrative control of the PRIs, as provided in the 73rd Amendment. The state governments of Kerala and Madhya Pradesh have transferred functionaries and directed them to work under the control of gram panchayats, while in Karnataka and Gujarat, functionaries at district level have been brought under the district panchayats. In Karnataka and Kerala, the functionaries of 29 and 15 departments respectively have been transferred to PRIs

(Table 27). Where as in Punjab functionaries of not a single department being transferred under PRIs. However, recently the government of Punjab has involved zilla parishad in the selection of doctors and village panchayats in the selection of temporary teachers in their respective areas.

In 1995, Government of Kerala transferred a large number of functionaries of line departments to the PRIs. The functionaries of the departments so transferred under the village panchayats are agriculture, animal husbandry, dairy development, fisheries, rural development, social welfare, Scheduled Caste development, tribal development, health services, general education and public work. The functionaries of the departments transferred to the block panchayats are agriculture, industries, rural development, social welfare, development of Scheduled Castes and Scheduled Tribes, health services, minor irrigation and industries development.

Table 27
Status of Transfer of Functionaries to PRIs

| States | No of departments/subjects Functionaries transferred to the PRIs |
|----------------|---|
| Gujarat* | Nil |
| Karnataka* | 29 (100) |
| Kerala | 15 (51.72) |
| Madhya Pradesh | 09 (31.03) |
| Maharashtra | 09 (31.03) |
| Punjab | Nil |

Note: Figures in parentheses show percentages to total 29 departments/subjects transferred to panchayats.

Source: Kurukshestra, June 2002.

* Transferred only under zilla parishad

The Punjab Panchayati Raj Act, 1994, envisages that the panchayat secretaries, the only village level official, should be brought under the control of panchayats, headed by a sarpanch. The panchayat secretaries, however, are posted at the panchayat samiti headquarters and do not consider themselves as employees of the panchayats. One panchayat secretary deals with four to five village panchayats.

Gujarat has separate selection board for panchayat services both at the state and district level. Chapter-XIII, clause 235 (1) of Gujarat Panchayats Act, 1993 envisages the establishment of a Gujarat Panchayat Service Selection Board consisting of five members including chairman. The terms of office of the board members is six years. The main function of the board is to select candidates for recruitment to such posts in the panchayat service and to advise the panchayat in such matters as may be prescribed by rules. Chapter-XIII, Clause 236 of Gujarat Panchayat Act, 1993 envisages that there shall be a District Panchayat Service Selection Committee in each district for recruitment to such posts of the panchayat service as specified. The committee consists of: (i) one member of

the Gujarat Panchayat Service Selection Board to be nominated by the chairman of that Board; (ii) the president of the district panchayat of the district; and (iii) such officers of the panchayat service or state service as the state government may nominate. The district service selection boards select panchayat secretaries and other functionaries of panchayats. In other words, in Gujarat, zilla panchayats are involved in the selection process of functionaries of PRIs.

In Karnataka, the functionaries of the line departments have been transferred to the district panchayat. The village panchayats are authorized to select and appoint their own staff.

Practice in Member States of European Union

In European countries, the functionaries of local self-government are selected and appointed by the respective rural municipalities and they are not the employees of the state. In Finland 426000 employees are serving in municipalities and this constitutes 24 per cent of total labour force of Finland and 77 per cent of the public sector employees.

In other European countries, the recruitment and appointment of staff is done by the rural municipalities which includes managers, teachers, doctors, computer personnel, sanitary inspectors, etc. and the staff so appointed is paid from the municipal fund and are not the employees of the state.

Devolution of Funds

The major impediment in the effective functioning of the PRIs in India is the lack of adequate funds for the implementation of need-based programmes. Besides, available funds are mostly tied in nature, leaving little flexibility to the panchayats (Siva Subrahmanyam, 2003). Adequate devolution of funds to the PRIs would enable these bodies to function as effective self-governments.

Article 243-H of the Constitution, empowers the state legislatures to enact laws:

- i. to authorize a panchayat to levy, collect and appropriate such taxes, duties, tolls and fees;
- ii. to assign to a panchayat, certain taxes, duties, tolls levied and collected by the state government;
- iii. to provide for making grants-in-aid to the panchayats from the consolidated fund of the state; and
- iv. to provide for the constitution of such funds for panchayats and also the withdrawal of such money there from; as may be specified by law.

Article 243-I of the Constitution provides the setting up of a State Finance Commission (SFC) once in every five years to review the financial position of the panchayats and to make recommendations to the Governor as to:

- a. the principles which should govern -
 - i. the distribution between the state and the panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under this Part and the allocation between the panchayats at all levels of their respective shares of such proceeds;
 - ii. the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the panchayats;
 - iii. the grants-in-aid to the panchayats from the consolidated fund of the state:
- b. the measures needed to improve the financial position of the panchayats;
- c. any other matter referred to the finance commission by the Governor in the interests of sound finance of the panchayats.

'280 (3) (bb) of the Constitution enjoins the Central Finance Commission to suggest 'measures needed to augment the consolidated fund of a state to supplement the resources of the panchayats and municipalities in the state on the basis of the recommendations made by the finance commission of the State'.

In Punjab, the First State Finance Commission was constituted in April 1994, and the Second State Finance Commission in September 2000, under Article 243 (I) referred above. Important recommendations of the First State Finance Commission included:

Transfer of 20 per cent of the net proceeds of five taxes such as stamp duty, Punjab motor vehicles tax, electricity duty, entertainment tax and entertainment tax (cinematograph shows) to the PRIs and ULBs.

In addition, a share in liquor taxes and grants and transfers of the tenth Finance Commission's award was recommended to be devolved on local bodies and panchayats in a specified ratio. These recommendations established for the first time the right of the panchayats to a share in the consolidated funds of the state and the federal government.

The Second State Finance Commission largely recommended the same principles of transfers from higher levels but instead of 20 per cent of five specified taxes, it recommended the transfer of four per cent of the net proceeds of the state taxes and in addition recommended that two-thirds of it should be the share of the PRIs of the state. The inter-institutional transfer of the above funds amongst gram panchayats, panchayat samiti and zilla parishads was in the ratio of 50:30:20 respectively.

The recommendations of Tenth Finance Commission, the Eleventh Finance Commission and Twelfth Finance Commission with regard to transfer of funds from the Consolidated Fund of the Central Government to the PRIs in Punjab were as follows:

- i. the Tenth Finance Commission recommended a grant of Rs. 100 per capita of rural population as per 1971 census for each panchayat;

- ii. the Eleventh Finance Commission recommended the transfer of Rs. 30.93 crore to the PRIs of Punjab for five year covering 2000-05. This is 1.933 per cent of the sum of Rs. 1,600 crore allotted for transfer to the PRIs in the country; and
- iii. the Twelfth Finance Commission allocated to Punjab, 1.620 per cent of total allocation of Rs. 25,000 crore, i.e. Rs. 320 crore to Punjab for 5 years.

However most of the states have not given due attention to the recommendations of national and state finance commission reports. The devolution of funds from the state government of PRIs are not only inadequate but also irregular affecting the developmental works at the grass-roots level. Mathew (2000) has remarked that a widespread tendency to depend upon government grants and the reluctance to levy taxes was prevalent in most of the village panchayats with the result that they were unable to undertake development works due to the lack of resources. Oommen, (2000) further commented that despite the tall claim of political decentralization in India, fiscal decentralization has not made much progress. The National Institute of Rural Development conducted a survey to study the innovative/best practices being adopted by different states to augment the resources of the PRIs with a view to explore the scope for their replication in other states. The detailed study was confined to three states namely Kerala, Gujarat and Madhya Pradesh, which have some distinct features in the system of their PRIs. The conclusions of the study are:

- i. Levy of major taxes and enhancing non-tax revenue should be obligatory for the panchayats
- ii. A minimum revenue collection from the panchayats taxes should be insisted;
- iii. User charges should be made obligatory levies;
- iv. The common property resources vested in the village panchayats must be identified and listed for revenue generation;
- v. Valuation of taxable lands and buildings should be done by panchayats;
- vi. Powers to levy a tax/surcharge/cess on agricultural holdings should be given to the panchayat samitis or zilla prishads;
- vii. Revenue transfers from the state to the panchayats in the form of revenue sharing/or revenue assignment should be made statutory;
- viii. State government should adhere to its commitment in regard to grants-in-aid; all intended grants to the panchayats should be made statutory in nature; and
- ix. The maintenance of accounts by the panchayats should be standardized.

The devolution of funds to the PRIs and the taxable income of PRIs in Punjab are not satisfactory as compared to progressive Indian states. The Section 86 of the Punjab Panchayati Raj Act 1994 envisages that for each gram panchayat there is to be a 'gram panchayat fund' bearing the name of the gram panchayat. The following amounts are included in this fund:

- i. All grants and transfers from the government and other local authorities;
- ii. Proceeds of all funds collected for common secular purposes of the villages in the gram sabha area;
- iii. All donations;
- iv. All taxes, duties, cess, tolls and fee imposed and realized under the Act;
- v. Sales proceeds of dust, dung or refugee dead bodies of animals, trees and other produce;
- vi. Income from fisheries;
- vii. Income from common land;
- viii. 40 per cent of the total land revenue realizable within the limits of the gram panchayats and
- ix. Any other income.

Section 88 of the Punjab Panchayati Raj Act, 1994, has not given freedom to the gram panchayats to impose any tax, unless the state government authorizes it and issues an order to this effect. Under Section 89 of the Punjab Panchayati Raj Act 1994, every gram panchayat shall be, on the recommendation of the state finance commission, be entitled to receive grant-in-aid from the consolidated fund of the state.

The taxation powers of the PRIs as envisaged in the Punjab Panchayati Raj Act, 1994 are given in the Table 28.

Table 28
Taxation Power to PRIs in Punjab Panchayati Raj Act, 1994 of Punjab

| Section | Gram Panchayat | Section | Panchayat Samitis | Section | Zilla Parishad |
|---------|---|---------|--|---------|---|
| 88 | (i) Tax on lands and buildings (ii) Tax on professions trade, calling employment, (iii) Additional stamp duty on all payments for admission to any entertainment (iv) Fees on registration of vehicle (v) Fees for sanitary arrangement (vi) Water rate (vii) Lighting rate | 149 | (i) Toll on persons, vehicle or animals or any loss of them at any toll bar (ii) Toll on any ferry (iii) fees on registration of vehicle other than Motor Vehicle act, 1988 (iv) Fees on providing sanitary arrangements (v) Fees on any other licence (vii) water rate | 189 | The state Government on the recommendation of the state Finance Commission under article-243-1 or otherwise allow to levy any tax, duty, fee, toll and cess, etc. |

Source: Punjab Panchayati Raj Act, 1994

The internal revenue generated through taxes by the PRIs is meager. According to the Second Finance Commission report, internal revenue mobilization (IRM) by gram panchayats during 1999-2000 was Rs. 74.91 crore only. A large share of it is generated from the lease money of *shamlat* lands (common village lands). Except for collection of house

tax by the gram panchayats and liquor tax by the panchayat samitis, no other tax as envisaged in the 1994 Act is either levied or collected by the PRIs.

The levy and collection of house tax is as follows: general category households pay Rs. 7/-; Other Backward Castes (OBCs) households pay Rs. 5/-, and Scheduled Caste (SC) households pay Rs. 3/- per year as house tax fixed by the Government of Punjab. House tax of the general castes and the OBCs is collected by the gram panchayat; the state government pays house tax of the Scheduled Caste households to the panchayat samitis. Liquor tax is collected by the panchayat samitis. Revenue from *shamlat* lands is shared by the gram panchayat and the panchayat samiti on 80:20 basis. The zilla parishads in Punjab have so far virtually not imposed any tax. However, in Gujarat, Madhya Pradesh, Karnataka and Kerala, the house tax varies with a minimum of rupees 100 to a maximum of Rs. 1000. The gram panchayats of these states have made payment of house taxes mandatory for the households. There is no relaxation for SCs and OBCs. The per capita tax of PRIs in 2002-03 was rupees 60.8, 51.5, 33.9, 5.5 and 0.53 respectively for Maharashtra, Kerala, Madhya Pradesh, Haryana and Punjab respectively (Oommen, 2005). The Ministry of Rural Development of Government of India raised the following issues relating to the internal revenue mobilization of PRIs:

- i. The Internal Revenue Mobilization (IRM) of the PRIs is poor being only 4.17 per cent of the total revenue;
- ii. The IRM of PRIs is extremely poor because of their reluctance to charge fees, low rates even when imposed and non-revision for a long period; and
- iii. There is lack of administrative initiative for collection of taxes.

The poor taxable income and inadequate release of fund from the state government has elongated the revenue-expenditure deficit of PRIs in Punjab. The Table 29 reveals the resources gap during the period 2002-03 to 2005-06.

Table 29
Projected Resource Gap of Gram Panchayat of Punjab 2002-03 to 2005-06
(Rs in crore)

| Items | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|-------------------------|---------|---------|---------|---------|
| Income from all sources | 195.31 | 201.07 | 206.90 | 214.82 |
| Expenditure | 313.88 | 342.86 | 373.12 | 404.73 |
| Gap | -118.37 | -141.79 | -166.22 | -189.91 |

Source: Second Finance Commission Report. Government of Punjab

The percapita revenue and expenditure of PRIs in Punjab is lower than the progressive Indian state (Table 30).

Table 30
Per Capita Annual Income/Expenditure of PRIs of Selected States, 1998-99

| States | Per Capita Income/Revenue | Per Capita Expenditure | Gap |
|----------------|---------------------------|------------------------|------------|
| Karnataka | 3225 | 2951 | 274 |
| Kerala | 3380 | 3406 | 26 |
| Madhya Pradesh | 2480 | 1998 | 487 |
| Maharashtra | 3570 | 3148 | 422 |
| Punjab | 1139 | 654 | 485 |

Source: Jha, S, 'Strengthening local government, rural fiscal decentralization in India' Economic and Political Weekly, June, 29, 2002.

Practices in Progressive Indian States

The sources of income of the village panchayat in Karnataka include: (i) Statutory grant (Rs 5 lakhs) from the state government (ii) property tax, water tax, professional tax, fair and exhibition tax and professional tax. These taxes constitute nearly 17 per cent of the total revenue and (iii) Grants from the Central Finance Commission and Central Plan.

Sources of Income of Village Panchayats are:

- i. Taxes by Village Panchayat
 - Property Tax
 - Water Tax
 - Street Light Tax
 - Vehicle Tax
 - Sanitation Tax
- ii. Fees of Village Panchayat
 - Cattle pounds fees from livestock holder of Village Panchayat
 - Health Surcharge
 - Parking Tax
 - Periodical Market Tax (Gujari)
- iii. Grants as per the Recommendations of the State Finance Commission
 - 50 per cent to Village Panchayat
 - 25 per cent to Taluka Panchayat
 - 10 per cent to District Panchayat
 - 7.5 per cent and 7.5 per cent each from District Equalization Fund and District Gram Encouragement Fund respectively.
 - Grant from District Equalization Fund
- iv. Grant for Implementation of Central Government Schemes
 - Jawahar Rozgar Yojana (JRY)
 - Indira Awas Yojana

- v. Grant for Implementation of State Government Schemes
- Water Shed
 - Hari Yoti Yojana
 - Gokul Gram Yojana

In Kerala, a village panchayat levies and collects taxes from the local people and the income so derived is far higher than that of Punjab. Taxes levied by the village panchayats are property tax, profession tax, entertainment tax, advertisement tax, service tax, show tax including surcharge, cess on conversion of land use and surcharges. There is a strong financial and social audit mechanism prescribed by the state. The government devolves 40 per cent of plan budget directly to village panchayats in Kerala.

In Madhya Pradesh, in order to make every village self-reliant (gram swaraj) a provision has been made that every village needs to have a gram kosh (village fund). The fund comprises funds collected in the form of taxes, central and state government grants and funds given by the district panchayat. Any other income of the village panchayat shall also be deposited in the gram kosh. The gram kosh shall have four components such as:

- Food Kosh
- Commodity Kosh
- Labour Kosh; and
- Cash Kosh.

The sources of income of the village panchayat in Madhya Pradesh are:

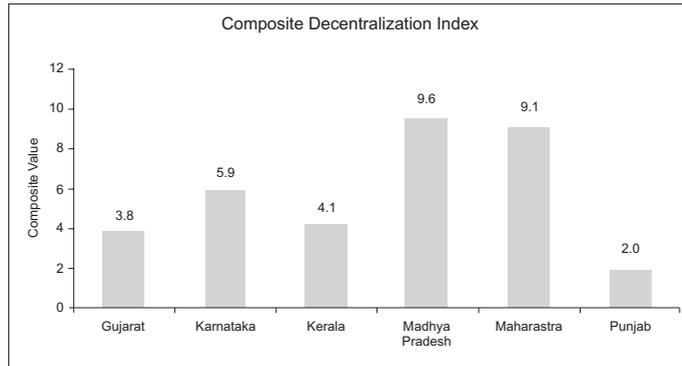
- Taxes: house tax, sanitation tax, lighting tax, business tax
- Income from minerals
- Income from fishery
- Grant-in-aids from central and state governments
- Income from common property
- Income from livestock.

Status of decentralization

The devolution of three Fs: functions, functionaries and funds to PRIs is poor in Punjab as compared to other progressive Indian states such as Karnataka, Kerala and Madhya Pradesh.

Composite decentralization index developed by Eleventh Finance Commission, Punjab score only 2.0 as against 9.6, 9.1 and 5.9 by Madhya Pradesh, Maharashtra and Karnataka respectively (Graph 1)

Graph 1



A few distinct features emanating from the above discussion of the practices followed by progressive Indian states are the following:

- There is political will to empower panchayats.
- There is greater delegation of powers to PRIs to enable them to discharge their functions.
- PRIs are institutionally better equipped to discharge their duties with responsibility.
- PRIs have been given more powers for levy of taxes.
- Own income through taxation is a great advantage for PRIs to decide and finance their own programmes.

There is a lesson in all these for Punjab, which should attempt to adopt these practices at the earliest to strengthen the panchayat system in the state.

Practices in Member States of European Union

The local self-governments in European countries are more self-reliant as their own sources of revenue are high. The municipalities have complete autonomy to manage their finances. The main sources of revenue of municipalities are:

- Taxes
- State grants
- Sales of goods and services
- Borrowings

Various taxes imposed by the municipalities are: (i) municipal income tax which varies from 18 to 25 per cent; (ii) real estate tax on property; and (iii) corporate income tax, that is tax on companies operating their enterprises in municipal council areas.

The sources of revenue of municipalities of Finland during financial year 2005 was:

- Taxes - 47 per cent
- State Grants - 17 per cent
- Sales of goods and services - 27 per cent
- Borrowings - six per cent
- Other revenues - three per cent

The largest source of income of the municipalities is tax on income. The second largest sources of revenue are sales of goods and services. These are largely fees for Kindergarten, garbage disposal, selling of municipal land, water charges, electricity charges, etc. The state grant constitutes only 17 per cent of total revenue. Besides, municipalities also borrow money from different sources for infrastructure development, which constitute six per cent of total revenue. The revenue from other sources such as interest from bank deposits, selling of shares, etc. constitutes three per cent of revenue.

In Italy about 40 per cent of state functions were devolved to regions, provinces and municipalities in 1998. The financial autonomy of municipalities has increased after the devolution initiatives. The local taxes are becoming prominent, the state funds have complementary and equalizing role in local finances. Municipalities have been given full autonomy to impose their own taxes. The constitution says that 'with regard to financial arrangements, the constitution establishes two fundamental principles of taxation: everyone has to contribute towards public expenditure in proportion to their taxpaying capacity and tax matters must be regulated by law'. Municipalities follow the principle of progressive recovery of user charges. The cost of operation and maintenance of solid waste management is collected from the beneficiaries of the services. There is a system of regular revision of user charges, which have been linked with the inflation rates.

In Netherlands, almost 20 per cent of the central government budget flows directly to the municipalities in the form of specific grants. The municipalities are free to impose their own taxes. In Spain, the taxable income of the municipalities constitutes nearly 60 per cent of the total revenues. Besides income tax of the employees, other types of taxes paid by the people in a municipal area on Spain are as follows:

- House Tax
- Garbage Tax
- Vehicle Tax
- Enterprise Tax
- Energy Tax
- Water Tax

Local self-government decides the rate of taxes in their respective municipalities. In UK, council taxes and transfer from the central government constitute the main sources of

revenue of the local government. The households pay council tax based on value of the property. Business tax is collected on behalf of the government, which is divided between the central government and the local bodies. The house tax is fixed on the basis of the value of the property and number of people living on the property.

The devolution of functions, functionaries and funds to PRIs in Punjab is very poor as compared to other progressive Indian states. However, the devolution of three F's varies across the states in three tiers of PRIs. In Gujarat, Karnataka and Maharashtra, the functionaries of the departments devolved to PRIs have been transferred under the zilla parishad but the block and village level functionaries have not been transferred to the intermediate and village panchayats. In village panchayats of Karnataka, except panchayat secretary, all other staffs are being appointed by panchayat and paid from the village panchayat funds. In Gujarat only the *talati* or panchayat secretary look after the panchayat work and the functionaries of the line departments have not been transferred under the panchayat. In Kerala functionaries of the departments devolved to PRIs have been transferred under PRIs at the village, block and district levels. In Madhya Pradesh functionaries of a few departments have been transferred only to the village panchayat. In member states of the European Union, the local self-government institutions enjoy greater autonomy. The staffs of the municipalities are recruited by the municipalities and not by the provincial government. Therefore they perform all functions delegated to municipalities with greater degree of autonomy.

The PRIs in Kerala, Karnataka and Gujarat enjoy greater financial autonomy. In Kerala, 40 per cent of plan funds goes directly to panchayats. In Karnataka, each panchayat get Rs. 3,00,000 annually directly from the government and in Madhya Pradesh each panchayat gets a grant of rupees Rs.1,00,000 every year from the government. These are untied funds to be spent according to the need and requirement of each ward in the panchayat. The taxable income of all progressive Indian states is higher than that of Punjab. Income from samlat land constitutes the main share of internal sources of revenue of PRIs in Punjab and the taxable income is only 0.56 per cent of the total revenue of panchayats. However in Kerala and Karnataka, through the people's campaign and mass media, people were motivated to pay taxes. A panchayat seeking greater autonomy must have a large share of internal revenue particularly taxable revenue.

In Indian states, the devolution of three functions to local self-government institutions has been achieved to a greater extent in Kerala as compared to other states of the Indian Union. While in member states of the European Union, the devolution process is larger in Scandinavian countries. The devolution of functions, functionaries and funds to local self-government institutions is much better in Europe as a whole than in India. In other words, the local self-government institutions in member states of the European Union are substantially self-governing institutions. In India, except Kerala, the local self-government institutions in all other states are dependent on provincial and federal government for funds and provincial governments for functions and functionaries.

In member states of the European Union, the internal sources of revenue constitute 60 to 70 per cent of revenue of the local self-government institutions. Therefore, municipalities are less dependent on the federal and provincial government. The fiscal strength of these municipalities also helps them to have a greater autonomy in their functioning.

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CHAPTER 3

DECENTRALIZED PLANNING, PEOPLE'S PARTICIPATION AND INNOVATIVE MANAGEMENT PRACTICES

Part-I Urban Local Bodies

The major objective of this chapter is to describe the importance and process of decentralized planning; highlight the importance of people's participation and focus upon some vital urban management practices. Since there are serious deficiencies in these aspects of local self-government in Punjab, an effort has been made to suggest alternative strategies for promoting decentralized planning, people's participation and use of innovative management practices as followed by municipalities in progressive Indian states and selected member countries of EU to which study tours were organized under the project. It is expected that this will help to improve/strengthen the capacity of LSGIs in Punjab to enable them to cope with the challenges created by rapid urbanization and finally achieve the objectives of CAA.

The thrust of this chapter will be on following aspects:

1. Decentralized Urban Planning and People's Participation
2. Innovative Urban Management Practices
 - i. Wider Partnerships/Local Area Agreements/Joint Municipal Management/Boards/Covenants and Consortiums
 - ii. Offloading of Municipal Services to Private Sector/Promoting Public Private People Partnerships (PPPPs)
 - iii. Environmental Improvement through Scientific Waste Management
 - iv. Citizen Civic Centre, Single Window System and Citizen's Charters
 - v. Preparation of Computerized Annual Report and Vision Documents
 - vi. Property and Asset Management
 - vii. Complaint Monitoring and Redressal System, Ombudsman and Appellate Tribunals
 - viii. Performance Assessment

The Context

The concepts of planning and people's participation in urban governance have been debated from various perspectives for a long time now. With the unexceptionally higher growth

of urban population, these concepts have acquired tremendous importance. In India, the dynamics of decentralized planning and people's participation in urban governance has been rather slow. The urban governance is weak and fragmented. After enactment of CAA and conformity legislations by the state government, the approach towards these important dimensions of urban planning and governance is ofcourse gradually changing. Some of the states have taken actions to constitute ward sabhas, ward committees and district planning committees which has changed the practice of urban planning and governance. The progressive Indian states provide platform to local communities structures to play vital role in urban planning and governance. In Europe, countries are adopting policies in favour of promoting decentralized planning and greater participation of local people in management of local affairs.

The urban management practices followed by local self-government institutions in India leave much to be desired, by and large. Punjab is not exception rather it has been slow to introduce urban reforms for improving urban management practices. A few progressive Indian states have introduced reform measures to improve urban management practices. Similarly, in European countries to which study tours were organized, LSGIs provide excellent example of innovative urban management practices. This chapter is an effort to highlight some of the important dimensions of decentralized urban planning, peoples' participation in governance and urban management practices as followed by progressive Indian states and selected member countries of EU.

1. Decentralized Urban Planning and People's Participation

The processes of decentralized urban planning and people's participation have not evolved in Punjab. District Planning Boards, the Department of Town and Country Planning and Punjab Urban Development Authority have been involved in planning and development of urban areas. The municipalities have not been much involved in this important task. The people have been bypassed for participating in the process of planning for urban areas. Recognizing the neglect of integrated urban development planning by the local authorities, the CAA incorporated, inter-alia, functional decentralization as an imperative to enable the ULBs to discharge effectively their responsibilities, suited to contemporary urban scenario and a participatory planning process to promote convergence of resources. But these objectives of CAA seem to be distant dream as urban governance in Punjab is still at cross roads. The decentralization/participatory dimensions in planning and governance have only been included for completing procedural and legal requirements and no serious efforts have been made to strengthen the processes of decentralized urban planning and participatory urban governance.

'Cities have already become centers of economic, social, political and ecological changes. A major challenge of the future therefore will be to make the cities safer, healthier, more sustainable and humane. Cities will have to evolve methods to forge democratization, political participation, gender equality and full partnerships among the residents'

(Gill, 2003). 'Cities will be hubs of manufacturing, trade, finance, culture, information and incubators of innovation and new ideas. This means that cities must be well planned and more importantly well governed, capable of existing in harmony with the natural environment and provide healthy, hospitable living and working environment for their inhabitants, particularly for the poorer sections of the society' (Ramchandran, 2003). The CAA regards urban planning including town planning as legitimate municipal function. It also highlights the necessity of constituting DPCs for formulating the District Development Plans and ward committees for preparing Ward Development Plans with participation of local people including urban poor. Spatial, sectoral and inclusive urban planning is a major thrust of these policy-initiatives, but so far little concrete has been put in practice.

The urban/town planning is a fragmented function to be performed by the town and country planning department and urban development agencies, and not by the municipalities as mandated by the CAA. Municipalities, considered to be closest institutions to the local people have not been transferred function of urban/town planning even after 12 years of enactment of the CAA. Urban planning being integrated in nature, the involvement of multiple agencies/departments urban planning without constructive coordination and participation of local people is creating more confusion and inefficiency. The urban planning approaches/practices seems to be too inflexible, without proper perspectives and lacking vision plans. The state government of Punjab has been rather slow indifferent to constitute DPCs, metropolitan planning committees and ward committees. Due to this, the policies, perspective plans and development plans are not prepared with the real participation of local people, which is necessary for sustainable urban development.

Among progressive Indian states, Kerala has emerged as a model state for promoting decentralized urban planning and people's participation. It has constituted ward sabhas, ward committees and district planning committees, which are functioning effectively. The duration of a ward committee constituted in a municipality shall be co-terminus with that of the municipality. The detail of constitution, composition, functions and duties etc. of ward committees the basic unit of local urban planning and governance are given below:

Constitution of Ward Committees: In every municipality where the population exceeds one lakh, there shall be constituted a ward committee for each ward of that municipality as provided in Section 43, within three months from the date of its constitution.

Composition of Ward Committee: The ward committee shall consist of the following members, namely:-

1. The councillor of that ward who shall be its chairman;
2. Fifteen persons to be elected in the manner prescribed, from among the members of the resident's association of that ward, which are registered in the municipality;
3. Twenty members to be elected in the manner prescribed from among the members of the registered neighbourhood groups of that ward which are registered in the municipality;

4. One person each nominated by every political party having representation in the municipality;
5. The heads of all recognized educational institutions functioning in that ward; and
6. Twenty persons nominated jointly by the chairperson and councillor of the ward, of whom,-
 - i. ten shall be from the persons representing the cultural organisations, voluntary organisations, educational institutions, industrial-commercial establishments which are functioning in that ward;
 - ii. five shall be from persons representing those working in that ward as professionals (experts in agriculture, industry, health, education, engineering etc.); and
 - iii. five shall be from persons in the registered trade unions: Provided that, the members nominated under items (i) and (ii) need not be the residents of that ward.

Constitution of Ward Sabhas

1. In every municipality where the population does not exceed one lakh, there shall be a ward sabha for each of its ward and all persons included in the electoral roll of that ward shall be members of that ward sabha.
2. The councillor who represent a ward shall be convener of that ward sabha, but due to any reason, physical or otherwise, the convener is unable to perform his function as such the chairperson may appoint a councillor representing any adjacent ward as the convenor.
3. The ward sabha shall meet at least once in three months at a specified place and every meeting of the ward sabha shall be presided over by the chairperson or in his absence, deputy chairperson or any standing committee chairman authorised by the chairperson or in their absence by the convenor.
4. The ward sabha may constitute sub-committees consisting of not less than ten members to assist the implementation of any scheme, policy or decision of the ward sabha generally or specially and in furtherance of the rights and responsibilities of ward sabha.
5. Resolution may be passed on majority basis in the meetings of the ward sabha in respect of any issue coming within the jurisdiction of the ward sabha, but, as far as possible, effort should be made to take decision on the basis of consensus.

Functions and Duties of Ward Committees and Ward Sabhas

The ward committees and ward sabhas have been playing very important role and performing local functions such as formulation of development schemes, preparation of the final list of eligible beneficiaries in the order of priority by finding out eligible applicants from the ward area based on the criterion prescribed in respect of the beneficiary oriented schemes and to submit the same to the municipality; providing and

mobilizing voluntary service and assistance in cash or kind for social welfare programmes; preparation of schemes relating to local infrastructure, municipal services, formulation of literacy programmes; to observe and assist the beneficiary committees which are conducting developmental programmes in the Ward; and all other major functions as mentioned in the municipal act.

The important duties of ward committees and ward sabhas are to disseminate information regarding the development and welfare activities; participate and propagate the programmes regarding health and literacy and other similar time-bound development programmes; collect essential socio-economic basic data; provide information by collecting the progress regarding development activities; adopt moral means for payment of taxes, repayment of loans, improvement of environmental cleanliness and maintenance of social harmony; mobilize resources locally to augment the financial sources of the municipality; supervise development activities as voluntary groups; make arrangements to report immediately the occurrence of epidemics, natural calamities, co-ordinate and implement the activities for the protection of nature to impart knowledge to the people on environmental problem. Similarly, they have important rights to facilitate the implementation of development schemes/programmes. While doing this they could get any information from concerned officials.

The ward committees have been constituted in Maharashtra, Madhya Pradesh, Karnataka and Kerala. They are playing vital role for strengthening decentralized planning and governance. It is pertinent to note that with increasing role of ward committees, the people's choice and voice get importance for planning and developing urban areas. Ward sabhas are based on principle on people's participation. The development concerns like environment, slums, poverty, employment and gender issues receive greater attention while planning through the greater role of ward committees. The delivery of services and coverage of infrastructure is also improving due to increasing role of people in local public policy and planning. The civil society groups also become important stakeholders in local urban planning and governance. The express group of citizens initiated by Puna Municipal Corporation (PMC) and Indian Express is a very innovative idea of participatory dialogues for augmenting municipal services. It has been constituted at ward level and has membership from Resident Welfare Associations, slums and NGOs. It promotes interaction between peoples and municipal representatives.

Constitution of District Planning Committees

In addition, DPCs have important role in the decentralized system of planning under 74th Amendment in the Constitution. The DPCs have been constituted in Kerala, Karnataka, Madhya Pradesh and Maharashtra. They are playing important role in consolidating the district annual plans and perspective plans of municipalities and panchayats. The DPCs continuously monitor the progress of the implementation of the plans at district level. The parallel participation of state government departments/planning boards has decreased

with increasing role of DPCs. The process of decentralized planning has started showing the results in the form of better coverage and quality of infrastructure and services, greater participation and satisfaction of people in the planning process.

Decentralized Planning and Participatory Democracy at Local Level: Kerala Model

Kerala has introduced the process of decentralized planning and established participatory democracy at local level. The initiatives such as People's Plan Campaign, constitution of ward committees, formation of Community Based Organizations (CBOs) under Kudumbashree, the poverty alleviation programme have played vital role in promoting and strengthening decentralized planning and participatory democracy at local level.

1. Peoples Plan Campaign

The 'People's Plan Campaign' has been described as 'a Gandhian approach to development' (Madhu Dandavate, The Hindu, January 26, 2000); 'vision to mobilize people cutting across party lines for the cause of decentralization' (Isaac and Sreedharan, 2002, EPW). According to the Second SFC decentralized local level planning has been used as the engine for harnessing public action in favour of decentralization. In order to shake the system and force the process, a campaign approach has been followed. This campaign has succeeded in setting the agenda for decentralized development. The 'People's Plan Campaign' has succeeded in providing concrete methodology for participatory plan for local level development. The different stages of this methodology are described below in brief:

- Needs identification
- Situation analysis
- Strategy setting
- Projectisation
- Plan finalization
- Plan vetting
- Plan approval

The most noteworthy feature of the decentralized planning process is the freedom to plan and prepare projects according to local priorities using the Plan grant-in-aid, which is devolved the LSGIs in a practically untied form. Another important feature of the People's Planning Campaign has been the effective capacity building efforts taken up. In the (first year a cascading system of training was introduced to enable quick outreach to the cutting edge level. A large number of Key Resource Persons (KRPs) were identified at the state level both from government and outside, representing various disciplines. At the district level District Resource Persons (DRPs) and at the local government level Local Resource Persons (LRPs) were selected. All the DRPs and LRPs and a good number of KRPs were selected by the LSGIs themselves from

government officials, professionals and activists. The massive training programme ensured that at the level of a ULB, nearly 100 persons would be sensitized on the objectives and methodology of decentralized planning. These Resource Persons have taken an active part in spearheading the campaign as well as intervening in critical stages of the Plan preparation and implementation cycle.

The focus is on strengthening the capacity of the Task Forces on various sectors. Institutions like Medical Colleges, Universities, Centre for Water Resource Development and Management (CWRDM) etc., are being utilized to provide high quality technical training to members of Task Force in their respective disciplines. In addition, LSGIs, which have evolved successful models, are now utilized to train sister LSGIs by exposing them to the models evolved'.

One of the major achievements of the campaign has been the success in adapting the ward sabhas to suit the specific conditions of Kerala and to make them effective vehicles of citizen participation in the decision making process. In large number of ULBs, the ideal of direct participation in governance is being realised through a network of neighborhood groups. Special emphasis has been given in the campaign for the promotion of such community and beneficiary networks.

2. Strong Role of Ward Sabhas to promote Participatory Planning

Ward sabhas are basic unit of decentralized planning and necessary for participatory development. The assemblies of voters in every ward within the municipal area provided an ideal starting for people's planning. Through discussions in these assemblies, people identify local development problems, analyse the factors responsible and put forward suggestions for possible solutions.

3. Standing Committees

The standing committees constituted for deliberating on various important subjects are also important component of decentralized planning and participatory governance at local level. In Kerala, municipalities have several types of standing committees as described below:

- (a) in a Town Panchayat
 - i. Standing Committee for Finance
 - ii. Standing Committee for Development
 - iii. Standing Committee for Welfare
- (b) in a Municipal Council
 - i. Standing Committee for Finance
 - ii. Standing Committee for Development
 - iii. Standing Committee for Welfare

- iv. Standing Committee for Health Education
- v. Standing Committee for Works
- (c) in a Municipal Corporation
 - i. Standing Committee for Finance
 - ii. Standing Committee for Development
 - iii. Standing Committee for Welfare
 - iv. Standing Committee for Health Education
 - v. Standing Committee for Works
 - vi. Standing Committee for Town Planning
 - vii. Standing Committee for Appeal relating to Tax

4. Poverty Alleviation and People's Participation

Under Kudumbashree the poverty alleviation programmes are implemented through CBOs. Members of Neighbourhood Group (NHG) comprising 20-40 poor women and five volunteers meet on a weekly basis to discuss various problems and suggestions. All members bring their thrift and loans are sanctioned. Micro plans are also prepared at neighbourhood level. Area Development Society, the federation of 10-15 NHGs is the second tier and formed at ward level. Area Development Society has General Body, Governing Body and Monitoring and Advisory Committee. Community Development Society (CDS) is formed at the municipal level and is federation of ADSs. It is a registered body under the Charitable Societies Act. 'Micro-plans' are prepared at neighborhood level. Micro-plans are scrutinized and prioritized to form a 'mini-plan' at the level of ADS. After consolidating the mini-plans by judicious prioritization process at the level of CDS, the 'CDS Plan' is formed which is also the 'anti-poverty sub-plan' of the Local Self-Government.

Community Participation in Solid Waste Management

Community Participation in solid waste management is an important prerequisite for improving sanitation in urban areas in Punjab which presently are confronting with the problem of littering, poor sanitation in neighborhoods, absence of people's participation in O&M of this important municipal service. Several towns, i.e., Baroda (citizens' council), Chennai (EXNORA), Lucknow (muskan jyoti samiti), Chandigarh (mohalla sudhar committees and garbage bin free scheme) and Ahmedabad (SEWA) have involved local people in the management of municipal services and mobilization of resources for infrastructure development. In Punjab mohalla sanitation committees were constituted in Ludhiana by involving local people in sanitation. This kind of initiatives may be replicated in Punjab.

Decentralized planning and peoples participation in Europe

In Europe, decentralized planning and people's participation are important components of urban policies at local level. In England, area committees have been constituted in

Leicester to promote participation of people at neighbourhood level. A brief summary of area committees given by Andrew Thomas is given below:

Area Committees (Leicester City Council): The government recognizes that some local issues are best dealt with on a neighbourhood level rather than as a citywide issue. Area-based solutions are therefore welcomed as part of the agenda to modernize local government.

Leicester City Council has set up area committees to help bring councilors and the people they represent closer together. Area committee meetings are open to anyone to attend. Area Committees have eight roles:

- Make and influence decisions affecting the area
- Engage the community
- Prepare area community plans
- Take forward neighbourhood renewal
- Help scrutinise council decisions from a local perspective
- Help the council and other service providers to manage best value and performance management
- Develop local partnership working
- Improve community cohesion

The citizen and community participation in management of local affairs has been reported from large number of European cities. Tilburg and Delft (Netherlands), Haameenlinna (Finland), Braintree (UK) provide a few important examples. The cities have devised a clear policy of citizen and community participation which is considered an important ingredient of local urban policy. The vision statements of cities clearly state the potential of community participation in improving quality of governance and service delivery. The local people come with local solutions to urban problems. The greater people participation is considered one of the important factors for efficient municipal management and productivity of local authorities. As a strategy of enhancing people's participation large number of neighbourhood groups are formed and they are provided financial assistance for carrying community development activities. The cities give importance to customer's orientation and, therefore, regular surveys are conducted to establish a time series data on the perceptions of consumers as well as performance of local authorities. Most of the cities in Europe have realized that the local problems can not be addressed effectively without active involvement of local people.

The Haameenlinna Municipality (Finland) has initiated several citizen/community oriented programmes for enhancing their participation. The first citizen's charter system in Finland was implemented by Haameenlinna. The municipality established a charter complaint's board to set up a new informal complaint mechanism. The important aspects of this system is that charters have been prepared not at the city level but also for various sectors/services. The consultational mechanism has been supported by follow up procedures, nation wide cities surveys, research programmes, etc. In addition a Civic Forum has

been formed to promote leisure activities and sports, etc. To support the participatory initiatives another cooperative planning and redevelopment programme has been started by Haameenlinna to mobilize administrative efforts for improving quality of management.

2. Innovative Management Practices

The quality of urban governance in Punjab is poor as the management practices followed by LSGIs are outdated and time consuming. The manual recording of data, poor management of municipal properties and assets, absence of fool proof system of complain monitoring and redressal system, deficiencies in billing and collections, absence of strong regulatory mechanism and lack of partnerships between municipalities, citizens, NGOs and private sectors are affecting the quality of urban management. The management and treatment of solid and liquid waste has serious deficiencies, which is affecting environmental conditions in urban areas. The technologies available for water supply and sewerage, electricity and other important municipal activities are resulting in emission of harmful gases. Serious efforts are not been made to improve the efficiency of LSGIs for enhancing their capacity through continuous training programmes in various important sectors of urban governance, planning and development. On the other hand, progressive Indian states and selected member countries of EU have introduced several reforms to improve their urban management practices, a few of which have been discussed below:

i) Wider Partnerships/Local Area Agreements/Joint Municipal Management/Boards/Covenants and Consortiums

The local self-government institutions in Punjab have not evolved wider partnerships, local area arrangements, covenants and municipal consortiums for improving the municipal management. The city-to-city cooperation is also negligible. The smaller and medium municipalities having poor fiscal domain and poor technological know-how have been unable to improve their infrastructure and services. The reapplication of the wider partnerships and other arrangements evolved in member countries of EU could play an important role in improving municipal management in Punjab.

In England, Leicester City Council has evolved wider partnerships and local area agreements. The Leicester partnership (a local strategic partnership) is an inclusive and representative body and is between representatives of the public, business, community and voluntary sectors that have come together for the greater good of the people of Leicester. Leicester City Council is a key member of the partnership. A Local Area Agreement (LAA) is a new type of agreement between central government and local authorities and their partners to improve public services and provide better outcomes for local people; dovetail central government priorities with local priorities and to provide the possibility of freedoms and flexibilities to support the objectives of the LAA.

In Italy various forms of partnerships are established, e.g. covenants between municipalities and provinces aimed at managing tasks and services or programme

agreements (between municipalities, provinces, regions, state administrations or other public authorities) aimed at carry out specific public works at local, provincial or regional level. To solve the problems of smaller towns with institutional inadequacies, regions have agreed with their municipalities on standards of joint service management. Consortium, a society, with legal liability and an independent budget has become one of the important tools of cooperation among the local authorities. This involves joint management of services and offices. To establish a consortium, it is necessary that the involved institutions sign a covenant (agreement). Then the local representative councils adopt covenant. Such partnerships play a basic role in coping with the institutional inadequacy of many Italian municipalities. In Netherlands, the local authorities can engage their counterparts within the country or from different countries for carrying important municipal assignments.

One of the distinct features of the municipalities in Finland is the establishment of Joint Municipal Boards (JMBs). The individual municipalities enter into a mutual contract to form a JMB that aims to work in cooperation by providing infrastructure for essential civic services in the member municipalities. The municipal bodies are established to perform defined tasks on continuous basis. These joint authorities are independent legal public entities separate from its member municipalities, with separate finances and administrative set up and form the most resourceful organizations. The administration of joint municipal authorities is included in the Local Government Act. It is not entitled to levy taxes, its revenues being mainly in the form of state grants and contributions made in agreed proportions by the member municipalities. Punjab may learn lessons from these initiatives and could set up greater partnerships for improving municipal management.

ii) Offloading of Municipal Services to Private Sector and Promoting Public Private People's Partnerships (PPPPs)

The local self-government institutions in Punjab are over burdened due to their involvement in delivery of large number of municipal services. The environmental improvement through waste management is a major task in which majority of municipal staff is involved. The progressive Indian states and the member countries of EU to which study tours were organized have offloaded their large number of municipal functions including solid waste management to private sectors. The service and management contracts are popular form of PSP adopted by municipalities in progressive Indian states. In Europe, the role of PSP is more popular in financing, management, project development and implementation in addition to the service contracts. In the changing economic and global context, private sector participation is seen an important stakeholder for enhancement of efficiency, injecting private capital in infrastructure projects, higher cost recovery, competitiveness, better regulatory framework and higher consumer satisfaction. Several state governments have signed MOU to specify modalities to streamline the partnerships in delivery of municipal services. Government of India has issued guidelines for promoting role of private sector in water supply and sanitation and is providing fiscal/tax

incentives for augmenting urban infrastructure and municipal services with public-private partnerships. The recently launched programme of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has also provided for greater role of private sector for urban renewal in metropolitans as well as small and medium towns. The Indian states particularly Karnataka, Maharashtra, Gujarat, Tamil Nadu and Andhra Pradesh are progressively involving private sector in O&M of urban infrastructure and municipalities. A brief description of the service contracts in water and sanitation is given below:

- a. **Surat Municipal Corporation** - O&M of water treatment plant and desiltation and cleaning of sewerage pumping stations.
- b. **Rajkot Municipal Corporation** - O&M of sewage treatment plant.
- c. **City and Industrial Development Corporation (CIDCO)** - preparation and distribution of bills for water charges, collection of water charges from consumers and repair and regular maintenance of water supply network.
- d. **Nagpur Municipal Corporation** - O&M of water treatment plants. Thirty years concession on BOO basis for setting up 520 TPD waste treatment plant.
- e. **Bangalore** - Management contracts of water supply in two zones, streets/roads
- f. **Ahmedabad** - Private sector involvement in process management for design, approvals, tendering, construction supervision, quality controls, water source development, transmission and distribution (water supply and sewerage).
- g. **Indore** - Construction of link road in Pitampur (BOT) and road construction and social forestry.
- h. **Baroda and Pune**- Solid waste (divestiture/BOT).
- i. **Nasik** - Auctioning of octroi posts and augmentation of sewerage system (bonds).
- j. **Ludhiana** - Water supply (financing through bonds).
- k. **Tirupur** - Water supply (private financing/BOT).
- l. **Alandur** - Sewage (divestiture).

The above initiatives indicate that public private partnership is emerging across the country but in Punjab only Ludhiana and a few other cities are opting for private sector participation in provision as well as O&M of urban infrastructure and services. The major sub-sectors attracting private sector are municipal water supply, sewerage and roads. Municipalities have started raising funds through municipal bonds. In Punjab, except Ludhiana no other municipality has raised municipal bonds although most of the municipality needs huge investment for financing urban infrastructure and services. The major constraints seems to be lack of proper environment and regulatory mechanism for evolving safety nets, pricing and cost recovery mechanism, performance monitoring and contract compliance along with the demands of customers/users. The detail of a few case studies indicating the successful role of public private partnership in provision and O&M of urban infrastructure and municipal services has been described below:

Public Private Partnership in Solid Waste Management in Gujarat: Ahmedabad Urban Development Authority (AUDA) has entered into a unique partnership with the private sector, NGOs and neighbourhood organization for the solid waste management in Vijalpur Municipality. The societies were listed and routes for cleaning and maintenance purpose were identified. Garbage collection bins were provided outside each society. The sweeper/garbage collectors of each society were instructed to dump the entire solid waste collected into the bins provided for the society. Communities were motivated by the NGO workers to pay for the garbage collection. Municipal council representatives were motivated to play active role. In addition, Prahlad Nagar provides a good example public private partnership and as it has reconstituted the original plots for upgrading roads, water bodies and infrastructure/institutions.

Participatory slum development under Slum Networking Project in Indore, Bhopal and Ahmedabad: The Indore, Bhopal and Ahmedabad Municipal Corporations initiated the slum-networking project for raising the quality of life of slum dwellers. The project has shown remarkable result and has mobilized all stakeholders of the society including private sector to augment the quality of life in urban areas. The environmental conditions in slums have improved considerably after implementing the slum-networking project in these corporations.

Box 3

Public Private Partnerships for Reducing Unaccounted for Water in Nagpur

Nagpur Municipal Corporation (NMC) has implemented a water audit programme to identify sources of and reduce unaccounted-for-water (UFW). With technical assistance through USAEP/USAID, the corporation is now implementing a demonstration project of installing four flow meters (two each at the source and the output points) in a water treatment plant in the city of Nagpur.

Source: Nutan Zarakpar, India Infrastructure Report 2006, Oxford University Press, New Delhi, pp 153

The Government of Maharashtra has been on forefront for initiating urban reforms through the public private partnership mode. It has improved delivery of municipal services by off loading several municipal functions to private sector. The karad vermi-compost plant in Pune is given on contract to a private contractor. Eighty per cent of capital expenditure is borne by the corporation and rest by the private contractor who also bears the responsibility of operation and maintenance of the plant and employ own labor. The corporation has given land on a nominal lease rent for specific period of 15-30 years. The municipal body is to assure quality of garbage coming to the processing plant. In return, the contractor pays a royalty approximately 30 per cent of its income from the sale of manure. Approximately one ton manure is prepared from a container carrying two ton of waste which is sold to the farmers at three rupees per kilogram. Time taken to convert waste to manure varies from 45-60 days.

Box 4 shows public private partnership initiatives for improving urban services delivery by Navi Mumbai.

Box 4
PPP in Urban Service Delivery:
Performance Based Service Contracts in Navi Mumbai

The city of Navi Mumbai (City and Industrial Development Corporation or CIDCO) is spread over an area of 162 sq. km. The city is governed by the Navi Mumbai Municipal Corporation (NMMC), which was constituted in the year 1991. In 1998 all major infrastructure services were handed over to NMMC by CIDCO. Three core municipal services - water supply, wastewater services and solid water management - are currently managed by the private sector on a labor contract basis. The aforesaid services are based on 'percentage rate' contracts and renewed on an annual basis.

Source: Fire Project Note No. 33,2004 referred in India Infrastructure Report 2006, Oxford University, New Delhi, p.147

Karnataka initiated reforms for financing urban infrastructure and municipal services in small and medium towns by accessing funds from capital market. Box 5 shows about market based financing for small and medium towns in Tamil Nadu and Karnataka.

Box 5
Market Based Financing for Smaller and Medium Sized ULBs:
The Case of Tamil Nadu and Karnataka

Smaller and medium-sized ULBs, however, do not have the capacity to directly access domestic capital markets nor is direct access cost-effective for them. Another constraint to the expansion of the municipal bond market has been lack of investor appetite for long-term debt. The state of Tamil Nadu, with FIRE (D) support, developed a Rs.30.41 crore (US \$ 6.4 million) pooled bond issued with USAID Development Credit Authority (DCA) guarantee whose proceeds would fund water and sewerage projects in 14 small and medium-sized towns in the Chennai Metro Area. The bond has a 9.20 per cent annual interest rate, 15-years maturity, with redemption in 15 equal annual installments and is putable/callable at the end of 10 years. While the bonds were unsecured, a multi-layered credit enhancement mechanism was set up. The bond was privately placed with five domestic investors in December 2002. The small water and sewerage projects in the 14 ULBs are complete and repayment is proceeding as per the pooled finance structure.

A Rs. 659 crore (US \$ 150 million) water supply and sewerage project will bring potable water and improve sewerage for the first time in eight smaller ULBs surrounding Bangalore city. The GoK mobilized Rs. 100 crore (US \$ 22 million) from the domestic capital markets in June 2005 to partially fund the water component of the project. A USAID DCA agreement (US \$ 11.5 million, 50 per cent guarantee of principal) with built-in credit enhancement will reduce the cost of borrowing for the eight ULBs compared to traditional sources of institutional finance. The tax-free bond has a tenure of 15 years, three-year moratorium on principal from years four to 15, and an annual interest rate of 5.95 per cent. The bond was placed privately with 13 investors subscribing. The successful cases of pooled finance in Tamil Nadu and Karnataka show that this mechanism offers a viable option for the financing of urban infrastructure in India's smaller and medium sized ULBs.

Source: Lee Baker and N.Bhattacharjee, India Infrastructure Report 2006, Oxford University Press, New Delhi, pp 97-98

In Europe, private sector is playing very important role in provision as well as O&M of urban infrastructure and municipal services. Leicester City Council in England has entrusted the management of city's waste to a private company, which is responsible for collection and segregation of glass, plastics and papers at collection centres in separate bins at households and also at the recycling sites. The special anaerobic digesters for composting the city's organic waste are supplied by the private contractor besides transportation of non-biodegradable waste to landfill sites. The civic facilities like provision of water supply, sewerage, sanitation, etc. have been offloaded to private sector. Anglian waters large water supply company manages the generation of water its transportation, distribution, treatment and billing to the consumers. The sewage treatment plant is being run by a private company. In Italy, Urbino municipality has also off loaded waste management, water supply, sewerage and many other important municipal functions to private sector. In addition, municipalities have stake in companies which manage municipal affairs.

In Finland, municipalities work in tandem with the private sector and many infrastructural development project and activities are launched and maintained through private sector. Notable among them are:

- i. Infrastructural development such as housing, electricity, industrial development, environmental sanitation, etc.
- ii. Municipal service delivery such as waste management, water supply, sewerage, etc.
- iii. Capacity building of municipality representatives and functionaries.
- iv. Municipal audit.

Municipalities develop their infrastructure in partnership for the private sector. The electricity, drinking water, maintenance of road, garbage management, housing, etc. are done through private sector. Similarly, private sector is playing a vital role in municipal management in Spain, Belgium and Netherlands. In Midden Delfland municipality, the private sector is involved in construction and maintenance of roads, provision of sewerage systems and construction of houses. Sanitation in the form of segregated collection of garbage, its transportation, recycling and disposal is managed with PPP mode.

iii) Environmental Improvement through Scientific Waste Management

The waste management is very poor in urban areas in Punjab, which is degrading environmental conditions. The Municipal Solid Waste (Management and Handling) Rule 2000 notified by the Ministry of Environment & Forest has not been implemented in toto. The collection, transportation, disposal and treatment of municipal waste have serious deficiencies. Similarly, the coverage of sewage treatment facilities is grossly inadequate which is polluting quality of river water and aquifers. Solid and liquid waste management

is a major responsibility of the municipalities in Punjab but due to variety of regions including poor fiscal and technical capabilities of ULBs along with lack of people's participation, its coverage and quality is poor. The treatment facilities need to be upgraded. The segregated collection of waste, hygienic handling and transportation and scientific management/treatment as exercised by the selected member countries of EU is need of the hour for improving environmental conditions in Punjab. The technologies available for processing, disposal and treatment of solid waste management comprises:

- a. Composting including vermi-composting
- b. Waste to energy
 - Anaerobic digestion and Biomethanation
 - Production of refuse derived fuel (RDF) or Pelletization
 - Incineration/Gasification, Plasma Pyrolysis Vitrification/Plasma Arc Process
- c. Sanitary landfills and landfill gas recovery

The selection of these technologies depends on the quality of waste and several other factors including availability of funds, etc. A few innovations introduced by progressive Indian states and member countries of EU have been described below:

Biogas Plants: The gas generated in plants is used for lights and cooking purposes. About five such plants are located in Maharashtra and few more are purposed to be set up.

Refuse derived fuel (RDF) or Pelletization Plant: The efforts are being made to set up a demonstration plant at Deonar Dump Yard of the Mumbai Municipal corporation and in Chandigarh Municipal Corporation.

Sanitary Landfill Sites: So far even larger cities were not having sanitary landfill sites but recently Surat (Gujarat), Pune (Maharashtra), Puttur and Karwar (Karnataka) have constructed sanitary landfill sites. In north-west region, Chandigarh Municipal Corporation has been managing its waste scientifically.

Karnataka has taken several initiatives to implement the solid waste management rule and it formulated a state level municipal solid waste management policy. The posts of large number of environmental engineers have been created to improve the capability of local authorities. The state has prepared solid waste management and action plans for more than 50 cities and it has prepared two technical manuals on designing and specifications of the tools and equipments and also on treatment and landfill operations. In Kerala (Cochin), Kudumbashree groups of poor women have been formed to collect the segregated waste from sources of generation.

Maharashtra has also initiated reform measures to improve environmental conditions and implement the SWM rule. The efforts are being made to improve the capacity of

municipal representatives by conducting training programmes and study tours to sensitize them for improving solid waste management in urban areas. A cell has been created at All India Institute of Local Self-Government, Mumbai to facilitate the implementation of waste management reforms. Mumbai and Pune Municipal Corporations have been making genuine efforts to implement MSW rules and augment the collection, transportation and treatment of municipal solid waste. In addition, efforts are being made to involve local communities in waste management. Box 6 shows the detail of community participation in SWM in Greater Mumbai.

Box 6
Community Participation in Solid Waste Management: Greater Mumbai

Municipal Corporation of Greater Mumbai (MCGM) has adopted a scheme wherein citizens and the Municipal Corporation employees work hand-in-hand for the improvement of the solid waste management services. It is also a way to handle various other civic problems and developmental works in 700 localities participating in Advanced Locality Management (ALM) scheme. The concept was recognized as an effective model for citizen's participation in the waste management.

A "Zero Garbage" drive was started for three months in 1997, which initiated the process of ALM scheme. Various departments of MCGM, ALM societies, NGOs, CBOs and donor agencies actively participated in the drive. The Societies / Communities were asked to register themselves as a prerequisite to the ALM scheme. Meetings and focus group discussions were held between the residents and the MCGM officials. Problems were identified at the local level through these group discussions. Awareness programs were conducted in the localities and in schools with the help of local NGOs and CBOs. Segregation of waste at source into dry and wet waste introduced at local level.

This whole scheme improved the level of cleanliness in the city considerably. Peoples' habit of throwing garbage on the roads is reduced. Segregation of wastes at household level is increased, dustbins from the main roads are removed that provides a cleaner look to the streets. The concept was recognized as an effective model for citizen's participation in the waste management. Few ALM societies, which are functioning for more than three years have increased their scope to other activities such as tree plantation, prevention of encroachment on pavement, beautification of streets, etc.

Source: Good Governance India, Vol. 1, No.3, March-April 2004, P.27

A state level expert committee was set up in Gujarat to suggest measures for improving solid waste management practices. The reasonable and state level workshops were conducted and representatives of municipalities were advised to implement the waste management measures in accordance with the SWM rules. The Gujarat Municipal Finance Board and City Manager's Association of Gujarat are promoting implementation of identified reform measures. Box 7 shows that Valsad Municipality of Gujarat has planned to construct compost plant for treatment of its bio-degradable waste.

Box 7

Compost Plant: Valsad Municipality, Gujarat

Valsad Municipality, was disposing its waste by land filling. Lack of scientific methods of waste disposal and manpower was resulting into unhygienic conditions on the dumping site. Valsad Municipality has set up a compost plant realizing the advantages of the plants over the conventional methods of waste disposal. Compost Plant based on the technology of aerobic digestion is set up near the sewage treatment plant and the old dumping site. The municipality has provided land and agreed for the delivery of collected garbage on the plant site.

Source: Good Governance India, Vol. 1, No.3, March-April 2004, P.26

Madhya Pradesh has also initiated reforms to improve environmental conditions in urban areas by implementing SWM rules. It has started construction of sanitary landfill sites for several cities. Box 8 shows the progress about bio-compost plant and landfill site in Bhopal.

Box 8

Development of Bio-compost Plant and Landfill Site: Bhopal

Bhopal Municipal Corporation approached Madhya Pradesh Agro Industries Development Corporation Ltd to assist in setting up the compost plant. The financial arrangement is such that Bhopal Municipal Corporation would collect organic waste from Veg/fruit markets, Haat Bazaars, etc and deliver it to the Compost Plant and in return gets 4 per cent royalty every three months on the sale of compost. Bhopal Municipal Corporation has developed gardens around trenching grounds to camouflage the heaps of city waste and reduced the nuisance to the neighboring residential areas, increasing the aesthetics of the place. The initiatives are socially and environmentally sustainable and in accordance with the rules issued by the Supreme Court.

Source: Good Governance India, Vol. 1, No.3, March-April 2004, P.27

In Europe, up gradation of urban environment through improved solid and liquid waste management is an important component of urban policy followed by local authorities. In Italy, according to Yuri (2005), during the last decade, the solid waste management sector underwent a deep change from a simple (street cleaning, picking, screening, and discharging) to a complex waste management, including recycling and re-use, also for energy production. This change is mainly due to the EU tuning with directives pertaining waste management, dangerous waste, package recycling. EU directives were tuned into the Italian legal system via the so-called Ronchi decree in 1997. The decree is focussed on concept like re-use and re-cycling, and it is subdivided in four parts:

- a. preventing pollution, via the development of 'clean' technologies aimed at reducing the amount of waste;

- b. putting into effect the principle of shared responsibility between local authorities, companies and citizens;
- c. valorising waste via recycling and re-use in the production; and
- d. cutting down the final storing and burning of waste, allowed only for non-recyclable waste.

Urbino Municipality is in the process of implementing reform measures for augmenting environmental conditions through innovative waste management. There is segregated collection and very hygienic system of waste storage and transportation. After recycling the waste is disposed scientifically at the site, which is about 10 kms from the town. The modern technology has been used for storage, collection, lifting, recycling, transportation and treatment of municipal solid waste.

In England, serious effort are being made to protect health, conserve environment and implement waste management legislations such as Waste Minimization Act and Integrated Pollution and Control Rules. The Leicester City Council has installed anaerobic digesters for composting the city's organic waste after the recycling. The non-biodegradable waste is transported to the landfill sites, which are managed scientifically. The council has started a new recycling plant to reduce the burden on landfills. It targets to recycle about 40 per cent of the waste. The council has also supplied the compost bins to householders to convert horticulture and vegetable waste into compost.

In Netherlands, local authorities have upgraded environmental conditions by improving solid waste management practices. The Midden Delfland Municipality has very good environmental infrastructure and waste management services. Solid waste management is scientific and use of technology in segregated collection, recycling, transportation and disposal is visible in all the areas. Similarly, Finland, Belgium and Spain have excellent environmental infrastructure and services due to innovative management of municipal solid and liquid waste.

iv) Citizen Civic Centre, Single Window System and Citizen's Charters

In Punjab, municipal service delivery is poor as there are no modernize Citizen Civic Centres. There is no single window system for providing municipal services. Not all municipalities have citizen's charters. Progressive Indian states and member countries of EU provide better civic services largely due to the practices such as establishment of Citizen Civic Centres to facilitate delivery of services through single window system and use and implementation of citizen's charters.

European countries have very modern civic centres for providing services to the citizens. In Netherlands, the local authority prepares passports of the citizens within time frame of about seven days. The tax collection and payment of bills is highly modernized and decentralized as a result people find it convenient to use municipal services at their door

steps. In England, Leicester City Council provides large number of municipal services to the citizens at single window. The people can see any report, background paper or decisions of the city council. The council has special provisions for older people. A programme named as STAR (Support Tenants and Residents), a community based client centre provides housing related support service to the single people, older people and family. The city council has won several awards for providing services to the people, improving environment and tackling problem of housing, etc. The local authorities in Belgium, Spain, Italy and Finland have made serious efforts to provide improved service delivery to the citizens. The Haemeenlinna Municipality in Finland is the first local authority to implement the citizen's charter system which has been worked out within sectoral boards and within singular service providers.

The progressive Indian states such as Gujarat, Kerala, Maharashtra, Karnataka and Madhya Pradesh are also making efforts to improve delivery of municipal services. The setting up of Citizen Civic Centres is an innovative step taken by the Ahmedabad Municipal Corporation (AMC) for providing better municipal services to the citizens. There are 16 City Civic Centres spread across all five zones, which provide following twelve services at single window:

- Property Tax
- Vehicle Tax
- Building Plan Approval
- Issuance of Birth and Death Certificates
- Shops and Establishment Licenses
- Registration of Complaints-ward Level Connectivity
- On Line Tenders
- Hawker License
- Restaurant Licenses
- Octroi Collection
- Application for Water Connection

Large numbers of transactions take place at these centres. The number of transactions and the amount transacted at these centres is given in Table 31.

Table 31
Transactions at AMC City Civic Centres from 18 September 2002 to 31 July 2004

| Services | Transactions | Amount Rs Lacs |
|----------------------------------|--------------|----------------|
| Property Tax | 993677 | 27542 |
| Vehicle Tax | 27404 | 192 |
| Building Plan Approved | 3493 | 1888 |
| TDO fees | 7745 | 1284 |
| Shops and Establishment Licenses | 32956 | 26.22 |
| Birth and Death Certificate | 14780 | 5.20 |
| Hawkers Licenses | 124 | 0.64 |
| Restaurant Licenses | 44 | 0.76 |

Municipalities in Kerala are following citizen's charters. The efforts are being made to improve delivery of municipal services and make the procedure of tax collection hassle free. In Maharashtra, ULBs are introducing citizen's charters and setting up single window system. The Municipal Corporation of Greater Mumbai has set up computer facilitation centres, which provides variety of municipal services to people. These centres are single point contact for most of the municipal services. At these centres, complaint can be made and bills and taxes can be deposited. In Madhya Pradesh, Indore Municipal Corporation is making serious efforts to provide municipal services through single window. It has decentralized the municipal administration. The citizen participation has been mobilized to increase the revenue base of the municipality. It could be possible due to better service delivery. In Karnataka, Bangalore Municipal Corporation has made efforts to bring in transparency and efficiency in municipal services delivery. The networking of municipalities and provision of putting information on websites is helping citizens to access the municipal information quickly and easily.

v) Preparation of Computerized Annual Reports and Vision Documents

In Punjab, there is no tradition for preparing computerized annual report and vision documents. The local authorities in progressive Indian states and selected member countries of EU have introduced the process of preparing these reports and vision documents, which help them to prepare sound policy for the towns and cities. In Kerala, local authorities prepare annual report not only in English but also in local Malayalam language. The peoples plan campaign was initiated by state government to mobilize all stakeholders for improving the capacity of LSGIs to prepare the plan documents. Similarly, in Gujarat, Maharashtra, Karnataka and Madhya Pradesh municipalities have started preparing their annual reports.

In Europe, municipalities are involved in preparing vision documents. The preparation of 'Midden Delfland 2025: A Vision Document' is one of the important initiative of the municipality of Midden Delfland in Netherland. The document covers all major areas like social, economic, cultural, historical, natural dimensions besides dairying, landscape, water, recreation, archaeology, transportation (mobility), investment, infrastructure (housing, roads, sewerage etc.) and environment. The municipality organized a conference to discuss the various dimensions of the vision document. The municipality will make all possible efforts to achieve the goals of the vision document. It has taken care of various policy recommendations of the Netherlands Urban Policy, which aims at combining expertise with financial and human resources in dealing with the economic, social and physical aspects of cities. The Leicester City Council prepares very comprehensive annual report and a corporate plan covering all major areas of local concern. The corporate plan is a key document in decisions about the setting of departmental budgets. The council has introduced the tradition of preparing a three-year plan for spending and council taxes keeping in view the long-term perspective.

vi) Property and Asset Management

Poverty and asset management is very poor in urban areas of Punjab. The municipalities do not prepare inventory of their properties and assets which could play a vital role in enhancing their fiscal capability. Except Ludhiana Municipal Corporation which prepared an inventory of its properties, no other municipal corporation has made any effort in this direction. The local authorities in progressive Indian states and member countries of EU have initiated the process of preparing the inventories of their properties and assets.

vii) Complaint Monitoring and Redressal System, Ombudsman, and Appellate Tribunals

The local authorities in Punjab do not have sound complaint monitoring and redressal system. There is no post of municipal ombudsman which can play a very vital role in facilitating redressal of municipal cases/complaints/objections. In Maharashtra, computer facilitation centre established by Mumbai Municipal Corporation have complaint monitoring and redressal system. The Greater Mumbai has set up the central complaint redressal system which provided the single window complaint registration system. The system was provided with a twenty-four hour toll free number with ten telephone line in one hunt group. The centre is equipped with four computers connected to a server that is installed with complaint management software developed in-house. Under this initiative, five separate control rooms were unified into a single control room located in the head office. This has brought down the cost in managing the complaints and also it has helped the corporation to redress more than 75 per cent of the complaints on time. In Karnataka, Tumkur City Municipal Council has installed a wireless public grievance redressal system for providing better level of municipal services to the citizens. The duration of complaint redressal has reduced considerably and efficiency of municipal staff has improved. It has also helped to mobilize municipal resources.

England has an ombudsman for local authorities. In India, Kerala has an ombudsman for local authorities, which has established accountability of local government system. The Appellate Tribunals has been set up to listen the grievances of the citizens regarding government policies, programmes and schemes.

viii) Performance Assessment

There is no system of performance assessment of local authorities in Punjab which could be important for improving the performance of various units/departments of local bodies and also of municipal employees. The member countries of EU have introduced a number of performance management regimes set up by central government. The UK government introduced the modernization agenda and performance management system to improve the quality of governance. It issued Best Value Review Guidelines which came

into effect from April 1, 2000. According to this system, the local authorities must have in place arrangements to secure continuous improvement in the way in which they carry out their functions, publish annual plans showing past and projected performance and introduce a rigorous programme of audit and inspection. The reviews must address four key principles:

- Challenge why and how the service is provided;
- Secure comparison with the performance of 'the best in class' using a variety of relevant indicators/methods and making relevant comparisons;
- Consult citizens, actual service users, the authority's partners and the wider business community in relation to the service and the review and in setting new performance targets and improvement plans; and
- Consider fair competition as a means of securing efficient and effective services.

The Leicester City Council has established a draft performance management framework. The authority's own strategies have to be considered to ensure that they support the community plan and a performance plan that shows that authority's targets and how these are measured and performing annually has to be published each year. The performance management framework considers the local political priorities, community plan, national priorities and statutory requirements along with the finance strategy, asset management plan, ICT strategy and HR strategies. Accordingly, the strategic direction and corporate plan, service plans, business improvement plans and individual improvement plans are considered for assessing the performance.

The process of decentralized planning and people's participation in urban areas has not been evolved in Punjab. The ward committee and district planning committees have not been constituted even after 12 years of conformity legislations. This has been affecting the quality of local self-governments. Kerala, Karnataka, Maharashtra, Gujarat and Madhya Pradesh have introduced several reforms to introduce and strengthen the decentralized system of urban planning. The people's participation has been promoted by constituting ward committees. The urban management practices have been upgraded to improve the quality of governance. Local authorities in member countries of EU have evolved wider partnerships and joint municipal arrangements to improve the local urban management practices. Various alternative options have been identified for providing and upgrading delivery of municipal services. Large numbers of municipalities have gone for public private partnerships to improve the coverage and quality of water supply, treatment of solid and liquid waste and financing of important projects. The urban service delivery is improving in these towns. The small and medium towns are availing finances under new fiscal mechanisms promoted by central government. In Europe, municipal services have been offloaded to private sector. The efforts are also being made to improve solid and liquid waste management for overall improvement in environmental conditions. Innovative management practices such as introduction of single window system, citizen civic centres,

citizen's charters, preparation of computerized reports, vision documents, property and asset management, automatic complaint monitoring and redressal system have been applied by the local authorities in progressive Indian states and member countries of EU. The system of capacity building and innovative urban management as evolved by progressive Indian states and member countries of EU should be replicated by local authorities in Punjab to cope with the challenges of rapid urbanization, urban management, environmental degradation and implementation of 74th Amendment.

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Part-II

Panchayati Raj Institutions

This part of the chapter broadly covers following aspects: (i) benefits of decentralized planning; (ii) preparation of decentralized plans; and (iii) role of gram sabha and district planning committee in decentralized planning.

Introduction

Mahatma Gandhi said that ‘true democracy can not function through people sitting at the center. It should be from base level and by the people of village’. The motive behind decentralization is to promote greater participation of people in decision-making at the grass root level. This has, however, not taken place so far. People's participation in the centrally driven service provision programmes launched by the government is limited to being the beneficiaries of the programme but has little or no say in the formulation and implementation of the programmes. The role of PRIs is limited and they are merely consulted, not adequately involved in the decision making process. In other words, they are not seen as active partners in the development programmes.

A meaningful realization of decentralized planning and governance is possible only when people's representatives, officials, Non-Government Organizations (NGOs) and local intelligentsia take active part in planning and governance. Shah (1998) has remarked ‘a participatory development process, by definition implies that all sections of a community have equal access to and take part in equal measure in the decision making process’.

True decentralization could reduce bureaucratic red-tape, reduce delays, overcome administration's indifferences towards their clientele, improve quality of service, act as effective channels of communication between national government and local communities, promote greater participation of people in planning and decision making (Rondinell, 1983).

Some of the benefits of decentralized planning are as follows:

- Increased people's participation
- Better management of programmes
- Participatory planning for provision of services/facilities in specific areas
- Greater mobilization of resources at local level
- Evolution of participatory mechanism to promote local level leadership and willingness to undertake local plan formulation and implementation.
- Reduction of regional disparities

However, the success of decentralized planning depends on following factors:

- The degree of willingness of political leaders and bureaucracies to support decentralization and transfer responsibilities;

- Degree of dominant behaviour, attitudes and culture conducive to decentralized decision-making and administration mechanism;
- Proper designing of policies and programmes; and
- Adequacies of financial, human and physical resources. (Narayana, 2000)

Panchayati Raj Institutions and Decentralized Planning

Decentralized planning is a key constituent of the democratic decentralization. All the three institutions of panchayati raj institutions are required to be actively involved in the process of decentralized planning at their own levels. The key role of village panchayat is project formulation and implementation of programmes at the village level, while the responsibility for overseeing its effective implementation could be given to the panchayat samitis (intermediate panchayat) and zilla parishads (district panchayat). However, there can be no watertight division of roles of each tier of PRIs. In certain matters affecting the whole district, the zilla parishad would have an important role at the planning stage.

The role of PRIs at different levels in planning process can be broadly demarcated as follows:

1. Village panchayat level

- i. Identification of needs of people.
- ii. Preparing village plan.
- iii. Identification of beneficiaries of development programme.
- iv. To identify the works: construction and repair of roads; school buildings, drainage, anganwadi buildings, health sub center buildings, community centers, bus shelters, water supply, etc.
- v. To identify the required manpower, funds and materials.
- vi. Motivating the people to contribute in cash and kind towards community development and welfare activities.
- vii. Preparing annual report.

2. Panchayat samiti level

- viii. Scrutinize the village plans and forwarding the same to the zilla parishad.

3. Zilla parishad level

- ix. Give final approval to plans before forwarding to the state government.

In addition, the panchayat samiti and zilla parishad can initiate their development plans at block and district levels.

Micro Planning is one of the important instruments of decentralized planning. Every village must prepare their village micro-plan both sectoral and aggregate micro-plans and implement them. Key advantage of micro planning is that it will promote efficiency, transparency and accountability and raise faith of the people in Panchayati Raj Institutions.

Participatory Micro Planning

The participatory micro planning means:

1. The participation of the beneficiaries, the local people, in identifying needs.

Customarily some of the common needs of the village people including civic amenities are:

- (i) Need for civic amenities such as: housing road, sewerage, safe drinking water, and sanitation.
- (ii) Constitution of Self Help Groups (SHGs) and mahila mandals.
- (iii) Economic benefits to the families living below the poverty line.
- (iv) Self and wage employment and public distribution system.
- (v) Community and cultural and organizational needs.
- (vi) Need for adult and non-formal education centres, anganwadis and health sub-centers.
- (vii) Pro-poor development initiatives.

2. Generating available resources in terms of

- (i) Material inputs;
- (ii) Cooperative action;
- (iii) Creation of more resources through supportive; and
- (iv) Preparation of village micro plan and five year prospective plan keeping in view the available resources.

Steps in Preparation of Micro-Planning

Some of the steps to be followed in the preparation of village micro-plan are as follows:

1. It is desirable to organize voluntary organizations involving local citizens, women, teachers and active retired citizens particularly from defence services, greater participation of scheduled castes and involving youth in the process of formulation of grass root level development plans.

2. In addition, collection of basic data, formation of working groups of the people interested in local development also helps to develop viable plans free from controversies.
3. It is desirable to prepare a work plan which is nothing but a blueprint for decentralized project management specifying the 'what, who, when and how' of local project implementation.
4. The cost of material and human resources must be worked out, which forms the project budget. The resources comprise government grants, contribution by the local community or loans from banks and institutions.

Decentralized Participatory Planning in Kerala

The 'People's Plan Campaign' launched at the tune of the formulation of the Ninth Plan marks a major step taken by the Kerala government in decentralized planning is the key. People's Plan Movement aimed at empowering people by allowing them the freedom of choice in the formation of development projects for the area.

Five stages of decentralized planning exercise adopted in Kerala are as follows:

Stage-I: Convening gram sabha and panchayat ward conventions. These conventions aimed at listing the problems of respective areas and seeking suggestions for solving the problem. These included sectors like agriculture, irrigation, education, animal husbandry, industry, health fisheries, sanitation, drinking water, etc. There was predominant participation of women in these programmes.

Stage-II: The second stage included the holding of a Panchayat development seminar. This seminar discussed the 'Development Report' prepared by specialists after considering the suggestions put forward by the gram sabha.

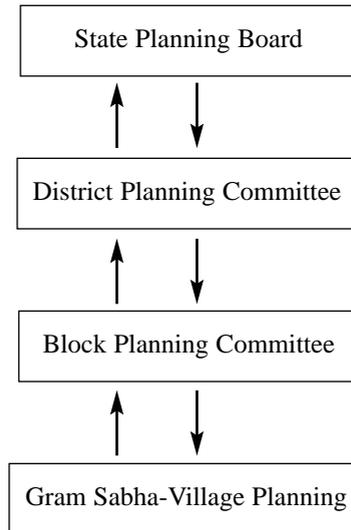
Stage-III: The formulation of task force in twelve subject areas (mentioned in stage-I) to distil the various project concepts into proposals.

Stage-IV: Finalization of panchayat plans

Stage-V: Integration of plan into district plan. Later on, the district plan along with the panchayat plan forwarded to the state planning board (SPB) for inclusion in the state plan.

The flow of information starts from below and goes up to SPB and then instructions flow from top to bottom that is from SPB to the village panchayat level as depicted in chart 3.

Chart - 3
Decentralized Planning Model



Decentralized Planning in Karnataka

The Karnataka system provides for planning right from the village level. The gram sabha prepares and promotes the development scheme of the village in its open meetings. In the gram sabha demands of the villages are listed, prominent among them are school building, drinking water supply, primary health center, veterinary dispensary and link road to the nearest market center. These demand lists are considered by the Gram Panchayat (GP) and a sub-plan for the GP is then prepared according to the requirement of the individual villages as far as possible. The plan formulated by the GPs are passed on to the Taluka Panchayat (TP), which after incorporating GP plans into its own, sends it to the Zilla Panchayat (ZP) for similar action. Then all these plans are integrated into the district plan. This process is designed in such a way that the aspiration even at the village level is taken care of. Karnataka has also prescribed a planning calendar indicating the dates within which each panchayat has to finalize its plan.

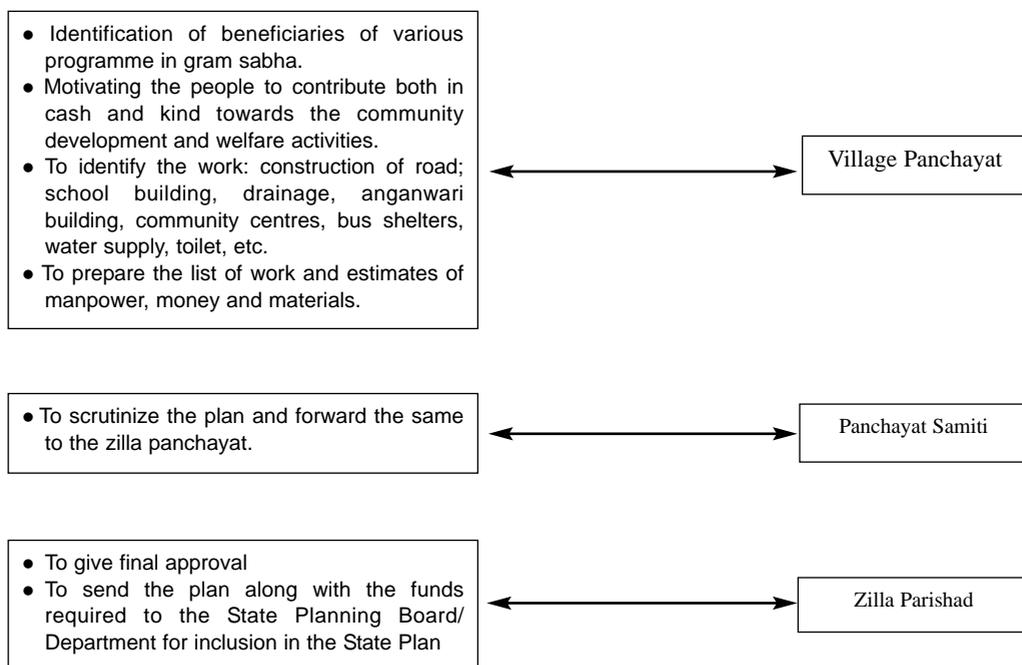
Ideal Decentralized Planning Model

The village planning committee, block planning committee, district planning committee and state planning board constitute the chain of decentralized planning. Proper activity mapping of each institution must be carried out as given below:

Table 32
Activity Mapping of Different Institutions in Decentralized Planning

| Institutions | Activities | Calendar |
|--|--|-------------------------|
| Ward Committee | Need assessment of their respective wards prepare work plans and seek approval and send it to Gram Sabha for consideration. | Second week of October |
| Village Development/ Executive Committee | Formulation of village plan and get it approved in Gram Sabha | Second week of November |
| Block/Planning Executive Committee | Approval of Village Plan by the Executive Committee and sending it to District Planning Committee | First week of December |
| District Planning Committee | Discussion and sending it to panchayat for modifications if necessary and finally approving and sending it to State Planning Board | First week of January |
| State Planning Board | Including it in the state plan | |

Chart 4
Activity Mapping of PRIs in Decentralized Planning



The Gram Sabha and District Planning Committee (DPC) are the two vital institutions created under the 73rd constitutional amendment to play critical role in the process of decentralized planning.

Role of Gram Sabha:

The Ashok Mehta Committee (1978), while affirming the role of the gram sabha said:

‘The gram sabha has an important role in activating the democratic process at the grassroot level, in inculcating community spirit, in increasing political awareness, in strengthening development orientation, in educating and in enabling the weaker sections to progressively assert their viewpoint’

The year 1999-2000 was declared as the ‘Year of Gram Sabha’ by the then Finance Minister in his budget speech. This was done in recognition of the fact that the gram sabha is potentially the most significant institution of participatory democracy and decentralization. The gram sabha is a key institution and has been assigned a basic role in the 73rd constitutional amendment. Article 243A of the constitution states ‘The Gram Sabha may exercise such powers and perform such functions at the village level as the legislative assembly of the state may by law, provide’. While Article 243 (B) states that: "Gram sabha means a body consisting of persons registered in the electoral roll relating to a village comprised within the area of panchayat". Emphasizing the importance of the gram sabha, S P Jain remarked:

"Panchayats as the basic units of self-government at the village level are expected to bring about an element of transparency between the people and the government system. Accordingly, all activities to be carried out by the village panchayats have to get the approval of the gram sabha, which consists of all adult members of the area. The gram sabha is expected to accord approval to different activities related to the schemes and plans and also for the selection of beneficiaries for different poverty alleviation programmes".

Constitution of Gram Sabha

The Punjab Panchayati Raj Act 1994 envisages that:

‘The state government may, by notification declare any village or group of contiguous villages with a population of not less than two hundred constitute a gram sabha’.

The Act provides that:

‘Every person who is entered as voter on the electoral roll prepared by the State Election Commission shall be member of the gram sabha’.

Meeting and Quorum of Gram Sabha

The Punjab Panchayati Raj Act, 1994 states:

'Every gram sabha shall hold two general meetings in each year, one in the month of December after the harvesting of sauni crop (here in after called the Sauni meeting) and the other in the month of June after the harvesting of the Hari crop (hereinafter called the Hari meeting) on such dates as may be fixed by the panchayat'.

For any meeting of the gram sabha, one-fifth of its total member shall form the quorum. And in the case of an adjourned meeting, the quorum shall be one-tenth. However, the provision shall not apply to any other meeting of the gram sabha held due to adjournment.

The secretary of the gram panchayat and the gram sewak shall attend every meeting of the gram sabha. The meetings of the gram sabha need to be called with proper intimation to panches at least three clear days before the day indicating date, time and place of the meeting and the business to be transacted.

Functions of Gram Sabha

According to Punjab Panchayati Raj Act, 1994, the gram sabha shall perform the following functions:

1. To approve annual budget, plan development programmes, review annual statement of accounts and progress report;
2. To identify beneficiaries for the implementation of development schemes pertaining to the village; provided that in case the gram sabha fails to identify the beneficiaries within a reasonable time, the gram panchayat shall identify the beneficiaries;
3. To mobilize voluntary labour and contributions in kind or cash or both for the community welfare programme;
4. To promote the programme of adult education and family welfare within the village;
5. To promote unity and harmony among all sections of society in the village;
6. To seek clarifications from the sarpanch and panches of the gram panchayat about any particular activity, scheme, income or expenditure; and
7. To perform such other functions as may be prescribed.

Relevance of Gram Sabha

Although experience of the working of gram sabhas in different states does not provide a promising picture, it cannot be denied that the institution has the potential to serve as a strong forum for participatory democracy, provided it is suitably armed with necessary

powers and functions (Jain, 1997). Jaya Prakash Narain, one of the strong proponents of decentralized democracy was of the opinion that:

‘The gram sabha signifies village democracy. Let us not have only representative government from the village up to Delhi. At one place, at least let there be direct government and direct democracy. The relationship between panchayat and gram sabha should be that of cabinet and assembly’.

While Joseph and John (2001) have remarked ‘The gram sabha experiment is yet to take off due to a number of reasons. First, not many functions have been transferred to the village panchayat making attendance in the sabha worthwhile for the people. Secondly, since this is a new development, most people do not know its role and its purpose. Thirdly, there is a huge gap between the demands raised in the gram sabha and the resources that the panchayats have for fulfilling them’.

Table 33
Statement Showing Functions Assigned to Gram Sabha in Different States

| Sr.No. | Functions | States |
|--------|--|---|
| 1. | Examine annual statement of accounts and audit report | Andhra Pradesh, Bihar, Gujarat, Haryana, Karnataka, Madhya Pradesh, Punjab, Rajasthan, Sikkim, A and N Island |
| 2. | Discuss report on the administration of the preceding year | Andhra Pradesh, Bihar, Gujarat, Karnataka, Madhya Pradesh, Rajasthan, A and N Islands |
| 3. | Review programme of work for the year or any new programme | Andhra Pradesh, Bihar, Gujarat, Karnataka, Madhya Pradesh, Punjab, Rajasthan, Sikkim, A and N Island |
| 4. | Consider proposal for fresh taxation or for enhancement of existing taxes | Andhra Pradesh, Bihar |
| 5. | Select schemes, beneficiaries and locations | Andhra Pradesh, Assam, Bihar, Karnataka, Kerala, Punjab, Rajasthan, Sikkim, Tamil Nadu and Uttar Pradesh |
| 6. | Mobilize voluntary labour and contributions in kind and cash for the community welfare programmes | Assam, Bihar, Karnataka, Punjab, Rajasthan, Sikkim, U.P |
| 7. | Render assistance in the implementation of development schemes and lending services in villages | Assam, Bihar, Karnataka, Kerala, Punjab, Rajasthan, Sikkim, |
| 8. | Promote unity and harmony among all sections of society | Bihar, Karnataka, Kerala, Punjab, Rajasthan, Sikkim, Tamil Nadu, West Bengal |
| 9. | Seek clarification from the Mukhia and members of the gram panchayat about any particular activity, scheme, income and expenditure | Bihar, Punjab, Rajasthan |
| 10. | Examine last audit note and replies made thereto | Bihar |
| 11. | Consider the budget prepared by the gram panchayat and the future development programmes and the plans for the Gram Sabha area | Gujarat, Haryana, Karnataka, Madhya Pradesh |
| 12. | Consider and scrutinize the existing schemes and all kinds of activities of panchayats | Haryana, Kerala |
| 13. | Maintain a complete register for all development works undertaken by gram panchayat or by any other government department | Haryana, Kerala |
| 14. | Scrutinize the completed works and all kinds of activities of the gram panchayat | Haryana, Kerala |

Source: S P Jain, "Gram Sabha: Gateway to grassroots democracy", Journal of Rural Development, Vol.16 (4), 1997.

Gram Sabha in Gujarat: A case study of Baroda

In Gujarat, four gram sabhas are organized in a year and a representative of government is present in each gram sabha.

In Baroda, the gram sabha are held during following four days in each year:

- 26th January- Republic Day
- 1st May- Day of Gujarat
- 15th August- Independence Day
- 2nd October- Gandhi Jayanti

Gram sabha is a kind of festival in Gujarat in which government organizes cultural programmes and cultural activities like regional folk dances and dramas. The government also organizes legal camps, child health check-up camps; veterinary camps; agriculture camps; ayurvedic camps; and sports through which government tries to build community participation and universal brotherhood. The Gram sabha thus provides an interactive session between the people on the one hand and panchayat and government officials on the other.

Ward Sabha and Gram Sabha in Kerala

Kerala has made a bold attempt to induce peoples' participation more extensively by creating an institution in the form of Ward Sabha with all the voters of the ward being its members. This takes the planning process below the level of gram sabha. The panchayat members representing the ward are responsible to the ward sabha and expected to undertake ward level planning. These plans are then aggregated at the village level and discussed in the gram sabha. By introducing ward sabha, Kerala Panchayati Raj Act has thus transferred planning responsibility on each panchayat member. In other words, the duties and responsibilities in true sense have been decentralized in Kerala to the further extent. The gram sabhas have been given rights and responsibilities with powers for identification of beneficiaries, effective advisory powers for prioritizing developmental needs and wide powers for social audit. The ward sabha system also exists in Karnataka.

District Planning Committee (DPC)

The DPC is another vital institution in the decentralization processes yet to be constituted at the district level in many states, though provided in the constitutional amendment. The 73rd Constitutional Amendment envisages constitution of DPCs by the state governments as prescribed in Article 243ZD, to consolidate the development plans prepared by the gram panchayats. The Punjab Panchayati Raj Act, 1994, provides the district planning committee to prepare the draft development plan having regard to: (i) matters of common interest between the panchayats and the municipalities including spatial planning and

sharing of water and other physical and natural resources, integrated development of infrastructure and environmental conservation; and (ii) the extent and type of resources whether financial or otherwise available.

The DPCs have not been constituted in Punjab and Gujarat. Even where these are constituted, they do not function in accordance with the mandate of Article 243 ZD.

Table 34
Status of District Planning Committees

| State | Status of DPC |
|----------------|--|
| Gujarat | Not constituted |
| Karnataka | Constituted in all districts and president of Zilla Parishad is the chairperson of DPC |
| Kerala | Constituted in all districts and the chairperson of District Panchayat is the chairperson of DPC |
| Madhya Pradesh | Constituted in all districts and minister in charge of the district is the chairperson of DPC |
| Maharashtra | Constituted minister in charge of the district is the chairman of the DPC |

All the States who have constituted DPC must formulate it either by dismantling or restricting their existing District Plan Board in line with requirement of the 73rd Constituted Amendment and State Panchayati Raj Acts. The formulation of DPC will invigorate the process of decentralized planning in the States.

The Tenth Five Year Plan document on the progress made by the states towards operationalizing DPC lamented that ‘State government have not given adequate attention to the DPCs and the government of India’s guidelines on district planning have not been fully operationalized’. The document expected from the states that ‘DPCs should be set up and its functionaries must be trained in the basis of planning. The gram sabha/panchayat should be associated with the preparation of village development plans based on the felt needs of the people. These plans should be integrated with the Panchayat Samiti and district level plans to make the grassroots planning process a reality in the Tenth Plan period’. In Kerala, the DPC integrates the plan proposals of block panchayats/municipalities. The DPC formulates the integrated development plan for urban and rural areas of the district. The State Planning Board is the state level coordinating agency. Oommen (2002) has rightly commented "looking back, one can firmly maintain that decentralized planning has been virtually abandoned by the majority of the states with impurity. Although all states have constituted State Finance Commission, the Commission's task will remain incomplete without reference to the DPCs. In fact, DPCs, are alive and kicking only in Kerala’.

Other Necessities of Decentralized Planning

Besides proper functioning of gram sabhas and district planning committees, the other two important requirements of the successful implementation of decentralized planning are:

1. Availability of united funds with panchayats; and
2. Participation of women and disadvantaged in the planning process.

Mathew (2000) remarked that planning from below or grassroots planning as against the top-down planning, remains to be Achilles' heel even under the new panchayati raj dispensation, schemes based on the 'felt' local needs and priorities with locally available resources should have been brought even if the funds come from the central and state governments, they must be totally 'united' in nature, so that whatever is relevant and feasible at a given level could have been taken up earnestly. Except Kerala, Karnataka and Madhya Pradesh, all other states, do not directly allocate 'united' money to panchayats. During the capacity building programme of panchayati raj institutions in Punjab, many representatives of PRIs complained that preparation of village micro-plan is meaningless without the appropriate financial allocation to panchayats. Many sarpanches even opined that people raise several questions to panchayats during the preparation of micro-planning and even raise finger towards their credential and suspect their activities. The untied money tides the hands of panchayats and disallows them to allocate resources based on the felt needs of the people.

The second pre-requisites of decentralized planning is the participation of women and disadvantaged sections such as Scheduled Castes, Scheduled Tribes, backward community and minorities in the process of decentralized planning. Several studies have revealed that a large number of women representatives do not participate in the process of preparation of inventory of resources, prioritizing the local needs, preparation of plan documents, initiating actions programmes, supervision of programmes, participation in discussions at meetings in gram sabha and in listening to peoples' genuine need (Kaushik, 1993 and Aziz, 1997). Uma Joshi (1999) listed out reasons responsible for women's poor participation such as ignorance about their rights and responsibilities, non-visualizing politics as a carrier, disinterest in politics, reproductive roles, shying away from politics due to prevailing goondaism, corruption and communalism and non-cooperation of family members.

Poor participation of women in the planning process is not a healthy sign of the true participatory planning and this means neglectation of the voice of 50 per cent of population in the planning process. Enabling environment must be created for the effective participation of women in the formulation and development of village micro-plan. Without their adequate participation, village micro-plan would become an incomplete exercise.

Thus peoples' participation in the process of decentralized planning is sine-qua-non for the success of the democratic decentralization philosophy as envisaged in the 73rd constitu-

tional amendment. All sections of the rural society particularly women and youth must participate in greater number in the process of decentralized planning. The two vital institutions such as gram sabha and district planning committee must be sufficiently strengthened and actively involved in the process of decentralized planning.

Decentralized Planning in Member States of European Union LEADER Approach

One of the essential elements of good governance as defined by the EU is:

'Decentralization and local government reform/capacity building to promote and institutionalize participation at the local level with a focus on local power structures and resources.'

LEADER (Liaisons Entire Actions de Development Economic Rurale) is a new approach to rural development in European countries based on 'bottom up' planning through intimate cooperation of Local Action Groups (LAGs).

The aim and thrust of rural development policy in Member States of European Union is to improve the socio-economic situation and reduce disparities in rural regions. The local development strategies targeting sub-regional entities is developed either (i) in close collaboration between national, regional and local authorities, or (ii) designed and implemented through a *bottom-up approach* (the LEADER approach). LEADER is a 'Community Initiative' which has been implemented in rural areas at the local level in the least developed regions. The EU has mentioned that the LEADER approach which means listening to the voice of local citizens and increasing their participation to shape their own future with the support of higher levels of government, will therefore be integrated in the rural development programmes.

LEADER is now in its third generation. LEADER-I marked the beginning of a new approach (1991-94) to rural development policy, which is territorially based, integrative and participative. LEADER-II (from 1994 to 1999) saw the LEADER-I approach put to more widespread use, with an emphasis on the innovative aspects of the project. LEADER+, covering the period 2000 to 2006 continues its role as a laboratory for the emergence and testing of new approaches to facilitate integrated and sustainable development that will influence, complete and/or reinforce EU rural development policy.

A distinct feature of LEADER is the implementation of integrated development programmes for local rural areas, drawn up and implemented by broad-based local partnerships, called Local Action Groups (LAG).

Characteristics of LEADER

Three principal characteristics of LEADER:

- Preparing and implementing a 'local action plan' in rural areas of 5,000 to 1,000 inhabitants.

- The local action plan is designed and implemented by local leadership as the final beneficiary of the initiative.
- To include multi-sectoral and systematic inter-linking of developmental actions embedded in an overall vision and strategy.

LEADER in a sense epitomizes the EU's approach to rural development policy as it involves:

- A broad policy framework, strategic aims, common rules and financing established at EU level by the member states and the European Commission.
- A bottom-up approach with rural stakeholders designing rural development measures at local level that best suit their requirements.
- Regional and national selection and approval process for LAGs.

LAGs consist of a combination of public and private partners jointly devising a strategy and innovative measures for the development or an aspect of development of a rural area. The number of LAGs selected by member states (by end July, 2003) was 808 under LEADER-I.

The LEADER-II (1994-99) emphasized on:

- Acquisition of competences for improving information flows and for training local people to analyze their areas needs and drawing up strategies.
- Rural innovation programmes, where funding was for innovative development strategies.
- Transnational cooperation where common projects initiated and carried out by several LAGs operating in at least two member states.
- Networking, where funding supports the development of cooperation between rural areas and the exchange of achievements, experience and know-how.

The eight specific features identified during LEADER-II are:

- Area-based approach
- Bottom-up approach
- Partnership approach
- Innovation
- Multi-sectoral approach
- Networking
- Trans-national cooperation, and
- Decentralized management and financing.

The decentralized management and financing is the main emphasis of LEADER. The priorities areas for LAGs for improving their management and financing aspects are:

- making the best use of natural and cultural resources;
- improving the quality of life in rural areas;
- adding value to local products, in particular by facilitating access to markets for small production units via collective action; and
- the use of new know-how and new technologies to make products and services in rural areas more competitive.

Kerala is the first state to initiate a decentralized planning process in the country. The 'bottom to top' approach: (i) the plan movement from ward sabha to gram sabha; (ii) from gram sabha to block development committee; (iii) from block development committee to district planning committee; and (iv) from district planning committee to state planning board constitutes continuum of participatory approach in decentralized planning. This is a chain approach to planning, where all institutions are involved in the planning process both for the development of village as well as higher levels. Constitution of standing committees or a task force at the grassroot level provides the involvement of peoples representation in the process of planning and development. No other states in India have such decentralization mechanism.

Decentralization is an on going process. Based on the above analysis, Punjab could take following measures for strengthening the process of decentralization in the state:

- Punjab needs to strengthen its village assembly that is 'gram sabha'.
- Democratic connectivity is key to 'bottom up planning'. There must be close connectivity between village, block and district level PRIs. The representatives of intermediate and district panchayats should be involved in the process of bottom up planning as in Kerala.
- Annual plan of every panchayat should be prepared and circulated.
- There should be an 'activity plan' for a panchayat samiti and zilla parishads for drawing up five year plans.
- Panchayats in Punjab are small as compared to Kerala and Karnataka, therefore, there are no 'wards', however, panchayats may form neighbourhood groups to stimulate and direct peoples' participation in decentralized planning and development.

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CHAPTER 4

DEVELOPMENT AND FINANCING OF INFRASTRUCTURE AND SERVICES: ROLE OF LOCAL SELF-GOVERNMENT INSTITUTIONS

Part I Urban Local Bodies

The major objective of this chapter is to describe issues in infrastructure financing, provision of municipal services and urban development in Punjab. In this context role of local self-government institutions (LSGIs) has been examined. An effort has been made to suggest a strategy to mobilize own revenue resources and access non-budgetary resources from capital market for financing urban infrastructure, municipal services, promote planned development of urban areas by implementing schemes/programmes, commercialization of urban infrastructure and finally achieve objectives of CAA. Since the central and state governments have introduced large numbers of schemes/programmes, efforts have been made to see the deficiencies in their implementation and suggest suitable policy prescriptions. Progressive Indian states and member states of European Union to which study tours were organized under the project provide important lessons for replication of best practices.

The focus of this chapter is on municipal resource mobilization for infrastructure financing and urban development. The major components are:

- Urban infrastructure, urban and development in Punjab: Issues relating to coverage, quality, financing and implementation of schemes/programmes.
- Physical targets and financial requirements for financing urban infrastructure/municipal services.
- Inadequacy of municipal resources to meet the investment requirements.
- Mobilization of additional resources for financing urban infrastructure/services and urban development.

The Context

India is urbanizing rapidly. It has second largest urban system in the world after China. At national, level *Task Force on Management of Urban Development (Planning Commission, 1983)*, *Report of the Task Force on Financing of Urban Development (Planning Commission, 1986)*, *National Commission on Urbanization (1988)*, *India Infrastructure Report (NCAER, 1996)* and *the Task Force on Urban Governance and Financing (2001)*, *Report of the Committee on India Vision 2020 (Planning Commission, 2002)* and Eleventh

and Twelfth Finance Commissions have highlighted deficiencies in urban infrastructure and municipal services comprising water supply, sewerage, surface drainage, solid-waste management, roads, street lighting etc. and have identified need of investments which is huge and beyond the fiscal capability of LSGIs. The objectives of urban development schemes/programmes have not been achieved although central government has continuously been emphasizing on planned development in urban areas since beginning of Second Five-Year Plan. Punjab is not exception to this general urban scenario and pressure on urban areas has been escalating with the rapidly growing urbanization. There are serious deficiencies in urban infrastructure and municipal services in Punjab. The urban development schemes have not been implemented effectively which has resulted in haphazard growth of urban areas. Unplanned development of slums without basic infrastructure and services, poor environmental conditions, encroachments of public lands are major problems not only in larger urban areas but also in small and medium towns. In the first section an effort has been made to highlight deficiencies in urban infrastructure and development in urban areas in Punjab. Second and third sections highlight physical targets and financial requirements for financing urban infrastructure, schemes and doubtptit, schemes. The fourth section has highlighted the trends, status and issues in municipal finances. In the fifth section options available for additional municipal resource mobilization for mitigating the deficiencies in urban infrastructure and development have been suggested.

I

Urban infrastructure, services and development in Punjab: Issues relating to coverage, quality, financing and implementation of schemes/programmes

The *First Punjab Finance Commission (1995)*, *Second Punjab Finance Commission (2002)*, *Punjab Development Report* and many other reports and articles on urban infrastructure and municipal services have discussed the deficiencies in urban infrastructure and municipal services with regard to the coverage, level and quality and availability of funds. The First State Finance Commission (FSFC), 1995 of Punjab reveals that water supply is a big casualty, sewerage is inadequate, and even where sewerage facilities exist there is no proper arrangement for sewage disposal and its treatment. There are many pockets where even rudimentary surface drainage does not exist. Solid waste collection, transportation and disposal leave much to be desired. The condition of roads and streets is unsatisfactory with about 40 per cent of the roads and streets needing extensive repairs. There are municipal areas without pucca roads and proper street lighting. Large segments of the population live in slums and lack access to basic civic services.

The fact that infrastructure services do not pay for themselves and the government does not have the resources to subsidize the beneficiaries has resulted in poor availability of funds. With increasing requirements, there is deficiency in volume as well as quality of services. It is high time that a commercial approach is adopted for providing these services (NCAER 1996).

II

Physical targets and financial requirements for financing urban infrastructure/municipal services and urban development

First and Second Punjab Finance Commissions assessed physical targets of services and projected financial requirements for civic services. The First Finance Commission observed that the coverage and quality of urban infrastructure and services was very poor and situation was worst in larger cities due to the existence of a large number of slums and rehabilitated colonies. Therefore, for assessing the requirements of funds for urban infrastructure, slum improvement and upgradation of fire services were also included in order to achieve the above mentioned targets. The FSFC made the following financial projections of cost to improve coverage and quality of urban infrastructure (Table 35).

Table 35
Financial Requirements for Services Projected by the FSFC (Rs. in crore)

| Services | Projected cost (1996-97 to 2000-01) |
|--|--|
| Upgradation of water supply and sewerage and escalation and maintenance of new assets | 1990.00 |
| Upgradation of roads and streets, surface drainage, scavenging, sanitation, solid waste disposal, street lighting, slum improvement and upgradation of fire services and maintenance of new assets | 1797.71 |
| Total | 3787.71 |

Source: Report of the First Punjab Finance Commission (1995).

Non-implementation of the recommendations of the FSFC such as tariffs, recovery of user charges by linking it with the hike in electricity charges and the recovery of expenditure on operation and maintenance (O&M), billing and collections and the capital cost of services are major reasons for the shortfall in the income from water supply and sewerage charges. Since user charges were not extended to water supply, sewerage, parking lots and solid waste management and the principle of full cost recovery was not adopted for reasons of 'political populism' or otherwise, also resulted in non-availability of funds for projected services.

According to the Second Punjab Finance Commission (SPFC), 2002, Urban local bodies (ULBs) were recovering only 47 per cent of expenditure on O&M operation and maintenance of water supply and sewerage schemes. In some ULBs the recovery was even less than 25 per cent of O&M expenditure. It was largely due to non-revision of supply and sewerage charges by most ULBs since March 1993, except in Ludhiana (with effect from 5th April 1999), Jalandhar (with effect from 10th December 1999) and Patiala (with effect

from 28th February 2000) municipal corporations. There is no uniformity of rates of user charges, which are highly subsidized in a number of municipalities. There is no system of regular revision of user charges. The present O&M cost for water supply has been worked out by SPFC at Rs. 2.73 per kilo litre (KL), though the cost including depreciation and interest is Rs. 6 per KL. The SPFC recommended the following targets to recover 100 per cent O&M cost of water supply and sewerage as in Table 36.

Table 36
Targets for Recovery of O&M Costs Projected by the SSFC (2002-03 to 2005-06)

| Year | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---------------------------------------|---------|---------|---------|---------|
| Targets for Recovery of O&M Costs (%) | 60 | 80 | 90 | 100 |

Source: *Report of the Second Punjab Finance Commission (2002).*

According to SPFC, it is necessary to adopt volumetric water supply otherwise much of the advantages of tariff reforms to cover O&M expenses in terms of saving water and preventing wastage will be lost. The Government of Punjab revised water and sewerage rates in July 2003 but they were ‘held in abeyance’ by the state government in February 2004, just before the Parliamentary elections. This resulted in heavy losses due to non-implementation of revised rates. The ban on implementation of revised rates was lifted only in 2005.

A strong urban infrastructure and service support is necessary to realize the objectives of the state government to achieve higher economic growth, industrialization, improve quality of urban life and sustainable development. To ensure sustainable urban development, adequate provision of urban infrastructure/services is essential. To achieve higher urban productivity and ensure environment friendly growth, the objectives should be to accomplish the targets in the next five years. After taking into account the escalation in cost, the estimated cost for financing urban infrastructure/services for the period 2002-03 to 2005-06 was estimated by the SPFC at Rs. 3662.52 crore. On the other hand the State Development Report prepared by CRRID for the Planning Commission of India, estimated the financial requirements for financing water supply, sewerage, solid/liquid waste management/treatment and other important services as in Table 37 (next page).

Table 37
Physical Targets and Financial Requirements for Water Supply, Sewerage, Solid Waste Management and other Infrastructure Services from 2002-03 to 2006-07
(Rs. in crore)

| Particulars | Target of Financial requirements coverage by the year (%) | | | | | | Total (2002-03 to 2006-07) |
|---|---|---------------|---------------|---------------|---------------|---------------|----------------------------------|
| | 2006-07 | 2002-03 | 2002-04 | 2004-05 | 2005-06 | 2006-07 | |
| Water supply | 100 | 106.0 | 111.0 | 121.0 | 122.0 | 122.0 | 582.0 |
| Sewerage | 100 | 210.0 | 270.0 | 310.0 | 380.0 | 440.0 | 1610.0 |
| Drainage | 25 | 63.0 | 81.0 | 93.0 | 114.0 | 132.0 | 483.0 |
| Sewage treatment plants | 100 | 168.0 | 168.0 | 168.0 | 168.0 | 171.0 | 843.0 |
| Solid waste management | | | | | | | |
| (a) Extension and augmentation of collection and transportation | 100 | 20.0 | 20.0 | 20.0 | 20.0 | 25.0 | 105.0 |
| (b) Treatment and disposal | 100 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 125.0 |
| O&M of water supply and sewerage system | | 167.5 | 171.0 | 174.0 | 177.5 | 187.0 | 877.0 |
| Roads and streets | 100 | 140.0 | 140.0 | 140.0 | 140.0 | 140.0 | 700.0 |
| Street lights | 100 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 | 300.0 |
| Fire services | 100 | 35.0 | 35.0 | 35.0 | 35.0 | 35.0 | 175.0 |
| Parks, gardens, urban forestry, parking and bus stands etc | - | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 200.0 |
| Grand Total | - | 1034.5 | 1121.0 | 1186.0 | 1281.5 | 1377.0 | 60000.0 |

Source: Punjab Development Report 2002, prepared by CRRID, Chandigarh, New Delhi: Planning Commission of India.

III

The investment needs estimated by State Development Report were considerably higher than the estimates made by the SPFC. The proposed investment is beyond the normal fiscal capacity of ULBs of Punjab. Centrally sponsored urban development schemes/programmes have not been implemented effectively due to variety of reasons including lack of adequate matching financial contributions by the state government. The serious efforts are required to mobilize municipal resources and also to access funds from capital market, commercialization of urban infrastructure and improvement in pricing of basic municipal services. Privatization of municipal services is another option to reduce the functional burden of municipalities and bring in the management and technical efficiencies in municipal management.

Implementation of Urban Development Schemes/Programmes: Poor Role of ULBs

The Government of India has been implementing large number of schemes/programmes for promoting planned urban development, upgrade urban environmental infrastructure/services, slum development and poverty alleviation, etc. The Second Five Year Plan stressed on the need of undertaking urban development and housing programmes in the context of economic development and industrialization. Since municipalities were not capable of discharging the variety of important responsibilities to achieve these objectives, it was felt to develop the competent municipal administration with adequate power resources and administrative/technical capabilities. In the Third Five Year Plan (1961-66) emphasis was placed on land acquisition and development, preparation of master plans, regional development plans for metropolitan towns and other cities. The slum clearance and improvement scheme was initiated to improve environmental conditions. The regional urban development plans were prepared for large number of cities. The balanced urban growth was accorded high priority during the implementation of Fourth Five Year Plan. The need of integration of programmes for land development, water supply, road, social and educational institutions was considered important. The scheme for Environmental Improvement of Slums (EIS) was initiated in the central sector in 1972-73. The emphasis on development of smaller and medium towns was placed in the Fifth Five Year Plan and the context of strengthening the fiscal domain of municipality need to devise a system of devolution of funds and provision of new taxation was realized. The introduction of Integrated Development of Small and Medium Towns (IDSMT) was launched in the Sixth Five Year Plan for the towns having the population of less than one lakh. The development of roads, pavements, markets/shopping complex, bus shelters and parkings were given priority. Seventh Five Year Plan identified the need to prepare a comprehensive plan for urban development with focus on planned and integrated development of small and medium towns, revitalization of civic bodies, reforms in municipal administration, improvement of slums, provision of basic services and need of devising a mechanism for devolution of state funds to local bodies.

The scheme on low cost sanitation was introduced in 1980. The scheme on Urban Basic Services was introduced in 1985 which was renamed as Urban Basic Services for the Poor (UBSP) in 1990-91 (under the Eighth Five Year Plan). The IDSMT scheme was extended to the towns having population upto three lakh. Nehru Rozgar Yojana (NRY) was initiated in 1989. The National Housing Policy was also prepared during this plan. The Eighth Five Year Plan (1992-97) stressed on evolution of macro strategy for urban development. The implementation of Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and introduction of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) are two important programmes during the Ninth (1997-2002) and Tenth Five Year Plan (2002-2007). The central government has been making efforts to promote planned urban development, improve the capacity of LSGIs, improve housing conditions and access to basic civic services by introducing innovative schemes and enabling legislations but the pace of planned urban development is extremely poor. Punjab is no exception to the

national urban development scenario. The implementation of urban development and poverty alleviation programmes has been very poor and, therefore, has affected the sustainable development of urban areas. The Environmental Improvement of Urban Slums (EIUS) was transferred to state sector. The financing pattern of UBSP, NRY and Prime Minister's Integrated Urban Poverty Eradication Programme (PMIUPEP) and IDSMT required the matching share of state government which was not transferred adequately. The poor identification of beneficiaries, cumbersome process in accessing institutional loans for starting self employment ventures and inadequate resources affected the implementation of most of the urban development and poverty alleviation programmes. The institutional inadequacies and lack of enabling legal environment have also affected the planned urban development. Now implementation of the schemes identified under recently launched JNNURM requires strong political will and efficient municipal administration with sound fiscal domain. The state government must play an important role by contributing its share and creating a conducive environment for meaningful outcome of this mega programme. The ULBs should play an important role in implementing the schemes.

IV

Inadequacy of Municipal Resources to meet the Investment Requirements

Municipal finances mainly comprise internal sources (tax and non-tax revenues) and external sources (borrowings and grants-in-aid/share in state taxes and transfers from the central government). Constitutional provisions such as Articles 243X, 243Y and 280(3) (c) are concerned with the transfer of funds from higher levels of government to ULBs. Article 243W deals with 18 functions (Twelfth Schedule) to be devolved to the urban LSGIs and therefore there is need of close relationship between these Articles to eliminate mismatch between financial requirements and existing municipal resources.

Taxation powers of municipalities in terms of taxes and fees have been provided under Sections 61 of Punjab Municipal Act (PMA), 1911, and Section 90 of Punjab Municipal Corporation Act (PMCA), 1976. A number of taxes and charges have been provided under these sections but, octroi, property tax, water supply and sewerage charges are the major sources of income of ULBs, but these taxes are not growing to their full potential due to deficiencies in management and collection practices.

The Government of Punjab has declared to abolish the octroi (w.e.f., September 1, 2006) without replacing it with another buoyant source of revenue. The state government is planning to compensate ULBs by routing the same amount from the enhanced sales tax revenue of the state by implementing the Value Added Tax (VAT). But apprehension of municipalities is visible as they think that replacing octroi is almost impossible as this is the major source of revenue and it takes care of day-to-day revenue and capital account requirement of municipalities. The experience of the states who have abolished octroi has not been good as this decision has affected the fiscal domain of municipalities badly. The fear is that the state may not transfer adequate compensation to municipalities in lieu of abolition of octroi.

After octroi, property tax (PT) is the next major source of municipal income, but it is plagued with several deficiencies. Entry 49, read with Entry 5 of the State List in the Seventh Schedule of the Constitution of India, enables the ULBs to levy tax on land and buildings. Its income continues to be meagre due to poor valuation/rate structure, exemptions on self-occupied residential properties (from 1 April 1997 onwards), and deficiencies in assessment and collection procedures. The FSFC, noticed that growth of income from PT is constrained by existing rent control laws. It highlighted several deficiencies in fixation of tax base, tax rate, tax assessment, tax collection, tax exemptions/concessions and lack of uniformity in the laws for municipal corporations and municipal councils. Though Punjab has liberalized its Rent Control Legislation to make it fall in line with the Model Rent Control Law, 1992, of the central government, the desired result of boosting tax revenue, as a result of changes in the formula for determining the standard rent, have been limited, as most of the old high-priced inner city properties have continued to be assessed at a very low rateable value.

The income of water supply and sewerage charges, the next contributor to own sources of municipal income is nominal due to political and administrative reasons such as faulty pricing and poor cost recovery, system losses, theft, excessive energy consumption, poor billing and collection, high capital cost, non-volumetric supply of water and lack of periodic revision of user charges. The FSFC noticed that the principle of 'user charges' is not being properly enforced by ULBs for providing civic services. As a result, most of these services, which could be financed through 'user charges', are heavily subsidized or given free. It has also highlighted several deficiencies in the management of the water supply and sewerage system such as large-scale evasion due to unsatisfactory billing and collection of water charges, expenditure on maintenance is out of proportion and far in excess of the recovery by way of user charges from the consumers, lack of system of revision of rates for water supply and sewerage to provide for cost escalation including labour cost, wages, spare parts and hike in power tariffs and too much wastage of water by public and street taps, theft through illegal connections and supply to unauthorized settlements.

The municipal income from other sources is not adequate to meet the growing demands of ULBs for infrastructure development and rising expenditure on establishment. Urban local bodies do not levy professions tax provided in the PMCA, 1976, and PMA, 1911, development tax in the PMCA, 1976, and scavenging tax. Total revenue of ULBs from various sources is not growing and is fluctuating from year to year although there is good potential in many sources of tax as well as non-tax revenue. The transfers as recommended by the state finance commission have not been given to the ULBs in accordance with the recommendations. Grants from central government for centrally sponsored schemes have been inadequate.

The First and Second Punjab Finance Commissions and Twelfth Finance Commission (TFC) of India have highlighted that all municipalities incur unduly large expenditure on establishment. The excessive caderization with fixed strength, as determined by the

government, is responsible for this trend. Unplanned expenditure on ad hoc and temporary workforce for sanitation, roads, water supply, etc. also contributes in increasing expenditure on salaries and wages. The SSFC has analyzed that the cost of establishment was 42.03 per cent of the total own revenue and 39.57 per cent of the total expenditure of ULBs in 2000-01. It was higher than the limits fixed by Local Government Department, which provides that not more than 35 per cent of the total expenditure should be spent on salaries.

Fiscal domain of ULBs in Punjab is unsatisfactory due to low tax rates and absence of periodic revision of taxes and user charges. Deficiencies in administration, management, billing and collection and accounting practices are also responsible for poor fiscal performance of municipalities. The power of fixing rates of municipal taxes vests in the state government and municipalities do not have freedom in fixing user charges based on cost of provision of services. The municipalities are not free to raise loans/funds from the capital market without prior approval of the state government. Not only the amount of loan, the rate of interest to be paid for loans and the terms and conditions, the date of floatation, the time and method of repayment are subject to the approval of the government. Municipalities largely depend on transfers and grants from state and central governments, which are not adequate and are not likely to increase with the growing revenue and fiscal deficits of the state government and federal government. The own revenue mobilization of municipalities is inadequate to meet the increasing demand of infrastructure services.

V

Mobilization of additional resources for financing urban infrastructure/services and urban development

There is need to mobilize additional municipal resources. The reforms in existing taxes such as property tax and octroi and non-tax sources such as water supply and sewerage charges are the pressing need to strengthen the financial position of ULBs. The First and Second Punjab Finance Commissions have recommended reforms in administration, collection and management of own sources of revenues as well as raise funds from the capital market. The Eleventh and Twelfth Finance Commissions of India have also recommended that ULBs must recover full O&M cost of municipal services and no exemptions should be given in property tax. In addition, the wasteful expenditure on establishment should be compressed to enable ULBs to invest in urban infrastructure and municipal services. There is need to introduce innovative urban management practices for mobilization of additional resources. The municipalities in progressive Indian states particularly in Gujarat, Maharashtra, Karnataka, and Kerala have mobilized their resources. The local authorities in selected European Countries have very strong fiscal base. Reforms in major sources of own revenue as well as from non-budgetary sources as discussed below are necessary for enhancing the municipal fiscal capability:

Property tax reforms: Property tax is a premier tax of local self-governments globally and it has potential to grow in Punjab also. Property tax administration should be streamlined

to improve income from this important source of tax revenue. Efforts should be made to improve tax base, tax rate, tax assessment, tax collection, reducing tax exemptions and resolution of disputes relating to outstanding arrears. According to the guidelines for PT reforms prepared by the Ministry of Urban Development (MOUD), Government of India (GOI), a good PT structure should have the following characteristics:

- A low rate of tax to make it acceptable.
- Assessment and collection should be simple and transparent.
- Equity between different classes of tax payers.
- Minimum discretion of assessors.
- Facilitating self-assessment by owners/occupiers.

Since existing annual rental value system has inherent deficiencies, a consensus has now evolved on 'area-based' property tax. Hon'ble Supreme Court of India has held that the 'property tax is the principal source of income of the ULBs. It is unfortunate that the property taxes are levied at very low rates, which have been generally rent based and not revised for five years. Regrettably, large-scale exemptions and concessions are given to property holders. A lot of disparity is also seen in the manner of assessment of property tax. There is a need to have area-based property tax reforms to make the system of assessment rational, transparent, simple and fair with minimum exemptions'. The EFC and TFC too have suggested that there is a need to improve revenue from property tax and reduce exemptions.

Gujarat, Tamil Nadu, Andhra Pradesh, Delhi, Indore, Chandigarh and Patna have initiated reforms in property tax, which are worth looking at for reforming this tax in Punjab. The Hon'ble Supreme Court of India, in a recent judgment on the Andhra Pradesh PT system, has upheld the area detail system of property tax, provided the methodology and the procedure of valuation and assessment of rental value are stipulated in the municipal laws. There is need to adopt innovative practices in valuation and assessment and also in tax administration as well such as use of Geographical Information System (GIS) for tax mapping, valuation and tax collection, computerization of PT records for effective billing and collection, a scheme of incentives and penalties for tax payers to enhance collection ratio, and strict monitoring of tax collection through ABC Analysis to streamline the deficiencies in property tax system in the state.

In 1999, Ahmedabad Municipal Corporation (AMC) introduced a new area-based property tax assessment system. The following activities were conducted in order to formulate PT system:

- Contractors were appointed for survey of all properties in the AMC area.
- Various alternative formulas were considered to arrive at a PT system.
- The system was widely discussed across the various groups such as elected wing of the corporation, the Members of Legislature Assembly, Members of Parliament and various interest groups.

- Before the training on the taxation rules, a series of tasks that were taken include:
 - Survey of property
 - Computerization of data
 - Issue of special notices and bills
 - Receiving of objections by the owners
 - Hearing of objections by the appellate authority
 - These tasks were carried out by AMC employees and contractor employees
 - Based on survey fine-tuning was done and the draft rules were finalized and sent to government for approval. On being approved, they were taken up for implementation

The area-based system adopted by AMC has following key features:

- The minimum and maximum rate for residential carpet area are Rs. 10 and Rs. 40 per square meters respectively. For non-residential carpet area are Rs. 20 and Rs. 80 per square meter
- The rate of tax is determined by taking into consideration the following factors
 - **For Residential Buildings**
 - ◆ Market value of the land area in the city in which the building is situated (Location Factor)-F1
 - ◆ The period of existence of the building (Age Factor)-F2
 - ◆ Type of building-F3
 - ◆ Whether the building is occupied by the owner or tenant (Occupancy Factor)-F4
 - **For Non-Residential Buildings**
 - ◆ Market value of the land in the area of the city, in which the building is situated (Location Factor)-F1
 - ◆ The period of existence of the building (Age Factor)-F2
 - ◆ The purpose for which building is used (Use Factor)-F3
 - ◆ Whether the building is occupied by the owner or tenant (Occupancy Factor)-F4

The Formula of calculation of property tax is:

$$\text{Property Tax} = \text{Annual Rate} \times \text{Area} \times [F1 \times F2 \times F3 \times F4]$$

The impact of implementation of area-based system has been described below:

- Tax collection has increased
- Flexibility in increasing the tax rate every year
- Objections/complaints are being regularly sorted out
- Property tax has been delinked from Rent Control Act and become easy for calculation and collection
- The tax evasion is nominal

In 1997, Indore Municipal Corporation (IMC) switched over to a simple self-assessment system of property tax based on the location, size, age and use of taxable properties. A formula was devised to enable the tax payers to calculate their own tax. The physical survey of properties to identify unregistered/uncovered properties was carried out in 2001-02 which doubled the number of properties from 1,35,000 to 2,36,000. The revenue income of IMC increased by implementation of simplified system of PT, administrative reform measures such as computerized billing and collection, revising the assessment rates and also the restrict enforcement.

The amendments have been made in Bombay Provincial Municipal Corporation (BPMS) Act by the Government of Gujarat to switch over the PT assessment on annual rental value to a per square meter rate applicable on the carpet area of buildings and land. The Government of Karnataka has also amended its municipal act to bring in capital valuation in place of annual rental value system. In the new system, land is assessed on the basis of its market value notified by the government under the Stamp Duty Act. In terms of constructed properties, the cost of construction is considered for assessing the value of the property.

Although Kerala has not switched over to plinth area base assessment of PT, but it has amended its municipal act to introduce the new system. In Karnataka, Bangalore Mahanagara Palika (BMP) introduced area-base system and initiated self-assessment system. The rent of properties have been ear-marked in a book-let for different zones. The BMP introduced e-Governance Property Tax System and computerized 5.39 lakh properties and 12 lakh payment records. The system is completely integrated with fund based accounting system. In the new system, daily collections are traced and accounted for. The data entry operations have been outsourced to a private operator. The e-Governance PT System generates 'Property Tax Notices' (like an electricity bill) for defaulters, while accurately calculating arrears, penalties, cesses and discount, if any. On the whole it establishes a rigorous revenue system and department which increases PT collections, that to without increasing the tax rate.

The JNNURM, recently launched programme by the Government of India has identified two sets of mandatory reforms for ULBs and the state government and also a set of optional reforms. The reform of PT with GIS to make it a major source of revenue for ULBs is

major mandatory reform at municipal level. At state level, the repeal of Urban Land Ceiling and Regulation Act, and reform of rent control laws to stimulate private investment in rental housing schemes are to important mandatory reforms. The mission has identified a set of optional reforms such as revision of by-laws to streamline the approval process for construction of buildings, development of sites, simplification of legal and procedural frameworks for conversion of agricultural land for non-agricultural purposes and introduction of property title certification system in ULBs, introduction of computerized process of registration of land and property at state and municipal levels. With the implementation of mandatory and optional reforms it is expected that the income of ULBs from PT will increase considerably. The Model Municipal Law circulated by the Ministry of Urban Development, Government of India has suggested that municipalities should prepare annual inventory of municipal properties and adopt area or capital value basis system of assessment of property tax for assessing the properties. It has also suggested that provision should be made for self-assessment system of PT and unique property numbering system should be introduced to simplify the taxation procedure and improve the collection of this important source of municipal revenue.

In Europe, property/house tax is a premier source of income of local authorities in Leicester City Council, households pay council tax based on the value of their homes. There is a system of regular revision of house tax. The local taxation section bills and collects all sums payable to the council in respect of council tax and national non-domestic Rates (Business Rates). The service covers 1,18,000 domestic properties and 12,000 commercial properties. The local taxation service touches the occupiers of all property and the owners of empty property. All property in the city is either valued or banded by the Valuation Office Agency (VOA), an executive agency of the Inland Revenue. The city council has a statutory duty to report alteration to property, new property and demolished property to the VOA so that the city councils tax base is as accurate as possible. The housing benefit section calculates the council tax benefit payable to those members of the community whose means do not permit full or partial payment of the council tax.

In Belgium, the 1989 Funding Act amended in 1993 has specified PT a major source of own revenue of local authorities assessed and collected by the federal government. The revenue of municipalities comes from transfers from supplementary proportional levies on property tax. These levies are assessed by the local authorities subject ceilings set by the supervisory authorities and add an additional percentage to the income of PT payable.

In Netherlands, the PT on ownership and use of Real Estate, which are related to property values, are the principal municipal taxes. The municipalities levy their own taxes including PT. The property (real estate) tax is a major source of municipal revenue (94.8 per cent in 1996). Out of this the occupant part constitutes 27.8 per cent and owners/business part constitutes 67.0 per cent. Although municipality may not introduce new types of tax but they have autonomy to decide that which of the permitted tax they could levy and what should be the rates of the tax including PT. The difference of rates between

residential and non-residential buildings should not be more than 20 per cent. The large cities have to follow the special Government Policy and demonstrate the results in several reform areas identified by the government. The policy focuses on tax reforms including PT.

In Spain, tax on property is a mandatory tax levied by the municipalities on buildings and land. Value based tax system is applicable, which is determined by the states and is levied at about three-four per cent on an annual basis in tune with the market price. In 1998, the PT constituted single largest source of revenue of municipalities (16 per cent of total own revenue).

In Punjab, some of the municipalities have demonstrated growth-oriented results. Ludhiana Municipal Corporation (LMC) has gone in for several innovations to mobilize its income from property tax, It has enhanced its income from PT from Rs. 14.06 crore in 1997-98 to Rs. 32.41 crore in 2001-02. In 2001-02, LMCs share in total PT collection was almost 49 per cent of the total income from PT in Punjab, which was more than double that of three municipal corporations taken together and almost twice all other municipalities of the state. The innovative practices adopted by LMC are growth oriented and sustainable and can be replicated in other municipalities of Punjab to mobilize income from PT. The lessons may be learned from progressive Indian states and selected member countries of EU to improve income from property tax in Punjab.

Pricing and cost recovery through rationalization of user charges

The user charges happen to be the most important mechanism of cost recovery. Water supply, sewerage, solid waste collection, parks, etc. qualify for imposition of user charges. The economic rationale of cost recovery entails that the user charges have to be based on the unit cost of providing a service (TFUGF, 2001). The pricing and cost recovery of user charges in Punjab is need of the hour. The cost of providing water supply, sewerage and solid waste management services is increasing much faster than the recovery of user charges. The state governments decisions in the past have affected the recovery of even operation and maintenance cost of providing basic municipal services. For urban poor the system of cross subsidy may be adopted. The efforts may also be made to integrate water supply and sanitation charges to enable ULBs to recover higher cost of these services. The efforts may be made to reduce water losses and unaccounted for water. It will help ULBs to reduce the wasteful expenditure as well as manage the demand. The flat rate pricing system for water supply and sewerage has inherent deficiencies, as it is based on the average cost of service delivery for various categories of users. Beneficiaries must pay for the services they get. It is high time to introduce commercial pricing of municipal services. For poor cluster/colonies, the community taxation system may be introduced. While determining the pricing policies, the estimates of subsidies may be explored. The efforts may be made to address institutional and technological inefficiencies. The service for willingness to pay may help to adopt a commercially viable pricing mechanism. It is high

time to break the low level equilibrium trap and introduce a good tariff policy aimed at efficiency in resource allocation, equity, effectiveness and financial viability of the services to be provided by ULBs.

According to the FSFC, the user charges should be extended to all municipal services, such as water supply, sewerage and parking lots and later to solid-waste management. The principle of full cost including operation and maintenance costs, billing and collection costs and capital costs should be incorporated in user charges. Periodic revision of user charges, at least every three years, and a system of charges based on the level of consumption and cross-subsidies to weaker sections should be introduced. The SSFC set the target that by the year 2005-06, ULBs should recover 100 per cent O&M cost of water supply and sewerage. But this target remains unachieved as the water and sewerage charges revised in April, 2003 were held in abeyance in February, 2004 just before the parliamentary elections. The ban on revised rate was lifted only last year. Now again government has exempted the owner of five marla houses from paying water and sewerage charges. The municipal services should not be considered as social goods to be provided free or at nominal cost. This is the cheap political populism as present government is trying to woo the voters just before the assembly elections. It will affect the fiscal domain of ULBs and re-establish the low-level equilibrium trap having poor pricing, poor cost recovery and poor coverage and quality of services.

According to Rana (2003), the effort towards attaining sustainability in water supply and sanitation envisages the insistence on:

- Commercialization of infrastructure with user-pay approach.
- Shadow pricing by levying a water/sewerage tax directly or as percentage of property tax.
- Registration charges on water connection as well as collection of advance payments.
- The metering of water connections to prevent misuse while ensuring better collection.
- The enforcement of realistic pricing policies encouraging full cost recovery model and periodic revision of tariffs by indexing it in relation to inflation.

The national conference on water supply and sanitation held in March 1993 also recommended to adopt the principal of full cost recovery, improvement in billing and collection, reduction of cost in providing services and fixation of tariff on average incremental cost to recover O&M cost, depreciation charges and debt dues, etc.

Some of the states have introduced reforms to improve pricing and cost recovery of user charges. The efforts are being made to improve pricing and cost recovery of municipal services in progressive Indian states. The Karnataka Government has implemented water supply management action plan. It initiated e-Governance programme and all records,

billing and collections procedure were computerized. The introduction of double entry system of accounting will also help to estimate the correct amount of income and expenditure on municipal services and devise the good pricing mechanism to recover higher costs. The Bangalore Water Supply and Sewerage Board has involved a private agency to reduce losses of water in distribution. Automatic billing and collection has been introduced and Board has installed automatic machines at different places in the town. The bar coded bill is put up before the scanner and the screen displays the account of the customer. The currency notes are then put up in the machine and after acceptance, the receipt is issued automatically. The software developed by TATA Consultancy Services (TCS) is used in the machines. In addition, Karnataka Urban Water Sector Improvement Project was initiated with World Bank assistance to introduce reforms in Water and Sanitation sector. In Maharashtra, Sukhantar committee was constituted in 2000 to prepare a roadmap for improved provision of water and sewerage. Based on the interim findings of the committee, the Government of Maharashtra passed a resolution, which introduced reform process for system performance improvement, etc. The programme aims at achieving efficiency improvements through activities like water audit, water leakage detection/reduction programme and energy audit leading to energy conservation.

The JNNURM has included following mandatory and optional reforms with the objectives to improve pricing and cost recovery of user charges.

Mandatory reforms at ULB level:

- Levy of reasonable user charges by ULBs with the objective that full cost of O&M is collected within next five years.
- Internal earmarking within local body budget for basic services to the urban poor
- Provision of basic services to urban poor including water supply, sanitation, etc.

Mandatory reforms at state level:

- Introduction of independent regulators for urban services

Optional reforms for state and ULBs:

- Revision of by-laws to make rain water harvesting mandatory in all buildings to come up in future and for adoption of water conservation measures.
- By-laws on re-use of reclaimed water.
- Encouraging public-private partnership.

The MML has suggested that municipality should prepare subsidy and environmental status reports. To improve the urban environmental infrastructure and services, the MML has suggested that service charges should reflect O&M and capital cost and also private sector, NGOs and CBOs should be involved for delivery of services. The State Level Regulatory Commission on municipal services should be constituted.

In Europe, pricing and cost recovery is major component of urban policy followed by the local authorities. The municipal services are considered economic goods. In Finland, municipalities have complete autonomy in managing their finances. The income from sale of goods and municipal services such as water charges, garbage disposal and electricity charges etc constitute 27 per cent of own revenues. The citizens pay progressive garbage fee to the municipalities/private enterprises. In Spain, people pay water and other charges of municipal services on the basis of the actual consumption. In England (Leicester City Council and Rutland County Council), the civic facilities like provision of water supply, sewage, sanitation, lifting and transportation and disposal of household waste have been offloaded to private sector for which the householders pay directly to the contracting companies on the basis of tariffs approved by respective regulator authority. In Italy, the Urbino Municipality for promoting fiscal sustainability follows the principle of progressive recovery of user charges. The tariff system for consumption of water is based on slab rates. The differential rates have been fixed for differential consumption of water. While fixing the tariff, efforts are being made to cover all types of consumers and charge every body on the basis of volume consumed. The tariff structure also takes care of the people living in distress. But all possible efforts are made to recover operation and maintenance cost of the water and in principal recover capital cost of the services. The cost on operation and maintenance of solid waste management is collected from the beneficiaries of the services. There is a system of regular revision of user charges, which have been linked with the inflation rates. The recovery of sewerage charges and its regular revision is essential component of pricing and cost recovery mechanism. This new constitutional element implies that "municipalities are self-financed, they fund their own running, intervention and administrative costs, generally via contributions from local taxpayers; however..." a National law establishes an 'equalization fund' to benefit areas where the fiscal capacity per inhabitant is low. The tariffs are fixed by an organ of the authority for Optimum Territorial Areas. In Belgium, water boards have been established for production and distribution of safe drinking water and management of sewerage. The cost recovery of user charges is almost 100 per cent. There are no wilful defaulters. The annual waste management charges are collected from households for lifting, transportation and disposal of waste.

In Punjab, through its improved urban management practices, LMC was able to increase its revenue from water supply and sewerage. The income of LMC from water supply and sewerage charges increased from Rs. 5.4 crore (17.97 per cent) of total revenue of state from this source in 1996-97 to Rs. 17.56 crore (29.45 per cent) in 2001-2002. The growth in percentage share as well as absolute increase of income of LMC from water and sewerage charges is indication of innovative urban management. But recent decision of Punjab Government to exempt five marla houses from paying user charges may affect the resource mobilization efforts of LMC.

Levy of a buoyant tax in lieu of abolition of Octroi: Octroi is a very buoyant source of municipal income in Punjab. Ludhiana Municipal Corporation (LMC) and several other

municipalities have achieved significant growth in income from octroi by implementing innovative measures and through effective tax administration. The state government must introduce another buoyant source of tax revenue to fiscally compensate the ULBs. The past experience indicates that state government has not transferred the nominal devolutions as recommended by the First Punjab Finance Commission. Since the revenue from octroi collected by municipalities is huge it may not be possible for the state government to transfer the adequate amount in lieu of abolition of octroi. It is, therefore, suggested that octroi could be compensated either by suitable alternative tax i.e. entry tax to be imposed by municipalities or by devolving a fixed share of sale tax/VAT to ULBs.

Devolution of resources to urban local bodies as recommended by the Finance Commissions: The FSFC and SSFC have given recommendations to devolve state taxes to ULBs but resources have not been transferred in toto. As recommended by the FSFC, 20 per cent of the net proceeds of the following five taxes and duties were to be transferred to ULBs and Panchayat Raj Institutions (PRIs), with defined principles of sharing inter se among them:

1. Stamp Duty
2. Electricity Duty
3. Punjab Motor Vehicle Tax
4. Entertainment Tax
5. Entertainment (Cinematograph Shows) Tax.

Table 38 shows that state government did not transfer the full amount of five state taxes to ULBs although recommendations of FSFC were accepted.

Table 38
Share of Urban Local Bodies in Five State Taxes (Rs. in crore)

| Year | Receipts from 5 divisible state taxes # | Cost of collection | Net tax receipts (Col 2- Col 3) | 20% share of net tax receipts (PRIs + ULBs) | Budget provision for ULBs | Amount trans- ferred to ULBs | Shortfall (Col. 6- Co. 7) ULBs |
|-----------|---|-----------------------|--|---|---------------------------------|---------------------------------------|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1996-97 | 450.54 | 5.15 | 445.39 | 22.27* | 11.89** | - | 11.89 |
| 1997-98 | 476.59 | 6.03 | 470.56 | 94.11 | 50.97 | 36.26 | 14.71 |
| 1998-99 | 542.21 | 12.81 | 529.40 | 105.88 | 45.57 | 10.82 | 34.75 |
| 1999-2000 | 701.26 | 11.36 | 689.90 | 137.98 | 40.00 | 13.18 | 26.82 |
| 2000-01 | 912.63 | 11.42 | 901.21 | 180.24 | 32.22 | 17.78 | 14.44 |
| Total | 3083.23 | 46.77 | 3036.46 | 540.48 | 180.65 | 78.04 | 102.61 |

Source: Punjab Development Report 2002, prepared by CRRID, Chandigarh, New Delhi: Planning Commission of India.

Note: # 1. Stamp Duty, 2. Electricity Duty, 3. Motor Vehicle Tax, 4. Entertainment Tax, 5. Entertainment (Cinematograph Shows) Tax.

* 20 per cent share for fourth quarter of 1996-97 calculated by taking one-fourth of total net receipts for 1996-97. ** Revised budget outlay.

Since transfer of shared revenue to municipalities still unpredictable, municipalities find it difficult to plan and prioritize their developmental activities. The poor transfers to ULBs are affecting their fiscal health.

The SSFC recommended four per cent of net proceeds of state's tax revenue should be transferred to ULBs and PRIs during the period of 2002-03 to 2005-06 and should be shared by them based on the share of their population percentages. The devolutions recommended by the SSFC is in Table 39.

Table 39
Estimate of Transfers to PRIs and ULBs (Rs. in crores)

| Year | Estimated amount to be transferred to local bodies | Estimated amount to be transferred to PRIs | Estimated amount to be transferred to ULBs |
|---------|--|--|--|
| 2002-03 | 222.65 | 150.29 | 72.36 |
| 2003-04 | 239.38 | 161.58 | 77.80 |
| 2004-05 | 257.76 | 173.99 | 83.77 |
| 2005-06 | 277.97 | 187.63 | 90.34 |

Source: *Report of the Second Punjab Finance Commission (2002).*

Revenue sharing should be predictable and, in principle, the full amount should be transferred to ULBs to strengthen their fiscal base. The transfers as recommended by the SSFC should be devolved in toto to strengthen the fiscal domain of ULBs.

The progressive Indian states such as Kerala, Gujarat, Maharashtra, Karnataka and Madhya Pradesh have implemented the recommendations of their State Finance Commissions (SFCs). In Kerala, the considerable resources in the form of plan and non-plan grants have been devolved to local self-government institutions. The FSFC of Kerala recommended that one per cent of state revenue be transferred to local bodies as non-statutory non-plan grants. The municipalities are making genuine efforts to mobilize their resources in accordance with the recommendations of the SFC. The Kerala Municipality Act has been restructured thrice to insert amendments as suggested by the committee on decentralization and recommendations of SFC included in ATRs. Almost 35 Acts have relevance to local government functioning were also amended in March 2000. The local bodies are levying all major taxes/user charges as provided in the Municipal Acts.

Maharashtra's FSFC recommended devolution of 25 per cent to 100 per cent of entertainment taxes collected from municipalities of different grades, 25 per cent of vehicle tax and 10 per cent profession tax. In Madhya Pradesh, FSFC recommended devolution of 8.67 per cent of the tax and non-tax revenue of the state. In Karnataka, while FSFC recommended devolution of 36 per cent of Non-Loan Gross Own Revenue Receipts (NLGORA), the SSFC recommended devolution of 40 per cent of NLGORA. The share of ULBs increased from 5.40 per cent to eight per cent between the corresponding periods. The recommendations of the FSFC of Gujarat have been implemented largely and

the system of local government, which was already fairly developed, has further been strengthened. The SFC only refined the earlier grant in aid code without much change. These states have implemented the recommendations of their SSFCs. Now reports of the Third SFCs are awaited. With adequate devolutions the fiscal domain of ULBs is getting stronger in the progressive Indian states. They are capable for taking up larger projects for developing infrastructure and services in municipal areas.

Improving local tax authority and internal revenue efforts: In Punjab, the introduction of profession tax, license fee on privately bored tube wells, surcharge on water pumped into the sewerage system, exploitation of full potential of the tax on advertisements and hoardings, along with periodical revision of non tax rates, and relaxing state control on fixing rates of local taxes are necessary for enhancing local tax authority and raise internal revenues.

The progressive Indian states have made genuine efforts to empower their municipalities to enhance their local tax authority and raise internal revenues. Kerala, has strengthened fiscal domain of ULBs. The major sources of revenues of the ULBs in Kerala could be classified into the following categories.

A. Tax Revenue: Tax revenue could be further divided into own taxes, assigned taxes and shared taxes. Own taxes are property tax, profession tax, entertainment tax, advertisement tax, service tax, show tax including surcharge, cess on conversion of land use, tax on animals, vessels and vehicles, tax on timber and various surcharges. The profession tax and several other taxes contributes considerable share in own revenue of municipalities. Municipalities in Punjab have not introduced profession tax although it has been provided in the Punjab Municipal Acts. The assigned taxes collected by the government but entirely devolve to local authorities include basic tax which at present is devolved to only PRIs. The FSFC has recommended to give share of basic tax of ULBs but this recommendation has not been operationalized so far. The surcharge on stamp duty (five per cent of value of property transacted) is another assigned tax and after recommendation of FSFC the ULBs receive direct payments on transactions. The shared tax include motor vehicle tax (20 per cent of the net collection) which is distributed among PRIs and ULBs as per the road length according to the formula based in unit length of roads. The arrears of basic tax, stamp duty and vehicle tax were devolved by state government after recommendation FSFC.

B. Non-tax Revenue: Non-tax revenue sources comprise license fees (from more than 20 sources), gate fee from public market, parkings, halting places and public slaughter houses, rent based income from property (rent from buildings, lands, clock rooms and comfort stations), permit fee for building permits, construction, establishment or installations of factories, workshops, workplaces, etc., registration fee for registration of hospital, para medical institutions, tutorials, births and deaths, contractors and

service/user charges. Some minor sources of non-tax revenue include income from ferries, libraries, fines and penalties, interest on deposits, endowments, contributions/donations, etc.

C. Grants-in-aid: There are two types of grants i.e. general purpose grant and specific purpose grant. The general purpose grant is per capita grant calculated @ of Rs. 2.00 per capita for municipal corporations, Rs.2.50 per capita for major municipalities and Rs.3.00 per capita for minor municipalities. The specific purpose grant is provided for running maternity and child welfare centres, nursery schools, poor homes and for carrying town planning and town survey operations, etc. The plan and non-plan grant in aid is also given to ULBs after 1995 to discharge the additional responsibilities devolved to implement 74th Amendment. The devolution of plan grant-in-aid is milestone development in the history of fiscal decentralization as it has considerably strengthen the fiscal base of ULBs. The plan grants are devolved and distributed among PRIs and municipalities as per the weigthage formula devised by the state government. There is a provision of non-plan grant in aid for running/maintaining the institutions/posts transferred to LSGIs. The state government meets the salary expenses as well as O&M expenses such as supply of medicines in hospitals. It is considered that this is an innovative step towards strengthening the fiscal domain of ULBs.

D. Loans: The municipalities can raise loans from Kerala Urban Development Finance Corporation (KUDFC), HUDCO and commercial banks. The KUDFC has been a major loan provider to municipalities during last 10 years.

Similarly, Gujarat, Maharashtra, Karnataka and Madhya Pradesh are enabling their municipalities to enhance their local tax authority and raise municipal revenue by improving tax collections from existing sources and also introduce all major taxes provided in municipal Acts.

In Europe, local authorities have enormous taxation powers and authority for mobilizing their revenues. In Belgium, about 45.5 per cent revenue comes from taxes. There are more than 125 different kind of municipal tax in Flanders. Belgian Constitution gives municipalities very large freedom to levy local taxes. In addition, there is a provision to levy additional tax on Flemish real estate tax and also additional tax on federal income tax. In this case, municipal council decides the level of taxation. The municipality receives considerable income (about 12.4 per cent) from interests and dividends as they own several enterprises for distribution of energy and other services including banking services. The municipalities also get considerable income by selling municipal properties and also generating revenue through debt instruments (most of the municipal loans are contracted with the bank Dexia, the second largest Belgian bank, partially owned by municipalities and provinces). In Netherlands, municipalities levy their own taxes. The municipal taxes comprise property (real estate tax) on occupants, owners and businessmen, bet-

terment levy, dog tax, tourist tax and temporary resident tax. The Water Control and Treatment Boards established by the provincial councils levies on water pollution and are entirely dependent financially on the income from levies. The municipalities levy a surcharge on television and radio license fee charged under the Media Act. Non-tax sources of revenue include refuse collection charges, sewerage charges, tax on encroachments or public land, funeral charges, building fee, parking tax and market trading fees. The rents, charges for using museums, sports facilities, outdoor recreation facilities, child care, etc. are other sources of municipal revenue. The municipalities fix the rate of taxes defined in their tax by-laws. However, they may not introduce new types of tax which are under the authority of parliament and are listed in the Municipalities Acts. In addition, municipalities receive general grant (out of municipalities funds) and specific grants. The amount devolved by central government to municipalities is adequate to take care of statutory duties. In 1997, a new Grants to Local Government Act was passed to provide rules for devolving general grant to the municipalities. It takes into account the difference in the costs incurred by the municipalities and also their financial position. In case, the municipalities are unable to meet the budgeted expenditure they may request for additional grant.

In England, local authorities receive income from householders in the form of council tax, from businesses and from government grant. There are two types of grant i.e. general and specific. The main general grant is called revenue support grant. The Leicester City Council introduced "Three Years Revenue Budget Strategy" in April 2000. In Spain, own tax revenue (about 35 per cent) comprising tax on property, business taxes and taxes on motor vehicle are called as mandatory municipal taxes. Optional taxes include tax on construction, installation and works, taxes on capital gains on real estate transactions. The non-tax revenue (about 23 per cent) includes charges for garbage, water, sewerage and electricity. The fiscal transfers i.e. from State, ear-marked grants and EU grants constitute 36 per cent of total municipal revenue. In Italy, local authorities can decide their own taxes and revenues, though in a coordinated way within the public fiscal system. Local authorities can also reckon on a sharing of the national fiscal revenues collected in their own territory; the central government institutes an equalization fund aimed at assuring supplemental (unbounded) revenues to areas with less fiscal capacity. There is a provision of transfers from the government aimed at counteracting social and economic unbalances among different areas of the country. The financial autonomy of municipalities has increased after the devolution initiatives. In Finland, the municipalities have complete autonomy on manage their finance. In the financial year 2005, the main sources of revenue of municipalities were own taxes (47 per cent), state grants (17 per cent), sales of goods and services (27 per cent), borrowings (six per cent), and others (three per cent). Major taxes imposed by the municipalities comprise (i) municipal income tax which varies from 18 to 25 per cent; (ii) real estate tax on property; and (iii) corporate income tax, that is tax on companies opening their offices/factories in municipal council area. Revenue of municipalities from the sale of goods and services largely include fees for kindergarten, garbage disposal, selling of municipal land, water charges, electricity charges, etc.

Municipalities borrow money for infrastructure development. The revenue from other sources comprises of interest from bank deposits and other commercial activities, etc. The independent sources of revenue of municipalities give them ‘self-governing status’ with less dependence on central government.

Taxation of central government properties: According to the EFC, ‘all government properties whether they belong to the central or the state governments, should be subject to the levy of user charges and should be regulated by a suitable legislation’. This will improve fiscal domain of ULBs.

Accessing capital market: National and international capital market is becoming goal for raising funds for financing urban infrastructure. ‘Municipal Bonds’, as an instrument to finance urban infrastructure for accessing the capital market on the strength of commercially viable projects took its birth in the mid-nineties. The New Economic Policy (NEP) along with liberalization have opened an alternative source for financing urban infrastructure. Now a large number of municipalities such as Ahmedabad (twice), Nagpur, Nasik, Indore, Ludhiana, Bangalore, Madurai and Hyderabad are raising funds through municipal bonds as in Table 40.

Table 40
Access of Municipal Bond Market in India by Municipal Corporations

| Name of municipalities | Year of issue | Size of issue (Rs in crore) | Government guarantee | Credit rating |
|---------------------------------|---------------|--------------------------------|-------------------------|-------------------------|
| Ahmedabad Municipal Corporation | 1998 | 100.0 | No | AA (SO) |
| Bangalore Mahapalika | 1997 | 100.0 | No | A (SO) |
| Ludhiana Municipal Corporation | 1999 | 17.8 | No | AA (SO) |
| Nasik Municipal Corporation | 1999 | 100.0 | No | AA (SO) |
| Nagpur Municipal Corporation | 2000 | 50.0 | No | AA- (SO) |
| Madurai Municipal Corporation | 2001 | 30.0 | No | A +(SO) |
| Indore Municipal Corporation | 2001 | 10.0 | Yes | N.A |
| Ahmedabad Municipal Corporation | 2002 | 100.0 | No | AA (SO) |
| Hyderabad Municipal Corporation | 2002 | 82.5 | No | AA+(SO) and LAA+(SO) |

Source: *Punjab Development Report 2002*, prepared by CRRID, Chandigarh, New Delhi: Planning Commission of India.

The policy of issuing of tax-free municipal bonds has given a fillip to the tendency of raising funds from capital market. The raising of funds through this mode calls for reforms in municipal fiscal and financial management. The introduction of accrual-based double-entry accounting system, reforms in property tax and user charges, effective tax administration, billing and collection, asset management and upgrading professional skills of municipal staff through extensive training are necessary for raising funds from capital

market. National financial institutions such as ICICI, IDFC, IL and FS and HUDCO are important financial institutions. Punjab Infrastructure Development Board (PIDB), established under the Punjab Infrastructure Development Act, 1998 can also raise funds for ULBs. Recently, the state government has constituted state level municipal development fund (MDF) to meet the growing needs of urban local bodies for infrastructure and services. With the seed money provided by the state government, a 'Special Purpose Vehicle' can raise funds from the capital market for commercially viable infrastructure projects. The repayments can be ensured through ESCROW mechanism already in vogue in the country.

The deficiencies in urban infrastructure and municipal services in Punjab are becoming critical with rapid and unplanned growth of urbanization. The planned urban development has not been realized despite implementation of a large number of urban development, poverty alleviation and slum development schemes. The implementation of centrally sponsored schemes has serious deficiencies. The need of investments for augmenting the infrastructure/ services, promote planned urban development is huge and is beyond the fiscal capability of the LSGIs. The municipal resource mobilization is need of the hour. The progressive Indian states and selected member countries of European Union have strong fiscal base of local authorities. In progressive Indian States, recommendations of State Finance Commissions have been implemented and adequate devolutions have taken place. Own revenue based and resource mobilization efforts of municipalities in these states are visible. The dependency of local government institutions on budgetary transfers, central and state government grants is decreasing due to growing local resources. The member countries of European Union have made innovative efforts to devolve adequate funds to local authorities to enable them to meet growing need of investments. This has resulted in excellent quality of infrastructure and services.

Taking clue from experiences of the progressive Indian states and member countries of European Union, Punjab may initiate reforms to enable LSGIs to mobilize their own resources as well as access funds from capital market either by issuing municipal bonds or by raising loans from banking institutions. The populist measures by state government need to be contained for long-term sustainable development of urban areas. Giving adequate fiscal autonomy and authority to local self-government institutions could break the vicious cycle in urban infrastructure and municipal services. The pricing and cost recovery mechanism may be strengthened towards higher cost recovery. The recommendations of state finance commissions should be implemented in toto. The taxes and charges provided in municipal acts should be levied and adequate authority needs to be devolved to ULBs. The widening of tax base of ULBs is necessary to mobilize local resources. Only fiscal empowerment of ULBs may generate funds through non-budgetary sources, which is necessary to finance growing need of investments for urban infrastructure and municipal services.

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Part -II

Panchayati Raj Institutions

This chapter deals with the role of panchayati raj institutions (PRIs) in the implementation of various development programmes in rural areas.

Introduction

Decentralized governments are instruments of social and economic transformation in rural areas. It is said that the efficient and effective management of local affairs is neither possible nor desirable from the central government, which is located far away from the local units of governance (Khan, 1996). Way back, after the community development project was launched in 1952, those at the helm of affairs realized that without an agency at the village level which could represent the community and assume responsibility and provide the necessary leadership for implementing community development programmes, no real progress in rural development could come about Government of India (GOI), 1958. Some of the votaries of peoples' empowerment even went to the extent of saying that the state has lost its relevance in performing the development functions any more. Hence to reconstruct the Indian rural society, an institution (panchayati raj) to respond and to care to the needs of the people has to stay. It will be the institution of the people, and will function under the control of the people. It is not a scheme but a movement of the people to achieve growth and equity by themselves (Palanithurai, 2000).

After the enactment of the 73rd constitutional amendment, the PRIs are playing an important role in the planning and implementation of rural development projects and programmes. They are also providing required support to the line departments and also to NGOs in the effective implementation of rural development programmes at the grassroots. It is interesting to note that states where decentralized planning at the district level is effective are precisely the states whose performance in respect of local reforms has been better i.e West Bengal and Karnataka. (Rao, 2003). While upholding the necessity and importance of panchayats in promoting meaningful rural development process, it has been argued that rural level local bodies would:

1. Have freedom and flexibility to plan and implement projects relevant to rural development;
2. Facilitate people's participation in the planning and implementation process;
3. Inspire initiative and enthusiasm among people and their representatives to contribute labour, and physical and financial resources for local projects; and
4. Undertake development programmes, which utilize locally available resources, produce goods and services that meet local needs and build productive assets both at the village and household levels (Aziz, 1977).

The objectives of the rural development in the view of famous developmental economist Michael Tadaro are: (i) improvement in levels of living, including employment, education, health and nutrition, housing and a variety of other social services; (ii) decreasing inequality in the distribution of rural incomes and rural-urban balances in income and economic opportunities; and (iii) increasing the capacity of rural sector to sustain and accelerate the pace of these improvements.

The important role PRIs are expected to play in rural development can be categorized into four major areas:

1. Poverty Alleviation, Employment Generation and Provision of Basic Services
2. Agriculture and Rural Industrialization
3. Education and Health Care
4. Social Justice and Welfare of Scheduled Castes and Disadvantaged

Poverty Alleviation, Employment Generation and Provision of Basic Services

The National Human Development Report 2001, brought out by the Planning Commission, Government of India, has envisaged that 6.35 per cent of population in rural Punjab is living below the poverty line. The households living below the poverty line are largely the Scheduled Castes (SCs), landless and marginal farmers and casual labourers. Besides poverty, providing employment to the unemployed youth is an arduous challenge before the state. According to the statistics of the Directorate of Employment, Government of Punjab (2001) there are 5.4 lakh unemployed in Punjab comprising of 4.1 lakh educated unemployed and 1.3 lakh uneducated unemployed. Nearly 50 per cent of rural population in the state does not have access to sanitary toilets. Although, a large percentage of rural households have access to drinking water but out of them a colossal number do not have access to safe good quality drinking water. Because of excessive use of fertilizers and pesticides, drinking water in many areas particularly in the districts of Mansa, Muktsar, Bhatinda are contaminated. The complaints of people dying of jaundice and cancer because of use of contaminated water are being reported.

The Government of India as well as state governments from time to time has launched several independent and integrated development programmes to alleviate poverty, generate employment opportunities and create rural infrastructure in order to improve the quality of living in the countryside. Important among them launched in the recent past are: National Food for Work Programme (NFWP); Swaranjayanti Sampurna Grameen Rozgar Yojana (SGRY); Indira Awas Yojana (IAY); Pradhan Mantri Gramodaya Yojana (PMGY); Rural Employment Generation Programme (REGP); Prime Minister Rozgar Yojana (PMRY); Pradhan Mantri Gram Sadak Yojana (PMGSY); and National Rural Employment Guarantee Act (NREGA). **NFWP** was launched in 2004 in 150 backward districts of the country with the objective to intensify the generation of supplementary wage employment. **SGSY** launched since 1999 aims at assisting poor families below the

poverty line by organizing them into Self Help Groups (SHGs) through a mix of bank credit and government subsidy. **SGRY** launched in 2001 aims at providing additional wage employment in all rural areas and thereby food security and improve nutritional level. The **IAY** operationalized from 1999-2000 is a major scheme for construction of houses for the poor. **PMGY** launched in 2000-01 aims at improving selected basic services such as primary health care, primary education, rural shelter, rural drinking water, nutrition and rural electrification. **REGP** operationalized from 1995 aims at creating self-employment opportunities in the rural areas. **PMRY** started in 1993 with the objective of making available self-employment opportunities to the educated unemployed youth by assisting them in setting up any economically viable activities. **PMGSY** aims at construction of rural roads for providing connectivity to unconnected habitations with population of 500 persons. Besides these poverty alleviation and employment generation programmes, the Ministry of Rural Development has launched **Total Sanitation Campaign (TSC)** and **Swajaldhara** for enhancing access to sanitary toilets and safe drinking water to rural population.

As a significant step to promote rural employment, Government of India in 2005 launched Employment Guarantee Scheme through the enactment of the National Rural Employment Guarantee Act, 2005. **The National Rural Employment Guarantee Act, 2005** (herein after referred as NREGS), confers legal right to employment on the rural citizens. It seeks "to provide for enhancement of livelihood security of the households in rural areas of the country (except J and K) by providing at least one hundred days of guaranteed employment in every financial year to every household whose adult members volunteer to do unskilled work with the schemes made under the Act". Initially starting from 200 most backward districts of the country, it will be extended to the whole country within a period of five years. The Act envisages that PRIs will play pivotal role in the effective implementation of this scheme.

Panchayati Raj Institutions (PRIs) i.e., gram panchayat at the village level, Panchayat samitis at the block level and zila Parishad (ZP) at the district level have been assigned important role in successful planning and implementation of NREGS. The role assigned to different PRIs is narrated below:

- (a) **Gram Panchayat:** The gram panchayat with the help of gram sabha, shall be responsible for identification of projects in their jurisdiction and prepare development plan and maintain a 'shelf of projects', decide the priority of works and recommend it to the programme officer (PO) for scrutiny and approval, prior to the commencement of the year. They will also be responsible for execution and supervision, conducting regular social audit and maintenance of the records pertaining to works and employment. The gram panchayats have been further entrusted with the responsibility to register the employment seekers, maintain details of registered households and supply the same to PO. It will also receive applications for job and allocate employment opportunities among the applicants and intimate the applicants in writing through letters and public

notices displayed at the office of gram panchayat, intermediate panchayat, zilla panchayat. gram panchayat shall maintain registers, vouchers and other documents related to the scheme.

- (b) **Intermediate Panchayat:** The block level shelf of projects (plan) will be approved and finalized by the panchayat samitis. The panchayat samiti will forward it to the zilla parishad, supervise and monitor the projects taken up by the gram panchayat at respective block.
- (c) **District Panchayat:** The district panchayat (zilla parishad) shall approve the block plans (shelf of projects) under the scheme, supervise and monitor the projects at the block and district level.

Thus panchayat has to play an important role in the rural poverty alleviation and employment generation programmes. Some of the important role they have to play are:

1. Selection of right kind of beneficiaries for the right type of programmes through gram sabha;
2. Promote all types of employment including self-employment among the rural youth;
3. Formulate and activate village standing committees for the implementation of various programmes; and
4. Mobilize community resources for the maintenance of community infrastructure such as electricity, water supply scheme, community sanitary complexes, school toilets, etc.

Notwithstanding launching of these programmes, the quality of living of rural people has not been sufficiently upgraded. A few lacunas identified in several studies are: (i) supply driven approach; (ii) faulty selection of beneficiaries; (iii) corruption; (iv) lack of community participation and poor involvement of PRIs in project implementation; and (v) general lack of awareness about these programmes. It is also remarked that there has been no significant impact of the rural development programmes on the quality of living of the countryside population, which is mainly due to fragmentation of programmes, improper targeting and leakages on account of political interferences and corruption, failure to link the programmes to needs and capabilities of the backward regions and weaker sections, and failure to sequence and integrate programmes in the framework of integrated development strategy (Aziz, 1997). Government intends to implement these programme through the PRIs, however, because of poor devolution of power and authority to PRIs, these programmes have remained largely one-sided supply driven programme of the government in many states without having adequate community participation. The gram panchayats are empowered only to the extent of selecting beneficiaries but the final decision lies with the line departments.

Agriculture and Rural Industrialization

Agriculture is the lifeblood of Punjab's economic development. Punjab is one of the largest producer of food grains and contributes a substantial amount of rice and wheat to the central pool of the public distribution system (PDS). However, the profit margin to the farmers has come down because of lowering gap between the cost of inputs and income generated by selling the output. Many sarpanches and panchayat members consider that agriculture is no longer profitable because of increase in the cost of production. Moreover, they are also of the opinion that the increase in the quantity of food grain is not equally matched by quality, therefore, these food grains lack competitive advantages in the export market. As Punjab has a sound support of allied sectors particularly household dairy, the reduction in profit margin in food grain production is somehow compensated by the income from other subsidiary activities. Therefore, it is imperative that the farmers should now start thinking of alternative strategies and initiate the process of gradual shifting towards bio-agriculture and use of manures in agriculture. However, the lack of diversification in the cropping pattern away from paddy and wheat rotation due to its comparative advantage has created serious problems for agriculture (Himal Chand, 2002). Fisheries is profitable, but because of intricacy in its farming system, people in rural areas of Punjab are not quite interested to undertake this activity. Unlike fisheries there is feeble attempt in household poultry farming, except for few big and medium size poultry at the block level. The panchayat has to play a key role to educate and motivate the peasants to diversify their agriculture and prudently distribute some proportion of their land for the cultivation of pulses, oilseeds, and other cash crops and even fruit orchards i.e. citrus, mango, guava, etc. Panchayat members are the best extension agents who can bring ramifications in agriculture. One of the exponent while commenting on Punjab agriculture opined 'in fact we need a new revolution, the herbal revolution to give freedom to farmers. Farmers should be involved in export business. They must also be encouraged to start their own agro-processing units' (Dahiya, 2002).

There is need for expansion in poultry, fisheries, orchard, floriculture, etc. and the extension education activities need to emphasize on these less emphasized agriculture and allied sectors. The farmers have to be prepared to face the process of globalization which has intensified market competition from imports and as a result the farmers have to pay more attention to quality, price and delivery considerations and not merely on profitability. Protection to marginal farmers and care for the landless households also need to be figured in the state specific agricultural policy.

As far as irrigation is concerned excessive use of tubewell and bore well irrigation has created depletion of ground water. As a long-term strategy, the possibility of water conservation needs to be explored. The panchayat and also the government need to initiate a process of water economizing techniques and development of less water intensive crops. The revisit of land reforms should emphasize on economically viable land redistribution keeping an eye on preservation of fragmentation and wastage of land.

Rural industrialization particularly establishment of tiny, small, village and cottage industries is the weakest area of development of secondary sector in rural Punjab. People have lackluster attitude towards rural industrialization because of problems associated with financial investment, marketing of the products, cost of raw materials and labour and risk of sustainability and loss. There are a few takers of TRYSM scheme aimed at enhancing self-employment for rural youths and many educated youths are found unemployed or underemployed in the countryside. The government can encourage Non-Resident Indians (NRIs) participation in rural industrialization. Moreover, the role of corporate sector investment in this area cannot be overemphasized. One of the studies on educated unemployed in Punjab has envisaged that 'there is need to promote labour-intensive industries particularly in the cottage, village and small-scale sector'. The agro-processing industries at the micro-level stand a fair chance in generating more output and employment. These ventures can be established, if possible through cooperatives. However, it is important that a proper planning of resources and potentialities of the area and project needs to be examined with the full involvement of the people of the areas (Himal Chand, 1993). Moreover, involvement of educated job-less of the areas in identifying and planning of the activities would have a desired impact in the successful implementation of the project (Alagh, 1991).

Education and Health

Education is the seed as well as flower of rural social development. Ironically, the educational development is not equally matched with the economic development of the state. Punjab's rank in literacy rate is 16th in 2001. According to 2001 census there are 95 lakh illiterates in the state. The percentage of illiteracy is high in rural areas and is high among the Scheduled Castes and girl children. The other deplorable features of educational development in the state are: (i) one-fourth of the children in 6-11 age-group are not enrolled; (ii) teacher absenteeism is high among the rural school, especially in inaccessible rural villages; (iii) there are no non-formal education centres for the dropouts; and (iv) there are no adult education centres in rural areas. The adult literacy rate is only 56.08 in rural areas. Panchayat has to play a vital role in the educational development in rural areas. The Eleventh Schedule of the constitution has assigned following duties and responsibilities to PRIs on education:

1. Education, including primary and secondary school;
2. Technical training and vocational education;
3. Adult and non-formal education; and
4. Libraries.

Under the Sarvashikya Abhiyan, Village Education Committees (VEC) have been formed in many villages of Punjab. These committees are doing following activities: (i) construction; operation and maintenance of school building; (ii) campaign for enrolment of children and reduction of dropout; (iii) construction of school toilets and boundary wall; (iv) supervising the operation and maintenance of school toilets; (v) ensuring safe

drinking water to schools; and (vi) assessing the requirement of school building, teachers, equipments, teaching materials and approaching the concerned authority of line departments for above services. Many educated panchayats heads also oversee the functioning of anganwadi centers imparting preschool education and nutritional care of children in their panchayats. Recently, Government of Punjab has given full autonomy to village panchayats for the selection and recruitment of part time teachers in their respective panchayats. Panchayat also recommends the name for the selection of anganwadi workers. A few panchayats have opened small libraries in Gurudwaras. In a knowledge driven society, libraries have immense significance to spread knowledge among rural people. In other words, there is an utter need for village resource center. Library should be one of the significant components of a model panchayat.

For the educational development in rural areas, there is a need to keep VECs active and functional. The VECs must be caste and gender balance with equal and proportionate representation of women and Scheduled Castes. The involvement of panchayats is a must for the human resource development in general and educational development in particular in rural areas.

The health status of population in general and maternal and child health status in particular has not been sufficiently upgraded despite the provision of primary health care services at the doorsteps. One of the reasons for poor performance of health care system is the lack of community participation. The National Population Policy 2000 urged that since 33 per cent of elected panchayat seats are reserved for women, representative committees of the panchayat should be formed which can be helpful to improve the health and family welfare status. The health and family welfare duties assigned to the PRIs under the 73rd constitutional amendment are as follows:

1. Health and sanitation, including hospitals, primary health centres and dispensaries; and
2. Family welfare

A Task Force constituted by the Ministry of Panchayati Raj in 2001 in its report has delineated following tasks in health and family welfare for panchayats:

1. Health planning through health committees;
2. To coordinate communicable diseases programme (TB, Leprosy) with the state;
3. To coordinate construction and maintenance and supervision of Primary Health Centres (PHCs);
4. To monitor and supply medicines and equipments to Maternal and Child Health (MCH) care;
5. Periodic conduction of epidemiological surveys;
6. Promote school health programme;

7. To organize health awareness rallies and camps;
8. Planning, supervision and monitoring of ICDS;
9. Planning and implementation of rural sanitation; and
10. Promotion of Information, Education and Communication (IEC).

In recent years, the role of panchayats in the health and family welfare programme is increasingly realized. Various governmental and non-governmental agencies implementing action research programmes on health and family welfare have involved panchayats in the effective implementation of these programmes. One of such examples is the CRRID-LIP (Local Initiative Programme) project undertaken by CRRID with the financial help of Bill and Milenda Gates Foundation, USA. Under the project Panchayati Reproductive Child and Health (PRCH) Committees were formed to activate the involvement of panchayats in the planning and implementation of reproductive and child health care activities. The Mid-term Review Report of CRRID-LIP conducted by Management Sciences for Health (MSH) Boston, USA has highly commended "the CRRID-LIP, PRCH committees are by far the most vibrant, formulated under cohesive Sikh community structure, the PRCH committees have effectively mobilized the local resources to hold information dissemination melas (fairs), establish regular satellite and mobile clinics and with the help of CRRID, procures drugs, staff these clinics with government doctors". This had raised the reproductive and child health care status of the population significantly. Similar kind of projects with strong involvement of panchayats is the need of the hour in order to make the health programme a peoples' programme.

The National Rural Health Mission (NRHM) recently launched by the government has laid emphasis on PRIs for the effective implementation of the mission. The role assigned to PRIs under the mission are as follows:

Role of Panchayati Raj Institutions

1. States to indicate in their MOUs the commitment for the devolution of funds, functionaries and programmes for health to PRIs.
2. The district health mission to be led by the zilla parishad. The District Health Mission (DHM) will central guide and manage all public health institutions in the district, i.e sub-centers, PHCs and Community Health Centres (CHCs).
3. ASHAs would be selected by and be accountable to the village panchayat.
4. The village health committee of the panchayat would prepare the village health plan and promote intersectoral integration.
5. Every sub-centre will have an untied fund for local action @ Rs.10,000 per annum. This fund will be deposited in a joint bank account of the Ancillary Nurse Midwife (ANM) and sarpanch and operated by the ANM, in consultation with the village health committee.

6. Provision of training to members of PRIs.
7. Making available health related database to all stakeholders including panchayats at all levels.

Social Justice and Welfare of Scheduled Castes and Disadvantaged

The Scheduled Castes constitute the largest social group accounting for about 17 per cent of India's population. In Punjab SCs constitute 29 per cent of total population, the highest among the states. The exclusion and deprivation of SCs is closely associated with the institution of caste. The Scheduled Castes are excluded from access to property rights, civil rights, and education (Thorat, 2006). In Punjab the landlessness is the highest among SCs as compared to other castes. This has resulted in poverty and a high percentage of SC population suffer from poverty in rural areas. Besides, they are also not given a freehand to run the PRIs. Therefore, empowerment of rural SCs is critical to the abolition of rural poverty and socio-economic inequalities.

In the wake of declining family support systems and other socio-economic circumstances, certain social groups are left helpless who also require the support and protection of the state (Economic Survey, 2004-05). These include the aged persons, orphaned, abandoned, destitute and street children. Welfare of the socially and physically disadvantaged section of rural population is a vital responsibility of panchayati raj institution. The duties and responsibilities assigned under the 11th schedule of the constitution to PRIs dealing with the group are:

- (i) Social welfare including welfare of the handicapped and mentally retarded; and
- (ii) Welfare of the weaker sections, and in particular of the Scheduled Castes and the Scheduled Tribes.

Different schemes launched by the Punjab government in the recent past for the welfare of disadvantaged and Scheduled Castes are as follows:

1. For disadvantaged

- Assistance to widows, destitute families, children of SC community is provided by organizing skill upgradation training.
- Assistance to physically handicapped persons, laprotic families, construction of old age home and day care centres.
- Rs. 5,100 as a KANYADAN (gift for girl child) is given to the daughter of a family of SC community living below poverty line at the time of her marriage.
- Rs. 200 per month as old age pension to senior citizens who are aged 60 years and above.
- Rs. 200 per month to handicapped persons.
- Financial assistance of Rs. 10,000 to families in case of un-natural death/accidental death.

2. For Scheduled Castes

The following schemes have been launched by the Government of Punjab for the Scheduled Castes:

- Kanyadan (gift for girl child) Scheme
- Financial assistance for the marriage of girls of Scheduled Castes, widows and destitute women
- House scheme
- Environmental improvement in Scheduled Castes *basties*
- Monetary relief to the victims of atrocities
- Protection of Civil Rights Act 1995: (a) Inter Caste Marriage Scheme; (b) Incentive to the village panchayats for their outstanding work; (c) Debates and seminars on removal of untouchability.
- Tailoring training to Scheduled Castes widows and girls
- Meritorious incentives to Scheduled Castes students who secure 1st division from post graduation including medical, engineering, agriculture and veterinary
- Post metric scholarship for Scheduled Castes students
- State Harijan Educational Welfare Scheme
- Students Loan Scheme
- Financial Assistance for Higher Competitive Entrance Examination to Scheduled Castes and Backward Castes candidates
- Scheme of Hostel for Scheduled Castes girls and boys
- Coaching and Allied Scheme.

Use of MP and MLA LADS (Local Areas Development Scheme) for Rural Development

In 1993, the prime minister announced a Local Area Development Scheme (LADS) within which Member of Parliament (MPs) could direct the district collectors to take up projects of rupees one crore in their constituency. Twenty three schemes, such as constructing small buildings, village roads, hospitals or sports/cultural activities can be supported under this scheme. Interestingly, all the 23 items of work meant to be implemented by the MPLADS fall in the subjects allotted in the 11th schedule. Many states (Punjab is one among them) have also provided some funds to their MLAs on the same pattern. In many villages of Punjab, MPs and MLAs have utilized these funds in the construction of household latrine, school building, school toilets and village road. But on the whole these funds are not being utilized in many states through panchayats. It is remarked that many MPs use the scheme to earn patronage and political rewards and not necessarily to develop a plan and respond to the priorities based on local aspirations (Mathur, 2006).

Panchayati raj institutions and rural development are synonymous. The rural development programmes can not be efficiently implemented without the help of panchayat and PRIs have no relevance if they are not involved in rural development. The programmes which are planned, implemented and monitored with the help of panchayats are effectively implemented. Panchayats must be given full autonomy to implement rural development programmes in their jurisdiction with the help, supervision and guidance of line department functionaries without any critical interference. For ensuring their effective participation, panchayats have to be effectively trained and their capacity built sufficiently to undertake these programmes.

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CHAPTER 5

ACCOUNTING, BUDGETING AND AUDITING REFORMS FOR IMPROVING FISCAL AND FINANCIAL MANAGEMENT

This chapter describes the meaning, definition, concepts, rules of accounting, budgeting and auditing and suggests the reforms required for improving fiscal management in Local Self-Government Institutions (LSGIs) in Punjab. The objective is to strengthen the capacity of LSGIs to enable them to meet growing need for improving fiscal and financial management for mobilization of funds, and access non-budgetary funds from capital market.

This chapter contains inputs for the implementation of the new accounting system and the intricacies of the conversion process from cash-based accounting to accrual-based accounting system, procedures for recording transactions and determining cost of municipal services. The inputs include the method of identification, preparation, verification, and recording of transactions in municipal accounting areas such as taxes and fees, salaries, suppliers/materials, and fixed assets, loans, grants, water supply and sanitation. The chapter provides inputs for sensitization and orientation of the elected representatives, commissioners and other municipal officials and elaborates the Management Information System (MIS) useful for the senior functionaries of Urban Local Bodies (ULBs) to meet their responsibilities and help them in extracting information from the financial statements.

Part-I Urban Local Bodies

In Punjab, there are serious deficiencies in the system of accounting and budgeting in ULBs. The ULBs have been following cash-based single entry system of accounting, suffers from other shortcomings as a result of which the statement of accounts does not provide adequate information for analyzing the financial performance and fiscal base/status of an ULB. The profit and loss account statements as prepared cannot be generated from the way the accounts are maintained and most importantly balance sheets cannot be prepared under the existing system of accounting. This has had adverse impact on the fiscal performance of the ULBs in the state. They are not aware of their real potential of own resource mobilization. The financial institutions on account of non-availability of balance sheets of municipalities and absence of a clear picture of their finances, have been

reluctant to lend them for financing growing needs of urban infrastructure. The First and Second State Finance Commissions of Punjab as well as Eleventh and Twelfth Finance Commissions of India have highlighted that accounting, budgeting and auditing systems in ULBs should be upgraded to improve their fiscal management, management information system and data base. The Ludhiana Municipal Corporation, which started the accounting reforms several years back, has not completed the process despite having a relatively strong fiscal base. Notwithstanding the claims to have introduced certain reforms in accounting, the discussions with municipal officials indicate that nothing has been done at the ground level. Urgent steps are required to upgrade the capacity of ULBs and their accounting personnel to implement accounting, budgeting and auditing reforms. It is possible by introducing double entry system to move into an accrual-based accounting. The modified system of accounting procedures as prescribed in the National Municipal Accounting Manual (NMAM), a few dimensions of which are discussed will enable the government to modify its municipal accounting code and implement accounting reforms.

In 2001, the Hon'ble Supreme Court of India opined that the ULBs should take immediate steps to get their accounts converted from cash-basis to accrual-basis. The Hon'ble Court also stated that necessary amendments to the regulations be carried out by the Government of India. The (CAG) Task Force issued a 'Report on Accounting and Budget Formats for ULBs'. The Task Force report covered budget and accounting formats and significant accounting principles and costing of important utilities and services. Following recommendations were made by the Task Force:

1. The ULBs should uniformly follow the suggested formats for presentation of annual financial statements.
2. Budget formats with codification needs to be adopted uniformly by all ULBs.
3. Suggested formats for determining the cost of important utilities and services like water supply, primary schools and hospitals, etc. be adopted by all the ULBs and presented as supplementary information.
4. Significant accounting principles to be followed by the ULBs shall be given as a separate schedule forming part of the accounts.

Government of India accepted the Task Force report and forwarded it to the state governments for implementation in April 2003. During the review of the progress made by Ministry of Urban Development (MOUD), in September 2003, it was agreed that CAG with USAID - FIRE (D) support, should prepare a model NMAM which will be provided to the state governments by MOUD enabling them to develop state municipal accounting manual according to their specific requirements.

The information in this chapter has been drawn from the model NMAM prepared by the Ministry of Urban Development, Government of India. It is representative in nature as it takes in to account the study of municipal corporations of Ahmedabad, Bagalore, Dehradun, Guwahati, Gwalior, Ludhiana and Trichy. Accounting principles placed in the manual are primarily focused on the concept of accrual-based accounting system. States can develop state level manual to suit their requirements. However, the principles laid down in this manual should be complied with. Similarly, the manual provides for integrating the budgeting and accounting systems for better control. Some of the key features of manual comprise uniformity in accounting method/policies and financial accounts statements, standardization of codification structure, integration of budget, MIS and accounting. There is general consensus on adopting accrual system of accounting. Its meaning and benefits have been reproduced below:

Accrual System of Accounting

Accrual system of accounting means a method of recording financial transactions based on accrual, i.e., on occurrence of claims and obligations in respect of incomes or expenditures, assets or liabilities based on happening of any event, passage of time, rendering of services, fulfillment (partially or fully) of contracts, diminution in values, etc., even though actual receipts or payments of money may not have taken place.

In this system, there is a change in accounting for transactions and reporting financial results so as to provide the ULBs and the government with financial reports, in the form of two important financial statements for the purposes noted against each (Table 41).

Table 41
Important Financial Statements and their Purpose

| Statement | Purpose |
|--------------------------------|--|
| Income & Expenditure Statement | To determine the financial performance of the ULBs |
| Balance Sheet | To assess the financial status of the ULBs |

Benefits of Accrual System of Accounting

The accrual-based accounting system helps in determination of correct income and expenditure of the municipal bodies. The main benefits of this system are enumerated below:

- Revenue is recognised as it is earned and thus "Income" constitutes both revenue received and receivable. The accrual-base not only records the actual income but also highlights the level and efficacy of revenue collection, thereby assisting decision makers in financial matter.
- Expenditure is recognised as and when the liability for payment arises and thus it constitutes both amount paid and payable. In accrual-based accounting, expenditure

incurred on repairs and maintenance shall be recognised as expense of the period in which they are incurred and, if not paid for during the year, shall be treated as a liability (payable) and be disclosed as such in the balance sheet.

- Expenses are matched with the income earned in that year. Thus, it provides a very effective base to understand the true performance of the organization for the operations conducted in that year.
- A distinct difference is maintained between items of revenue nature and capital nature. This helps in correct presentation of financial statements, viz., the income and expenditure statement, and the balance sheet.
- Costs which are not charged to income and expenditure account are carried forward and kept under continuous review. Any cost that appears to have lost its utility or its power to generate future revenue is written-off.
- The surplus or deficit as shown at the year-end represents the correct financial position of the organization arising out of the various transactions during that year.
- It facilitates proper financial analysis and reporting.
- It captures "full" cost of servicing and helps in identifying financial viability of rendering services.
- It helps in providing timely, right quality and nature of information for planning, decision-making and control at each level of management.
- It assists in effective follow-up of receivables by the municipal body and proper ascertainment of payables by the municipal body.
- One of the distinct advantages of adopting accrual accounting system is ease in financial appraisals by the financial institutions. It also facilitates credit rating through approved Credit Rating Agencies, which is a pre-requisite for mobilising funds from the financial markets through debt instruments.
- It presents a true picture of the financial position of an organisation and helps in better financial management.

Thus, accrual-based accounting results in recording of transactions and events on the basis of their substance, rather than merely when cash is received or disbursed, and thus, enhances their relevance, neutrality, timeliness, completeness and comparability.

Rules of Accounting:

The basic rules of accounting flow from the accounting equation:

$$\text{Assets} = \text{Own Funds} + \text{Liabilities}$$

An increase in the asset, e.g., Vehicle can be brought about by:

1. Decrease in another asset, e.g., bank account, or
2. Increase in liability, e.g., loans or payables.

Decrease in the asset, e.g., Cash may result in:

1. Increase in another asset, e.g., medical equipment
2. Decrease in liability, e.g., payment of loans or payment of suppliers outstanding
3. Decrease in own funds through expenditure.

It is customary to use the term "Debit" and "Credit" to communicate the above phenomenon. The rules of debits and credits are as follows (Table 42):

Table 42
Rules of Debit and Credit

| Type of Account | Debit Signifies | Credit Signifies |
|--------------------|-----------------|------------------|
| Asset Accounts | Increases | Decreases |
| Liability Accounts | Decreases | Increases |
| Own Funds | Decreases | Increases |

An accounting entry would be a combination of a single debit and a single credit or a set of debits and a set of credits, as may be appropriate. Following the accounting equation of $\text{Assets} = \text{Claims}$, the debits will always equal credits.

If we were to expand on the above, the following will be the rules applicable to incomes, expenditures, grants, etc. (Table 43).

Table 43
Rules Applicable to Income, Expenditures and Grants

| Type of Account | Debit Signifies | Credit Signifies |
|---|-----------------|------------------|
| Income (which will increase Own Funds) | Decreases | Increases |
| Expenditure (which will decrease Own Funds) | Increases | Decreases |
| Grants Received | Decreases | Increases |

The NAM contains the required forms, formats, procedures, accounting entries, periodical statements, reconciliation procedures, etc. The state government may modify its municipal accounting code/manual accordingly.

Accounting for Funds

Funds are instituted for achieving certain objectives. In some states there may be dedicated Water and Sewerage Fund and income from these services (taxes and charges) is kept in this fund and expenditure is also met out of the fund. The concept of funds brings accountability and better transparency. Such types of funds are normally treated as a separate accounting entity and separate books are maintained. Hence, separate financial statements are prepared for each fund. In addition, ULBs may have special funds to meet specific objectives. Urban Local Bodies may also set up separate undertaking like school board etc. to undertake certain functions of the ULB. The codification structure and input forms recommended are amenable to computerization also. However, the registers are designed keeping in mind that ULBs will be implementing the recommended system mostly in a manual environment to begin with. Changes to the formats may be required for Information Technology (IT) enablement.

Significant Accounting Principles

The financial statements of a ULB should contain a 'Statement of Significant Accounting Principles' as notes to accounts in respect of important accounting principles adopted in preparing and presenting such information. The significant accounting principles as mentioned in this chapter should be followed consistently each year.

Where any of the accounting principles adopted by the ULB while preparing its financial statements is not in conformity with the principles prescribed in this chapter and the effect of deviation from the accounting principles is material, the particulars of the deviation should be disclosed, together with the reasons and the financial effect thereof, except where such effect is not ascertainable. In case the financial effect thereof is not ascertainable, either wholly or in part, the fact that it is not so ascertainable should be indicated.

Likewise, any change in the accounting principles which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the financial statements of the period in which the change is adopted.

The following accounting principles should govern the recording, accounting and treatment of transactions relating to selected activities (except octroi and few other activities mentioned in the NMAM) as given below:

1. Property and Other Taxes

- Revenue in respect of property and other taxes shall be recognised in the period in which they become due and demands are ascertainable.

- In case of new or changes in assessments, it can be accrued in the month in which the demand is served.
- Interest element and penalties, if any, in demand shall be reckoned only on receipt.
- Revenue in respect of notice fee, warrant fee and other fees charged shall be recognised when the bills for the same are raised.
- Revenue in respect of property transfer charges shall be recognised on actual receipt.
- Collections to be made on behalf of state government i.e., State Education Cess, Employment Guarantee Cess and Library Cess and included in the Property tax demand shall be reckoned together with Property tax demand and credited to a control account called "State Government Levies in Taxes- Control Account".
- The liability towards dues to the state government for collections on its behalf shall be recognised as and when they are collected.
- Revenue in respect of rebate from state government for collection made on their behalf shall be recognized at the rates prescribed by the state government at the time of creating the liability to the state government.
- In respect of the demand outstanding beyond two years, provision shall be made to the extent of income of the ULB in the demand, based on the following provisioning norms:
 - a) Outstanding for more than two years but not exceeding three years: 25 per cent
 - b) Outstanding for more than three years but not exceeding four years: 50 per cent (additional 25 per cent)
 - c) Outstanding for more than four years but not exceeding five years: 75 per cent (additional 25 per cent)
 - d) Outstanding for more than five years: 100 per cent (additional 25 per cent)
- Any additional provision for demand outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the ULB.
- Refunds, remissions of taxes for the current year shall be adjusted against the income and if pertain to previous years then it shall be treated as prior period item.
- Write-offs of taxes shall be adjusted against the provisions made and to that extent recoverable gets reduced.
- Any subsequent collection or recovery of 'Receivables for Property and Other Taxes', which were already written-off shall be recognised as a 'Prior Period Income'.
- Demands raised with retrospective effect will be treated as prior period income to the extent it pertains to earlier years.
- Part-payments received in respect of property and other tax levies shall be adjusted as per applicable Act of the state.
- Wherever self-assessment of taxes are prevalent, income can be accrued-based on records available with the local body when it becomes due as per the provisions of the respective municipal Acts. Further, changes arising out of self-assessment will be treated as 'Change in Demand' and will be accounted accordingly.

2. Water Supply

- Revenue in respect of water supply charges, water meter rent, sewerage charge, disposal charges shall be recognised in the period in which they become due, i.e., when the bills are raised. It is to be noted that the water tax and the related tax may also be included in the bill raised for the property tax.
- Revenue in respect of notice fee, warrant fee, other fees shall be recognized when the bills for the same are raised.
- Revenue in respect of connection charges for water supply shall be recognized on actual receipt.
- Revenue in respect of water tanker charges and road damage recovery charges, penalties shall be recognized on actual receipt.
- In respect of the demand outstanding beyond two years, provision shall be made to the extent of income of the ULB in the demand as follows:

If water tax demand is raised separately, the taxes and charges shall be provided as follows:

- a) Outstanding for more than two year but not exceeding three years: 50 per cent; and
- b) Outstanding for more than three years: 100 per cent (additional 50 per cent).

Any additional provision for demand outstanding (net on overall basis) required to be made during the year shall be recognized as expenditure and any excess provision written back during the year shall be recognized as income of the urban local bodies.

- Refunds, remissions of taxes for the current year shall be adjusted against the income and if pertain to previous years then it shall be treated as prior period item.
- Write-offs of taxes shall be adjusted against the provisions made and to that extent recoverable gets reduced.
- Any subsequent collection or recovery of 'receivables of water supply income' which were already written-off shall be recognized as a 'prior period income'.

3. Assigned Revenues

- Assigned revenues like entertainment tax, duty/surcharge on transfer of immovable properties, shall be accounted during the year only upon actual collection. However, at year-end alone, these shall be accrued if sanction order (or proceedings) is passed and the amount is ascertained.
- Based on the review of recoverable position of the 'receivables of assigned revenues', the amount of outstanding assigned revenues to be provided or written-off shall be ascertained and accounted accordingly on obtaining the relevant approval.

4. Rentals, Fees and Other Sources of Income

- Revenue in respect of advertisement rights shall be accrued either based on demand or based on the contract.
- Revenue in respect of trade license fees shall be accrued in the year to which it pertains and where the demand is raised based on applicable acts of the state.
- Revenues in respect of profession tax on organizations/entities shall be accrued in the year to which it pertains where the demand is raised based on applicable Acts of the state.
- Revenues in respect of rents from properties shall be accrued based on terms of agreement.
- Other income, in respect of which demand is ascertainable and can be raised in regular course of operations of the ULB, shall be recognized in the period in which they become due, i.e., when the bills are raised.
- The other incomes, which are of an uncertain nature or for which the amount is not ascertainable or where demand is not raised in regular course of operations of the ULB, shall be recognized on actual receipt.
- Revenue in respect of notice fee, warrant fee, other fees shall be recognised when the bills for the same are raised.
- Interest element and penalties, if any, in demand shall be reckoned only on receipt.
- In respect of the demand outstanding beyond two years, provision shall be made to the extent of income of ULB in the demand, based on the following provision-ing norms:
 - a) Outstanding for more than two year but not exceeding three years: 50 per cent,
 - b) Outstanding for more than three years: 100 per cent (additional 50 per cent).
- Any additional provision for demand outstanding required to be made during the year shall be recognized as expenditure and any excess provision written back during the year shall be recognized as income of the ULB.
- Refunds, remissions of other incomes for the current year shall be adjusted against the income and if pertain to previous years then it shall be treated as prior period item.
- Write-offs of other incomes shall be adjusted against the provisions made and to that extent recoverable is reduced.
- Any subsequent collection or recovery of 'receivables of rental, fees and other incomes' which were already written-off shall be recognized as a 'prior period income'.

5. Public Works

- The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental expenses incurred up to that date.
- Any addition to or improvement to the fixed asset that results in increasing the utility or capacity or useful life of the asset shall be capitalized and included in the

cost of asset. Revenue expenditure in the nature of repairs and maintenance incurred to maintain the asset and sustain its functioning or the benefit of which is less than for a year, shall be charged off.

- Assets under erection/installation on existing projects and capital expenditures on new projects (including advances for capital works and project stores) shall be shown as ‘capital work-in-progress’.
- The earnest money deposit and security deposit received if forfeit shall be recognized as income when the right for claiming refund of deposit has expired.
- Deposits received under deposit works shall be treated as a liability till the project for which money is received is completed. Upon completion of the project, the cost incurred against it shall be reduced from the liability.
- Revenues (percentage charges) in respect of deposit works shall be accrued along with expenditure of deposit works.

6. Stores

- Expenditure in respect of material, equipment, etc., procured shall be recognized on accrual basis, i.e., on admission of bill by the ULB in relation to materials, equipment, etc., delivered.
- Accounting of ‘goods received and accepted but no bills received’ as at the cut-off date shall be accounted based on purchase orders.
- The stock lying at the period-end shall be valued at cost in accordance with the first-in-first-out method.
- Revenue in respect of disposal of material shall be recognised on actual receipt.
- Finished goods and work-in-progress related to product produced for sale will be valued at cost. Cost of work completed and work-in-progress includes all direct costs and applicable production overheads to bring the goods to the present location and condition.

7. Employee Related Transactions

- Expenses on salaries and other allowances shall be recognized as and when they are due for payment (i.e. at the month end).
- Statutory deductions from salaries including those for income tax, profession tax, provident fund contribution, etc., shall be recognized as liability in the same period in which the corresponding salary is recognized as expense.
- Formation of trusts shall be considered for management of provident funds. However, it will be the responsibility of the ULB to form the trusts and meet the shortfall of the fund if any.
- Provident fund money shall be invested as per the guidelines applicable to any employee provident fund.

- Separate funds may also be formed for meeting the pension and other retirement benefits including gratuity and leave encashment. State governments can decide on this and can define the modus operandi also. State may form trusts either at the state level or at the municipal level.
- Contribution due towards pension and other retirement benefit funds shall be recognised as an expense and a liability. State government is to define the rate of contribution. One base for such rate could be at the rate generally prescribed for state government employees on deputation. Actuarial valuation has not been considered due to practical limitations of the ULBs. If an ULB wants to make an actuarial valuation, their applicable state laws can guide this.
- Interest receivable on loans given to employees shall be recognized as revenue at the end of the period in which these have accrued.
- In respect of loans to employees, penal interest leviable on default in repayment of principal or payment towards interest shall be recognized on accrual basis.
- Bonus, ex-gratia, overtime allowance, other allowances and reimbursements to the employees shall be recognized as an expense as and when they are due for payment.

8. Other Revenue Expenditures

- Other revenue expenditures shall be treated as expenditures in the period in which they are incurred.
- Provisions shall be made at the year-end for all bills received upto a cut off date (30th April of next financial year). However state governments depending on practicality and materiality involved can decide on this.
- Any expenditure for which the payment has been made in the current period but the benefit and/or service is likely to arise in a future period shall be treated as an expenditure for the period in which its benefit arises and/or services are received.
- The expenditure for the current period shall include the proportionate value of the benefits and/or services arising in the current period even if the payment therefor has been made in the previous period.

9. Grants

- General grants, which are of a revenue nature, shall be recognized as incomes on actual receipt.
- Grants towards revenue expenditure, received prior to the incurrence of the expenditure, shall be treated as a liability till such time that the expenditure is incurred.
- Grants received or receivable in respect of specific revenue expenditure shall be recognized as income in the accounting period in which the corresponding revenue expenditure is charged to the income and expenditure account.
- Grants received towards capital expenditure shall be treated as a liability till such time that the fixed asset is constructed or acquired. On construction/acquisition of

a fixed asset out of the grants so received, the extent of liability corresponding to the value of the asset so constructed/acquired shall stand reduced and the amount shall be treated as a capital receipt and shall be transferred from the respective 'specific grant account' to the capital contribution.

- Capital grants received as a nodal agency or as implementing agency for an intended purpose, which does not, result in creation of assets with ownership rights for the ULB shall be treated as a liability till such time it is used for the intended purpose. Upon utilization for the intended purpose, the extent of liability shall stand reduced with the value of such utilization and no further treatment, as a capital receipt shall be required.
- Grants in the form of non-monetary assets (such as fixed assets given at a concessional rate) shall be accounted for on the basis of the acquisition cost. In case a non-monetary asset is received free of cost, it shall be recorded at a nominal value (e.g. rupee one).
- Income on investments made from 'specific grants received in advance' shall be recognized and credited to the specific grant, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the 'specific grant received in advance' shall also be recognized and credited/debited to the specific grant.

10. Borrowings or Loans Received

- Interest expenditure on loan shall be recognized on accrual basis.
- Interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets shall be capitalized.
- A provision shall be made for the interest accrued between the date of last payment of interest and the date of financial statements and shall be charged to the current period's income and expenditure statement.
- The expenses incurred while issuing debentures or bonds (issue expenses) shall be deferred and amortized in equal installments over a period of five years or the tenure of the loan whichever is earlier. In case, the debentures and bonds are prematurely redeemed, the amount of issue expenses outstanding during the year shall be written-off and charged to the income and expenditure statement as expense of the year when this happens. However, all other expenses in respect of raising loans other than those considered, as issue expenses shall be expensed-off in the year in which they are incurred.

11. Special Funds

- Special funds shall be treated as a liability on their creation.
- Income on investments made from special fund shall be recognized and credited to special fund, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the special fund shall be recognized and credited/debited to special fund account.

- Any expenditure of a revenue nature, which is incurred specifically on scheme/project for which a special fund has been created, shall be charged to that special fund.
- On completion of the construction of a fixed asset and/or on acquisition of a fixed asset out of a special fund, the amount equivalent to the cost of such fixed asset shall be transferred from the respective special fund to the special fund (utilized).

12. Investments

- Investment shall be recognized at cost of investment. The cost of investment shall include cost incurred in acquiring investment and other incidental expenses incurred for its acquisition.
- All long-term investments shall be carried/stated in the books of accounts at their cost. However in the event of any permanent diminution in their value as on the date of balance sheet, these shall be provided for.
- Short-term investments shall be carried at their cost or market value (if quoted) whichever is lower.
- Interest on investments shall be recognized as and when due. At period-ends, interest shall be accrued proportionately.
- Dividend on investments shall be recognized on actual receipt.
- Profit/loss, if any, arising on disposal of investment (net of selling expense such as commission, brokerage, etc) from the municipal fund shall be recognized in the year when such disposal takes place.
- Income on investments made from special fund and grants under specific scheme shall be recognized and credited to special fund and grants under specific scheme respectively, whenever accrued. Profit/loss, if any, arising on disposal of investments (net of selling expense such as commission, brokerage, etc.) made from the special fund and grants under specific scheme shall be recognized and credited/debited to special fund account and grant under specific scheme account respectively. However, interest or gains from an investment made from grants received as reimbursements, shall be credited to municipal/general fund of the ULB instead of the grant account.

13. Fixed Assets

- All fixed assets shall be carried at cost less accumulated depreciation. The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental and indirect expenses incurred up to that month.
- Any addition to or improvement to the fixed asset that results in increasing the utility or useful life of the asset shall be capitalized and included in the cost of fixed asset.

- Any fixed asset, which has been acquired free of cost or in respect of which no payment has been made, shall be recorded at nominal value of rupee one.
- All assets costing less than Rs.5,000 would be expensed/charged to income and expenditure account in the year of purchase.
- An increase in net book value arising on revaluation shall be credited to a reserve account under the municipal fund as 'revaluation reserve account'. A decrease in net book value arising on revaluation of fixed assets is charged to income and expenditure accounts.
- Revaluation of a class of assets shall not result in the net book value of that class being greater than the recoverable amount of the assets of that class.
- Revaluation reserve shall be reduced by transfer of equivalent amount of depreciation charged on the revalued portion of the cost of the fixed assets.
- Depreciation shall be provided at the rates prescribed by the state. Depreciation on all fixed assets is to be provided consistently on either written down value or straight line method.
- Depreciation shall be provided at full rates for assets, which are purchased/constructed before 1st October of an accounting year. Depreciation shall be provided at half the rates for assets, which are purchased/constructed on or after 1st October of an accounting year.
- Depreciation shall be provided at full rates for assets, which are disposed on or after October 1 of an accounting year. Depreciation shall be provided at half the rates for assets, which are disposed before October 1 of an accounting year.
- Assets recorded in the register but not physically available shall be written-off after a specified period as defined by the state/municipal Act or rules governing the ULBs. The authority levels for the respective state/municipal act or rule shall also define authorising the write-off. However the specified period shall not exceed five years.

14. Loans

- Interest/penal interest on loans shall be recognized as and when due. At period-ends, interest shall be accrued up to the date of the period-end.
- Interest/penal interest earned on loans given out of specific fund/grant shall be directly credited to the specific fund/grant account.
- Provision against bad and doubtful loans shall be made according to the provisioning principle of the ULB based on norms or guidelines issued by the state government in this regard.
- Any additional provision for loans outstanding (net on overall basis) required to be made during the year shall be recognized as expenditure and any excess provision written back during the year shall be recognized as income of the urban local bodies.
- Write-offs of bad and doubtful loans shall be adjusted against the provisions made and to that extent, loan outstanding get reduced. In case of inadequate provisions, the write-off shall be recognized as expenditure.

15. Inter Unit Transactions

- All inter unit transactions shall be recorded on cost basis and no mark up shall be included in inter unit transactions.
- At the year-end, the inter unit accounts are knocked-off/adjusted in the consolidated accounts of the ULB.

The accounting principles as mentioned above are crucial for implementing accrual-based accounting by municipalities. In addition, accounting principles for cess, health and sanitation, addition/merger of local bodies for upgradation, municipal school board and transport undertaking have also been defined in the manual. Keeping in view the accounting principles, professional accountants/chartered accountants may be hired to implement the new system of accounting.

The Codification Structure and Chart of Accounts (COA)

The codification structure proposed facilitates capture of all type of financial information within an ULB, which are essential in a government set-up. Each type of classification is considered as a group. Considering the capacity and size of local bodies at an all-India level, to which this manual pertains and the minimum requirements of various stakeholders' certain mandatory information are prescribed. The mandatory groups for all local bodies are:

1. Functions
2. Account Heads

Functions shall represent various functions or services carried out by the local body. Account heads shall represent the nature of the income or expenditure.

Budgets in ULBs are centered around its functions. Functions are provided through various responsibility centres called 'departments'. Geographical dispersion of these activities may also be monitored more so in the context of introduction of ward committees under decentralization model. Hence, some ULBs identify its income and expenditure budgets at function, functionary (department) and field level.

Chart of Accounts (COA) defines the heads under which the income and expenditure of local bodies are classified and facilitates maintenance of accounts and preparation of financial statements. A well-designed COA shall not only fulfill accounting requirements but also the budgeting and MIS requirements and shall be flexible enough to consolidate and collapse to facilitate generation of various information reports.

Fund code shall be same for all debits and credits in a transaction, budget codes will be applicable only for certain debits and credits in a transaction; account codes shall vary for every debit and credit in a transaction.

Books of Account/Financial Statements

The provisions and rules of the Act governing the ULBs, stipulate for preparation of the 'annual administration report' and a 'statement of accounts' by the ULBs. The report shall be in such form and shall contain such information as the 'standing committee' may from time to time direct.

Preparation of financial statements comprising of various reports as stated below are the responsibility of the head of the accounts department. However, other reports such as auditor's report and municipal commissioner's report on the financial statements shall be prepared by the municipal auditor and municipal commissioner respectively.

The Annual Report of the ULBs shall include the following:

- Financial Statements consisting of:
 - a) Balance Sheet;
 - b) Income and Expenditure Statement;
 - c) Statement of Cash Flows (a summary of an enterprise's cash flow over a given period of time);
 - d) Receipts and Payments Account (detailed as per the account heads);
 - e) Notes to Accounts; and
 - f) Financial Performance Indicators.
- Report of the Municipal Chief Auditor.
- Municipal Commissioner's Report on the Annual Financial Statements and the qualifications and comments made in the Report of the Municipal Chief Auditor.
- Standing Committee's Action Taken Report on the qualifications and comments made in the Report of the Municipal Chief Auditor and the Report of the Municipal Commissioner.
- Books of Accounts:
 - a) Vouchers
 - b) Cash Book
 - c) Ledger Book
 - d) Journal Book
 - e) Day Book
 - f) Trial Balance

The cash book

The most elementary accounting record is a cash book which shows all receipts and payments, both in cash and through the ULB's bank account, and reconciles these with the current cash and bank balances. This needs to be balanced daily and reconciled with the bank's records at least monthly.

Ledger accounts

An ULB also needs to keep track of its budgetary progress. It needs to know how much has been received under each item of income and spent under each expenditure item, both for budgetary control and for making the next years budget. This information cannot easily be deduced from the cash book where receipts and payments under different items are arranged in chronological sequence. An ULB, therefore, needs to keep an account for each revenue and expenditure budget item showing all receipts or payments under that item to date during the financial year and a running total. This is called a ledger account.

Double entry bookkeeping

Keeping a cash book and a set of ledger accounts means practising a double entry system, i.e., every transaction has to be recorded twice, once in the cash book and once in the respective ledger account. Not all ledger transactions, however, involve cash. A loan repayment might be deducted from an employee's salary without cash passing hands. No cash-book entry will be made (at least in respect of the deduction: the net salary after deduction of the repayment might involve a cash-book entry), but two ledger entries are required:

1. A charge (or 'debit') to the salary expenditure item; and
2. A receipt (or 'credit') to the advance account.

A 'journal' entry may be used to transfer money between ledger accounts in this way without a cash transaction.

Accruals

An ideal accounting system should work on what is termed an 'accruals' basis. Revenue is shown as received as soon as it is due, i.e., as soon as it has been demanded; expenditure is shown as soon as it is committed, e.g., as soon as an order has been placed. The problem, of course, is that entering revenue and expenditure in the ledger accounts on an accruals basis does not balance with the cash transactions. The only way the ledger accounts can still balance with the cash position is by:

1. Showing revenue due as a debt to the ULB until it is actually paid; and
2. Showing expenditure committed as a debt by the ULB until it is paid.

This means recording two sets of transactions at different points in time. For example:

- (a) When a property tax is demanded from A, the amount is credited to the property tax revenue item but debited (or charged) to a debtors account in the name of A. When A pays, the amount is recorded in the cash book receipts and credited to A's debtor ledger account;

- (b) When school books are ordered from B, the amount is debited to an education expenditure item but credited to a creditor's account in the name of B. When the invoice is paid, the amount is recorded as a payment in the cash book, and B's creditor account is debited, i.e., reduced (or cleared altogether, as the case may be).

Again the double entry principle is maintained. There must always be two balancing entries, either the cash book and ledger account or in two ledger accounts.

- Regular Registers:
 - a) Abstract Register of Receipts and Payments
 - b) Register of Adjustment
 - c) Register of Investments
 - d) Advance Ledger
 - e) Deposit Ledger
 - f) Loan Register
 - g) Fixed Assets Register
 - h) Appropriation Register
 - i) Register of unpaid bills

Capital assets

It can be argued that the net worth of an ULB is reflected not only in the balance of its revenue and expenditure but also in the value of its fixed assets -its land, buildings and permanent equipment. If this view is taken, the value of the fixed assets should be shown on the balance sheet of the ULB. This means that, once land, buildings or permanent equipment are purchased or constructed, their value should be entered in a ledger account, and the total value of fixed assets should appear on the assets side of the balance sheet. This would then be reflected in the fund balances on the other 'liabilities and surpluses' side of the balance sheet. It is usual, however, to distinguish between the reserves accruing from revenue surplus over expenditure, i.e., the general fund/accounts balance, and those reflecting capital assets.

Many capital assets, however, are purchased with the help of a loan. They cannot, therefore, be shown truthfully or wholly as part of the 'worth' of the ULB until those loans have been repaid. If the value of fixed assets is shown on the assets side of the balance sheet, it is necessary to show on the liabilities and surpluses side two items:

1. Outstanding balance of loans; and
2. Capital discharged (i.e., the net worth of the fixed assets to the ULBs after deducting the outstanding loans).

The value of land, buildings and equipment does not remain the same as at the time they were originally purchased or constructed. Equipment usually depreciates with age, as it

wears out or becomes obsolete. Land usually increases in value, with inflation or market shortage. Buildings are variable; physically they depreciate with age, but market changes may increase their value.

Changes in value should, therefore, be reflected in the accounts through an annual revaluation. Increase or decrease in value would need to be reflected in adjustments both to the value of fixed assets and to the balancing value of capital discharged in the ledger and in the balance sheet.

The progress of implementation of accounting reforms by local self-government institutions in India is very slow. Only few states have introduced reforms in the direction, suggested by the national manual. With effect from 1.4.2000, all the local bodies of Tamil Nadu have implemented a new system of municipal accounting based on double entry accrual accounting. Gujarat, Karnataka and Rajasthan are other three states where new system of municipal accounting based on double entry accrual accounting has been introduced.

The Government of Maharashtra (GoM) has developed accrual-based municipal accounting manual for the state. This has been revised in accordance with the recommendations of CAG's Task Force Report for ULBs. The Maharashtra Accounting Manual (MAM) was taken as a starting point for preparation of NMAM manual. In addition the implementation of computerized accounting system in Municipal Corporation of Hyderabad has been considered.

- MIS Reports:
 - a) Borough/Zone/Ward wise Accounts
 - b) Ageing Reports for both Debtor and Creditor (ageing report should be user defined)
 - c) Variance Analysis of Budget Vs Actuals
 - d) Party wise Statement
 - e) Ratio Analysis Reports
 - f) Revenue Trend Analysis Statement
 - g) Bank Reconciliation Statement

The ULBs shall also prepare the financial statements like the balance sheet, income and expenditure statement, statement of cash flows and receipts and payments account, at the end of each quarter. Balance sheet shall disclose figures as on a date for the current year and the previous year. Income and expenditure statement, statement of cash flows and the receipts and payments account shall disclose quarterly figures, progressive year-to-date totals and the figures of the corresponding quarter of the previous year and the quarterly movements in various accounts. In addition, the income and expenditure statement shall also disclose the annual budget figures. In respect of the accounting year, the ULB shall prepare all the statements and reports.

The financial statements for the first three quarters shall be placed by the municipal commissioner before the standing committee within such period as specified in the applicable Acts. The annual financial statements shall be subject to audit by a Municipal Chief Auditor (MCA) as prescribed in the provisions and rules governing the ULBs. The municipal commissioner shall prepare a report on the qualifications and comments made by the MCA. This report shall be an integral part of the annual report. The annual financial statements shall be approved by the municipal commissioner and shall be placed along with the report of the MCA before the standing committee on or before such dates as may be prescribed in the applicable Acts. The standing committee shall prepare an action taken report on the annual financial statements submitted taking into consideration the qualification and comments made in the report of the MCA. The standing committee shall approve the annual financial statements and report and place them before the general body on such date as may be specified in the applicable Acts. The general body shall adopt the annual report not later than such date as may be specified in the applicable acts. The amounts in the annual financial statements and the schedules forming part of the financial statements shall be stated in units of rupees. It shall be disclosed in thousands/lakhs of rupees if a ULB decides so with the approval of the state government.

Audit Report on Financial Statements

The municipal accounts as contained in the financial statements including the accounts of special funds, if any, and the balance sheet shall be examined and audited by Director Local Fund Audit or his equivalent authority or an auditor appointed by the state government. The auditor so appointed shall upon completion of audit of the accounts, issue a report on the financial statements of the ULB.

The MCA's report on the balance sheet, income and expenditure statement, receipts and payments statement, and cash flow statement shall be addressed to the authority (as required by the relevant Act), of the ULB, with a copy being forwarded to the municipal commissioner.

The Report of the MCA shall state

- whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;
- whether, in his opinion, proper books of account as required by authority (as required by the relevant Act), the accounts manual, the rules and any other stipulations have been kept by the ULB so far as it appears from his examination of those books;
- whether the ULB's balance sheet, income and expenditure statement, receipts and payments statement and cash flow statement dealt with by the report are in agreement with the books of accounts;
- whether appropriate internal controls have been adhered to;
- whether all the payments have been made in accordance with the law;

- whether any deficiency or loss appears to have been caused by the gross negligence or misconduct of any person (if yes, the amount of loss should be quantified);
- whether any sum received for and on behalf of the ULB which ought to have been brought into account of the ULB by any person has been so brought; and
- whether any material impropriety or irregularity, other than those mentioned above, has been observed by him during the course of audit of accounts.

Where any of the matters referred above are answered adversely or with a qualification, the auditor's report shall state the reason for the same and with further explanation and inclusion of statistical impact, if possible.

Budgeting and MIS Reports

Budget is a financial plan describing proposed expenditure and means of financing the same. It embodies the estimated receipts and expenditure (both capital and revenue) for a financial year. It is a proposal of how much money is to be spent on what and how much of it will be contributed by whom or how it would be raised during a financial year. It plays an important role in planning and controlling operations of the ULBs.

Budget preparation process, calendar, approval and control process indicated in this section is on cash basis and provides guidelines for states at an overall level. However states and ULBs should develop detailed manual/guidelines for budget preparations.

The objective of the budgeting system of an ULB is to arrive at a scientific basis for building linkage between the nature of receipt or payment with the functions/services or other budget control centres. Budget shall reflect the principles and programmes of the ULB. Budget must also enable ULB in measuring and promoting accountability in respect of service delivery. Public expenditure must be spent in the most productive way. Decentralized planning with citizens' participation facilitates achieving this objective.

Any receipt and payment shall reflect the above said objectives. To facilitate this, three broad categories of budgeting centres are defined. Budgets shall establish a close linkage between the accounting subjects (nature of receipt and payment) and:

- the function;
- the functionary as identifiable by personnel responsible for any function; and
- the field as identifiable by the geographical boundaries over which the cost is incurred

MIS reports are prepared from the accounting and other records maintained for the conduct of the ULB activities. These basic data are to be maintained properly in order that the

MIS reports prepared based on the records are correct and accurate. Therefore, establishment and ensuring of maintenance of proper accounting and other records is key for effective MIS reports.

MIS covers non-financial aspects of the activities also. For example, the data on education: number of schools under ULB, number of teachers, number of students, and the pass percentage form part of such data. If these data are used integrally with financial aspect results in preparation of various analytical reports like cost of service delivery.

MIS reports prepared in ULBs shall cover the following key areas:

- Financial performance (balance sheet, income and expenditure, cash flow statements, etc.)
- Departmental performance (departmental collection summary, etc.)
- Recovery of cost/subsidy report (water supply cost sheet, etc.)
- Key performance indicators (financial ratio analysis, etc.)
- Ward level MIS (ward level revenue, expenses etc.)

MIS reports on financial statements are listed below for easy reference:

- Income and Expenditure.
- Balance sheet.
- Statement of cash flows.
- Receipts and payments account.
- Subsidy report.
- Financial ratios.

ULBs may also prepare the following reports on a periodical basis and submit them to various governing committees for review, analysis and decision making purposes:

- Statement of receivables.
- Statement of payables.
- Ward wise liability summary report.
- Revenue trend analysis.

Opening Balance Sheets

The information for the assets and liabilities should be prepared as it would facilitate the preparation of the ‘opening balance sheet’ of the ULB. A budgetary transaction is, in essence, permanent. Once a tax payment is received, for example, it belongs permanently to the ULB and is not repayable to the payer. Once expenditure has been incurred on an employee's salary or a purchase of supplies, the money cannot be recovered. The "net

worth" of an ULB is the difference between its revenue and expenditure, often known as its general fund account balance. If this is not in surplus, i.e., if accumulated expenditure has exceeded accumulated revenue, the ULB is basically in debt.

However, at any given moment, the ULBs cash position will probably not reflect its real 'net worth', because it is affected by temporary factors. It might be:

1. Inflated by deposits (or 'creditors'), i.e., by sums it is holding for others.
2. Reduced by advances (or 'debtors'), i.e., by loans to others not yet repaid.

The purpose of a balance sheet is to show the true position at a particular moment or at the end of a financial year. It is also to make sure that the cash and ledger accounts have been correctly kept, i.e., that they do balance. In a narrative form it means:

Cash and bank balances + Advances/debtors - Deposits/creditors
= Net worth/General balance.

An ULB might not keep all its 'liquid' assets in the form of bank and cash balances. Where resources are to be kept unspent for a substantial period, as a long-term reserve or for the eventual replacement of equipment, for example, they might be invested in bonds or other interest-bearing outlets. Current assets might, therefore, include cash, bank balances and investments.

In Punjab, the deficiencies in the system of accounting and budgeting followed by urban local bodies could be mitigated by switching over from single entry cash-based accounting system to accrual-based double entry system of accounting. The accrual system as described in the NMAM is helpful in addressing the shortcomings in the existing cash based accounting system. With improved statement of accounts it will be possible to provide adequate information for analyzing the financial performance and fiscal base/status of an ULB and verify accuracy of books and estimate the cost of municipal services and assets. The investors rely on profit and loss account statements and transparent balance sheets. Accounts are of little use, unless they balance and are up-to-date. Unless accounts have these two features, a local ULB cannot be confident that its money is being handled properly and cannot act in time to correct financial deficiencies. The state government needs to speed up the reform process by institutional strengthening at the municipal level. The modified system of accounting procedures as prescribed in the NMAM will enable the government to modify its municipal accounting code and implement accounting reforms.

The ULBs need to develop a municipal accounting manual in accordance with the recommendations of the Comptroller and Auditor General of India's Task Force, and the Ministry of Urban Development's NMAM. A state level 'steering committee' may be constituted under the chairmanship of the Secretary, Local Government Department, to

monitor its implementation and provide guidance and advice for scaling up the accounting activity statewide. Further, the steering committee should coordinate with the State Finance Department and Institute of Chartered Accounts of India (ICAI) in addition to the ULBs. The membership of the steering committee may include Secretary Accounts and Treasuries, Commissioners of the pilot ULBs, Chief Auditor, Local Fund Accounts, representative of Accountant General and representative of ICAI. To ensure a smooth changeover to the new system, assistance from professional chartered accountants may be required. Subsequently, ULBs may consider implementing improved financial management practices like cash management, receivables management, budgeting and auditing. The preparation of an opening balance sheet will be the starting point for shifting to double entry accrual accounting. In the absence of a state-specific manual, ULBs may commence with the preparation of the opening balance sheet on the basis of the norms and guidelines for the preparation of an opening balance sheet laid down in the NMAM. It is generally believed the new accrual accounting systems needs to be computerized to overcome the cumbersome municipal accounting and budgeting functions.

References

All the references (same as mentioned in the Chapter 1, 2, 3,4: Part 1) and

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Part-II

Panchayati Raj Institutions

This chapter gives an account of the procedure of accounting and auditing system the PRIs should follow in order to improve efficiency and bring transparency in their functioning.

Introduction

The financial function has always been important to the operation of local government. One of the authors, of a recent 'Guide to Local Government Finance' commented that:

'There is mystery surrounding the financing of local government. Few people understand how the system really works, yet millions are affected by it..... As with many 'technical' subjects, often those who understand its complications are the least able to explain it in simple terms. They are too close to the subject; too concerned that omitting one single detail will give the wrong impression.... There are also those with a vested interest in keeping the system mysterious'.

The 73rd and 74th Constitutional Amendment, Article 243J and 243Z of the Constitution expect that the states to make provisions by way of legislation for maintenance of accounts by the panchayats and the municipalities and for the audit of such accounts. However, after more than a decade of the enactment of these constitutional amendment Acts, the accounting system of the local self government institutions in general and PRIs in particular has not been adequately improved. The accounts of the intermediate and district panchayats are maintained by the functionaries at block development and district panchayat offices. However, the accounts of village panchayats have not been properly maintained because of lack of functionaries to handle the account. Customarily, one panchayat secretary maintains accounts of four to five panchayats in Punjab. The most prevalent method is the cash based single entry system. In the absence of proper accounting, auditing and social auditing there is fare chance of misappropriation. Therefore, complains of misappropriation of funds are being reported. One of the field study report (1998) had found a lot of anomalies in accounting system of PRIs.

A few of them are:

- The monthly and annual accounts are not submitted to the concerned authority, as required. Item-wise (scheme) credit and debit register is not maintained.
- Item-wise (scheme) expenditure account is not maintained.
- The amount collected from various sources of income has not been credited by the bill collector.
- Status of cashbook and bank passbook balances has not been submitted to the audit circle.

- Did not submit explanation of previous year audit objections.

The Eleventh Finance Commission had also envisaged following pitfalls in the accounting system of the local self-government institutions:

- The state legislation has made general provisions but detailed guidelines and rules have not been prescribed in several cases.
- In many states, the formats and procedures for maintenance of accounts by these bodies prescribed decades ago are continuing without making any improvements to take into account the manifold increase in their powers, resources and responsibilities.
- Most village panchayats do not have any staff except a full or a part-time secretary because of financial constraints.

The Eleventh Finance Commission has made a provision of Rs. 4,000 per panchayat per annum, on an average to meet the expenditure on maintenance of account on contract basis. The provision made for six different states by the Eleventh Finance Commission is given in Table 44.

Table - 44
Provision for Maintenance of Accounts of Village Level Panchayats and Intermediate Level Panchayats (Rs. in lakhs)
(Punjab/Progressive Indian States)

| State | Amount Allotted for Village Panchayat | Amount Allotted for Intermediate Panchayat | Total |
|----------------|--|---|---------|
| Gujarat | 541.88 | 7.36 | 549.24 |
| Karnataka | 226.92 | 7.00 | 233.92 |
| Kerala | 39.60 | 6.08 | 45.68 |
| Madhya Pradesh | 1245.04 | 18.36 | 1263.40 |
| Maharashtra | 1104.44 | 12.76 | 1117.20 |
| Punjab | 463.64 | 5.32 | 469.16 |

Source: Eleventh Finance Commission Report.

The Eleventh Finance Commission report has also further realized that in the absence of any reliable financial/budgetary data, no realistic assessment of the needs of the panchayats and municipalities for the basic civic and development functions can be made. Moreover, without data, information cannot be generated, which would ensure fund to the PRIs and ULBs for the implementation of various schemes for economic development and social justice. The commission had made a provision of Rs. 200 crore.

The amount allotted to Punjab and progressive Indian states is given in Table 45.

Table - 45
Provision for Creation of Database Relating to Finances of PRIs and ULBs

| State | Allocation for PRIs | Allocation for ULBs | Total Allocation |
|----------------|----------------------------|----------------------------|-------------------------|
| Gujarat | 1096.86 | 11.89 | 1108.75 |
| Karnataka | 468.66 | 17.15 | 485.81 |
| Kerala | 92.22 | 4.63 | 96.84 |
| Madhya Pradesh | 2523.18 | 32.23 | 2555.41 |
| Maharashtra | 2230.34 | 19.46 | 2249.81 |
| Punjab | 937.00 | 10.93 | 947.93 |

Source: Eleventh Finance Commission Report.

The Commission urged that there is a need to evolve a system of maintenance of accounts by the local bodies that could be adopted by all the states. Some of the recommendations of the commission are as follows:

1. The accounting system of the PRIs and ULBs must be done in consultation with Comptroller and Auditor General of India (C&AG) and the Controller General of Accounts, to ensure uniformity;
2. The C&AG should be entrusted with the responsibility of exercising control and supervision over the maintenance of accounts and their audit for all the tiers/levels of panchayats and urban local bodies;
3. The Director, Local Fund Audit, or any other agency made responsible for the audit of accounts of the local bodies, should work under the technical and administrative supervision of the C&AG. In no case, should be the Director for panchayats or for ULBs be entrusted with this work. The prescribed authority entrusted with the audit and accounts of the local bodies should not have any functional responsibility in regard to these bodies, so as to ensure his independence and accountability;
4. The C&AG should prescribe the format for the preparation of budgets and for keeping of accounts by the local bodies, which should be amenable to computerization.
5. Local bodies, which do not have trained accounts staff, may contract out the upkeep of accounts to outside agencies/persons. The C&AG may lay down the qualification and experience required for this purpose. The Director, Local Fund Audit, or his equivalent authority, may do the registration of such agencies/perons;
6. Audit of accounts of the local bodies may be entrusted to the C&AG, who may get it done through his own staff, or by engaging outside agencies on payment of remuneration fixed by him. An amount of half per cent of the total expenditure incurred by the local bodies should be placed with the C&AG for this purpose;
7. The report of the C&AG, relating to audit of accounts of the panchayats and the municipalities, should be placed before a committee of the State Legislature constituted on the same lines as the *Public Accounts Committee*, and

8. A database on the finances of panchayats and municipalities should be developed at the district, state and central government levels and be easily accessible by computerizing it and linking it through V-SAT. The Director, Local Fund Audit, or the authority prescribed for conducting the audit of accounts of the local bodies, may be made responsible for this task. The Chief Secretary of the state may do the state level coordination and monitoring. The C&AG should be involved at all stages.

The Punjab Panchayati Raj Act has envisaged that PRIs have to properly maintain their accounts every year. The Gujarat Panchayati Raj Act, 2003 noted that accounts and income and expenditure of every panchayat shall be kept in such form and manner and balanced annually on the first day of every year. The secretary of every panchayat shall prepare the annual report of the administration of the panchayat and place the accounts and reports for approval before panchayat. The Karnataka Panchayati Raj Act, 2003 has envisaged that the accounts of the panchayat to be maintained in single cashbook showing income and expenditure for each year. The secretary prepares and present accounts to the panchayat. The accounts of the taluka panchayat and district panchayat are being maintained by the accounts officer and chief accounts officer respectively at the taluka and district head quarters.

Guidelines for Accounting

The following guidelines need to be followed in accounting.

The accounts should be maintained on commercial principle on double entry system. All the accounts must balance. At any one time the total value of the accounts in credit must equal to the total value of the accounts in debt. The two notable characteristics of double entry systems are that:

1. each transaction is recorded in two accounts; and
2. each account has two columns. The two entries keep the accounting equation in balance so that:

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

In this system, the double entries take the form of debits and credits, with debits in the left column and credits in the right. For each debit there is an equal and opposite credit and the sum of all debits therefore must equal the sum of all credits. This principle is useful for identifying errors in the transaction recording process.

Double entry accounting has the following advantages over single entry:

- Accurate calculation of profit and loss in complex organizations;
- Inclusion of assets and liabilities in the bookkeeping accounts;
- Preparation of financial statements directly from the accounts; and
- Easier detection of errors and fraud.

Documentation/Accounting Principles

The District Rural Development Agency (DRDA) has envisaged the PRIs have to maintain following documents for revealing transparency in accounting. It is mentioned in the document that the local self government institutions has to maintain following documents/papers annually:

1. Receipt and payment account.
2. Income and expenditure account.
3. Balance sheet.
4. Utilization certificates.
5. A statement of annual opening and closing balance of each scheme.
6. A certificate of impress adjustments at the end of each financial year.
7. Audit report by the local fund audit in case of village panchayat and C&AG audit for the intermediate and district panchayat.

The District Rural Development Agency has envisaged that the above principles to be followed while dealing with the accounting:

1. Funds received both from central and state governments should be kept in the 'Savings Bank Accounts' only. Funds in no case be kept in the fixed deposits/term deposits (FDs/TDs). All existing FD's/TD's should be encashed and transferred to the respective scheme account.
2. Scheme account should be maintained only in 'Nationalized/Cooperative/Regional Rural Banks. In no case funds are to be kept or transferred to treasuries, or in personal ledger account, treasury savings accounts, treasury public deposit account, etc.
3. State share received against each scheme should also be transferred in the respective scheme account maintained in the banks. No funds should be kept in treasuries.
4. The PRIs must ensure that except the untied money, the reappropriation is strictly adhered. If any grant has been made by the Government of India or by the state Government of India or by the state government to the society for a specific purpose, the society shall not without the prior sanction of the granting authority, appropriate such grant or sum or any part thereof for a purpose other than the approved purpose i.e. funds are not allowed to be diverted from one scheme to another scheme or from central scheme to state scheme. Unutilized funds under any head/scheme should be reflected as "Opening Balance" in the next financial year.
5. As far as payment is concerned, all payments exceeding Rs. 1,000 shall be made in cheque/demand draft (DD), in cases where it is not possible to make payment by cheque/DD then such reasons should be recorded in the cash book. All payments should be supported by documents such as bills/receipts and cash memos.

The above discussions on accounting made it obligatory to discuss the various sources of income of PRIs. The three different sources of income of PRIs are as follows:

1. Central Government

- (i) Central Finance Commission
- (ii) National Planning Commission

2. State Government

- (i) Allocation as per the recommendation of the State Finance Commission
- (ii) Scheme specific grant from the State Planning Commission

3. Internal Sources of Revenue

- (i) Tax Income of the PRIs
- (ii) Income from the Common Property

The former two sources are largely tied and earmarked to be spent for specific purposes, while the later is untied money at the disposal of PRIs.

Auditing

Audit is the instrument through which control and supervision is exercised, deficiencies located, and loopholes plugged to ensure soundness all-round. The officials and non-officials in the PRIs who handle public money will have to satisfy the donors about the proper utilization of the amounts placed at their disposal. This necessitates the audit of accounts of all such bodies by an agency not subordinate to the expending authorities. It is with this object in view that an independent auditor is appointed as a watch-dog on behalf of the donors mainly the state and central government. The auditor has to certify, inter alia, that the amounts advanced to the PRIs, as grants-in-aid have been utilized by them for the purpose for which they are advanced. He has also to ensure regularity and propriety to expenditure of public money and its proper accounting.

Auditor should play a more positive and effective role by giving guidance and providing advice to the personnel responsible for the maintenance of accounts, more or less like an internal auditor.

The 73rd Amendment Act has delineated specific provision under Article 243(J) in respect of audit of accounts of panchayats, which is as follows: ‘The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the panchayats and the auditing of such accounts’.

Gram Sabha and Social Audit

Recognition of gram sabha as the primary body to review the activities of the gram panchayats under the 73rd Constitution Amendment has added a very significant and

interesting dimension so far as the accountability of these bodies is concerned. According to the provisions made in different Panchayati Raj Acts, the annual accounts including the audit reports are required to be submitted to the gram sabha for review and approval by the people's body.

Keeping this in view, the gram sabha will have to play a more effective role in carrying out what can be termed as 'Social Audit', which can be more effective than the functional audit.

Singh (2003) has prescribed certain principles to govern social audit, which are as follows:

Participative- social audit must actively involve those stakeholders closely associated with the organization.

Involvement- means actively participating in the design and realization of the Social Audit process.

Multi-View- the social audit must include the views of all the stakeholders.

Inclusive- social auditing must include all aspects of the organization's operations and all stakeholders.

Learning- organizations, which undertake social audit, should view the process as one by which they can learn more about their own organization and manage change, if required.

Verifiable- the social audit must be undertaken against previously set criteria and targets.

Open- the social audit must provide the result of the audit to all stakeholders.

Social Auditing in Karnataka

The Government of Karnataka has made the social auditing mandatory for the panchayats. The social auditing of the revenue and expenditure of the gram panchayat is done every year in the month between September and November. The following procedures are adopted in social auditing:

1. Government appoints Nodal Officer for each gram panchayat for the conduction of social auditing in the village.
2. The gram panchayat fixes the date for the social auditing; on that day the Taluk Executive Officer and the Nodal Officer from state government present in the village.
3. Panchayat Secretary presents the revenue and expenditure of the village before the

- people of the village sitting on one side of the podium and the Nodal Officer, Taluk Chief Executive Officer and gram panchayat members seat on the other side.
4. Complains of the people are registered before the Nodal Officer, who later on pass on it to the Chief Executive Officer and subsequently pass on to the zilla parishad for action.

The social auditing adoted by the panchayati raj department of Karnataka has arrested corruption and brought out transparency in the activity of gram panchayats. It has made the expenditure need-based and rural governance peoples' centered. It has also reduced the bureaucratic interference in the activities of the gram panchayat.

Social Auditing in Kerala

Kerala recognizes that gram sabha is the most appropriate institution to conduct social audit of the gram panchayat. Social audit, from the point of view of panchayat means that the gram sabha has the authority, prerogative and the duty to go deep into the activities of gram panchayat. The Kerala Panchayati Raj Act, 1994 (Chapter-XXV-A), Section 271-B reads 'every person has right to ask such information from a panchayat in accordance with the procedure prescribed'. The procedure prescribed for this is that any person, requiring information will have to make an application to the secretary and the secretary of that panchayat has to furnish the information to the applicant within the period prescribed, unless the co-application is rejected or otherwise disposed of within that period. But for any rejection, the reasons will have to be given in writing.

Performance Auditing in Kerala

Under the performance auditing, audit team is being constituted at each level of PRIs to conduct the audit of the village panchayat, intermediate panchayat and district panchayat. Each audit team visits the PRIs as per the annual audit programme. During the visit, the team reviews the files, registers, records in respect of various projects and programmes undertaken by the local government. They also interact with elected representatives, officials and public regarding the programmes and impact of the programme. During inspection of records, if any irregularity is detected, the team will gather all available key documents in support of the irregularity. The audit objection, if any, is given to the panchayat and it is expected to give reply to it within two days. After receipt of replies, the team either drops the objection or proceeds by asking for further replies. Based on this, the team leader prepares the Draft Performance Audit Report. While drafting the performance audit reports, all efforts will be taken to mention the name of the persons responsible for loss, negligence, unauthorized diversion, infructuous expenditure, misappropriation of money, etc. This report is discussed with the secretary of the panchayat before the team leaves the camp. The report is sent to the District Performance Audit Officer/Regional Performance Audit Officer. After it is approved, a copy of it is sent to the secretary and president of the panchayat concerned. The panchayat is expected to give detailed and specific replies to the audit points raised in the report. All the major audit observations

with the supporting key documents are forwarded to the State Performance Audit Officer once in four months. Based on these reports, the State Performance Audit Officer prepares separate audit reports for the gram panchayats, block panchayats and district panchayats. The audit reports are prepared annually and the report is submitted to the State Performance Authority. This annual performance report is placed before the appropriate forum for necessary follow up action.

Accounting and Auditing of Local Self-Government in Member States of European Union

Among the six member states of EU visited, the accounting and auditing system of Scandinavian country Finland is worth mentioning. Every municipality both rural as well as urban gives adequate emphasis on the proper maintenance of accounts and its auditing. As a practice, every year the municipal board has to prepare the financial statements on the previous calendar year for the approval of municipal council. The financial statements include several documents. Those are a report on operations in municipal activities during the calendar year, budget review, profit and loss statement, statement on changes in financial position, balance sheet and annexes to them.

External control is independent from the acting leadership of the municipality. For external control every municipality in Finland shall appoint its own auditing committee and financial auditor. Chairperson and deputy chairperson of the auditing committee shall be members for the council. A key task of the auditing committee is to evaluate, whether the operational and financial objectives set by the municipal council been achieved. The committee shall pay attention on the appropriateness of the activities, working practices and in providing the services.

The auditor shall within the limits of good auditing practice annually consider whether:

- the local authority has been administered in accordance with law and council decisions;
- the local authority's financial statements and consolidated balance sheet have been drawn up in accordance with the rules and regulations of the compilation of financial statements and whether they give correct and adequate information on operations, finances, financial developments and financial liabilities during the financial year;
- the information given on the basis for and use of government grants is correct; and
- the local authority's internal control is properly arranged.

Auditing includes also evaluation of the management of municipal assets. The auditor see that the lists of municipal assets in proper order and includes the listed property, equipment and tools exist and are in operational condition. The auditor shall annually in his report state whether the financial statements of the municipality can be approved and whether can the accountable municipal authorities be discharged from liability of the accounts. If the auditor finds that municipal authorities have acted against the law or against decisions of the municipal council, he shall make a complaint against the accountable authorities.

The dominant characteristics of local authority's financial management is emphasis on 'financial accounting'; that is a form of accounting, derived from the traditional 'stewardship function'. This has to be replaced with the more action-oriented process of 'management accounting' which would help to develop policies, long and short-term planning, control the activities of the organization, choose between alternatives, and appraise investment decisions and operations. A study group constituted way back in 1963 by the Ministry of Community Development and Cooperation suggested for simplifying the then existing accounting system; accrual based double entry system and procedure and to rationalizing the budgeting procedure, assure proper allocations of funds to plan annual programme in time. One of the study on performance budget on panchayati raj pointed out that the traditional mode of preparing budgets is highly inadequate. The PRIs must maintain proper accounting through cash book and ledger and identify all assets and liabilities. Accounting and auditing are fundamental to effective functioning of PRIs. Accounting reform in panchayati raj system is the need of the hour.

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CHAPTER 6

e-GOVERNANCE, MANAGEMENT INFORMATION SYSTEM AND DATABASE

To educate and familiarize the elected representatives and officials of municipalities and panchayati raj institutions (PRIs) about the use of e-Governance, management information system and database for improving the quality of governance is the objective of this chapter. Its curriculum includes meaning, importance and need of e-Governance, management information system/data base and their use in progressive Indian states and selected member states of European Union (EU) for sustainable urban governance, management and development. An effort has been made to suggest Capacity Building Plan for introducing e-Governance in municipalities and PRIs. Since the officials and elected representatives shall undergo training, the e-Governance modules on selected functional areas such as e-Governance for good urban governance, e-Municipality champion programme, technology management and financial management and training on Information Technology skills such as basic skills, internet, basic of operating systems, hardware and networking concepts, programming and languages are to be prescribed.

Introduction

e-Governance (Electronic Governance or Digital Governance) is the effective use of Information Technology (IT) to improve the system of governance that is in place, and provide better services to the citizens. This definition covers a wide range of activities, which can be grouped in four clusters of Information Communication and Technology (ICT) enabled reform objectives:

- Facilitating access to information and improving the means for expression, discourse, mobilization and advocacy;
- Enhancing the democratic quality of the process and public administration through transparency, accountability, participation and disintermediation;
- Making the internal working of public administration more effective and efficient; and
- Enhancing the range and utility of public services on offer and making their delivery to citizens and business more accessible, efficient and responsive to the needs of all groups of clients.

The major challenge is to meet the increasing public demand for efficient government services, deal with shrinking budgets, gaining a clear view on revenue and expenditure, maximizing existing resources, leveraging private sector best practices, ensuring a skilled and trained workforce, and importantly making government accessible. This can be met only through, decisive action in all aspects of governance and looking at e-Governance as holistic approach and embracing the following:

- ***e-Administration:*** improving government processes by cutting costs, by managing performance, by making strategic connections within government, and creating empowerment.
- ***e-Citizens and e-Services:*** connecting citizens to government by talking to citizens and supporting accountability by listening to citizens and supporting by improving public services.
- ***e-Society:*** building interactions beyond the boundaries of government by working with business, by developing communities, by building government partnerships, and by building civil society.

e-Governance represents the strategic and systematic use of modern information and communication technology by a government to improve the efficiency, transparency and accountability in its functioning and interface with citizens. The local bodies need to exploit the opportunities of e-Technology to transform the quality and cost effectiveness of their own services, and to align and integrate them with those of other public and community bodies, and work together in local partnerships, to collect and manage information in ways that make it possible successfully to build integrated local e-Government (Vaidya, 2006). e-Governance is the process of the transformation of the way government interacts with the citizens and businesses to provide them with more efficient, convenient and transparent services. e-Governance is a further step in the evolution that results in making the citizens a part of the process of governance through a consultative and inclusive approach. There is an increasing realization among the governments that a quantum jump in the quality of services is possible by the adoption of e-Government.

India is emerging as a software power but use of e-Governance through applicability of software, computerization, information management system and database in local governance is unsatisfactory due to variety of reasons. Mr. Ravi Kant, special secretary, IT to Government of West Bengal remarked, 'e-Governance, is not really the use of IT in governance but as a tool to ensure good governance. e-Governance does not mean proliferation of computers and accessories, it is basically a political decision which calls for discipline, attitudinal change in officers and employees and massive government process re-engineering.' Punjab is not exception to the general e-Governance scenario at local level in India. Although situation is slightly better in urban areas but rural areas have serious deficiencies in coverage and quality of e-Governance, information management system and database. The First and Second State Finance Commissions of Punjab have highlighted deficiencies in information management system and database of urban as well as rural local bodies. Similarly Eleventh and Twelfth Finance Commissions of India based on the submission of reports of the state finance commissions have also highlighted deficiencies in availability of adequate information/data at municipal/panchayat level.

Part-I

Urban Local Bodies

Introduction of e-Governance and creation of strong data base/Management Information System (MIS) is pre-requisite for good urban governance. The IT infrastructure services and preparedness of Urban Local Bodies (ULBs) in Punjab is poor. The deficiencies in applicability of e-Governance techniques such as computerization, Geographical Information System (GIS), remote sensing, etc. is affecting quality of urban governance. The existing urban management practices are time consuming and outdated. The manual billing and collection is a common practice even in the larger municipalities having strong fiscal base. The MIS database of ULBs is poor and this has been highlighted by the First and Second State Finance Commissions of Punjab. Except Ludhiana Municipal Corporation (LMC) and a few other corporations/municipal councils, the progress of implementation of e-Governance is very tardy. The 74th Amendment has entrusted a large number of functions to ULBs. For the effective and efficient management of these functions municipalities need to improve their capacity by introducing e-Governance.

The Ministry of Urban Development (MOUD), Government of India has been making efforts to introduce e-Governance in the urban local bodies. During the last few years there has been major initiatives among local bodies towards ushering in Information Technology and its tools in its functioning. The emphasis has been on providing better services to citizens and in improving internal productivity. The key objectives of e-Governance initiatives include the following:

1. Provide single window services to citizens on any time, anywhere basis;
2. Increase the efficiency and productivity of ULBs;
3. Develop single and integrated view of ULB information system across all ULBs in the state;
4. Provide timely and reliable management information relating to municipal administration for effective decision making; and
5. Adopt a standards-based approach to enable integration with other related applications.

Ministry of Urban Development decided to cover following services/management functions in the first phase of Mission Mode Project:

1. Registration and issue of births/deaths certificates;
2. Payment of property tax, utility bills;
3. Grievances and suggestions;
4. Building approvals;
5. Procurement and monitoring of projects;
6. Health programs;
7. Accounting system; and
8. Personnel Information system.

e-Governance in Selected Indian States

Vishakapatnam has many basic services online, including tap connection status, status of garbage pick-ups, sanitation tenders, and building plan status. Hyderabad has introduced accrual-based accounting and MIS, and has also implemented initiatives with regard to property tax, grievance redressal and e-Procurement has introduced a comprehensive, ward-wise management information system that includes a self-assessment property tax component and provides information to the public on the city's budget. Electronic seva (e-Seva) is the improved version of the TWINS project launched in 1999, in the twin cities of Hyderabad and Secunderabad in Andhra Pradesh. e-Seva centres offer 118 different services like payment of utility bills/taxes, registration of births/deaths, registration of applications for passports, issue of births/deaths certificates, filing of sales tax returns, trade licenses, services like payments of Tata Teleservices, Reliance, sale of Airtel Magic cards. These services can be availed at any counter in the centre and at any place in the city. Coimbatore has computerized its database for property taxes and water charges, based upon which it has developed an accounting module, grievance reprisal module, etc. Kalyan-Dombivili has integrated most of its modules, which has resulted in increased revenue collections.

The first nine municipalities in Gujarat that implemented e-Governance saw tax recoveries grow from 35 per cent to 65 per cent. As a result, more and more urban municipalities across India are tuning in. Anand, a rural district in Gujarat which pioneered India's co-operative movement-has nine municipalities. Each is e-Governed. The municipal corporation of Surat in the western state of Gujarat which shot to limelight on account of a plague epidemic in the nineties-now has an award winning system for addressing citizen complaints. Jabalpur, a city in the central Indian state of Madhya Pradesh uses a management information system that has helped the city improve its resources mobilization. In Madhya Pradesh, Chief Minister's Information System (CMIS) monitors range of activities from developmental programmes to redressal of public grievances such as payment of taxes, issuance of certificates, ration cards, transfer of properties. All these activities have been computerized. 'Municipal Corporation towards Digital Revenue Administration' (MUDRA) system is useful for the holding owners, tax collectors, officials at headquarter levels and circle levels. They will have total picture of tax collection that will help the decision makers to take suitable decision for further improvement. It is designed to computerize the over all functions of tax collection system of Patna Municipal Corporation. Revenue management is the key to economic stability and development of urban infrastructure. In order to discharge its function properly and cater to the requirements of economic development, the municipal corporation and its municipalities have to generate adequate resources. The basic objectives of this software, developed and implemented by National Information Centre (NIC) Bihar State Unit includes bringing improvement to the quality of service being offered to the citizens and at the same time, it will also become possible for the first time to track all kinds of defaulters on payment of due taxes. Table 46 (pp 224-225) shows the salient features of ULB level initiatives.

Table 46
ULB Level Initiatives—Some Salient Features

| SI | Parameters | Hyderabad | Vishakapatnam | Bangalore | Coimbatore | Trichy | Kalyan |
|----|--------------------------|--|--|--|--|---|---|
| 1 | Own Initiatives | ULB initiatives scaled up at State level | "SOUKARYAM" initiative by ULB to deliver civic services online | Bangalore front runner for State initiatives | Several initiatives with the support of consultants | State led initiative | e-Governance initiatives started in 2000 |
| 2 | Leadership | Strong leadership and commitment during design stage; the leadership continues | Strong leadership and commitment during design stage; the leadership continues | Participative leadership style with excellent response from the staff countries | Strong leadership and commitment during design stage, the leadership continues | Strong leadership and commitment during design stage, the leadership | Participative leadership style with excellent response from the staff |
| | | Continuity in leadership at the Commissioner level during implementation | Continuity in leadership at the Commissioner level during implementation | Continuity in leadership at the Commissioner level during implementation | Continuity in leadership at the Commissioner level during implementation | Continuity in leadership at the Commissioner level during implementation | Continuity in leadership at the Commissioner level during implementation |
| 3 | Funding | Self-funded by ULBs - no major external | Funding through a combination of self and market forces | External funding by BAFI initially, then self-funding | Mix of State and self-funding | Part of State initiatives | Self funding |
| 4 | Process-Special features | 8 Modules implemented; others in progress | Focus on computerization of existing procedures, without process reengineering | Focus on process re-engineering in many areas | Tie up with banks for online collections | Tie up with bank for online collections, some systems need further streamlining | Proper agreements with service providers for system maintenance and stability |
| | | Focus on computerization, less on process re-engineering | Tie up with banks for online collections | Various policy and legal issues addressed with suitable enactments, regulations | Establishment of common database for property and water taxes | Favourable arrangements with banks for quick transfer of funds | Process reengineering - focus from citizens' angle |
| | | Accounting system yet to be internalized | | Support systems fully addressed to make changes Internalization not yet complete | | | |

| | | | | | | | |
|----|-------------------------------|---|---|---|--|--|--|
| 5 | Citizen Focus | Citizen service counters established; extremely consultants popular | Citizen service counters established; extremely popular | Citizen counters and kiosks established with positive response | Citizens facilitation centres operating well | The response from citizen e-Governance initiatives is high | Citizen facilitation centres established |
| 6 | Integration | Integration of both state level and city level services for citizens through e-seva | Integration between property tax and water tax modules | Transparent public review through PROOF | Integration between property tax and water tax modules | Extensive coverage of the city by banks and facilitation centres | Modules linked to accounting |
| 7 | Technology | Technology plan evolving | Exhaustive information on web promoting transparency and friendliness | Technology plan evolving after implementation | Adequate provisioning of Hardware | | Adequate provisioning of hardware |
| 8 | Organization | Separate department for IT created | Internal participation by employees | Separate department for IT created, new post created in Accounts and Finance Department | No separate department for IT | No separate department for IT | Separate department for IT, with professionals from outside recruited staff from other departments also posted |
| 9. | Disaster recovery, BCP issues | Disaster recovery, BCP issues yet to be addressed | Disaster recovery, BCP issues yet to be addressed | Disaster recovery, BCP issues yet to be addressed | Disaster recovery, BCP issues yet to be addressed | Disaster recovery, BCP issues yet to be addressed | Disaster recovery and BCP not really implemented |
| 10 | Unique feature | Call centres established for grievances | Fusion of e-Seva and Sowkaryam initiatives | MIS reports to elected representatives, citizens involvement in ward work plans, PROOF - public discussion on financial performance of BMP, financial statements published in Naitional dailies | Integration of Property Tax and Water Charges module | | Replication of Citizens Facilitation Centre Model in other ULBs (Maharashtra and Goa) |

Karnataka

Government of Karnataka has taken up ambitious project for the implementation of e-Governance in urban administration. Under this, the government has taken steps for computerization of details of 30 lakh properties in 57 selected urban local bodies. This is one of the most successful public-private partnership project for implementation of e-Governance. 'e-Governance Foundation' an NGO constituted purely for e-Governance in urban administration, has come forward to help the Government of Karnataka has taken steps in developing software for property details, public grievances, births and deaths, trade licenses, water supply, payment of bills and other ward works. The development of software pertaining to property tax is a massive exercise in which e-Governance foundation has obtained the services of private expert agencies in implementing a pilot project in a nearby ULB named Byatarayanpura. Six months of rigorous work paid dividends in the form of development of MIS and GIS, pertaining to Byatarayanpura. All the attributes pertaining to the properties including details such as ownership, locations, width-length of property and construction details were computerized and the digital maps were also developed. Based on the experience gained in this pilot project the Government of Karnataka has taken up action to develop digitized maps for 30 lakh properties in 57 ULBs with the assistance of Survey of India and by hiring 550 engineers on contract basis and also by recruiting 79 IT experts and 43 retired civil service officers for supervision and co-ordination of the massive work. In all 1200 revenue employees of Directorate of Municipal Administration have been trained along with Commissioner and Chief Officers many a times (Raikar, 2005).

Professionals have been recruited to computerize various municipal activities and train the municipal staff. A special post of Additional Secretary (Reforms) has been created to implement the reform agenda. All local bodies have been computerized and a single window system has been operationalized to improve the delivery of municipal services. Bangalore Development Authority has introduced automatic billing by installing automatic machines at different places in the town. The bills can be collected and deposited round the clock. The receipt is issued automatically. Tata Consultancy Services (TCS) has developed a software to promote automatic billing and payment of bills through the machine. In addition, Bangalore Municipal Corporation has adopted geographical information system for locating its properties. The GIS has helped the corporation to assess the value of its properties, improve collection of property tax and promote planned development. With the help of GIS Corporation can check any unauthorized construction and unplanned growth/encroachments. e-Governance initiative named as 'Bangalore one' and implemented by Bangalore Mahanagar Palika has changed the way of delivery mechanism of municipal services. Citizen-centric Initiatives launched successfully include the computerization of birth and death registration and a centralized redressal cell. Self-assessment of property tax has been introduced and the payment of tax has been computerized. Applying for khata has been simplified and centralized. Trade licenses have become easy to obtain through the 'Sarala Partavanagi Scheme'.

Kerala

After setting up of Information Kerala Mission (IKM) to link 1214 local bodies (rural and urban) with District Planning Offices and State Planning Board and involving engineering colleges, polytechnics, and positioning a large number of professionals well versed in network management and database administration, the IKM has emerged as one of the most important ICT deployment programme in Kerala. With the implementation of People's Planning Campaign, and devolution of funds, functions and functionaries it was become necessary to modernize management practices and introduce e-Governance at local level. The computerization of all the records, annual reports, budget documents and other necessary procedures have been introduced. The use of IT in management of properties and assets, preparation of bills, collection of taxes/user charges, periodic assessment of performance is helping local governments to improve efficiency and therefore the quality of governance. Kerala is one of the first states to implement 'Right to Information Act', even before its implementation by the national government. The public IEC campaign is being promoted and display of important municipal information, publication of annual plans is essential for municipalities. Several municipalities have displayed citizens' charters and public grievance system on Internet. They have also developed websites to simplify the procedures and put important information relating to the municipal decisions, tenders and various types of forms for convenience of stakeholders.

A major computerization drive to increase the efficiency of the system was introduced in the beginning of 2005. Cochin Municipal Corporation has computerized billing and collection processes, MIS/database system, annual reports and budget documents. It has its own website which covers major information relating to municipal officials, councilors, process of tendering and complaint redressal system. This will help the city administration for the Revenue and Financial System Improvement and Expenditure Impact Assessment of the Corporation of Cochin. This project has been introduced with the help of the Administrative Staff College of India, Hyderabad, Department for International Development (DFID), and the IKM.

Maharashtra

Municipal Corporation of Greater Mumbai has embarked on a successful comprehensive e-Governance initiative with the pilot project of setting up a Computer Facilitation Centre (CFC) in the R/North Ward at Dahisar, which has since been extended to all its 24 wards. It is now aiming to interconnect all CFCs and establish a network for the entire Mumbai city.

Main features of the CFC at R/North ward are:

- Good initiative of horizontal integration, best for fixed user requirements
- Facilitate paperless transactions and cashless financial transactions
- A single point contact for all the services of the municipal corporation

- Integrated help desks, complaint desks, registry and delivery counters, and cash counters for payment of bills, fees, tax and other charges
- Across the counter issue and renewal of certificates/licenses etc. Officers from health department are present to facilitate across the counter issue of birth and death certificates
- The computer and other staff is well trained not only in operating the system but also in communication skills and public relations
- Easy information and follow-up of complaints and grievances
- Facilitates supply of blank application forms, online acknowledgement letters, printed complaint token numbers etc.
- Facilities that do not require judgments, decisions, are made available to users beyond office hours and on holidays

Gujarat

Gujarat is front-runner in implementing municipal reforms including e-Governance. The state has introduced ICT in municipal management to efficiently deliver the services to urban citizens. Ahmedabad and several other municipalities of the state have introduced e-Governance. The information technology revolution and the power of internet made it possible to undertake reforms in the desired direction which a few years ago would have been impossible. A brief summary of initiatives of Ahmedabad Municipal Corporation (AMC) and Vejalpur Municipality is given below:

City Civic Centres and e-Governance in Ahmedabad Municipal Corporation

Ahmedabad Municipal Corporation has set up City Civic Centres (CCCs) where citizens can transact with urban local body in a hassle free environment. The objectives of e-Governance or computerization are:

- Provide better services to citizens of Ahmedabad
- Provide easy access to information
- Eliminate discretionary human interface
- Reduce files, process data and make the decision making processes faster
- Raise resources for AMC

To achieve the above objectives initially six civic centres were set up by the corporation. At present their number has increased to 16 spread across all five zones. These centres provide following twelve services at single window:

- Property tax
- Vehicle tax
- Building plan approval
- Issuance of birth and death certificate
- Shops and establishment licenses
- Registration of complaints-ward level connectivity

- On line tenders
- Hawker license
- Restaurant licenses
- Octroi collections
- Application for water connection

The civic centres have conducted large number of transactions and collected huge taxes, user charges, fees, etc. The detail of transactions at civic centres is given in Table 47.

Table 47
Transactions at AMC City Civic Centres
(From 18 September 2002 to 31 July 2004)

| Services | Transactions | Amount (Rs Lacs) |
|--------------------------------|--------------|------------------|
| Property Tax | 993677 | 27542 |
| Vehicle Tax | 27404 | 192 |
| Building Plan Approved | 3493 | 1888 |
| TDO fees | 7745 | 1284 |
| Shops & Establishment Licenses | 32956 | 26.22 |
| Birth & Death Certificate | 14780 | 5.20 |
| Hawkers Licenses | 124 | 0.64 |
| Restaurant Licenses | 44 | 0.76 |

e-Nagarpalika: A Case of Vejalpur Municipality

e-Nagarpalika has been established at Municipality of Vejalpur with an agenda for an effective delivery mechanism for providing municipal services to the citizens in efficient manner. Vejalpur is one of the urban conglomerates outside AMC limit, and under Ahmedabad Urban development Authority (AUDA) jurisdiction. The other features of this municipality are: (i) Currently "B" class municipality, shortly to be designated as "A" class, based on 2001 census (ii) Population: 1,50,000 (2001 census) (iii) Area under development: 9.53 sq. km (Total 12.5 sq. km.) (iv) Total wards: 12 (v) Total properties: 41,742, (vi) Total housing societies: 1700, (vii) Slum colonies: six, (viii) Registered hotels and small entities: 110 units, (ix) Registered medical facilities: 115 units, (x) Registered shops: 872.

The objective of the e-Governance and 'Citizens Charter' is to establish a Citizen Convenience Centres where the citizen can easily access information, services, complaint and make tax & utility payments. To achieve the objectives of e-Governance, following municipal functions and activities such as birth and death registration since 1994, trades and trade license holders and non-holders, water supply billing and collection, pay roll, Solid Waste Management (SWM), property tax self-assessment scheme, billing and col-

lection, public grievances, infrastructure details, tenders, accounts and data stock register, accounts and data stock register, information about hospitals, database of all councilors and budget were computerized.

The capacity building and skill building exercise was taken up with the help of the vendor involved in software design and development. The municipality's employees were trained by the vendor. All the entries of previous years like birth, death tax etc. were made by operator supplied by vender. General adminisration staff achieved total performance and productivity with the same staff strength as before-no fresh recruitment was made even when members retire. The citizens are proud of Vejalpur municipality in terms of transparency, accountability, service delivery and above all, exemplary dedication and team work of the elected councillor.

This resulted in improvement of resources of the municipality and better service delivery. The key benefits emerged through the implementation of initiatives are as below:

- All department are integrated
- Corruption is eliminated
- Quicker service to citizens
- 24-hour remote access to municipality's transactions
- Payment gateways and electronic transactions eliminate manual intervention
- Higher revenues and enhanced cash flow: tax collection jumped from 15 per cent to 65 per cent
- Establishment cost reduced to eight per cent of the budget- a record
- Better understanding and goodwill form citizens.

The whole exercise has taught several lessons from i.e. e-Governance is an excellent tool for achieving good governance. Political will and dedication of elected wing is an absolute, indispensable necessity for taking courageous decisions. Mere computerization of existing data cannot be taken as e-Governance.

Madhya Pradesh

The Government of Madhya Pradesh has also initiated reforms to introduce e-Governance, improve MIS/data base. In Bhopal, call centres have been made operative at the level of each ward. These call centres are a conduit between community, administration and the department, who are providing civic services to the people of the city. The municipal corporation initiated computerization in 2002, which resulted in an immediate increase in revenue from property tax. Then a private consultant was hired for developing MIS software. Bhopal Municipal Corporation extended the initiative of computerization and MIS to all 66 wards. Apart from the substantial increase in revenue from property tax and water rates, it also helped to upgrade the data on property tax accounts and water connections and systematic management of records.

Similarly Indore Municipal Corporation (IMC) has initiated several reforms for introducing e-Governance, promote municipal-people interface and delivery of municipal services. IMC started publication of a monthly city magazine (Nagarik) to establish a platform for municipal citizens to share information on various important issues. It enhanced communication with consumers and citizens, established a feedback mechanism and resulted in better cleanliness. Indore Municipal Corporation has since developed a city development strategy to improve delivery of services, resource mobilization with focus on expenditure management and better communication with citizens. Computerization is a major initiative to enable IMC to achieve these objectives. IMC has involved a private agency for development of software and database creation. The important component of this initiative includes connectivity between all zonal offices and heads of office, computerized cash collection counters at all zonal offices, integrated database of property tax, water connections and business licenses, linkage between revenue and accounting modules, tax information on internet for transparency, etc. Efforts have been made to develop digitized maps and GIS. A citizens' charter has been issued by IMC which has functional website and a good MIS/database. As elsewhere, e-Governance initiatives have helped IMC to mobilize income from major revenue resources such as property tax and user charges.

In Khandwa Municipal Corporation, the GIS of entire city was carried out and maps of all properties have been prepared through satellite. Through this survey, 13000 new properties have been identified. This is expected to increase the income/revenue of corporation. The corporation has also created strong MIS. Property tax, water tax, account books, budget control registers etc have been computerized. Double entry accounting system has been introduced. Further, the tax system has been made easy. Due to reforms initiated by the corporation, the income of the corporation has increased by 175 per cent (Rs. 182.34 lacs in 2002-03 to Rs.582.83 lacs in 2004-05). For the digital identification of all household properties, the concept of property index number (PIN) has been introduced. Facilities like ration card, social security pension, births and deaths registration, and permission for house construction and water connection etc. have been interlinked on the basis of PIN. The births and death registration work has also been computerized and for attending the complaints from public, a special software has been developed which helps in classifying action taken and monitoring of complaints.

Use of Information and Communication Technology by European Countries

An important study on 'strengthening regional and local democracy in the European Union (CoR Studies E-1/2004, Volume I and II) has given a beautiful account of introduction of new technologies for enhancing democratic participation, improving citizens-local government interface and service delivery. According to the report, in most EU member states more active role of the local authorities have launched projects for the computerization of public administration. It has become the most effective way of consolidating democratic participation at local level. This has taken the form of electronic voting, the opening of online discussion forums, linking of different communication instruments, and fine-tuning administrations' telemetric portals to handle the management of business and community services.

As regional and local authorities gear themselves to the new organizational frontiers opened up by ICT, this should lead to more rational management of the financial resources allocated for the delivery of local public services. Based on the Committee of Regions (CoR) report, an effort has been made to give brief overview of the initiatives taken by the six member states of EU i.e., Netherlands, UK, Finland, Belgium, Italy, and Spain is given below.

Netherlands

Netherlands is one of the highly advanced member states of EU in terms of use of information technology. The country has widespread use of ICT. The 2002 data confirms that with 65.5 per cent of private dwellings are connected to the internet (as against the European average of 40.4 per cent). The Netherlanders are leading in the spread of ICT for private use. In the entrepreneurial sector, too, the use of ICT is now an established reality: Because of the high level of dissemination of ICT in the public sector and among private individuals, most Dutch public offices provide for ICT access to their services.

Midden Delfland municipality of Netherlands is using IT for the efficient service delivery and complaint redressal. The municipality has its own website and published a 20 page paper which is a good platform for the farmers, dairy owners, horticulturists and common citizens. The municipality has prepared a Vision Document. The document covers all major areas like social, economic, cultural, historical, natural dimensions, besides dairying, landscape, water, recreation, archaeology, transportation, investment, infrastructure and environment. Government of Netherlands has assigned high priority to e-Government and almost all municipalities have adopted efficient system of e-Governance.

United Kingdom

Public administration in Great Britain is highly computerized. Development of telecommunications in Great Britain is a key part of the government's strategy for bringing the institutions closer to the citizens. Great Britain is a leading country, along with France and Germany, in the increasing use of hardware and software in the public sector, including at regional and local level. Anyone who needs to deal with local government, whether as a citizen or as a service user, can potentially choose not only what to request, but also when and where to do so. Leicester City Council and Rutland County Council have computerized their all units and their activities. e-Government is an integral element in all the councils.

Finland

Finland has been one of the first and the most successful countries in the world to make the transition from industrialized society to information society. A recent European Commission survey also ranked Finland second in the European Union - after Ireland and

ahead of Sweden - with respect to online availability of basic public services. The great interest generated by the potential of IT, demonstrated by significant joint public-private investment, has prompted Finland's national government to introduce over 170 types of service to date that can be accessed on line, including portal sites for a citizen's handbook.

Till recently, an online Citizens' Handbook was available in the form of a government portal carrying a large amount of information for citizens as well as businesses, with a huge range of forms that could be downloaded from the internet for submitting requests to the administration. The Ministry of Finance has now developed a new comprehensive portal designed to provide a single source of access to all public sector organizations and institutions. Thus the portal improved the accessibility and quality of services, but also increase which provides new options, including standardised forms for submitting all official requests to the administration, a directory of civil servants' e-mail addresses and a sophisticated search engine.

Belgium

Belgium has initiated the following IT initiatives to enhance communication and improve administration through e-Governance:

- Dimona, electronic declaration to the social security authorities that an individual has taken up or ceased employment;
- Intervat, an electronic declaration in respect of VAT, once the parties involved have obtained an electronic signature;
- Electronic application for vehicle number-plates;
- Electronic declarations in respect of income tax (from the beginning of 2002); and
- Joint Electronic Procurement (JEP), a project for the establishment of a wholly automated administrative procurement system.

Italy

Italy has introduced e-Government/e-Democracy and has taken a number of initiatives to computerize local public administration. The Council of Ministers approved e-Government Action Plan in 2000. It identified a number of measures about the use of modern technology by the public authorities including local government to improve the operational efficiency of the local institutions. The computerization of services and electronic access to users were the major activities. The following facilities are available to the public:

- Interconnecting all public administrations, and connecting them with the public and with businesses;
- Resourcing online services;

- Rationalising arrangements for the supply of online services;
- Making the arrangements necessary to guarantee online security;
- Putting systems in motion to ensure the interoperability of services across the country;
- Using decentralised/federated systems and "recycling" solutions;
- Designing organisational structures to implement e-Government; and
- Developing a system based on shared structures.

The Peoples project (**Progetto Enti Online Portali e-Government**) is particularly interesting: it involves 57 authorities from 13 different regions with an overall population of around 7.5 million. It aims to offer more than 200 services to the general public and to businesses. Services offered fall under six broad headings: local tax services; issue of permits and licences; personal services (welfare, schools, cultural and educational); registration services; IT system services; and services linking other public portals.

Spain

In Spain, the turning point in the strategy for developing the information society came with *Info XXI: An information society for all*, a paper drawn up by the state secretariat for telecommunications and the information society and adopted by the government in 1999. The main objectives are:

1. promotion of the ICT sector, completion of the deregulation process and promotion of competition;
2. introduction and development of e-Government; and
3. improvement of individual and business access to the information society.

The main e-Government projects are as follows:

- A public administration portal. This is a "one-stop" portal giving online access to some 53 public services;
- An Internet-based system for tax declarations and payments, representing a 43.4 per cent increase in declarations on the previous year;
- A business creation information centre and network to assist the setting-up of new businesses;
- Spanish electronic transaction certification, for provision of the technical and administrative services needed to guarantee the security, validity and efficacy of electronic, informatic and telematic communications from state authorities and public bodies;
- Electronic identity card, designed to provide basic electronic signature services relating to the use of the electronic identity card; and
- Electronic civil register, to computerise and network civil registers. Around 100 registers have been computerised so far, and the establishment of a centralized database is now under consideration.

Implementation Strategy for designing e-governance project at ULB Level

Before e-Governance can be implemented as a national level initiative, some key systems and processes will need to be put in place. These are important prerequisites for e-Governance and could include the following:

- **Process re-engineering:** Planning, monitoring and controlling the performance of process resources (human, financial and other) to reach the destination of efficiency.
- **Strategic Connections:** Connecting arms, agencies, levels and data stores of government to strengthen capacity to investigate, develop and implement the strategy and policy that guides government processes.
- **Empowerment:** Transferring power, authority and resources for processes from their existing locus to new locations.
- **Standards:** In order to allow public services to develop integrated e-Government solutions, a comprehensive set of technical and non-technical guidance and standards, together with a supportive legal framework, are essential.
- **Infrastructure:** These are the components to be developed either centrally or locally, which both remove barriers to local e-Government development and facilitate joined up government.
- **Partnerships:** The full benefits of e-Government cannot be realised by local authorities working in isolation. Partnerships between government, private and voluntary sector organisations are a key means of joining up services, sharing skills, dispersing risk and making better use of resources.
- **Support:** The need for support in delivering this agenda is enormous. Support for learning, organizational development, change management, and e-skills will be identified and developed.
- **Certification Authorities:** Public Key Infrastructure and Certification Authorities to provide digital certificates that help create an on-line identification and security system for the Internet allowing individuals, corporations and government organizations to conduct transactions and communications is an important requirement for e-Governance.
- **Knowledge Networking for better governance:** Good governance rests on the pillars of knowledge and recognition of this knowledge by the decision-makers. Digitisation of the entire set of knowledge within a network which links every individual including the decision-makers and gives democratic freedom to everyone to access and make use of this knowledge paves the way for digital governance.
- **Data Security:** The ULBs data is a valuable resource, and establishing a secure data environment is a key component of the technical architecture. It is critical that the ULBs data be protected against any unauthorized access. Data security should be designed to protect data against the following threats:
 - Unauthorized use of the database or application
 - Accidental modifications and deletions

- Confidentiality and integrity breaches for data in data transport and physical storage
- Disasters.
- **Backups and Disaster Recovery:** Implementing backup and recovery procedures is also a crucial process for data security. A backup can limit the loss of data that may occur due to disaster, theft, intrusion, or accident. Data stored on end user systems must also have a backup and recovery plan and key information must not be stored on end user systems without encryption or password protection.

The Government of India has approved the **National e-Governance Action Plan** for implementation during 2003-2007. The Plan seeks to lay the foundation and provide the impetus for longer-term growth of e-Governance within the country. The Plan aims to create the appropriate governance and institutional mechanisms, set up the core infrastructure and policies, and implement a number of Mission Mode Projects at the center, state and integrated service levels to create citizen-centric and business-centric environments for good governance.

The National e-Governance Action Plan has identified the formulation of various **Mission Mode Projects in e-Governance**, including one for municipalities under the responsibility of the Ministry of Urban Development and Poverty Alleviation. The NMMP for municipalities is one of the Mission Mode Projects that has significant citizen interaction, since municipalities provide a large number of basic services for millions of citizen living in India's urban centers.

Introduction of e-Governance on a massive scale aims to improve the delivery of all services and good governance. Further, it is envisaged that NMMP for municipalities would provide a major fillip to the Government of India, Ministry of Urban Development's urban reform agenda. The reform agenda suggested in JNNURM has also underlined 'introduction of system of e-Governance using information technology applications such as GIS and MIS for various services provided by ULBs as mandatory reform for accessing funds under JNNURM.

e-Governance in Local Government

The Department of Information Technology, Government of Punjab has suggested following seven steps for effective e-Governance in local government.

1. Visualize

- Define Scope and Objectives
 - Identify core functions of the municipality
 - Identify areas for reform

- Visualize the end result of e-Governance
- Identify changes to legal framework.

2. Strategize & Prioritize

- Develop Core Project Concept
- Define Roles and Responsibilities
 - MoUD, State, DIT, Consultants, etc.
- Ensure Decentralized Implementation Structure
 - Give responsibility at lower levels
 - Give overall guidance from top
- Define Action Plan
 - Services levels
 - Timelines
 - Milestones
- Develop Guidelines, Policies, Standard Operation Procedures

3. Communicate

- Identify Project Champions
 - Ensure undivided and assured presence
- Develop Interaction Mechanism
 - Communicate with stakeholders
 - Assess their expectations
 - Ensure participation
- Sell the Initiative
 - Politicians, employees, public must understand benefits and back the project
- Exchange
 - Global methodologies and best practices must be investigated and incorporated across domains

4. Modularize

- Data Capture
 - Ensure uniform format, structured data
 - Ensure data accuracy
- Processes
 - Reengineer, redesign and reorient processes to take full advantage of capabilities
 - Ensure structured change management
- Testing
 - Pilot and then scale
 - Ensure exclusive internal usage

- Capacity Building
 - Focus on human resource
 - Train extensively
 - Develop systems
 - Ensure adequate documentation

5. Integrate

- Ensure Modular Linkage
 - Eliminate redundancy of data
 - Ensure minimal information requirement from citizen
- Single Window
 - Create single point-of-contact
 - Create single interface-bilingual
 - Create reliable communication
 - Integrate in city or state portals

6. Popularize

- Ensure Sustainability
 - Demonstrate tangible impact
 - Ensure quality output service (QoS)
 - Declare electronic interface as preferred
 - Delegate authority
 - Reward leadership and innovation
- Take Feedback
 - Ensure mature grievance handling system
- Availability
 - Ensure system uptime - power, communication, etc.
 - Create positive experience at point-of-contact

7. Manage and Mature

- Enhance Access
- Streamline and Fine-tune
- Improve Systems
- Maintain Performance Metrics and Monitoring
- Have Future Plans and Innovate
- Promote Knowledge Sharing
- Document Guidelines, Manuals, Data/Information Standards, Process Models, Security Architectures, Deployment Strategies, Data Migration, Benchmarking and Standardization Efforts, Quality Assurance, etc.

e-Governance in Municipalities: Capacity Building Plan

The reform agenda suggested in JNNURM has underlined ‘introduction of system of e-Governance using IT applications such as GIS and MIS for various services provided by ULBs’ as mandatory reform for accessing funds under JNNURM. For introducing e-Governance in Punjab implementation of a capacity building plan is necessary. The Centre for Good Governance and National Institute for Smart Government, Hyderabad has prepared a report on ‘e-Governance in Municipalities: Capacity Building Plan’ which has been submitted to the Ministry of Urban Development, Government of India. The report has given several recommendations relating to the Capacity Building plan of promoting e-Governance in municipalities.

As recommended in this report, the functions amenable to the introduction of e-Governance comprise: municipal property assessments and payments; urban planning-land titles; subdivisions and zoning application; building permit applications; accounting; administration, human resources, performance management; grievances redressal; utilities-certificates of birth and death; project management; tenders; GIS based services; emergency services; public health information and announcements and public transport information. A module on functional areas and training on IT skills is given in Table 48:

Table 48
A. Functional Area

| Curriculum | Module |
|---|--|
| e-Governance for Good Urban Governance | <ul style="list-style-type: none"> ● Characteristics of Good Urban Governance ● e-Governance ● Vision, Mission and Objectives ● e-Government Strategy ● National ICT Policy Framework (NeGP) |
| e-Municipality Champion Programme Change Management | <ul style="list-style-type: none"> ● Enabling Environment for e-Municipality ● Best Practices Cases ● Leadership Aspects ● Lessons Learnt and Adaptability ● Addressing Mindset Issues ● Process Improvement ● Developing Reform Strategy |
| Programme Management including RFP and SLA | <ul style="list-style-type: none"> ● Project Implementation and Management ● Design Standards, Version Control, Documentation ● Programme Management and Operations Control ● PPP Issues and RFP and SLA Documentation |
| Technology Management | <ul style="list-style-type: none"> ● Systems ● Requirement Specification ● Systems Integration ● Solution Architecting ● Software Development Life Cycle ● Technology Selection ● Technology Trends |

| | |
|--|---|
| Process Reform Management | <ul style="list-style-type: none"> • Government Process Reengineering • Simplifying procedures • e-Tools for GPR |
| Procurement Management | <ul style="list-style-type: none"> • Procurement Reforms • e-Procurement |
| Financial Management | <ul style="list-style-type: none"> • Financial Project Appraisal • Project Viability Analysis • Business Models or PPPs • Budgeting and Accounting |
| Basic Skills/ Office Suite/Internet | <ul style="list-style-type: none"> • Introduction to Computers • Files, Folders, Menus, Shortcuts Word Processing, and Printing • MS Office (Word, Excel, Power Point) • Internet (surfing) and www • e-Mail and Instant Messengers |
| Basics of Operating Systems (OS), Basics of Software Applications | <ul style="list-style-type: none"> • Introduction to OS • Different types of OS (Windows & Linux) • Computer virus • Introduction to Software Development • Software Applications |
| Basics of Hardware and Networking Concepts | <ul style="list-style-type: none"> • Basic Components of Computer (including devices) • Introduction to Computer Network • Client-Server Architecture • Distributed Systems • PANs, LANs, MANs and WANs • Intranet File and printer sharing |
| Basics of Programming Languages and Small Application Development, Basics of Algorithms | <ul style="list-style-type: none"> • Algorithm and pseudo code designing Introduction to Programming Languages • Software Development- Design, Implement, Test Integration...etc |
| Web Technologies and Other Technologies | <ul style="list-style-type: none"> • Introduction to Internet technologies • Scripting Languages (JavaScript, Vbscript) • Offline tools |
| Basics of Database Management (Concepts) and Hands on Experience in DBMS (Oracle/Post gre sql) | <ul style="list-style-type: none"> • Introduction to DBMS • RDBMS • Oracle • Postgress • MySql • MS-Access |
| e-Municipality Software Applications | <ul style="list-style-type: none"> • e-Property Tax • e-Building Plan Approval • e-Civic Services • e-Procurement • e-Administration • e-Accounting • e-Grievances |

The change in governance by applying e-Governance, MIS and database is necessary to create good urban governance at local level in Punjab. The details of the reform initiatives introducing e-Governance, developing management information system and strong database by the progressive Indian states and selected member states of EU as discussed may be used for implementing the suggested module. The Local Government Department of Punjab may make suitable modifications in the module for its effective implementation. The institutional mechanism must be created and strengthened for implementation of e-Governance in municipalities. The professional management institutions and consultancy firms/IT institutes, research and training centers like CRRID and universities may be involved for management development and training programmes. The change of mindset of political leaders and officials at local level is possible by intensive training.

e-Government is a process that requires a sustained commitment of political will, resources and engagement among the government, private and public sectors. Evolution of e-Governance is a complex process requiring provision of hardware, networking, and software and re-engineering of the procedures for better decision-making. Re-engineering of the existing government processes and procedures is essential to bring about transparency in working, reducing bureaucratic controls, increasing efficiency and productivity, reducing cost of service delivery etc. Successful implementation will also depend upon organizational leadership and capacity, including the capacity to lead and manage change and to re-engineer major business processes. Therefore, preparing the organization for a fundamental change, re-engineering core business processes, creating integrated database and the capacity to manage information are prerequisites for scaling up e-Governance.

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Part-II Panchayati Raj Institutions

This chapter gives an account of the need for e-Governance, e-Governance practices in the progressive Indian states and e-Governance practices in member states of European Union.

Introduction

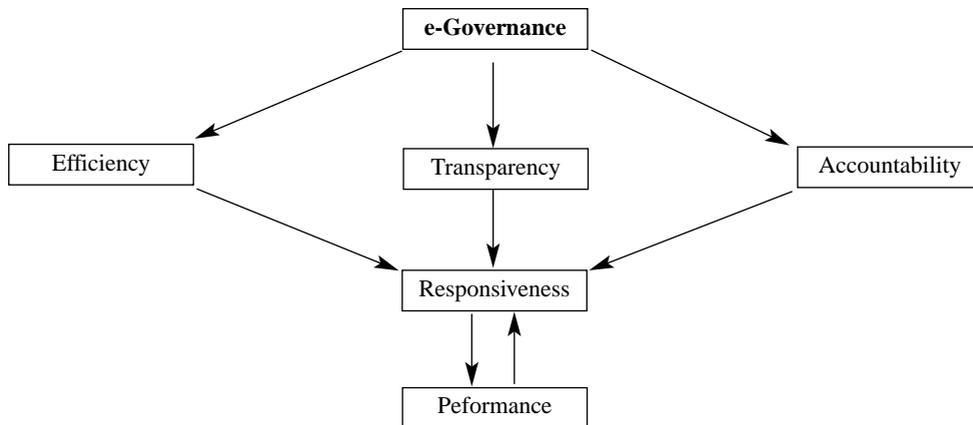
The honorable Prime Minister of India on Independence Day 15th August 2002 declared:

'The government would implement a comprehensive programme to accelerate e-Governance at all levels of the government to improve efficiency, transparency and accountability at the government citizen interface'.

E-governance from the standpoint of local self-government institutions generally understood as a concept capable of transforming the quality of local governance and changing the life style of the people. Its successful implementation is expected to ensure better governmental performance by reducing corruption, increasing efficiency and creating a responsive, transparent and accountable local governance system.

The national conference on e-Governance organized by Ministry of Rural Development,

Chart 5



Government of India in February 2005 has identified following areas for computerization:

- Village Information System;
- Citizen Database;
- Accounting System;
- Scheme Management;
- Public Utility Services;
- Revenue Collection; and

- Land Record.

However, the Ministry has also apprehended that in the context of introducing e-Governance in PRIs certain basic impediments need to be overcome. Those are: lack of electricity, illiteracy and low level of literacy and resistance to new technology. The e-Governance or a computerized system of information management is a fundamental requirement of the panchayats. It would enhance their efficiency and effectiveness and also provide help to the service provider by assessing the needs. Moreover, it will enhance faith of people on panchayati raj system.

The key advantages of e-Governance are:

- Improve service delivery mechanism;
- Enhancing the efficiency in output;
- Emphasizing on wider access to information;
- Better management of accounting and record keeping; and
- Promote accountability and transparency.

The introduction of e-Governance in PRIs is therefore as important as it is in the ULB's. In the recent past, many state governments have taken several initiatives for the establishment of e-Governance in rural areas and its functioning to the PRIs. The e-Governance initiatives taken by the progressive Indian states for introduction of ICT in rural areas are depicted in Table 49

Table 49
e-Governance Initiatives

| State | Initiatives |
|----------------|---|
| Gujarat | Mahiti Shakti, form book on line, Government Record book on line, |
| Karnataka | Tender notice, Bhoomi, Khajana, Kaveri |
| Kerala | FRIENDS , SWIFT and IKM |
| Madhya Pradesh | Gyandoot, Gram Sampark |
| Maharashtra | SETU, on line complaint management system |

e-Governance Initiatives in Progressive Indian States

Karnataka

- I. The department of revenue in Karnataka has computerized 20 million records of land ownership of 6.7 million farmers in the state. Previously, farmers had to seek out the village accountant to get a copy of the record of Rights, Tenancy and Crops (RTC)- a document needed for many tasks such as obtaining bank loans. There were delays and harassments and bribes had to be paid. Today, for a fee of rupees 15, a printed copy of

the RTC can be obtained online at computerized land record kiosks (bhoomi centres) in 177 taluk offices. This system works with the software called "BHOOMI" designed fully in-house by National Informatics Centre (NIC), Bangalore.

- II. In the Bellandur Gram panchayat, 60 km. from Karnataka state capital Bangalore, women panchayat members can access full information about their panchayats: (i) size of family land holding; (ii) taxes due from them; (iii) the number of beneficiaries under various housing and employment schemes; and (iv) status of application for power and water connection.

Gujarat

The e-Governance initiatives taken by a few district administrations at the village panchayat level in Gujarat are worth mentioning. One of the initiatives is in vogue in Baroda district of the state.

In Baroda district, e-Gram panchayat has been launched with following main objectives:

- To maintain the record of village;
- To supply information and certificates at nominal cost;
- To safe guard the village record;
- To create awareness among the people about e-Governance.

A few activities of e-Gram panchayat are:

- Record of property tax;
- Births and deaths registration;
- Issue of birth and death certificates;
- Issue of:
 - (a) BPL Certificate
 - (b) Character Certificate
 - (c) Caste Certificate
 - (d) Domicile Certificate, and
- Computerization of accounts of gram panchayat.

Out of 863 villages panchayats in the district, 325 village panchayat have e-Gram. 64 village panchayats have Internet facility.

The Baroda district administration has also introduced innovative e-Maternal and Child Health Care services which has reduced maternal mortality rate and infant mortality rate in the rural areas of the district. The following on-line records are maintained at the Primary Health Centres (PHCs):

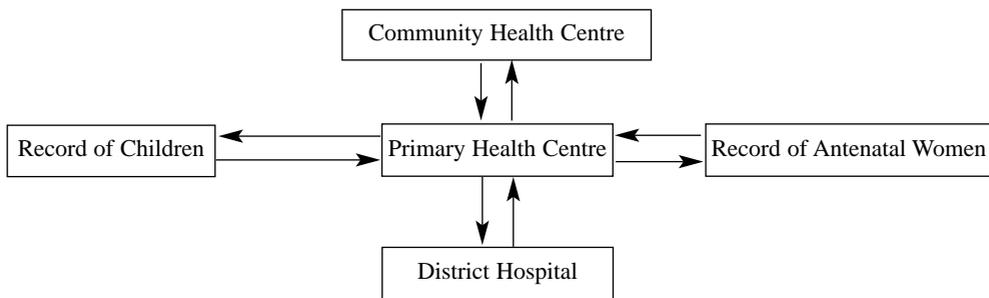
- Vaccination status of pregnant women;

- Referral cases;
- Expected date of delivery;
- Vaccination status of 0-1 children;
- Infant mortality; and
- Family planning method users.

These information at the PHC level is linked with the Community Health Centre (CHC) situated at the sub-division level and also with the district hospital. This has enabled health authorities to provide quick and in-time referral services to women and children. The link-ages established between the health care delivery system and the beneficiaries is given in Chart 6.

Chart 6
e-Governance in Mother and Child Health Care

Madhya Pradesh



Various initiatives have been taken by the government of Madhya Pradesh for e-Governance in panchayat are as follows:

Gram Sampark

‘Gram sampark’ is a flagship ICT product of the state of Madhya Pradesh. A complete database of available resources, basic amenities, beneficiaries of government programmes and public grievances in all the 51,000 villages of Madhya Pradesh can be obtained by accessing the website. 'Gram sampark'. It has three sections-gram paridrashya (village scenario), samasya nivaran (grievance redress) and gram prahari (village sentinel). An eleven-point monitoring system has been put in place whereby programmes are monitored village-wise every month. Four more programmes are under the monitoring system, which includes untouchability-eradication, women's employment, water conservation and campaigns for sanitation.

Gyandoot

The 'Gyandoot' project was initiated in January 2000 by a committed group of civil servants in consultation with various gram panchayats in the Dhar district of Madhya Pradesh. 'Gyandoot' is a low cost, self-sustainable, and community-owned rural Internet system (Soochnalaya) that caters to the specific needs of village communities in the district. Thirty-five such centres have been established since January 2000 and are managed by rural youth selected and trained from amongst the unemployed educated youth of the village. They run the Soochanalayas (organized as Kiosks) as entrepreneurs (Soochaks); user charges are levied for a wide range of services that include agricultural information, market information, health, education, women's issues, and applications for services delivered by the district administration related to land ownership, affirmative action, and poverty alleviation.

Kerala

Kerala government has taken following initiatives for the establishment of e-Governance in the state:

FRIENDS

IT Mission in Kerala is called FRIENDS-Fast, Reliable, Instant, Efficient, Network for the Disbursement of Services is a part of the Kerala State IT Mission. Friends counters handle 1,000 types of payment bills originating out of various Public Sector Units (PSUs). The payments that citizens can make include utility payments for electricity and water, revenue taxes, license fees, motor vehicle taxes, university fees, etc. The application has provisions for adding more modules and for rolling back incorrect entries without affecting the database even at the user level. One important feature of FRIENDS is a provision for adding more modules and a queue management system.

SWIFT

Single Window Interface for Taluks (SWIFT) deals with certificates required for jobs, legal benefits, identities, and so on. As there are about 25 types of certificates issued from taluk offices, people usually apply for a certificate at a SWIFT counter.

Maharashtra

Maharashtra government has taken following initiatives:

SETU

Under ITC, Maharashtra government's establishment of SETU is an example of e-Governance. The Integrated Citizen Facilitation Centres (SETU) cater to the day to day interface with the authorities and reorient the administrative processes through application of ICT. The aim is to lay the foundation for e-Governance, create visible impact of the

intention of the government in this direction and facilitate the interaction of the citizens with the government to make it more transparent, pleasant and satisfying.

To create foundation for citizen centric e-Governance, at district headquarters & subsequently at taluka headquarters, following steps have been taken:

- Single window clearance of 83 important certificates (includes renewal of leases, permits and licenses).
- Quick redressal of public grievances
- Common registry of letters, petitions for all sections of the office.
- On line monitoring of all above.
- To provide services after office hours and on holidays also in order to save time, money and energy of the public.

e-Governance in Member States of European Union:

A broad view of the considerable advances made in member states of EU countries in the application of ICT for e-Governance has been presented in part-I. Some other aspects are discussed below.

The Council of European (COE) adopted on 15th December 2004, a recommendation on e-Governance that urges its member states to use ICT to enhance good governance and democracy. The purpose was to make effective use of ICT to improve both the relationship between public authorities and civil society and the functioning of government. The COE says the national, regional and local public authorities must play a leadership role in identifying and responding to such opportunities and challenges by implementing comprehensive e-Governance strategies.

According to the COE, e-Governance strategies should help focus on a number of desired outcomes, thus ICT should be used to improve the overall accessibility, inclusiveness and usability of public services, strengthen responsiveness to user needs, and ensure equality in public service provision. It further envisages that e-Governance strategies should provide a framework for the efficient allocation and use of technological, financial and human resources to the development of e-Governance services and relevant ICT infrastructure.

Many member states of EU countries have taken adequate steps to adopt comprehensive e-Governance package in their local self-government institution. The local self-government institutions in Finland have a well-developed computerized system.

The municipalities in Finland have a comprehensive information system on various developmental aspects:

- Manpower in Municipality

- Accounting
- Health Information
- Property
- Tax record
- Literacy
- Sanitation
- Water Supply
- Housing
- Tourism Information
- Rural Hubs
- MIS of each household

The municipalities of Finland have good libraries with Internet facilities. The data of all municipalities are computerized. The IT exists in public utility system such as health centers and old age homes. All data relating to birth, death, diseases, expenditures, human resources and other infrastructures are being computerized. In the old age home also there is complete computerized information on the beneficiaries, income and expenditures, assets and liabilities, etc.

Spain with the help of European Commission launched a regional project for setting up "digital tours" designed to speed up the computerization of small population centres. The objectives of the information technology are: (i) promotion of the ICT sector, completion of the deregulation process and promotion of competition; (ii) introduction and development of e-Government; and (iii) improvement of individual and business access to information society.

The main features of e-Government projects in Spain are as follows:

- 'One-stop' portal giving online access to some 53 public services;
- Internet-based system of tax declaration and payments;
- Business creation information center and network (CIRCE) to assist with the setting-up of new businesses;
- Electronic transaction certification;
- Electronic identity card; and
- Electronic civil register.

With the help of European Union, Spain is establishing IT centers in its municipalities, which contains MIS of the households, property taxes, water taxes, garbage fees, and other essential aspects of municipalities are computerized for providing faster information to the people.

Spain has devised "e-Democracy" in order to increase interest of its people in democracy. There is a growing political interest in exploring and applying new e-Democracy tools such as electronic voting, online access to political information and telemetric

public discussion forums which give the public the opportunity to play a direct role in political life.

Midden Delfland Municipality of Netherlands is using IT for the efficient service delivery and complaint redressal. The municipality has its own website www.middendelfland.nl and publish a 20 page paper in Dutch language which is good platform for the farmers, dairy owners, horticulturists and common citizens. The municipality has prepared a Vision Document. The document covers all major areas like social, economic, cultural, historical, natural dimensions, besides dairying, landscape, water, recreation, archaeology, transportation, investment, infrastructure and environment. Government of Netherlands has assigned high priority to e-Government and almost all municipalities are adopting efficient system of e-Governance.

Italy has taken a number of steps to computerize its public administration and introduce e-Government/e-Democracy. The e-Government Action Plan, approved in 2000 identified a series of measures about the use of modern technology by the public authorities in information and telecommunications to improve the operational efficiency of the institutions. In April 2003, the Commission's Technical Committee published a paper entitled 'e-Government, towards an efficient federalism: A shared vision, a collective achievement'. It aimed at developing e-Government in central administrations, regions and local authorities and listed eight areas of action on which the various tiers of government should act:

- Interconnecting all public administrations and connecting them with the public and with business;
- Resourcing online services;
- Rationalizing arrangements for the supply of online services;
- Making the arrangements necessary to guarantee online security;
- Putting systems in motion to ensure the inter-operability of services across the country;
- Using decentralized/federated systems and 'recycling' solutions;
- Designing organizational structures to implement e-Government; and
- Developing a system based on shared structures.

Management Information System

For good governance of local self-government institutions those are transparency and accountability, each PRIs need to have a MIS.

The information system in PRIs and municipalities needs to broadly provide following

information:

- I. **Spatial Information:** agro-climatic zone, soil types, water level, irrigation, etc.
- II. **Social Information:** demographic profile, vital rates; caste and religion composition of population; age and sex composition, education, health, sanitation and electricity.
- III. **Economic Information:** land, cropping pattern, livestock, water supply, housing, implementation of developmental and welfare schemes, BPL families, household assets, telephone facilities, income and employment status.

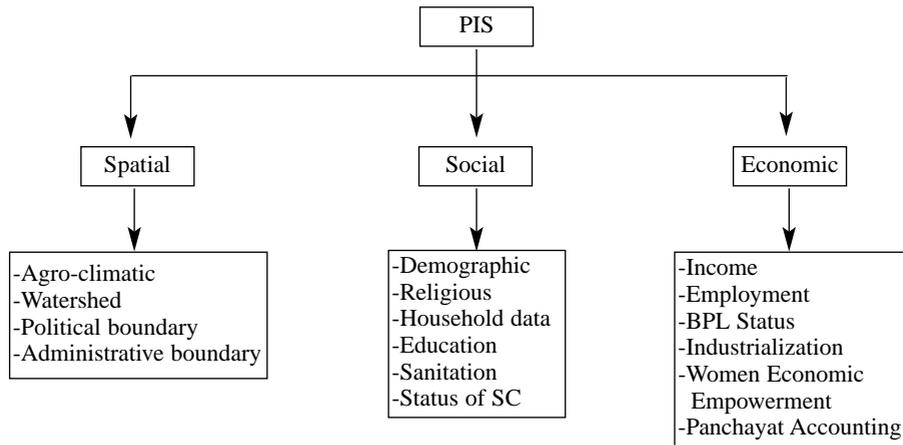
It is suggested that a typical database of a panchayat must take into account following departments and their activities:

1. Agricultural land holding and produce
2. Irrigation facilities
3. BPL households
4. Education-Literacy, enrolment and dropout
5. Employment-Wage and self-employment
6. Household income
7. Housing types
8. Drinking water
9. Health, immunization & diseases
10. SCs/STs population
11. Type of energy used for lighting and cooking
12. Banks/cooperatives-savings and credit
13. Transport facilities
14. Livestock
15. Village level organizations i.e. youth club, mahila mandal, SHGs
16. Panchayat accounts keeping
17. Demographic data-births and deaths
18. Beneficiaries of developmental programmes

However, depending on local needs, more variables can be added and if necessary some may be deleted. The PIS (Panchayat Information System) is given in a flow chart below:

Chart 7

Besides MIS, the right to information is also critical requirement for the effective



functioning of PRIs. This will promote transparency and build up faith of people on the local self-government institutions. The recent Right to Information Act passed by the government is an important step to buttress the gains of e-Governance.

Right to Information

Right to Information Act of government of India came into force on the 12th October 2005. The right to information includes the right to:

- Inspect works, documents and records;
- Take notes, extracts or certified copies of documents or records;
- Take certified samples of materials; and
- Obtain information in the form of printouts; diskettes; floppies, tapes, videocassettes or in any other electronic mode or through printouts.

The Act envisages that the information means any material in any form including records, documents, memos, e-Mails, opinions, advices, press releases, circulars, orders, logbooks, contracts, reports, papers, samples, models, data material held in any electronic form and information relating to any private body which can be accessed by a public authority under any other law for the time being in force but does not include 'file noting'. While the Public Information Officers (PIOs) are officers designated by the authorities in all administrative units or offices under it to provide information to the citizens requesting information under the Act. The time limit to get the information is 30 days from the date of application. Failure to provide information within the specified period is a deemed refusal. The Act has specified that the role of governments is to:

- Develop educational programmes for the public especially disadvantaged community about right to information; and
- Encourage public authorities to participate in the development and organization of such programmes.

The information system if established would help to the local self-government institution in following ways:

- Improving delivery mechanism of public utilities and civic services with greater citizens' and stakeholders' involvement in such processes;
- Empowerment of local self-government institutions for encouraging participative governance and networking; and
- To encourage capacity building and training interventions for better performance of local bodies.

In Kerala all documents of local self-governments except very few ones like health records of patients, contract documents before finalization, etc. have been declared as public document by law. Any citizen has the right to pursue them or ask for photocopies.

Kerala government has opened a panchayat resource information center (PRINCE) at the Tirurangadi block panchayat office at Tirurangadi. The center has been set up jointly by the Indian Space Research Organisation (ISRO), Bangalore and the Centre for Earth Science Studies (CESS), Thiruvananthapuram to make various types of information available to the public. The Kerala government has proposed to open 16 such resource centres. The center would provide exhaustive data on villages, tele-medicine and tele-education.

e-Governance has critical importance for improving efficiency of local self-government institutions in India. Madhya Pradesh and Kerala governments have taken lot of initiatives for establishing e-Governance in panchayats. Through the introduction of ICT, village panchayats procure and provide several services to the people such as record of household property, literacy, sanitation, tax, accounts of the village panchayats, etc. and issue of birth and death certificates, caste certificates, property certificates, etc, to the people. It has made the functioning of the elected representatives and functionaries of panchayats easy. Many villages of the Baroda district are connected with the internet and the district official could have access to all required information about the village through internet. An innovative information system about the Maternal and Child Health Care through internet has been developed by the zilla prishad of Baroda, which has checked the infant and maternal mortality rate significantly by providing immediate referral services to critical patients.

Punjab can learn from progressive Indian states and member states of EU and need to take

initiative for the establishment of e-Governance in its local self-government institutions in urban and rural areas and especially in panchayats where no such initiatives have been taken.

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ABBREVIATIONS

| | |
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| ACGR | Annual Compound Growth Rate |
| ADS | Area Development Society |
| ALM | Advanced Locality Management |
| AMC | Ahmedabad Municipal Corporation |
| ARV | Annual Rental Value |
| ASHA | Accredited Social Health Activities |
| ATRs | Action Taken Reports |
| AUDA | Ahmedabad Urban Development Authority |
| BATF | Bangalore Action Task Force |
| BCP | Business Continuity Plan |
| BMP | Bangalore Mahanagara Palika |
| BOO | Built Operate Own |
| BOT | Built Operate and Transfer |
| BPL | Below Poverty Line |
| BPMS | Bombay Provincial Municipal Corporation |
| CAA | Constitutional Amendment Act |
| CAG's | Comptroller and Auditor General |
| CAs | Chartered Accountants |
| CBOs | Community Based Organizations |
| CCCs | City Civic Centres |
| CERES | Spanish Electronic Transaction Certification |
| CFC | Computer Facilitation Centre |
| CGG | Center for Good Governance |
| CIDCO | City and Industrial Development Corporation |
| CMIS | Chief Minister's Information System |
| COA | Chart of Accounts |
| COE | Council of European |
| CoR | Committee of Regions |
| CRORE | Ten Million |
| CRRID | Centre for Research in Rural and Industrial Development |
| CWRDM | Centre for Water Resource Development and Management |
| DBMS | Database Management System |
| DCA | Development Credit Authority |
| DDO | District Development Officer |
| DFID | Department for International Development |
| DNI | Electronic Identity Card |
| DP | District Panchayat |
| DPCs | District Planning Committees |
| DPDC | District Planning and Development Council |
| DRPs | District Resource Persons |
| EFC | Eleventh Finance Commission |

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| EIS | Environmental Improvement of Slums |
| EIUS | Environmental Improvement of Urban Slums |
| EU | European Union |
| FIRE (D) | Financial Institutions Reform and Expansion (Development) |
| FPFC | First Punjab Finance Commission |
| FSFC | First State Finance Commissions |
| GIS | Geographical Information System |
| GLA | Greater London Authority |
| GOI | Government of India |
| GoM | Government of Maharashtra |
| GP | Gram Panchayat |
| HP | Hire Purchase |
| HUDCO | Housing & Urban Development Corporation |
| ICDS | Integrated Child Development Scheme |
| ICT | Information Communication and Technology |
| IDFC | Infrastructure Development & Financial Corporation |
| IDSMT | Integrated Development of Small & Medium Towns |
| IEC | Information Education & Communication |
| IKM | Information Kerala Mission |
| IL&FS | Infrastructure Leasing & Financial Services |
| IMC | Indore Municipal Corporation |
| IRM | Internal Resource Mobilization |
| IT | Information Technology |
| JEP | Joint Electronic Procurement |
| JNNURM | Jawaharlal Nehru National Urban Renewal Mission |
| KANYADAN | Gift to girl at the time of marriage |
| KDNet | Kalyan Dombivili Network |
| KL | Kilo Liter |
| KRPs | Key Resource Persons |
| KUDFC | Kerala Urban Development Finance Corporation |
| KUIDFC Corporation | Karnataka Urban Infrastructure Development Finance Corporation |
| LAA | Local Area Agreement |
| LAKH | Hundred Thousand |
| LANs | Local Area Networks |
| LMC | Ludhiana Municipal Corporation |
| LRPs | Local Resource Persons |
| LSGIs | Local Self Government Institutions |
| MAM | Maharashtra Accounting Manual |
| MANs | Metropolitan Area Networks |
| MCA | Municipal Chief Auditor |
| MCGM | Municipal Corporation of Greater Mumbai |
| MCs | Municipal Councils |

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| MDF | Municipal Development Fund |
| MEB | Municipal Executive Board |
| MIS | Management Information System |
| MLA | Members of the Legislative Assembly |
| MMLs | Model Municipal Law |
| MOU | Memorandum of Understanding |
| MOUD | Ministry of Urban Development |
| MP | Madhya Pradesh |
| MPCs | Metropolitan Planning Committees |
| MPs | Members of Parliament |
| MUDRA | Municipal Corporation towards Digital Revenue Administration |
| NCAER | National Council of Applied Economic Research |
| NeGP | National e-Governance Plan |
| NEP | New Economic Policy |
| NGOs | Non-Government Organizations |
| NHGs | Neighbourhood Groups |
| NIC | National Information Centre |
| NISG | National Institute for Smart Governance |
| NLOGRR | Non Loan Own Gross Revenue Receipts |
| NMC | Nagpur Municipal Corporation |
| NMMC | Navi Mumbai Municipal Corporation |
| NMMP | National Mission Mode Project |
| NPs | Nagar Panchayats |
| NRI | Non Resident Indians |
| NRYP | Nehru Rozgar Yojana |
| O&M | Operation and Maintenance |
| OBCs | Other Backward Castes |
| OS | Operating Systems |
| PAC | Public Accounts Committee |
| PANCHAYAT | Village Council |
| PANs | Permanent Account Numbers |
| PDS | Public Distribution System |
| PHC | Primary Health Centres |
| PIN | Property Index Number |
| PMA | Punjab Municipal Act |
| PMB | Punjab Municipal Bill |
| PMCA | Punjab Municipal Corporation Act |
| PMIUPEP | Prime Minister's Integrated Urban Poverty Eradication Programme |
| PPPPs | Promoting Public Private People's Partnerships |
| PPPs | Public Private Partnerships |

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| PPV | Plasma Pyrolysis Vitrification |
| PRIs | Panchayati Raj Institutions |
| PSPs | Private Sector Partnerships |
| PT | Property Tax |
| PWD | Public Works Department |
| QoS | Quality Output Service |
| RDBMS | Relational Database Management System |
| RDF | Refuse Derived Fuel |
| RFP | Request for Proposal |
| RSG | Revenue Support Grant |
| SCP | Special Component Plan |
| SCs/STs | Scheduled Castes/Schedule Tribes |
| SEC | State Election Commission |
| SEWA | Socio Economic Welfare Association |
| SFCs | State Finance Commission |
| SSFC | Second State Finance Commission |
| SLA | Service Level Agreement |
| SPB | State Planning Board |
| SPFC | Second Punjab Finance Commission |
| STs | Scheduled Tribes |
| SWM | Solid Waste Management |
| TAS | Total Assumed Spending |
| TCS | TATA Consultancy Services |
| TFC | Tenth Finance Commission |
| TNUDF | Tamil Nadu Urban Development Fund |
| TNUDP | Tamil Nadu Urban Development Project |
| TP | Taluka Panchayat |
| TSC | Total Sanitation Campaign |
| TSP | Tribal Sub Plan |
| UBSP | Urban Basic Service for the Poor |
| UFW | Unaccounted-For-Waster |
| UK | United Kingdom |
| ULBs | Urban Local Bodies |
| USAEP/USAID | United States Agency for Environment Programs/United States Agency for International Development |
| VAT | Value Added Tax |
| VEC | Village Education Committee |
| VOA | Valuation Office Agency |
| VWSC | Village Water and Sanitation Committee |
| WANs | Wider Areas Networks |
| WCs | Ward Committees |
| WSC | Water and Sanitation Committee |
| ZP | Zilla Parishad |

