



**India**

**the challenge of urban governance**

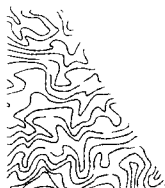
**Edited by  
Om Prakash Mathur**

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**India :**  
**the challenge of urban governance**

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# India the challenge of urbanisation



Edited by  
Om Prakash Mathur

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## Preface

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This book entitled *India: The Challenge of Urban Governance* consists of papers that were written during the years 1993-97, by urban researchers in India who were associated with the activities of a major programme of urban research in the developing countries. This programme, which came to be subsequently known as the Global Urban Research Initiative (GURI), was established in 1992, following an agreement between the Centre for Urban and Community Studies, University of Toronto, Toronto, and the Ford Foundation, New York. The purpose of GURI, in its initial phase, was to undertake an assessment of the state of urban research in the developing countries, primarily to test out the widespread apprehensions that interest in urban research in many countries was on the wane. The assessment undertaken by a core group of urban scholars and institutions in about 50 countries not only dispelled such apprehensions, but showed that cities in the developing countries were faced with new problems, and consequently were confronted with a newer urban agenda, comprising such issues as globalization, poverty, decentralization, finance and the economy of cities, urban environment and sustainability, and urban social structures. Of these issues, the one this group of researchers found to be of foremost importance to the developing countries was urban governance. The core group of researchers accordingly began what turned out to be a four year research programme on issues of governance, broken into two phases: the 1993-96 phase wherein the researchers worked on a general assessment of the problems of governance, and the 1996-97 phase where focus was placed on participatory action research on governance, decentralization and municipal reform. This book consists of the research work conducted in India during the two phases.

Of the eight papers that constitute the book, five are background papers which are focused on the roles of the different actors and stakeholders in the governance of cities and towns, and the efficiency with which they exercise their roles, both independently and in relation

to each other. The background papers are substantive reviews of the existing studies and research work on the subject, and have attempted to define the manner in which the roles of stakeholders in Indian cities and towns have changed, particularly as a result of (i) the changes that have taken place outside their borders, i.e., globalization, (ii) changes that have been prompted by the Constitution (seventy fourth) Amendment Act, 1992, and (iii) changes that have occurred and are continuing to take place in their demographic, social and economic profile. The background papers prepared during the first phase have been synthesised by Om Prakash Mathur, in a paper entitled *Governing Cities: Facing up to the Challenges of Globalization and Poverty*. In addition, the book contains two papers prepared during the second phase, these being a case study on Public Private Participation in the Provision of Infrastructure to Tirupur: A Governance Perspective, and a paper entitled Fiscal Innovations and Urban Governance.

Dinesh Mehta and Pushpa Pathak in their paper titled as *Economic Development, Globalization and Urban Governance in India* have drawn attention to the fact that cities in India are faced with new opportunities as a result of liberal macro-economic policies, and the Constitution (seventy-fourth) Amendment Act, 1992, but the mode of governance that is needed to deal with the new situation is beyond the traditional concerns of municipal management. The severe infrastructural deficiencies, the highly controlled and regulated land and property markets, the limited financial resources of local governments, and inadequate managerial, institutional and technical capacities of local governments are major constraints that limit the ability of cities to adequately handle economic development. To Mehta and Pathak, strengthening of local governments is a pre-requisite if they have to be enabled to perform economic development functions, and to take advantage of new market opportunities.

That the scenario at the level of local governments is far less promising, is also the message of the papers by Abhijit Datta and Asok Mukhopadhyay. In his paper *Institutional Aspects of Urban Governance*, Abhijit Datta speaks of the limits of the existing institutional framework. He writes: "the institutional reality of urban governance in India stands in sharp contrast to the lofty idealism of utilitarian philosophy". According to Datta, the source of the problem lies in the fact that bulk of the important decisions affecting the city's destiny are made externally, at higher levels of polity. Quoting a study by Jones (1994), he points out that governance of a city in India is essentially by



the State government. He reaffirms it by observing that although in a Constitutional sense, all local functions are concurrent in nature, the process of delegation leading up to greater autonomy for local authorities “has not happened in India” as, even when functions are expressly delegated to the municipal authorities, the State governments intrude into their domain and operate in the same functional areas. Asok Mukhapadhyay’s paper on *Politics and Bureaucracy in Urban Governance: The Indian Experience* proffers the same message: effective governance in Indian cities is severely strained on a account of hiatus between political developments and bureaucratic growth, the latter having expanded at the cost of its efficiency.

Meera Mehta’s paper on *Participation and Urban Governance* laments over the growing disenchantment in the country with the role of the government, but then she argues that it should not mean negating or shunning the government, but means “rethinking” the role of the government and mode of governance. The main agenda for urban governance, in her view, should be to transform the role of local governments and public agencies which is possible in a framework that allows for participation, cooperation, and collaboration between civil society, non governmental agencies, and local and higher levels of government. Amitabh Kundu and Shipra Maitra in their paper *Access of Urban Poor to Basic Services: An Analysis in the Context of the Changing Perspective of Urban Governance in India* review the role of the shareholders vis a vis the urban poor, especially the role of the State and municipal governments in poverty alleviation. Governance, regardless of its mode, so runs the theme of their paper, must respond to the needs of the urban poor who stand deprived of basic services.

These five papers have been synthesised by Om Prakash Mathur under the title *Governing Cities: Facing up to the Challenges of Globalization and Poverty*. Mathur defines the subject by observing that the debate on who should manage and govern cities, unlike the earlier debates, is not confined to what the municipal and other governmental institutions should do to manage cities. Nor is the debate restricted to the mechanisms for improved provision and delivery of urban services. The present debate on governance is concerned with the broader capacity of cities to be able to deal with changes that are taking place both within cities, and externally, in the global economy. He asks: “do the institutions, for instance, have the capability of dealing with the growing pressures of poverty and deprivation? Can the cities effectively respond to the challenge of the opening up of economies?” In this

context, he reviews, using the background papers, his own independent research and papers from Nepal and Srilanka, the roles of local governments, the parastatal agencies, the private sector, and the non governmental agencies in the governance of cities and towns. He concludes by saying that the existing state of knowledge is barely sufficient to analyze the institutional base at the level of cities, and places responsibility on the research community to take on upfront this relatively unresearched field.

This book includes a case study of *Public-Private Partnership in the Provision of Infrastructure to Tirupur: A Governance Perspective*. Prepared by Usha P. Raghupathi, it forms a part of the three case studies that were commissioned during the second phase of research where the entire effort was directed to observing and documenting field level initiatives in improving the finances of municipal governments, and assessing their impact on the governance of cities. Usha P. Raghupathi discusses the entire process of bringing together the different stakeholders in planning a Build-Operate-Transfer (BOT) arrangement for the supply of water to Tirupur a medium sized town in southern India. She concludes that commonality of interest is a crucial component in forging Public-Private Partnerships, even in those spheres where the private sector has historically not played any role.

In the concluding paper *Fiscal Innovations and Urban Governance*, Om Prakash Mathur, using this and two other studies on Property Tax Reform in Andhra Pradesh and the Issuance of Municipal Bonds by the Ahmedabad Municipal Corporation, attempts to explore the links between fiscal innovations and governance, by examining such questions as: do actions such as involving the private sector in the provision of infrastructure, reform of property taxes, and issuance of municipal bonds serve revenue-raising goals or also lead to better governance of cities?; and to what extent do the fiscal initiatives lead to or promote accountability, transparency and participation? He draws several lessons from the field-level cases:

- A simple, transparent and undifferentiated tax system has a greater possibility of securing clientele acceptance and of being sustained, even if it entailed a higher tax burden.
- Public sharing of credit rating information is an important input to building alliances and partnerships with the non-governmental sector and other interest groups.

- Commitment and leadership are critical to initiating changes in the local fiscal arrangement.

The eight papers constituting this book have shed light on the roles of different stakeholders in the management and governance of cities and their preparedness to deal with the challenges of globalization and poverty. The papers have also served to explore the links between fiscal initiatives and governance. At the same time, the papers point to the extreme complexity in exploring such roles and linkages, underscoring the need to continue research in this relatively virgin area of urban growth dynamics.

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## Contributors

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I am equally thankful to those scholars who found time to participate in the three meetings held in Lonavla, India (June 1994), Dhaka, Bangladesh (January 1995), and Manesar, India (August 1997), and offer comments on the papers. In particular, thanks are due to Amirul Chowdhary (Jahangirnagar University, Dhaka), Nazrul Islam (University of Dhaka, Dhaka), Douglas Keare (Harvard Institute of International Development, Cambridge), Patricia McCarney (University of Toronto, Toronto), Emma Porio (Ateneo de Manila University, Quezon City), Luis Menezes (Government of India, New Delhi), Nasser Munjee (Housing Development Finance Corporation, Mumbai), S.P.K. Naidu (Government of Andhra Pradesh, Hyderabad), Salma Shafi (Sheva, Dhaka), Richard Stren (University of Toronto, Toronto), and D.M. Sukthankar (National Institute of Urban Affairs, New Delhi). Others who made extremely valuable comments to whom I owe a lot are Rakesh Mohan (National Council of Applied Economic Research, New Delhi) and Yue-Man Yeung (Chinese University of Hong Kong, Hong Kong).

I would like to record here my gratitude to the University of Toronto for involving me in this global research effort and the National Institute of Public Finance and Policy for its cooperation in enabling me to compile this book. I would like to especially thank Richard Stren, Director, Centre for Urban & Community Studies, University of Toronto, Toronto, and Ashok Lahiri, Director, National Institute of Public Finance and Policy, New Delhi. Usha Mathur deserves a special mention for the assistance that she provided, particularly in typesetting/word processing of the papers.

Om Prakash Mathur  
February 1999

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## **Governing Cities: Facing up to the Challenges of Poverty and Globalization**

OM PRAKASH MATHUR

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# 1

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## Governing Cities: Facing up to the Challenges of Poverty and Globalization

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OM PRAKASH MATHUR

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*The standing and competitiveness of a country will largely be determined by how the development and growth of its cities are managed. (Excerpt from the Brochure of the International Conference on Cities and the New Global Economy, 20-23 November, 1994, Melbourne).*

### I INTRODUCTION

Recent years have seen worldwide a *broadbasing* of the debate on who should manage and govern cities, and how, and with what kinds of instruments, should the cities be governed. Significantly, the debate on the subject, unlike the earlier debates, is not confined to what the municipal and other governmental institutions should do to manage cities, or to use the words of Douglas Yates, "alleviate urban problems".<sup>1</sup> Nor is it restricted to the mechanisms for improved provision and delivery of urban services, long seen as the sole index of "good government".<sup>2</sup> Rather, the present debate on governance is concerned, among others, with the broader issue of the capacity of cities to be able to deal with changes that are taking place both within cities, and externally, in the global economy. Questions are being asked whether the city-related and city-wide institutions have the capacity to deal with the demands and pressures that are being generated in cities as a result of these changes. Do the institutions, for instance, have the capability of dealing with the growing pressures of poverty and deprivation? Can the cities effectively respond to the challenge of the opening up of economies, of what Kenichi Ohmae calls a "borderless world"<sup>3</sup>, involving globalization of economic activities and a freer mobility of capital, labour, technology, and other factors of production? Can the existing institutions take on this challenge? What kind of an environment -the rules, regulations, procedures and systems through which cities are governed -should emerge for cities to be able to contribute to, and, in turn, be benefitted by the process of economic liberalization?

A crucial factor in the debate relates to changes that have taken place in the concept of governance itself.<sup>4</sup> What is governance? Is it synonymous with "good government", or is it distinct from government? Is it a mechanism as alleged in the classical theories,<sup>5</sup> of making available certain social goods e.g., water supply, conservancy services, primary health and street lighting to people residing in cities? Or, is it a *process* designed and planned to involve people in decision-making? Halfani and others see governance in terms of "the relationship between civil society and the state, between rulers and the ruled, the state and society, the government and the governed".<sup>6</sup> Questions are being asked about the nature of such relationships, and, in this context, the roles played by the private sector and voluntary community-based organizations and associations in the management of cities.<sup>7</sup> What are their stakes and how do these enter into public policy making? To what extent do the present-day cities conform to the new governance norms?

For low-income economies such as India, Nepal and Sri Lanka, urbanizing at moderate-to-rapid rates and which are undergoing major structural and policy shifts, the issue of governance is of particular significance.<sup>8</sup> Over the past two decades, for instance, the urban population of India has doubled and that of Nepal risen by 263.6 per cent (Table 1). Similarly, the contribution of non-agricultural sectors to the gross domestic product in the case of India has risen from 55 per cent in 1970 to 68 per cent in 1990, and in Nepal, from 33 per cent to 48 per cent (Table 2). This process of urbanization and structural change has exerted phenomenal pressures on the ability of city-related institutions to meet the consequential demand for land, shelter, infrastructure and services. Questions are being raised if institutions in India, Nepal and Sri Lanka have the requisite wherewithal to productively provide basic services and infrastructure for the fast growing urban population, or will they require complementary actions by other stakeholders? Can the institutions deal with poverty which, willy nilly, has accompanied the process of urban population growth and which accounts for, in India alone, nearly two-fifths of the country's total urban population? Can these institutions *by themselves* cope with the pressures that may be placed on them when the forces of urbanization acquire further momentum under the impact of global and related macro-level policy changes?

TABLE 1. Urban Population in India, Nepal and Sri Lanka

Year	Urban Population					
	India <sup>1</sup>		Nepal <sup>2</sup>		Sri Lanka <sup>3</sup>	
	Millions	Decennial change %	Thousands	Decennial change %	Thousands	Decennial change %
1971	109.11	-	162	-	2,736	-
1981	159.17	46.15	954	106.49	3,196	16.81
1991	217.18	36.19	1,680	76.10	3,679	15.11

SOURCES. 1. 1992. *Census of India*, Paper 2, Series 1, Statement 5, pp. 13.  
 2. Joshi, Jigbar and U.M. Malla. 1992. *Urban Research in Nepal*. (unpublished).  
 3. United Nations .1991. *World Urbanization Prospects*. New York: United Nations.

TABLE 2. Structure of Gross Domestic Product

	Year	Distribution of Gross Domestic Product %			
		Agriculture	Industry*	Manufacturing	Services
India	1970	45	22	15	33
	1990	32	27	17	40
Nepal	1970	67	12	4	21
	1990	52	18	8	30
Sri Lanka	1970	28	24	17	48
	1990	26	25	15	49

SOURCE. World Bank. 1994. *World Development Report*. New York : Oxford University Press

\* Also includes the contribution of manufacturing to GDP

During the past few years, India, Nepal and Sri Lanka have embarked on programmes of economic liberalization, involving delicensing of industries, trade and foreign investment deregulation, and a host of other measures. Questions are beginning to be asked if cities in these countries will be able to meet the incremental infrastructure demands that may be generated by the process of economic liberalization. Can the Indian cities, for instance, absorb investment of

the order of US \$ 2-3 billion or even less on an annual basis? What do these investments mean for institutions such as the municipal authorities, special-purpose parastatal agencies, and other layers of administration and bureaucracy which have historically been at the centre of city affairs? What kind of an *adjustment* will be required in the city-related and city-wide regulations and systems to enable cities to meet the challenge of the opening up of the economies? What changes are visualized in the role of the public sector with this shift in policies concerned with economic management?

For reasons that are now widely established, initiatives have been taken worldwide to strengthen the process of democratic decentralization and revitalization of the local government institutions, including India, Nepal and Sri Lanka.<sup>9</sup> These initiatives include the Constitution (Seventy-Fourth ) Amendment Act. 1992 on Municipalities (India), the Municipalities Act. 1991 (Nepal), and the Thirteenth Amendment to the Constitution, 1987, followed by the Provincial Council Act No.42 of 1987 (Sri Lanka). The issue is about the impact of these initiatives on the governance of cities. Will the Constitutional and legislative changes that have been made in India, Nepal and Sri Lanka be able to improve the governance of cities and promote wider participation and ensure accountability? Will these do away with the arbitrariness and ad-hocism that have long characterized the Centre-local and State-local functional and fiscal relationships and the functioning of city-wide institutions?

This paper is concerned with the above-stated set of issues and questions.

Captioned: *Governing Cities: Facing up to the Challenges of Poverty and Globalization*, this paper is laid out in five sections, beginning with a brief overview of what do the institutions that are *formally* responsible for the management of cities in India, Nepal and Sri Lanka do.<sup>10</sup> Special stress is laid in this section on the place of municipalities and other institutions in the intergovernmental structure, referring to their composition, functions, powers and responsibilities and their fiscal domain. Section 2 also describes the existing role of the private sector and voluntary organizations in the management of city affairs.

To what extent and how effectively, have the institutions in these countries been able to govern cities is the theme of the third section of the paper. It dwells on the functioning of institutions, in particular, of municipal governments and parastatal agencies, examining as indicated above, the efficiency with which these agencies have been able to

perform their functions and deal with the phenomenon of urban growth and structural change. New challenges that confront cities in India, Nepal and Sri Lanka are analyzed in the fourth section of the paper. Particular mention is made here of the challenge of widespread poverty and informal settlements on the urban landscape of these countries. Challenges posed by economic liberalization are also presented in this section. Section five discusses the implications of the Constitution (Seventy-Fourth) Amendment Act, 1992 for meeting the challenges that Indian cities face. The future perspectives on governance of cities are provided in the concluding section of the paper.

Much of the material for the paper is drawn from the background papers, commissioned especially for the second phase of the project on *Urban Research in the Developing World* (See bibliography). In addition, a number of articles and studies on the functioning of municipal governments in the Indian Sub-continent and other related literature have been used to buttress the different propositions and arguments. The subject of governance, it should be emphasized, is extremely complex and wide, and hard evidence, for instance, on the nature and quality of relationship between different groups—be they in the category of rulers or the ruled—is weak, dated, localized and largely qualitative. This paper thus represents a tentative attempt at understanding some of the issues relating to the governance of cities.

## II WHO GOVERNS CITIES? : AN OVERVIEW

Who governs and manages cities in India, Nepal and Sri Lanka? What is the role of “government”, in particular, of municipal governments<sup>11</sup> in the management of cities? What role do the private sector and the non-governmental institutions play in the affairs of cities? This section provides a contextual description of the structure of city-related and city-wide governmental institutions, with focus on features that relate to their composition, functions, responsibilities and fiscal powers. This description thus lays the ground work for examining, in subsequent sections, the extent to which the existing structure of institutions has been able to respond to changes that have occurred in cities, and also the extent to which they have the capacity and potential for dealing with the future challenges of accelerated urban growth, poverty, and globalization. In addition, this section provides a synoptic view of the private sector’s role in city management.

### **Municipal Governments: Composition, Functions and Powers**

Note should be made by way of preface that the three countries—India, Nepal and Sri Lanka, that are the focus of the study—have different politico-administrative set-ups which impinge, either directly or indirectly, on the system of governance at the level of cities. India is a multi-party democracy and has a parliamentary form of government. It is a *federation* consisting of the Union (commonly referred to as the Central Government) and the States, both drawing powers directly from the Constitution. Local governments including the municipal governments are recognized and appropriately safeguarded by the Constitution, but as will be indicated later, they derive their powers from the State governments' legislation.<sup>12</sup> Nepal, until the promulgation of the new Constitution in 1990, was an absolute monarchy with executive powers being vested in the King who presided over a unicameral legislature. It is now a parliamentary democracy and has a form of government that is *unitary* in character. Municipal governments in Nepal draw their powers from Central government legislation. Sri Lanka is a democracy, and has a Presidential and *unitary* form of government, but there are strong pressures towards federalism. In 1987, the Constitution of Sri Lanka was amended; an act called the Pradeshiya Sabha Act (the Provincial Council Act No. 42 of 1987) was passed to create within the Union, nine provinces in the country. Municipalities in this country draw their powers from both the Central Ordinances and the Provincial Act of 1987.

In this set-up, city governments (or more appropriately, the municipal governments) in these countries derive their powers, functions and responsibilities from the Central, State, and Provincial legislation. *In none of the three countries, it is important to note, do they derive their powers from the Constitution.* In India, for instance, the Constitution delineates the powers and responsibilities between the Union (Central government) and the States. The Union government exercises exclusive powers in respect of defense, foreign affairs, and sectors/industries of strategic importance such as the railways, post and telecommunications, national highways, shipping and navigation in inland waterways, and air transport; the States, on the other hand, exercise control over such important subjects as public order, police, administration of justice, agriculture, water supply and irrigation, education, public health, land rights and industries other than those in the Union List.<sup>13</sup> While the Constitution recognizes the local

governments, and also safeguards their existence, as units of self-government, it does not *directly* endow them with any functions, responsibilities, and powers. They derive their functions and responsibilities from the States which have specific legislation defining their powers, domain, etc. The general practice is to divide the State-level functions and to delegate some of them to the Municipalities. *The State governments reserve the right to operate in the same functional areas, making joint occupancy of functions as the guiding principle for determining the State-municipal functional relations.*

The powers and functions of municipalities and other types of urban local authorities in Nepal (e.g., the town development committees) are laid out in two important Central laws, namely, the Municipalities Act, 2048 (corresponding to the year 1991) and the Town Development Act, 1989. The two laws define the relationship between the municipalities and the Central government. His Majesty's government reserves the right to monitor, supervise and issue directives to municipalities in the execution of functions as also the right to suspend and dissolve them.<sup>14</sup> Similarly in the case of India, the new Constitution, although committing itself to "maximum participation of the people in the governance of the country through the medium of decentralisation of administration", does not assign any powers or functions to municipalities or town committees.

Matters relating to local authorities in Sri Lanka, until the Constitutional amendment and passage of the Provincial Council Act of 1987 were within the purview of the Central government. Their statutory entity and powers accrued directly from the legislative enactments of the Central government, chiefly the Municipal Council Ordinance, Urban Council Ordinance, and the Town Council Ordinance. By this amendment, however, all powers of the Central government in respect of urban local authorities (ULAs), i.e., the municipal and urban councils stand transferred to the Provincial Councils. *The Provincial Councils exercise the authority to supervise the administration of municipal and urban councils, to confer additional powers on them, and to suspend and dissolve them.* The Provincial Councils, however, do not possess the authority to abridge or curb the existing powers of the local authorities which continue to rest with the Central government.<sup>15</sup>

Municipal governments are at the centre of the affairs of cities in India, Nepal and Sri Lanka.<sup>16</sup> Owing historically<sup>17</sup> to the Lord Ripon resolution of 1882 in India, Ordinance No. 17 of 1865 in Sri Lanka, and



the establishment in the early 1920s of sanitation offices and wards in Nepal, the municipal institutions have over the years come to acquire a pivotal position in the management and governance of cities.<sup>18</sup> They have been described as playing a paramount role in the management of the urban economy. The extent to which they manage cities, however, differs enormously between countries and between cities within the same country. In some, their role might even be regarded as peripheral at best. There are several distinguishing features of municipal governments which should be noted:

- *The municipal governments in India, Nepal and Sri Lanka are, by statute or legislation, democratic in character and based on adult franchise.* Thus, the municipalities in these countries have *directly* elected councils, boards and corporations.<sup>19</sup> An important point which reflects on the democratic character of the municipality relates to the powers of the elected council including those of the Mayor or the Chairperson of the Council in matters relating to the management of cities. In India, for instance, in smaller municipalities, the Chairpersons of the elected councils share powers of decision-making and administration with the councils and the various Standing Committees. This arrangement is interpreted as the essence of local democracy. The management pattern in the case of large cities, however, is based on the principle of separate powers between the elected body, the Standing Committees and the bureaucracy which is usually headed by a municipal commissioner. The elected body deliberates on policies and approves the budget, but the municipal commissioner exercises executive powers. The rationale behind the separation of powers between the deliberative wing and executive wing is to eliminate the authority and interference of councillors in administrative matters. Experts in India have, however, noted that the separation of powers between the deliberative and executive wings reflects a bias against the role of politics in urban governance, and is, at best, a compromise between the claims of democratic participation and the requirements of administrative efficiency. The functions of urban governance, it is alleged, are of such a nature as to admit of overlapping powers and jurisdictions of the deliberative and executive wings of big city governments. This point will be elaborated in the next section.

In Calcutta, the capital of West Bengal in India, a Mayor-in-Council form of urban management has been in practice for several years. The full powers of government, both policy making and executive, vest in the Mayor-in-Council. This system assumes that the political and administrative processes cannot be compartmentalized. The political process is continuous and spills over into administration, and administrative programmes inevitably has political ramifications. This form of urban governance, it is argued, should ensure better political control and accountability.<sup>20</sup>

- The second feature, of importance to this study, relates to the range of functions entrusted to municipal governments in the countries. A review of literature shows that the municipal institutions are typically responsible for providing basic public goods falling into four broad categories, namely: *public health, public safety, public works, and public order*.<sup>21</sup> They also perform important regulatory functions relating to public health (e.g., they check the sale of flesh of diseased animals, and the cutting of fruits), public safety (e.g. control of the use of premises for dangerous trades), public works (e.g., relating to urban planning and building codes), and public order (e.g., control on the use of public places). Conceptually, municipal functions include those goods and services whose benefits are localized and for which there is a differential scale of preference. Other services, whose benefits spill over to jurisdictions other than those where these are actually provided and which are associated with scale economies, rest with the higher levels of governments. In actual practice, as indicated earlier in the paper, the division of functions between the municipalities and higher levels of governments is rarely neat or airtight; joint occupancy of functions is the rule rather than the exception. Moreover, there has occurred in recent years an expansion in the domain of their responsibilities.

**Box 1**

The city is an organization or institution devoted to service. It is created and maintained for the purpose of performing functions and delivering services which are essential to make living in a modern city more tolerable and more agreeable. If it does these things at a reasonable cost to the taxpayers it has served its purpose and fulfilled its mission. The goal is to deliver the essential or desired services at the minimum cost. See Edward C. Banfield (ed.), 1975. *Urban Government: A Reader in Politics and Administration*. Cambridge, Mass: The Free Press of Glencoe, Inc.

Three points with regard to the functional domain of municipal governments in these countries need to be emphasized:

- *The municipal governments do not enjoy an absolute or exclusive domain or sphere in any of the three countries; essentially, they possess legally delegated powers and functions under the doctrine of *ultra vires* (Dillon's Rule) that limits local choice and diversity. Municipalities "are to take nothing from the general sovereignty (the state) except what is expressly granted".<sup>22</sup> Because of the absence of an absolute or exclusive domain, the Central or the State governments have intruded into their domain through parallel laws or executive decisions to operate in the same functional area. In addition, external mandating of State functions on municipalities is a common practice in the three countries.*
- *The municipal governments are essentially responsible for the maintenance and operation of management functions. There is no or, at most, a weak orientation of municipalities to either capital works or developmental functions. Maintenance management is the function that they perform. This practice of separating the responsibility for maintenance and operation from development functions is rooted in the classical proposition that local governments should deal only with the provision of public services in accordance with local preferences. Developmental functions and other policies which have distributional effects, it is contended, can be more efficiently dealt with by the higher levels of governments. This position, however, is changing. The Constitution (Seventy-Fourth Amendment) Act of 1992 on Municipalities (India), as will be outlined later, seeks to widen the municipal operative sphere into three new areas: (a) economic and social planning, (b) urban poverty alleviation, and (c) urban forestry. The Municipalities Act 1991 of Nepal also provides for a number of economic development functions.<sup>23</sup>*
- *As the size of municipalities increases, their functional domain and the degree of autonomy that they enjoy also increase. Thus, for instance, the municipal corporations in*

India have wider powers compared to the municipal bodies of smaller urban centres. The Bombay Municipal Corporation runs hospitals, the water supply system, schools, electricity distribution and the bus service in addition to performing the traditional services of road maintenance, drains, refuse collection and markets. In Nepal too, as Adhikari notes, “a metropolitan authority is empowered with certain additional powers that pertain to environmental protection, mobilisation of local resources and institutions, free education up to secondary level, transport management, and maintenance of places of common interest such as parks and temples, shopping and sport centres”.<sup>24</sup>

- *The fiscal domain of municipalities in India, Nepal and Sri Lanka is narrow and inelastic.* More generally, municipalities in India have access to property taxes which typically include a tax for general purposes, a water and drainage tax, a lighting tax, and a scavenging tax; taxes on carriages and carts; taxes on animals; taxes on advertisements, and duties on transfers of properties in the form of a surcharge on the duty imposed under the Indian Stamps Act, 1911, and *octroi* in selected States. Several States in India permit municipalities to impose taxes on cinemas, theatres, circuses, carnivals and other performances and shows. The main municipal taxes in Nepal consist of a house tax, rent tax, business tax, vehicle tax, parking fees, service charges, and *octroi* duties. In Sri Lanka, the primary source of municipal income is a property tax. Other sources of revenues include fees for services, licensing charges, and permitted borrowings and grants from the Central government.

*By and large, these are taxes that are leviable on immobile tax bases and whose burden is not exportable to other jurisdictions.* Many taxes (i.e., professional and entertainment taxes in some States in India), however, even when they satisfy the above norm stay with the higher levels of governments, or are collected by them for redistribution to municipalities. Revenues collected through attachment to existing State level taxes also constitute a source of income for municipalities in India. Taxes which are levied on the relatively mobile factors of production, and tax bases which are unevenly distributed over space fall within the ambit of the higher levels of governments.

**Box 2**

**Indicative Municipal Functions in India  
As Provided for in the State Municipal Laws**

Heads	States		
	Andhra Pradesh <i>(The Andhra Pradesh Municipal Act, 1965)</i>	Gujarat <i>(The Gujarat Municipalities Act, 1963)</i>	Punjab <i>(The Punjab Municipalities Act, 1991)</i>
Public Health	<ul style="list-style-type: none"> <li>• Provision of water supply and drainage</li> <li>• Refuse collection and disposal</li> <li>• Provision of slaughter-houses</li> <li>• Public vaccination</li> <li>• Registration of births and deaths</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of water supply</li> <li>• Regulation of offensive and dangerous trades</li> <li>• Refuse collection and disposal, cleaning of drains and sewers</li> <li>• Public vaccination</li> <li>• Removal and disposal of night soil</li> </ul>	<ul style="list-style-type: none"> <li>• Water supply.</li> <li>• Public vaccination</li> <li>• Promotion of public welfare and health</li> <li>• Providing for refuse collection and disposal</li> <li>• Registration of births and deaths</li> </ul>
Public Works	<ul style="list-style-type: none"> <li>• Street lighting</li> <li>• Removal of encroachments</li> <li>• Enforcement of building regulations</li> <li>• Construction and maintenance and regulation of markets</li> <li>• Licensing of porters</li> </ul>	<ul style="list-style-type: none"> <li>• Street lighting</li> <li>• Removal of encroachments</li> <li>• Maintenance of public streets, culverts, drainage works, drinking fountains, slaughter houses, drains, etc.</li> <li>• Maintenance of parks, gardens and libraries*</li> <li>• Supply of electricity or gas*</li> </ul>	<ul style="list-style-type: none"> <li>• Construction and maintenance of public streets bridges, drains and privies</li> <li>• Street lighting</li> <li>• Maintenance of public parks and open spaces</li> </ul>
Development	<ul style="list-style-type: none"> <li>• Licensing of trades and factories</li> </ul>	<ul style="list-style-type: none"> <li>• Encouraging formation of housing cooperatives</li> <li>• Sum clearance and redevelopment</li> <li>• Making of house building material</li> </ul>	
Education	-	<ul style="list-style-type: none"> <li>• Establishing primary schools</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of schools</li> </ul>
Medical Relief	-	<ul style="list-style-type: none"> <li>• Provision of medical relief in case of outbreak of epidemics</li> <li>• Establishing public hospitals, dispensaries and welfare centres</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of hospital and dispensaries</li> </ul>
Others		<ul style="list-style-type: none"> <li>• Preparation of compost</li> <li>• Registration of births, marriages and deaths</li> </ul>	<ul style="list-style-type: none"> <li>• Preparation of compost</li> <li>• Holding fairs and exhibitions</li> </ul>

<b>Box 3</b>
<p><b>Indicative Municipal Functions in Nepal</b>  <b>(The Municipality Act, 1991)</b>  <b>Chapter 4, Article 15</b></p>
<ul style="list-style-type: none"> <li>• Ascertain preserved area for the preservation of drinking water, control of flood and storm and natural and archaeological properties.</li> <li>• Preserve and utilise rivers, streams, wells, ponds, stone taps, etc. lying within the municipal areas.</li> <li>• Enhance public securities by exterminating mad and strayed dogs and to pinpoint the area for the burial of the dead animals.</li> <li>• Remove goods which are harmful from the health and sanitation point of view.</li> <li>• Make arrangements for the control of epidemics.</li> <li>• Approve Town Developments Plan, Area Development Plan and other Plans for the development of the Municipality.</li> <li>• Approve the tax raising procedures for those taxes which lie within its purview.</li> <li>• Fix the rate of taxes, fees, levies, service charges, etc.</li> <li>• Promote trade and commerce.</li> </ul>

<b>Box 4</b>		
<b>Powers of Taxation of Municipalities in Selected States of India</b>		
<p>Bombay Municipal Corporation Act, 1888 Sections 139 &amp; 191 A</p>	<p>Hyderabad Municipal Corporation Act, 1955 Sections 197, 199 &amp; 248</p>	<p>Karnataka Municipal Corporation Act, 1976 Sections 103 &amp; 140</p>
<ul style="list-style-type: none"> <li>• Property taxes which include: <ul style="list-style-type: none"> <li>*Water tax</li> <li>*Water benefit tax</li> <li>*Sewerage tax</li> <li>*A general tax</li> <li>*Education cess</li> <li>*Street tax</li> <li>*Betterment charges</li> </ul> </li> <li>• Tax on vehicles and animals</li> <li>• Theatre tax</li> <li>• Octroi</li> <li>• Tax on dogs</li> </ul>	<ul style="list-style-type: none"> <li>• Taxes on lands and buildings including: <ul style="list-style-type: none"> <li>*Water tax</li> <li>*Drainage tax</li> <li>*Lighting tax</li> <li>*Conservancy tax</li> <li>*General tax</li> </ul> </li> <li>• Taxes on vehicles</li> <li>• Taxes on animals and boats</li> <li>• Taxes on advertisements other than those in the newspapers</li> <li>• Octroi</li> <li>• Tax on transfer of immovable property in the form of a surcharge on stamp duty</li> <li>• Tax on entertainment</li> <li>• Tax on dogs</li> </ul>	<ul style="list-style-type: none"> <li>• Taxes on buildings or lands or both</li> <li>• Tax on carriages and animals</li> <li>• Tax on carts</li> <li>• Toll on vehicles other than motor vehicles</li> <li>• Tax on advertisements</li> <li>• Duty on transfer of property in the shape of an additional stamp duty</li> <li>• General sanitary cess</li> <li>• Water rates for the supply of water</li> <li>• Additional stamp duty</li> </ul>

Several points need to be emphasized with respect to the fiscal domain of the municipalities:

- *The fiscal autonomy of municipal governments is limited, and determined by either the Central government (Nepal and Sri Lanka) or the State governments (India).* The taxes which they levy are prescribed, and there is little freedom in choosing tax rates. Moreover, these taxes are the least buoyant compared to taxes that fall within the ambit of the higher levels of governments, e.g., income tax, excise or custom, sales taxes, or even motor vehicle taxes which expand automatically with prices. Property taxes, on the other hand, increase only after a revaluation or a specific tariff revision to respond to cost inflation. Such revisions are normally politically sensitive, as a result of which they are difficult to carry out.
- *The determination of fiscal domain is an activity that is independent of the functional or expenditure responsibilities of municipalities.* It is this separation of the two functions that is said to be the principal factor underlying the vertical fiscal imbalance in India, Nepal and Sri Lanka. Meeting the imbalance via the system of transfers is thus common in these countries, but as will be shown in the next section, it has led to severe undermining of local priorities and initiatives.
- *Generally, the municipal bodies in the three countries do not enjoy powers to enter the capital market without the explicit sanction and guarantees of the Central or the State governments.* The borrowing powers of municipalities in India, for instance, are governed by the Local Authorities Loan Act of 1914. Besides the legislative limits, municipal bodies are in any case financially not strong enough to tap the capital market for undertaking capital works.

### **The Role of Parastatals**

The management of cities in India, Nepal and Sri Lanka is not an exclusive responsibility of municipal governments; parastatals and special purpose boards and corporations are important city-related bodies which have developed, over the years, crucial stakes in city growth and management. A product of the 1960s and 1970s, these parastatals are interdisciplinary bodies, responsible for planning,

coordinating, implementing, funding and supervising urban development works. Many of them have made major inroads into what was traditionally the municipal domain, particularly in the sphere of water supply and drainage, and slum clearance and improvement.<sup>25</sup> Most States in India have State-level water supply and sewerage boards, slum improvement boards, housing boards, and city-based development authorities. Nepal has a country-wide water supply corporation, a housing development finance agency, a solid waste management and resource mobilisation centre, and other boards dealing with bus services, town development, and housing finance. Similarly, in Sri Lanka, the production and delivery of services which are connected with the areas of responsibilities of urban local authorities rest with the National Water Supply and Drainage Board, the Road Development Authority, the Central Environmental Authority, and the Central Electricity Board.

The parastatals are essentially concerned with developmental and capital works, and it is these functions that distinguish them from municipal bodies whose principal domain lies in the operation and maintenance of services. *In fact, as several studies indicate, the developmental role of parastatal agencies provides the primary rationale for their establishment. It is argued that the creation of new assets (capital works) is a discrete function, and distinct from the one that is required for the upkeep, maintenance and operation of the existing stock and assets. Also, the technologies required for the creation of new stock are very different.*

The creation of parastatals in India, Nepal and Sri Lanka has been justified on several grounds:<sup>26</sup>

- There are certain urban development functions that require depoliticized and non-bureaucratic responses; for this reason, it is argued, parastatals are in a better position to provide such responses.
- The relative financial autonomy of parastatals makes for increased efficiency which is generally not available to the municipal institutions.
- By using commercial norms in their operations such parastatals can enter the capital market and not be a drain on scarce public funds and resources.
- Parastatals have greater potential for achieving scale economies which is not possible in the case of municipal bodies operating in limited jurisdictions.



As will be shown later, the proposition that these authorities are not hemmed-in by bureaucratic procedures, and are financially sound and autonomous in decision-making, is a myth of public institutional development.<sup>27</sup>

### **The Private Sector and Urban Services**

The prevalent image of public intervention in the governance of cities is that “government regulates, the general public complies; government provides services, the public consumes them”.<sup>28</sup> Indeed, *the dominant assumption is that the municipal bodies and parastatal agencies enjoy a kind of a monopoly in respect of the provision of basic services and regulation of economic activities, with no role for the private sector.* The urban services market, i.e., the market in which such services as water supply, garbage disposal, primary health, intra-city transportation and maintenance of roads are produced, traded and maintained, it is widely held, is public-owned, and public-run; that it is homogeneous, and that it is formal. These perceptions stem, in part, from one major consideration, i.e., the nature of the services provided by them which fall into the category of a “natural monopoly”, a “merit good”, or a “public good”. The literature describes several situations in which public provision of services is considered essential, these being:

- where natural monopolies exist;
- where increased production is associated with decreasing costs;
- where substantial externalities exist and which do not get reflected in the accounts of private suppliers;
- where it is difficult to charge for a service or to exclude those who do not pay; and
- where merit goods are involved.<sup>29</sup>

#### **Box 5**

Pure public goods are those goods and services that have to be provided to a group as a whole and cannot be subdivided for the benefit of particular individuals.

Merit goods are those goods and services that society considers to have special merit but that might be produced in insufficient quantity if left to private markets.

Recent studies on the institutional arrangements for the provision of services, however, show that *the urban services market is neither public-run, nor formal, nor even homogeneous*; rather, it constitutes a complex mix of differentiated arrangements in which, together with public institutions, some private sector institutions are also engaged.<sup>30</sup> The size and nature of private institutions varies from extremely small and informal (e.g., rickshaw pulling, water vending, primary collection of garbage), to large-scale and formal (e.g., organised health services). In most services, the public and private sector institutions supplement each other; in a few, they are complementary; and in some, they even compete with each other.

### Box 6

....there are several non-governmental organizations (NGOs) active in the BMR (Bombay Metropolitan Region) involved in developmental efforts. The major thrust of these NGOs has been the focus on environmental issues and the improvement of the natural and physical environment. The NGOs operating at the macro level are as follows: Bombay Environmental Action Group (BEAG); Society for Clean Environment (SOCLEEN); National Slum Dwellers Federation as a coalition of NGOs working in slums; Save Bombay Committee; Mahila Milan; a women slum-dwellers' federation operating a credit crisis scheme; National Society for Clean Cities; Youth for Unit and Voluntary Actions (YUVA); SPARC; People's Responsible Organization of United Dharavi (PROUD).

These groups are involved in multivaried activities like generating public awareness towards improving the environment, and educating the public towards various environmental issues. They are able to elicit prompt action of concerned authorities for environmental and livelihood protection, providing inputs for development of policies for environmental protection, for espousing the helping slum and pavement dwellers against forced eviction, fighting for slum dwellers' rights and entitlements, and helping slum dwellers organize into cooperatives. There are numerous community-based organizations, at least one for every slum, involved in improving the health, education and amenities in slums.

*United Nations Centre for Human Settlements (HABITAT). 1993. Metropolitan Planning and Management in the Developing World: Spatial Decentralization Policy in Bombay and Cairo. Nairobi, pp. 54.*

The same studies suggest the role of the private sector in such services as transport and health to be substantial. The share of the private sector in intracity transportation, for instance, varies from a low of 22 per cent to a high of 94 per cent in several Indian cities. Even in a service like water supply which is a "natural monopoly" and a stated public responsibility, "the non-governmental organisations and private

agencies play a noticeable role".<sup>51</sup> According to the 42nd round of the National Sample Survey, 28.5 per cent of water supply in India is provided by the non-governmental sources.<sup>52</sup>

Mention should be made here of the role of voluntary groups—this term being used here to include neighbourhood-based community organizations, often referred to as CBOs, non-governmental organizations (NGOs), and different forms of civic and consumer forums in city management and city affairs. As in the case of the private sector, a proper documentation of the role and the nature and extent of participation of such groups is not available for any of the three countries; the literature, however, is strewn with sporadic accounts of activities of voluntary groups which 'operate in specific cities of the Indian sub-Continent. Many cities have a large number of such groups, often one in each slum, involved in multifarious activities.

Active participation of voluntary groups in the cities of India, Nepal and Sri Lanka, it needs to be noted, is a comparatively recent development, and is commonly characterized by three features:

- Predominant focus of such groups on the problems and development needs of disadvantaged groups, especially the urban poor, women and children.
- Increasing professionalization in the activities of voluntary groups.
- Shift away from a 'welfare' to 'development' focus in their activities.

A review of literature shows that the voluntary groups are primarily engaged in three types of activities, namely<sup>53</sup>:

- *Participation in the development projects of governments.* In terms of its reach and coverage, incorporating community participation in government-sponsored development projects is probably the most widespread form of participation in urban governance. Important examples of this form of participation are the Hyderabad Urban Community Project in India (See Box below) and the Million Houses Initiative in Sri Lanka.

**Box 7**

Often cited as the most successful of the urban community development projects, the Hyderabad Urban Community Development has expanded from a coverage of 4000 population at its inception to over 500,000 population over a 15 year time span. Today, it covers the entire slum population. The programme is a part of the Hyderabad Municipal Corporation, and over the years has received assistance from many international agencies.

- *Delivery of urban services.* A second form of participation relates to the involvement of voluntary groups in delivering specific services. EXNORA group in Madras (India) presents an interesting example of this form where it has introduced a system of garbage collection by retaining the informal rag-pickers and by enabling them to receive salaries from the resident groups. The main advantage of this form is not just service delivery, but equally, a more meaningful participation of stakeholders in the process of urban governance.
- *Consultation on public policies and issues.* In the past, as has been noted by the Society for Participatory Research in Asia (PRIA), much of the attention of voluntary groups was on creating models, innovations, and experiments, but not so much in influencing the process of formulating and implementing public policies. The voluntary groups today recognize the limits of their efforts in working with isolated communities,<sup>34</sup> and are beginning to exert pressures on policy making exercises.

The past few years have also seen in India and Sri Lanka the emergence of civic groups and consumer forums whose main tasks are to draw attention to the working of city-wide institutions, particularly as they relate to the responsiveness of the public service providers to the needs of the urban poor. These groups are also responsible for arranging proper interfaces between the urban poor and public agencies. Awards have been instituted, for instance, in Pune (India) for the most orderly processions taken out during festivals. According to a recent paper, "over 10,000 young people have been involved (in Pune) in managing public meetings and processions. Non-governmental organisations have been active in orienting and coordinating police-citizen committees. A new concept of 'community policing' has been put to work in Pune as a result of this unique collaboration between citizens and the police."<sup>35</sup>

This is, at best, a partial overview of the institutional network that is concerned with, and involved in, the management of cities. The question as to who does what and which agencies and institutions deliver services, or regulate activities, or organize communities, it needs to be repeated, has not been systematically examined in literature. It continues to be, as noted by Douglas Yates, "an intractable jigsaw puzzle because of the inherent fragmentation of urban service delivery

and the historical fragmentation of urban policy-making process".<sup>36</sup> Although stated in the context of the US, it aptly describes the Indian situation.

### III HOW EFFECTIVELY ARE CITIES GOVERNED?: AN ASSESSMENT

How effectively have the city-related and city-wide institutions been able to govern cities and grapple with their problems is one question that lies at the centre of the issue of governance. More broadly, the issue encompasses the functioning of municipal governments. Indeed, it includes the entire *process* of governing the urban areas, including the interplay of the elective and bureaucratic elements and the nature of relationship between what Halfani and others refer to as, "the rulers and the ruled, the state and society, the government and the governed."<sup>37</sup> The functioning of governments and institutions, it needs to be recognised, exemplifies itself in highly complex and different ways. For instance, it shows itself, somewhat overwhelmingly, in the capacity of institutions to reach out and provide services that they are mandated to provide. It shows itself in their capacity to be able to generate adequate resources to meet their expenditure responsibilities and commitments. It manifests itself in their ability to involve people in the urban development and planning process, and to lead towards the development of a civil society. Another factor that bears on the functioning of institutions relates to the degree of accountability and transparency that they can impart in carrying out their functions.

Systematically researched evidence on these aspects in the three countries of India, Nepal and Sri Lanka is, at the best, scanty.<sup>38</sup> Furthermore, *the understanding of many such aspects is rendered complex by the fact that urban policy making in these countries is highly fragmented, and there is considerable fluidity with respect to the powers and resources of municipal governments vis-a-vis other agencies and higher governmental levels.* Box 8 below illustrates how decision-making in Bombay stands fragmented by the sheer number of institutions. Nonetheless, it is generally perceived that the city-wide and city-related institutions are weak, inefficient, and often unrepresentative. These are too centralized to support a responsive, flexible relationship between what Albert Reiss called, "the servers and the served in service delivery"<sup>39</sup> It is further alleged that these institutions are heavily dependent on the higher levels of governments to take sound policy initiatives.<sup>40</sup> Citizens and citizen groups have little influence over

policy making, and their participation in urban policy making carries elusive benefits. In this section, an attempt is made to pull together selective evidence on four aspects of the functioning of city-wide institutions, namely, (i) the service delivery, (ii) the financial management, (iii) the regulatory framework, and (iv) the representative and participatory character of municipal institutions.

**Box 8**

..... there are a large number of central, state and municipal agencies operating in the city (of Bombay) with responsibilities that sometimes overlap. Among these are the Bombay Metropolitan Region Development Authority (BMRDA), the Housing and Urban Development Corporation (HUDCO), the Housing and Urban Development Authority (HUDA), the Maharashtra Housing and Area Development Authority (MHADA), the Bombay Housing and Area Development Board (BHADB), the Maharashtra Slum Improvement Board (MSIB), the City and Industrial Development Corporation of Maharashtra (CIDCO), the Bombay Municipal Corporation (BMC), and Municipal Corporation of Greater Bombay (MCGB)!

UNCHS. *ibid.* pp.20

- *Service delivery*: The basic and distinctive function of municipal governments is service delivery. *Studies on service delivery demonstrate that the municipal and other institutions in the three countries are not able, adequately and equitably, to provide access to basic shelter, infrastructure and services.*<sup>11</sup> This is shown in the extent to which urban populations stand excluded from access to services. Anywhere between 11 to 30 per cent of India's urban population is dependent on questionable sources of water supply, and another 57 per cent lack any form of sanitation. Cities of over 100,000 population are reported to have capacities to collect and treat only about 60 per cent of solid wastes. In smaller and medium-sized cities, there exists virtually no arrangement for the collection and treatment of different kinds of wastes.

The towns in Nepal are faced with serious deprivation of urban services. The urban population serviced in 1987-88 was 83 per cent for water supply, 70 per cent for electricity, 47 per cent for sanitation, 18 per cent for solid waste disposal, and virtually zero per cent for stormwater drainage.<sup>12</sup> As Joshi notes: all urban areas have serious deficiencies in essential urban infrastructure and services. Physical quality of life and standard of living are far from satisfactory. Neglect of existing built up areas has threatened the life of the housing stock as

well as the health of the population. Income distribution pattern has become more skewed during the past decade. The failure of planning is reflected in poor land management resulting in the wastage of valuable agricultural land, poor development performance, environmental deterioration, and erosion of cultural heritage.<sup>43</sup> *Large scale exclusion of the urban population from services is the most visible aspect of the non-performance of city-wide institutions in these countries.*

● *Finances and their management:* Municipal and other city-wide institutions in all the three countries are financially weak and unviable, and are not able to generate enough resources to meet their expenditure responsibilities. Levied revenues of municipalities in India account for only about 2.9 per cent of the combined revenues raised by the Centre, State and municipalities. Considering the fact that municipal areas produce over 50 per cent of the country's Net Domestic Product, it is evident that the municipalities in India have not been able to establish effective linkages with economic activities carried out within their own jurisdictions.<sup>44</sup> Only a few municipal administrations are able to put into practice the principle of user charges for recovering the cost of the services that they offer. Recovery of costs even in the case of services such as water supply is no more than 65 per cent of the expenditure incurred on its provision; in other services like solid wastes, direct and indirect recoveries do not exceed 10-12 per cent of the total expenditure.<sup>45</sup> *Effectively, this has meant large-scale subsidization of civic services which, in turn, has increased the dependence of city administrations on the higher levels of governments.* Because of inappropriate financial systems, many cities are reported to have submerged in large internal and external debts.

TABLE 3. Revenue Base of the Centre, States and Municipalities, India, 1993-94

Unit	Centre	States	Municipalities	Total
Per cent share	61.4	35.6	2.9	100.0

SOURCE. NIPFP, New Delhi (See Footnote number 44).

*Municipal governments in these countries continue to rely for resources on an extremely narrow, relatively inelastic and non-buoyant tax base, and*

*are consequently forced to use high rates of taxation.* It is estimated that in cities in the Indian Sub-Continent, only about 15-25 per cent of properties are in the property tax net; the balance stand exempted because their rental values are below the threshold or because they fall in the tax-exempt categories. Consequently, the tax rates in many cities are often as high as 80-100 per cent, forcing the owners to resort to undervalue their properties. High tax rates are also stated to be chiefly responsible for leakages and widespread corruption. Many taxes-particularly those imposed on non-motorized transport, animals and vessels-are obsolete, having lost their economic relevance in course of time. Others which have a large potential (e.g., advertisement, profession, entertainment and license fees) are beset with the non-revision of tax rates and enforcement procedures. *Weak financial position of municipal institutions, and the inefficient manner in which the finances are managed, constitute in all the three countries a major impediment to the effective governance of cities.*

● *The regulatory framework: Most municipal governments in the three countries use regulations, procedures and systems that are exceedingly cumbersome, time-consuming, and costly.* Although specific studies on the cost of municipal laws and regulations are few and sporadic, it is estimated that the cost of every transaction-be it a building permit, or a license for operating a kiosk or running a shop, is at least 35-40 per cent of the cost of the proposed activity. Moreover, a number of transactions, even with the payment of fees, are characterized by a high degree of unreliability, imposing heavy cost on new activities. In relation to land and property development in cities, long delays have been noted in getting the requisite permission for transfer of lands, registration of sales, conversion of agricultural land to urban uses, approval of layouts and subdivisions, and approval of building plans and building permission to start development of a property. These procedures take between three to six months. As Alain Bertaud has noted, "The additional time and cost involved in getting the legal permits is so costly that they (individuals) often prefer to relinquish the benefits attached to the formal process, particularly access to housing finance... The major cost associated with the formal sector is not the cost of minimum physical development standards *per se*, but the cost incurred on account of the complexity of the administrative land subdivision system."<sup>46</sup>



Even the official language used, for example, in expressing building regulations, or the sheer volume of the legislation, may be sufficient to deter many would-be builders. Patrick McAuslan cites a requirement of the Madras City Corporation Building Rules:

“The level of foundation shall be such that the minimum depth for the foundation to prevent the soil moving laterally under pressure shall be according to Rankine’s theory.”

which is then set out in mathematical symbols. It would be a matter of chance if building contractors were able to comply with Rankine’s theory, or, indeed, with many other of the regulations in order to fulfil the requirements of the law.<sup>17</sup>

The prevalence of laws such as the Urban Land (Ceiling and Regulation) Act of 1976 illustrates how such laws can exacerbate problems. The primary purpose of the Act was to impose a ceiling on private ownership of land in urban areas, and to permit public acquisition of land in excess of the ceiling, to be used for housing the poor. The Act’s objectives were to prevent the concentration of urban land in the hands of a few, to reduce speculation and profiteering, and to bring about an equitable distribution of land in urban areas. The Act has scarcely had any effect in bringing the vacant urban land into the market. One of the results is that land prices have risen at a phenomenally high rate. While upward pressures on land prices exist in most cities, normally affecting the productivity of investments, they are accentuated by policies that further reduce supply. *In sum, excessive and misplaced regulations and systems have acted as a major barrier to proper management of cities. The central point is that these have imposed heavy costs on city populations and hampered urban development.*

● *Participation in governance:* A crucial aspect of governance relates to the representative character of municipal institutions. *In general, although the municipal governments in India, Nepal and Sri Lanka, are democratic in character and based on a full adult franchise, the system of participation is weakly developed and provides little articulation of interests of different population groups.* An estimated 50 per cent of municipal bodies in India remain under supersession at any given point of time, and are run by administrators.<sup>18</sup> In the opinion of experts, the State governments in India have used their powers of suspending or dissolving the municipal bodies liberally, “mostly on political

considerations and sometimes on technical-administrative grounds".<sup>49</sup> In a superseded municipal corporation, the administrator who is an appointee of the State government "hardly takes his job seriously: whatever he does, he does at the bidding of the State government". Experience suggests that this state of affairs nowhere leads to better governance in any sense of the term. As Mukhopadhyay notes, "Collection of taxes, maintenance of civic services, enforcement of discipline and minimizing corruption have not been achieved smoothly and efficiently. The experience of Calcutta Corporation under suspension from 1972 to 1978 is an eminent illustration of this point".<sup>50</sup>

The government-appointed executives in the municipalities in India are far from accountable. Abhijit Datta in his paper quotes from the speech of a Minister:

Sir, the first requirement in a democratic society is that government, whether Central or local, would be accountable to the electorate. One wonders how a local government which exists in name only and whose major powers and functions are statutorily assigned to a non-elected individual, no matter how dedicated he may be, can pass the acid test of accountability (Calcutta Corporation: 1980).<sup>51</sup>

Ken Davey has reached somewhat similar conclusions. He observes:<sup>52</sup>

Ahmedabad has a directly, regularly, and competitively elected council, or general board. With 127 members, the city has a largely ceremonial mayor, an elaborate committee structure, and weak party organization and thus lacks cohesive leadership and direction. Executive authority lies not with the elected body, but with the municipal commissioner, who is a civil servant nominated and posted by the state government. Although strong in power and prestige, commissioners serve on average for no more than one year, far too short a period to assert real authority over a large organization. Effective authority lies with a hierarchy of deputy commissioners and departmental heads, who are strongly wedded to the defense of departmental interests. Power is diffused; even financial management responsibility is shared between four deputy commissioners, and professional continuity is provided by relatively junior officials. Budgeting is largely incremental, with departmental shares jealously preserved. Staffing levels are not excessive and have generally declined in relation to population, but there is little

formal training, and what limited promotion there is depends largely on seniority. To quote Batley, "...at its best this is a system which gives due respect to professional standards and which maintain continuity through routines. At its worst, it is not a system which can be easily mobilized to achieve institutional objectives".

Some additional insights are available on the relationship between elected representatives and the bureaucracy and how it has led to serious distortions in the governance of cities. As pointed out earlier in the paper, there exists a separation of powers between the deliberative and executive wings of large municipal corporations in India. The rationale is to eliminate the authority and interference of councillors in administrative matters. The councillors have jurisdiction over policies and decisions which relate to evaluating choices and assessing alternative courses of actions, while the bureaucracy is responsible for functions such as calling tenders, selection of contracts, billing for property taxes, issuing trade licenses, and arranging and maintaining services.

The general experience is that, over the years, there has occurred a reversal of the roles of local politicians and bureaucrats in urban governance in that *the local politicians are seen to be interested more in such functions as tenders, contracts, recruitment, transfers, and the like; while the bureaucracy plays a crucial role in policy matters affecting urban governance and also planning and development of urban areas*. Roderick Church in his study of Lucknow, a city in India, found that the entire job of a municipal councillor revolved around administration:

The councillors usually show little concern with policy, general issues or matters that do not concern the immediate allocation of municipal services. Instead, they are output-oriented and concerned with administrative demands and the outcomes of administrative decisions.<sup>53</sup>

According to Church, the preoccupation of councillors in administration, instead of policy matters, is explained by three factors. To quote:

First, financial and legal restrictions imposed by State governments severely limit the ability of municipalities to make important decisions about priorities in public policy. This means that the

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councillor is not especially likely to be involved in policy matters or to consider policy making an important part of his role. Second, the problem is acute (financial) scarcity and the fact is that many perfectly legitimate demands must go unfulfilled. In this situation, the councillor becomes an additional lever of influence for citizens with demands, and he necessarily becomes involved in administering scarcity. Third, general inefficiency and corruption in municipal administration, together with interference in administration by other councillors, means that the councillor cannot rely on rules and policy guidelines to ensure that his constituents receive their share of civic services. There is usually a large gap between policy and what eventually emerges at the administrative level. For a councillor to content himself with policy matters and to leave administration to others would be the height of folly.<sup>51</sup>

The parastatal agencies too in India, Nepal and Sri Lanka which complement, in an important way, the network of municipal institutions, have not made any significant impact on the governance of cities. Indeed, neither have these agencies been able to improve the delivery of services nor helped to reduce the demand on scarce public resources. Sivaramakrishnan's observations with regard to the functioning of parastatals are worth noting:

Whatever the rationale for divesting the municipalities of some of their functions and entrusting them to other authorities, it has been considerably diluted by subsequent experience. Initially it was urged that such special purpose authorities were necessary for reasons of sound financial and technical management, but in reality these special purpose bodies have also been as prone to indiscipline, and inefficiency and financial problems as the municipalities which they sought to replace. The special purpose bodies do not come under any significant public control and are usually an extension of the State bureaucracies. The absence of public participation and lack of public accountability are also cited as reasons for resisting attempts of cost recovery and the continuation of subsidies, hidden or overt.<sup>55</sup>

The absence of politicized nature was noted to be an important virtue of the parastatal agencies. Evidence, however, does not support this contention. In his extensive work on urban politics and administration, Bhattacharya notes that *while the parastatals have*

*succeeded in avoiding politics in service delivery, avoidance is not necessarily a virtue.* He writes: "Even if municipal politics is avoided by creating special purpose bodies, the new organisations will soon get enmeshed in another style or level of politics. The great problem in a vast metropolitan community is not to avoid politics, but to have an arrangement of government through which political forces find meaningful expression."<sup>56</sup>

Judged by the criteria applied in this section, it is evident that the existing system of governance is grossly deficient. The institutional framework is unable to meet the service demands, is financially weak and unviable, and far from being representative or participatory. Historical efforts to make the urban governmental system cohesive have not helped to bridge the fragmentation that characterizes the urban institutional network in the countries this study covers.

#### IV THE CHALLENGES OF URBAN GROWTH, POVERTY AND GLOBALIZATION

Propelled by internal and external events, cities in the developing countries are undergoing changes that are unprecedented in history. Significantly, the changes are as much demographic as economic and social in character. This section attempts to present those changes which constitute a direct challenge to governance of cities.

- **Urbanization and urban growth:** Urbanization in the sense of more and more people living in the urban areas is by far the most important social change that has taken place in the Indian subcontinent in recent times. From a base of approximately 147.4 million in 1970, the number of urban dwellers has risen to 328.2 million, signalling an increase of 122.7 per cent over the two decades 1970-90.<sup>57</sup> During the same two decades, India's urban population has doubled, increasing from 109.1 million to 217.6 million, and that of Nepal has risen from 462,000 to 1.68 million. In Sri Lanka, no census was held in 1991, but urban population is estimated to have risen from 2.74 million in 1971 to about 3.68 million in 1991.

*Of greater importance is the impending urban growth in these countries.* According to the United Nations, by the year 2020, India will have close to 648 million persons in the urban areas, accounting for roughly 47 per cent of its total population. Twenty six per cent of Nepal's total population will be urban which will have crossed a high of 8.9 million persons. Approximately 9.1 million out of a total population of 23.6 million in Sri Lanka will be urban dwellers (Table 4).

TABLE 4. Future Urban Population Trends in India, Nepal and Sri Lanka

Year	India		Nepal		Sri Lanka	
	Population (millions)	% of urban to total	Population (thousands)	% of urban to total	Population (thousands)	% of urban to total
1990	230.3	27.0	1,837	9.6	3,679	21.4
2000	336.5	32.3	3,446	14.3	4,701	24.2
2010	480.8	39.3	5,794	20.0	6,605	30.7
2020	648.3	47.3	8,878	26.8	9,126	38.6
Net increase in urban population 1990-2020						
	418.0	181.5	7,041	383.3	5,447	148.1

SOURCE. United Nations. 1991. *World Urbanization Prospects 1990*. New York: United Nations.

*One outcome of this process of urban growth will be the emergence in these countries of cities of large size.* In 1971, the number of cities with over one million population in India was nine and their share in urban population 25.5 per cent. By 1991, the number had increased to twenty-three, their combined population to 70.7 million, and the population share to 32.5 per cent. Many secondary cities have become metropolitan areas. Given the existing distribution of cities in the different size categories, it is estimated that the number of "million-plus" cities will increase to at least forty-nine by the turn of the century. In Nepal too, relatively larger cities and towns are expected to absorb significant proportions of the increase in urban population.

*This scale of urbanization and the expanding size of cities are basic facts with which the city-related institutions and municipal governments must come to terms.* The global experience suggests that while most governments earlier took the view that they needed to control, regulate and direct urban population growth and consequently adopted specific policies to this end, few actually achieved any success. An important fall-out of these experiences is a shift in urban policies of these countries in South Asia which today place greater emphasis on

managing urbanization and urban population growth, and less on moderating either the pace or the pattern of urbanization. *Questions relating to the efficient and effective management of urban areas and the removal of constraints to the expansion of basic service and infrastructure form the core of the current policy concerns in these countries.*<sup>58</sup>

*The process of urban growth in India, Nepal and Sri Lanka is accompanied by significant changes in the structure and character of cities.* For instance, it is not the formal manufacturing activities that have expanded with urbanization; rather, it is the informal set of activities that have grown in all the three countries at a phenomenally high rate. In Sri Lanka, for instance, employment in the informal sector accounts for approximately one-half of the share of employment, with the self-employed accounting for nearly 58 per cent of this segment.<sup>59</sup> In the 1971 Census, self-employed or "own account workers" comprised 11.7 per cent of the urban employed work force, while in 1981, they accounted for 12.6 per cent. In 1985-86, this segment had grown to 19.4 per cent, and in the 1986-87 sample, they constituted 25.3 per cent of the urban work force.

The employment structure in Indian cities has likewise undergone similar shifts. According to Nurul Amin, employment in small firms accounts for anywhere between 40-70 per cent in the four major cities of India.<sup>60</sup> Another source indicates that organized sector employment has grown slowly in the urban areas, and much of the increase in urban employment has occurred in informal sector activities.

The burden of the argument is that cities in these countries have undergone dramatic changes in the nature and structure of employment, and it is these changes which carry different implications for municipal governments and city-wide institutions. Dealing with cities which have significantly large informal components may mean innovating more flexible responses, procedures and policies than those that happen to be on the statutes today.

● *Poverty: The existence of large scale poverty in the urban areas presents to the governments of India, Nepal and Sri Lanka perhaps their biggest and most formidable challenge.* Estimates indicate that in India, close to two-fifths of the total urban population are below the poverty line. What is worth noting is that while over the period 1973-74 to 1987-88, the number and proportion of the rural poor declined, the numbers of the urban poor increased.<sup>61</sup> Nearly 50 per cent of Nepal's urban population is stated to be living in abject poverty. In Sri Lanka



which is otherwise characterized by high quality of life indices, the nutritional levels of approximately 54 per cent of urban households were found to be inadequate, and of 24 per cent at risk.<sup>62</sup> In addition, 3.2 per cent of the total number of urban households were extremely poor.

TABLE 5. Incidence of Urban Poverty in Sri Lanka

Source	1980-81	1985-86
<i>A. Labour Force and Socio-Economy Survey:</i>		
Households below 100% nutritional adequacy	59.0	53.8
Households nutritional at risk	26.6	23.9
Households that are ultra poor	5.8	3.2
<i>B. Consumer Finance Survey:</i>		
Households below the poverty line	16.0	12.0

SOURCE. Gunatilleke. *op. cit.*

Following the theoretical proposition that distributional policies and programmes are best tackled at the higher levels of governments, poverty reduction and alleviation policies have generally been the concern of national governments. *Local and city level governments have played little direct role in the formulation or design of such policies and programmes.* Recent assessments have, however, shown the ineffectiveness of top-down conventional strategies of poverty alleviation. Studies carried out of the community-based and participatory-based approaches to urban poverty point out that approaches where the governments—in most cases, the higher levels—provide services, are ineffective in reaching out to the poorer groups. Either the approaches have proved to be irrelevant or encountered problems of delivery and proper utilization. It has since been recognized that poverty problems are highly location-specific, and are best tackled at community levels, by using community-centred approaches, and making use of community resources for the delivery of basic social and economic services.<sup>63</sup> These attempts evidently require

new organisations and mobilisation, usually taking the form of self-help, cooperative, self-sustaining, and community-based types of management characterised by popular participation. Because urban service provision, in most situations, is more often unevenly distributed and skewed in favour of high income communities, it is a pragmatic strategy for the urban poor to organize themselves and arrange to provide and manage the needed services to themselves. What should be done to promote and internalize community-level approaches and enable communities to organize themselves is the task that the city governments in these countries face for addressing growing poverty.

● Globalization<sup>11</sup>: *During the past few years, major reforms have been introduced in the industrial, trade and fiscal policies of countries in the Indian subcontinent.* Industrial licensing in India, except for a short list of industries relating to security, strategic and environmental concerns has been abolished in all cities of less than one-million population. A flexible location policy has been proposed for cities of more than one-million population which are affected by technological obsolescence and decay, and which, consequently, require what the 1991 statement on Industrial policy calls "industrial regeneration". Initiatives have been taken to assist entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges in order to shift over from import substitution strategies to export-led growth. Steps have been taken to attract foreign investments of up to 51 per cent foreign equity in high priority and export-related trading houses. Major restructuring is on the anvil in respect of pricing of public utilities so as to reduce the potential dependence of public utility undertakings on subsidies and other forms of governmental support.

In addition, complementary measures have been taken in the areas of fiscal and financial sectors and the overall macroeconomic management. Various kinds of fiscal incentives and subsidies have either been reduced or withdrawn, with the expectation is that the process of financial reforms that has now begun will lead to integrated financial markets. In line with changes in policies, steps have been taken to simplify the administrative procedures and regulation, in order to reduce government's detailed planning and management of the economy.

Concerted efforts have been made by Nepal since the early 1980s to attract direct investment to help bridge the resource gap and meet the domestic technological needs. Generally, the incentive structure

available to foreign investors has been on par with that of domestic producers. In addition, the repatriation of profits and dividends is now permitted under the Industrial Enterprises Act of 1981. A series of short-term adjustments was also launched in the mid-1980s to stabilize the country's internal and external imbalances. Among other measures, ancillary institutional reforms have also been introduced in such areas as trade, exchange rate, and import-licensing systems.

In Sri Lanka, major initiatives in trade liberalization and domestic deregulation were introduced in 1977. On the trade policy front, most of the quantitative restrictions on imports were replaced by a simplified system of tariff. The dual exchange rate was unified at an exchange rate which represented a currency devaluation of about 50 per cent. Controls on foreign exchange transactions and repatriation of profits were eased and an industrial free trade zone was created. Recent years have seen further deregulation of the Sri Lankan economy.<sup>65</sup>

These changes in economic policies and procedures in India, Nepal and Sri Lanka are aimed at stepping up of economic growth, improving market efficiency and competitiveness, and integrating their economies with the global commodity markets. Such changes have important implications for the different sectors, especially the urban sector and cities, where most of the new investments, both domestic and foreign, are expected to be made.<sup>66</sup>

*The impacts of these policy shifts on the urban sector are not known, and are in the realm of speculation.* For instance, there exists no understanding on whether the export-oriented industrial development, reduction of subsidies, delicensing and deregulation of a large portion of the industrial sector will change the pace and pattern of urban growth and distribution of activities over space. In what direction the change will come about? At the best, it is possible to argue that the present level of urbanization and the existing distribution pattern of settlements and economic activities are the outcomes of policies that were pursued in the past. The import substitution policies of the past several decades, the reliance on the domestic (as compared to international) markets, provision of urban services and infrastructure at subsidised rates, and licensing and countless regulations tended to favour concentration of activities in capital cities and large market areas. Export orientation could change the pace and pattern of urbanization and may lead to growth of different types, with varied locations, of cities. Similarly, delicensing could mean dispersal of economic activities consequencing a more balanced spatial distribution of population.

*The economic impacts of policy shifts in India are, however, beginning to be surface, with some signs of an increase in the country's share in the global trade and market.* Evidence of this is available from the data on foreign direct investment which has risen rapidly since the opening up of the economy. According to the most recent estimates, foreign direct investment amounting to US \$7.9 billion have been *approved* during the period 1991-94. The spatial distribution of these investments is significant as recorded in Table 6. The more urbanized States: Maharashtra, Gujarat, West Bengal, Tamil Nadu, Andhra Pradesh and Karnataka account for over 45 per cent of the total approved investments. Delhi with a population of 10 million (4-6 per cent of the total urban population), but with a pronounced urban character, accounts for 12.7 per cent of such investments. On the other hand, the low-urbanized States and States which have a thin network of cities, have not attracted proposals for foreign investments. It is a strong indication of the role that the more urbanized States, and cities within them, will play in the globalization process of the Indian economy. In this emerging scenario, cities will need to be governed differently.

The implications of the opening up of economies on governance are so far assessed only in general terms. For instance, it is broadly understood that the future economic growth in these countries is contingent on the efficient functioning of cities, and that the process of economic liberalization which is expected to be reinforced with the second cycle of reforms will have major ramifications for cities and the network of city-wide institutions and the financial systems.<sup>67</sup> It is also understood that economic liberalization will entail competition between cities, and may involve higher levels of investment in land, housing, and the infrastructure such as transportation, energy and communications, and essential services. These may be traditional local functions but globalization has modified the type of environment appropriate to them and the rate of economic and technological change that affects investment.

TABLE 6. Statewide Distribution of Foreign Direct Investment  
(approved), India, August 1991 to August 1994

Major States	Number of approved proposals	Proposed investment (Rs millions)	% of investment to total	1991 level of urbanization
Maharashtra	311	4,640.2	19.3	38.7
Delhi	174	3,066.2	12.7	89.9
Gujarat	90	1,960.1	8.1	34.4
West Bengal	64	1,304.5	5.4	27.4
Tamil Nadu	161	1,147.8	4.8	34.2
Andhra Pradesh	130	359.6	1.5	26.8
Karnataka	101	277.8	1.2	30.9
Other States	371	3,179.2	13.2	–
Locations unspecified	1,164	8,151.3	33.8	–
Total	2,539	24,086.7	100.0	25.7

US \$ 1 = Rs 31.50 (approximately).

SOURCE. Ministry of Industry. 1994.

*A crucial task will be to adjust the existing frameworks to meet the changing requirements of the national and international economies. Land, housing, infrastructure and services, the efficiency with which these can be delivered, the accountability of institutions, and their overall roles will be decisive in meeting the challenge of urbanization, poverty, and globalization.*

V THE CONSTITUTION (SEVENTY-FOURTH) AMENDMENT ACT, 1992  
ON MUNICIPALITIES (INDIA)

The issue of governance is inextricably linked with the Constitutional and legislative provisions.<sup>68</sup> As pointed out in the earlier section, the municipalities in India, Nepal and Sri Lanka derive their powers from either the Central government legislations, or the State legislations or both. The Constitutions of these countries recognize them as units of self-government but do not endow them with adequate powers.

Mention should be made in this paper of an amendment made in 1992 to the Constitution of India for strengthening the process of democratic decentralization and local institutions like the municipalities. This amendment has certain outstanding features which have a direct bearing on the governance of cities:

- It visualizes municipalities to be fully representative institutions. The important aspect of this provision is that the municipalities cannot remain under long periods of supersession or dissolution. While the State governments still have the powers to dissolve municipalities, the amendment requires reconstitution of municipalities within a period of six months from the date of dissolution.

**Box 9**

1. If in the opinion of the State government, a Municipality is not competent to perform its duties or persistently makes default in the performance of duties imposed on it by or under this Act or any other law for the time being in force, or exceeds or abuses any of its powers, the State Government may, by an order publish, along with reasons thereof, in the official gazette, dissolve such Municipality:

2. Provided that a Municipality shall be given a reasonable opportunity of being heard before its dissolution.

3. Upon dissolution of a Municipality under sub-section (1), the State Government shall reconstitute a Municipality as specified under Section 12 and election to reconstitute such Municipality shall be completed before the expiration of a period of six months from the date of dissolution.

– The Punjab Municipal (Amendment) Bill, 1994.  
Article 12, Para 14.

- Municipal governments are no longer viewed as civic bodies, responsible for the provision of a few merit or public goods. Rather, the amendment sees them as vitally important for such tasks as “planning for economic and social development”, and “poverty alleviation”. Endowing the municipalities with functions of economic development and poverty alleviation constitute a major departure in the government’s position about the role of municipalities.
- It aims to minimize the arbitrariness and ad-hocism in the State-municipal fiscal relations, and provides for a greater flexibility in fiscal management. In respect of the State-municipal fiscal relations, the amendment provides for the setting up of Finance Commissions at the level of States with responsibilities for determining the principles governing:
  - the distribution between the State and the municipalities of the net proceeds of the taxes, duties, tolls and levies leviable by the State, which may be divided between them and the allocation between the municipalities;
  - the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the municipalities;
  - the grants-in-aid to the municipalities from the Consolidated Fund of the State.
  - The State Finance Commissions are also empowered to make recommendations on the measures needed to improve the financial position of the municipalities. An important outcome of this amendment relates to the flexibility of municipalities in fiscal management affairs. For instance, the consequential action taken on this provision by the Government of Maharashtra aims at estimating the subsidies in services (such as water supply), the source of funds from which subsidies will be extended to the deserving. When translated into action, it is expected to ensure greater transparency in fiscal and functional operations (see Box 10).

**Box 10**

Notwithstanding anything contained in this Chapter, the Commissioner or as the case may be, the General Managers, shall, while submitting the budget estimates to the Standing Committee, a report indicating whether the following services provided in last preceding year in a *subsidised manner* and, if so, the extent of the subsidy, the source from which the subsidy was met and the sections or categories of the local population who were the beneficiaries of such subsidy, namely:

- (a) water supply and disposal of sewage.
- (b) scavenging, transporting and disposal of wastes.
- (c) municipal transport, and
- (d) street lighting.

– Maharashtra Ordinance No. VII of 1994.  
An Ordinance to further amend the Bombay Municipal  
Corporation Act, Bom.III of 1888.

- It opens up opportunities for the private sector to participate in the provision of infrastructure and services, long considered to be the jurisdiction of municipal bodies and other public institutions. It further envisages fiscal discipline which is taken to mean appropriate pricing of goods and services supplied by the municipalities.

The Constitution (Seventy-Fourth) Amendment Act is a milestone development, aimed at strengthening democratic decentralization and bringing order to the State-municipal functional and fiscal relations. It is also an opportunity for countries such as India to involve people, particularly those belonging to the disadvantaged groups, in the process of decision-making.

## VI CONCLUDING REMARKS

The importance of urban governance, generally in the developing countries, and particularly in those countries on the threshold of rapid urbanization, has increased enormously in recent years. Explanation for its increasing importance is seen in a number of factors, the foremost being the broadening of the concept and meaning of governance in the particular context of cities. It is generally recognized that governance is not to be equated, as earlier assumed, with the delivery of certain social goods such as water supply, conservancy and sanitation services, street lighting, basic health, etc. It is a broader concept which involves



the entire *process* of governing the urban areas. It refers to the relationship of government with the society and other stakeholders. Governance refers to the transparency of the system and accountability to stakeholders by those to whom governance has been entrusted. How can the future growth and development of cities be directed to fulfil these new norms?

The second factor that underlies the growing importance of governance is the breakdown of the existing city-level and city-wide institutions in terms of their mandates. Large proportions of city population are unable to obtain access to land for housing, water supply, sanitation, and other essential facilities. The breakdown manifests itself in the existence of squatter settlements and unregulated subdivisions; poor maintenance of urban assets; poor cost recovery and tax administration, over regulation of tariffs; archaic regulations and standards which ignore affordability; and local institutions which have few instruments and incentives to use them. What is this situation due to? To what extent is it attributable to exogenous factors such as population growth or the legislative provisions defining the powers of the local-municipal governments *vis-a-vis* other, higher governmental levels? To what extent does it owe to the internal functioning of municipal governments and other institutions responsible for city management? To what extent is it explained by rules, regulations and procedures that have lost relevance for cities of the 1990s and the 21st century? These questions demand clear answers.

A third explanation lies in the process of urban, social and economic change which pervades most developing countries, including those on the Indian subcontinent. Urban population is increasing at 3.5 to 3.7 per cent annually, placing additional demands on city-wide institutions which can be satisfied by actions and activities that go beyond the means and direct control of municipal governments. The fact that rapid urbanization has outstripped the capacity of public institutions to provide basic services calls for a reassessment of the government's role.

The social composition of households in cities has changed perceptibly over the years. As shown earlier, there is widespread poverty in the cities of India, Nepal and Sri Lanka. Although poverty is not a uniquely urban phenomenon, concentration of poor people in cities has a destabilizing effect on the society. Erstwhile approaches to dealing with them through the top-down, State-led programmes have yielded little. Evidences of the inappropriateness of the approaches are mounting.

What should the city-wide institutions do to negotiate poverty having multi-sectoral dimensions?

Cities are economically crucial for most countries. Urbanization is the natural outcome of economic development and a necessary requirement for the rational use of resources. The opening up of economies is expected to enhance the economic importance of cities. It is also contingent upon the ability of cities to meet the complex demands that it may place upon them for integration with the world economy.

Governing cities in the light of these tasks and challenges consists of a threefold agenda:

- Designing an institutional framework that can meet the growing needs of land, infrastructure, and services. What is of crucial importance is to indicate the respective roles of the State and the market. Over the years, there has accumulated sufficient evidence to demonstrate that the State alone cannot fulfil this responsibility, and, more important, it need not necessarily do so. The earlier practice of ignoring the potential of the market needs to be shed for two reasons: (i) the private sector has demonstrated a potential role in spheres such as land, shelter, infrastructure and services, and (ii) there now exists a widespread view that the State need not directly engage itself in land development and the production of infrastructure and service. It should, rather, play an enabling role and focus on removing the impediments for other stakeholders to produce them.
- Choosing the right kind of financial instruments and mechanisms are crucial for building up the financial viability of city governments and are important ingredients for effective governance. The important aspects of this include: (a) reduction of reliance on public funds. Any governance strategy which is based on the premise of large scale commitment of public funds is unlikely to be acceptable; (b) appropriate pricing of publicly-provided goods and services, and implementation of the principle of cost recovery from the users/beneficiaries. Any strategy that does not provide for cost recovery is not likely to be sustainable; and (c) forging partnerships with the private sector in the spheres of land development, and urban infrastructure and services provision.

- Adjustment in existing legislative and regulatory instruments for effective governance of cities. Most of the instruments available to city governments have outlived their utility, and have no place in an economy which is wanting to move forward but cannot move on account of such instruments. The point to stress here is that there is no way in which the problems of land, shelter, infrastructure and services, and of economic growth, can be solved unless legislations such as Urban Land (Ceiling and Regulation) Act and the State-wide Rent Control Acts are repealed, and city-wide regulations are made simple, inexpensive, and transparent.

Urban governance in India, Nepal and Sri Lanka is at the crossroads. Long considered to be an exclusive responsibility of the government and State-owned and State-led institutions, it is now being viewed as a collaborative effort of all stakeholders in the cities' future. Among the stakeholders, the governments at national, state and local levels will have an important role to play. Nevertheless the industrial and business enterprises, as well as the communities, themselves have their roles to assert.

It appears appropriate to close the paper with a quote from a recent OECD paper:<sup>69</sup>

“Cities are the result of complex forces, some generated from within but many acting from outside, and over which individual cities have little control. There are limits to how much cities can accelerate or retard the rate of change. The process of urban change is not to be thought of as sequential, (one thing having an effect on another), but as simultaneous (many things happening at the same time). True, individuals and institutions adjust to change in ways that are never final or conclusive, not only because they affect each other as they act, but also because new factors keep emerging which provoke fresh responses.”

Finally, the need to undertake systematic research on issues of governance must be stressed. The existing state of knowledge is barely sufficient to describe the institutional base at the level of cities. Virtually, nothing is known about the process of governing the urban areas; even less is known as to what distinguishes the governance of larger cities from smaller ones.

Recent developments which view the role of municipal and other institutions in a different perspective, place greater responsibility on the research community: What is the process of governing the areas? What kinds of relationships exist between the different stakeholders? What reforms are needed in the institutional framework in order to be able to govern cities of the 21st Century? These questions will form a part of the urban research agenda of developing countries.

## End Notes

1. Douglas Yates. 1977. *The Ungovernable City: The Politics of Urban Problems and Policy Making*, Cambridge: The MIT Press.
2. Lawrence J.R. Herson. 1975. "The Lost World of Municipal Government", in Edward C. Banefield (ed.), *Urban Government: A Reader in Politics and Administration*, Cambridge: The Free Press of Glencoe, Inc. According to Herson, the city government text sees the city in its service role, and in doing so implies: first, that providing services is *the* function of the city; second, that the administration of these services is, and should be, the major task of the city's government; and third, that the test for *good* government is the provision of these services at the least possible cost (pp.8).
3. Kenichi Ohmae. 1991. *The Borderless World*. New York: Harper Collins Publishers Ltd.
4. Halfani, et.al. 1994. "Towards an Understanding of Governance: The Emergence of an Idea and Its Implications for Urban Research in Developing Countries", in *Urban Research in the Developing World*, edited by Richard E. Stren (forthcoming). Toronto: University of Toronto.
5. J. Owens and G. Panella (eds.). 1991. *Local Government: An International Perspective*. Amsterdam: North-Holland.
6. See, Halfani, et. al. *ibid.* pp.4. According to Halfani and others, it is the relation of civil society to the state that distinguishes the study of governance from other studies of government. For the World Bank, the critical issue in governance is the manner in which power is exercised for managing economic and social resources for a country's development. See, The World Bank. 1992. *Governance and Development*. Washington D.C.
7. See, Richard E. Stren. 1991. "Old Wine in New Bottles? An Overview of Africa's Urban Problems and the Urban Management Approach to Dealing with Them". *Environment and Urbanization*, Vol. 2, number 1: 9-22.
8. Sri Lanka has a low level and slow tempo of urbanization. The level of urbanization which had increased to 22.4 per cent in 1971 declined to 21.5 per cent in 1981 as a result of rapid rural population growth. The urban population, however, is expected to increase to 6.4 million by 2010, which would represent 29.9 per cent of the total population.

9. William Dillinger. 1994. *Decentralization and Its Implications for Urban Service Delivery*, published for the Urban Management Programme by the World Bank, Washington, D.C.
10. A review of literature in India reveals that the role of the higher levels of governments, i.e., the Centre and States in the governance of *cities* has been scantily studied. There is, as noted by Mohit Bhattacharya, an utter neglect by researchers of studies on urban area administration, more so when so many agencies of governments are operating. Abhijit Datta also notes that cities have distinct personalities and way of life which affect the character of urban administration and lends the latter a certain uniqueness. See, Mohit Bhattacharya. 1970. *Essays in Urban Government*. Calcutta: The World Press Private Ltd., and Datta, Abhijit Datta (ed.). 1980. *Municipal and Urban India*. New Delhi: Indian Institute of Public Administration.
11. Municipal governments include all types of urban local bodies such as the town development committees in Nepal, municipal and urban councils in Sri Lanka, and different grades of municipal bodies in India.
12. See Government of India. 1992. *The Constitution (Seventy-Fourth Amendment) Act, 1992 on Municipalities*, for provisions on safeguarding the municipalities from suspension or dissolution by the State governments who otherwise determine their status, powers and functions. New Delhi.
13. The Constitution lists out the powers and responsibilities of the Centre and the States in the Seventh Schedule, referred to as the "Union List" and the "State List". There is also a "Concurrent List" but the Centre has overriding powers in all matters relating to the "Concurrent List". The Constitution (Seventy-Fourth) Amendment, 1992 provides an illustrative list of functions for the municipalities, and although the list is illustrative, it is conceivable that the functions may over a period of time, come to correspond to this illustrative list.
14. For details on the powers of the His Majesty's government over municipalities, see Chapter 13, Articles 68-69, *The Municipalities Act, 2048*, a law enacted to make arrangements and provide for the formation of municipalities.
15. See, for details, Government of Sri Lanka (Ministry of Policy Planning and Implementation and Urban Development Authority). 1992. *Urban Settlement Profile, Final Report II*, especially Chapter 5 on Urban Local Authority: Administrative and Financial Overview. Prepared by PADCO Inc., GHK/MRM International Ltd., Resources Development Consultants Ltd., and Marga Institute.

16. For a detailed description of local government system in India, Nepal and Sri Lanka, see, *Local Government in South Asia: A Comparative Study* .1992. edited by Kamal Siddiqui. Dhaka: The University Press Ltd.
17. Although the Lord Ripon Resolution of 1882 in India and the Sri Lankan Ordinance of 1865 originated during the colonial period, there were significant differences between the two. The Lord Ripon Resolution aimed at making local governments as "self government" (local bodies were to have elected non-government members and Chairmen, and the State control over local government bodies was to be indirect rather than direct). In Sri Lanka, the councils consisted of elected and nominated members of whom at least one-half had to be elected. The Chairmen of the Councils had to be appointed by the Governor while that of the Colombo Municipal Council, the Chairman always belonged to the Ceylon Civil Service. See for further details, Siddiqui, Kamal. *ibid.* pp. 195.
18. Responding to the question-Who plans and manages a city?-- Kenneth Davey's observations are interesting: "The usual normative assumption is that municipal government does so. Greek ideals of the self governing city, Victorian concepts of civic improvement and American 'home rule' traditions have spread worldwide over the last century to endow most countries with the trappings of municipal administrations and an assumption that it is the instrument by which citizens manage and foster their own living environment. This assumption has become increasingly questionable since the early 1960s, but it has been revived recently by national programmes of 'decentralisation' and a host of donor interventions". See his, "The institutional framework for planning, and the role of local government", pp. 153-175, in *Managing Fast Growing Cities: New Approaches to Urban Planning and Management in the Developing World*. edited by Nick Devas and Carole Rakodi .1993. Harlow: Longman Group UK Ltd.
19. In order to promote participation of women and other disadvantaged groups in the electoral process, the recent Constitutional amendment in India provides for reservation of 30 per cent of seats for women, and proportional reservation of seats for scheduled castes and tribes.
20. Asok Mukhopadhyay. 1984. *Municipal Government and Urban Development*. New Delhi: Indian Institute of Public Administration. pp. 9-26.

21. The municipal government, the literature notes, is no more than a service delivery system. "The basic function of urban government is service delivery, and urban service delivery is a distinctive function", see, Douglas Yates, *ibid.* pp. 18.
22. Justice Dillon's rule is widely accepted. It says: "It is a general and undisputed proposition of law that a municipal corporation possesses and can exercise the following powers; and no others: First, those granted in express words; second, those necessarily or fairly implied in or incident to the powers expressly granted....". See, J.F. Dillon, 1911. *Commentaries on the Law of Municipal Corporations*. Section 237. Boston: Little, Brown & Co.
23. These include in the main: development of the municipal area; promotion of trade and commerce, etc. See, Chapter 4, Article 15, *The Municipal Act, 1991. ibid.*
24. Shyam Prasad Adhikari. 1994. "Urban Governance in Nepal", a background paper presented at the Subregional Asian Meeting of Global Urban Research Initiative, 13-14 June, 1994. Lonavla: India.
25. Several factors are said to have contributed to the growth of parastatals in India and other countries of the Indian sub-continent. Among these include—inefficiency or non-performance of local bodies in the provision of services; economies of scale in service provision; and tendency for centralization.
26. One school believes that non-performance by the local bodies has led to depriving them of their functions and transferring them to the parastatal agencies.
27. Abhijit Datta. 1994. "Institutional Aspects of Urban Governance". pp. 9. A background paper presented at the Subregional Asian Meeting of Global Urban Research Initiative, 13-14 June 1994. Lonavla, India.
28. Kenneth Davey, *ibid.* pp. 154.
29. Gabriel Roth. 1987. *The Private Provision of Public Services in Developing Countries*. Washington D.C. The World Bank.
30. A study on the subject states: "The urban market is highly complex and heterogenous, presenting a situation where there are a number of sellers and of course, a very large number of buyers". See, National Institute of Urban Affairs .1992. *Public Private Provision of Urban Services*. Research Study Series No.50. New Delhi: NIUA, and Om Prakash Mathur. 1991. "Urban Services



- and the Private Sector in India: Realities and Issues”, in Geeta Gouri (ed.). *Privatisation and Public Enterprise: The Asia-Pacific Experience*. New Delhi: Oxford and IBH Publishing Co. Pvt. Ltd.
31. National Institute of Urban Affairs. *ibid.*
  32. Amitabh Kundu and Sipra Mitra. 1994. “Access of Urban Poor to Basic Services: An Analysis in the Changing Perspective of Urban Governance in India”, a background paper presented at the Subregional Asian Meeting of Global Urban Research Initiative, 13-14 June 1994. Lonavla: India.
  33. Meera Mehta. 1994. “Participation and Urban Governance”. a background paper presented at the *Subregional Asian Meeting of Global Urban Research Initiative*. 13-14 June 1994. Lonavla: India.
  34. PRIA. 1991. *Voluntary Development Organizations in India: A Study of History, Roles and Future Challenge*. New Delhi. (Mimeo).
  35. Samuel Paul. 1994. “Public Services for Urban Poor: Report Card on Three Indian Cities”, in *Economic and Political Weekly*. Vol. XXIX. No. 50.
  36. Douglas Yates. *ibid.* pp. 6.
  37. Halfani et.al. *ibid.*
  38. In an earlier paper, Mathur identified urban governance as a part of the research agenda for the 1990s, triggered by the fact that there was little information on who governed cities. See, Om Prakash Mathur .1994. “Responding to the Urban Challenge: A Research Agenda for India and Nepal”, in *Urban Research in the Developing World*. Vol. 1. pp. 47-101. edited by Richard Stren. Toronto: University of Toronto.
  39. Albert J. Reiss. 1970. “The Services and the Served in Service Delivery”. in J. Patrick Cecine (ed.). *Financing the Metropolis. Urban Affairs Annual Review*. pp. 561-576. Vol. 4.
  40. Om Prakash Mathur. 1992. “State Transfers to Urban Local Bodies: A Research Study”. New Delhi: National Institute of Public Finance and Policy.
  41. Om Prakash Mathur. 1993. “Urbanization, Poverty, and Environment”. mimeo. a background paper for *Second India Reassessment Study*. Washington D.C.: World Resources Institute.

42. PADCO .1990. Nepal: Urban Development Policy Study. AID Project No. 940-1008.95. Washington D.C.
43. Jigbar Joshi. 1991. *Housing and Urban Development in Nepal*. Kathmandu, Nepal: Karnali Press.
44. Om Prakash Mathur. et.al. 1994. "The Implications of the Constitution (Seventy-fourth) Amendment for the Finances of Municipalities". mimeo. New Delhi : National Institute of Public Finance and Policy.
45. National Institute of Urban Affairs .1990. *Pricing of Urban Services*. Research Study Series No. 48. New Delhi.
46. As quoted in Michael Lee. 1994. *The Cost of the Second Best: The Price of Land Regulation in Asia*. Working Paper No. 62. London: Development Planning Unit. University of London. (pp. 18).
47. Michael Lee. *ibid*. pp. 18.
48. This position is likely to change as a result of the Constitutional amendment. A subsequent section of this paper explains this point.
49. Asok Mukhopadhyay. 1994. *ibid*.
50. Asok Mukhopadhyay. *ibid*.
51. Abhijit Datta. 1994. *op. cit*.
52. Kenneth J. Davey. 1993. *Elements of Urban Management*. published for the Urban Management Programme. Washington D.C. : The World Bank.
53. Roderick Church. 1976. "Authority and Influence in Indian Municipal Politics: Administrators and Councillors in Lucknow", in *The City in Indian Politics*, edited by D. B. Rosenthal. New Delhi: Thompson Press, India. The findings of Roderick Church study are valid even today.
54. Roderick Church. *op. cit*. 174.
55. K.C. Sivaramakrishnan. 1992. *Urban Governance in India*. New Delhi: Centre for Policy Research.
56. Mohit Bhattacharya. 1978. "Machinery for Metropolitan Planning and Development". pp. 48 in *Urban Planning and Development Authorities*. New Delhi: Indian Institute of Public Administration.

57. See for details, United Nations. 1991. *World Urbanization Prospects 1990*. New York.
58. See, Government of India .1988. Report of the National Commission on Urbanization. New Delhi: PADCO. *ibid.* and Government of Sri Lanka. *ibid.*
59. Godfrey Gunatilleke and Myrtle Perera, "Urban Poverty in Sri Lanka: Critical Issues and Policy Measures", in *Asian Development Review*. Vol. 12. No.1. pp. 153-204. Manila.
60. A.T.M. Nurul Amin. 1989. "Macro Perspectives on the Growth of the Informal Sector in Selected Asian Countries". Paper prepared for the Asian Employment Programme of the International Labour Organisation. New Delhi.
61. See, for revised estimates, Planning Commission .1993. *Report of the Expert Group on the Estimation of the Number and Proportion of the Poor*. New Delhi.
62. Godfrey Gunatilleke. *op. cit.* pp. 213.
63. See for details, Dinesh Mehta. 1994. "Community-Based Programme of Urban Poverty Alleviation in India". *Paper presented at the Regional Workshop on Country-Based Programmes for Urban Poverty Alleviation*. Kuala Lumpur: Mimeo.
64. Globalization refers to the integration of economies. It has been facilitated by decreases in transportation costs, particularly for the transportation of information; by the gradual lifting of barriers to movements of capital, goods and people; and by the tertiarization of economies. As a result, "the capital we use, the goods we consume, the information we utilize, even the tastes we develop, are more and more international. To a larger extent than ever before, they are similar, and they can be produced anywhere in the world." See, Remy Prud'homme. 1993. "Urban Policy and Macro-Economic Policies", a paper prepared for the Urban Division of the Environment Directorate of OECD. Paris: OECD.
65. For economic reforms in Nepal and Sri Lanka, see, United Nations 1992. *Economic and Social Survey of Asia and the Pacific*. New York: United Nations.
66. A closer reading of the reforms shows that the macroeconomic policies in India have disregarded the urban dimensions. On the other hand, the regime of urban governance has remained insensitive to the focus of globalization.

67. See for a detailed discussion, Dinesh Mehta and Pushpa Pathak. 1994. "Economic Development, Globalization and Urban Governance in India", a background paper presented at the *Subregional Asian Meeting of Global Urban Research Initiative*. 13-14 June 1994. Lonavla: India.
68. There is at least one view that assumes that the Constitutional and statutory authority granted to municipalities by their governments affects their revenue capacity. See, William J. Pammer. 1994. "The Future of Municipal Finances in an Era of Fiscal Austerity and Economic Globalization". in *Municipal Year Book*. Washington, D.C.
69. Organization for Economic Cooperation and Development .1994. *Cities for the 21st Century*. Paris: OECD.

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## **Economic Development, Globalization and Urban Governance in India**

DINESH MEHTA ■ PUSHPA PATHAK

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# 2 Economic Development, Globalization and Urban Governance in India

DINESH MEHTA ■ PUSHPA PATHAK

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## I INTRODUCTION

There is a growing concern about the role of cities in the global economy. It is clear that cities are now recognized as the prime foci of the global economy, and urban development issues are seen as an integral part of the global market trends. It is unfortunate that this broader vision of the role of cities is not reflected in the macro-economic and urban policies in India. Despite the empirical evidence that urbanization is a distinctive feature of the national development process and that cities have always played a dominant role in the economic, cultural and political spheres, their role as the 'anvils of civilization' and as 'engines of growth' is not accepted in national policy dialogues. Urban issues have never been at the forefront of the national policy agenda in India. The policy makers and the popular media are overwhelmed by the problems that cities face and concentrate only on the demographic aspects of urbanization. The facts related to the positive overall contribution, and the opportunities that cities offer, are relegated to the background. The policy prescriptions that emerge from such a restrictive view of the urbanization process perceive cities as problematic, and propose containment of the growth of larger cities. Correspondingly, urban issues have received little attention in the national economic policy debate. The discussions and review of progress under the new economic policies in India have also tended to ignore the important urban dimension in the quest for India's globalization.

Consequently, urban governance in India is extremely weak. The roles and responsibilities of urban local governments have been gradually eroded and they exercise very little influence on local economic development. The city governments and other agencies that are supposed to provide basic services in the cities, are now alienated from the civil society and are perceived as unresponsive, irresponsible, inefficient and corrupt organizations. Such antipathy of the civil society, compounded by genuine limitations of the capacities of the

local governments to promote economic development, suggest that it is indeed a tall order to make the system of urban governance responsive to the forces of globalization.

The gradual transformation of the predominantly rural society to an urban one has been set in motion in India. There are significant structural shifts in the economy, with decline in share of primary sector output and employment. The urban centres already contribute over half of the national income. The liberalized market-based economic policies being pursued for the last three years are likely further to accelerate the process of urbanization and sustain the dominant role of cities in the national economy. The experience of the East-Asian and the Pacific region cities suggests that Indian cities will have to become aggressive players in the international market and compete with other global cities in the Asia-Pacific region. This can happen only when city governance becomes sensitive to the issues of economic development.

What is governance? More importantly, what is good governance? Governance may broadly be defined as 'the ways in which a society organizes itself to make and implement policies' (Summers and Pritchett, 1993). The economic policy and performance of a nation and a city are largely dependent on the system of governance. Governance is also much more than what the governments do. The system of governance is 'good', when all the stakeholders—the government, bureaucracy, business enterprises and the civil society at large—collaborate on certain economic and social goals. The challenges lie in creating instrumentalities that provide opportunities to the diverse groups of stakeholders to come to terms with such goals and participate in the system of governance. The challenges of good governance lie not only within the domain of economic performance, but also in the sphere of transforming the very mode of governance itself. This new mode of governance has to promote economic development, as well as safeguard the interests of all its stakeholders against the likely adverse impacts of the envisaged rapid economic growth.

The market-based approach confronts the old economic and political order. The trajectory to reach the goals of economic prosperity is beset with problems that will shake the basic foundations of the old order. Unlike in the past, when the state assumed total responsibility towards the civic society, the new order requires the state to be an enabler rather than a provider. Will the Indian cities meet the challenges of eradicating the infrastructural deficiencies and remove other bottlenecks that hamper the productivity of cities? Can they



become 'global cities' ? What system of governance will promote these global cities? What are the requisite managerial, technical and financial capacities of the state to perform this new role ? How will the state achieve a smooth transformation from the old system of governance to a new one? What will be the roles of the bureaucracy, business and civil society, in this mode of governance ?

In the prevailing circumstances, where reform measures in India are largely confined to the national level, the responses to the range of questions related to governance and economic development are at best probabilistic, and often speculative. In the absence of any major local initiatives in India, it is necessary to draw heavily upon the European, North-American and East-Asian experiences to speculate about the future of Indian cities in a globalizing economy. The new mode of governance required for promoting city-level economic development is, likewise, based on the international experiences and on a few initiatives that are still in a formative stage in India.

## II ECONOMIC DEVELOPMENT AND URBANIZATION

The economic framework of urban growth is quite simple. The higher productivity of urban centres is due to the scale economies, agglomeration economies, and access to markets. Higher productivity in a competitive market also implies higher wages. Higher wages and value additions in urban areas induce demand for land and housing and other services. The land and housing prices, and other costs of services in larger cities are typically higher, and the higher wages in bigger cities are offset by the overall cost of living.

In a simple equilibrium model, the size of cities is related to economic efficiency. Cities with large productivity advantages expand rapidly and also command high wages and have a high cost of living. The city-size distribution is thus reflective of the relative economic efficiencies of cities and the smooth functioning of the market. (Kelly and Williamson 1994). The productivity and profitability of a firm is largely dependent on the technology (capital investments), managerial ability and the competitive advantages in the market. Similarly, wages are determined largely on the embodied human capital, rather than on the sector of employment.

## **Indian Urbanization and Economic Development**

There is little scope for debate regarding a strong relationship between economic development and urbanization. This has been observed both in the developed as well as in developing countries. Analysis of this relationship using empirical evidence from a large number of developed and developing countries, has drawn ample scholarly attention in the recent past. (Harris 1992; Peterson, et al. 1991). The main aim of these studies has been to arrive at some generalizations concerning the nature of association between economic development and urbanization. Although it may seem repetitive, a few of these generalizations need to be noted here in order to place the analysis of India's urbanization and city growth in a broader context.

## **Urbanization and Level of Development**

The first generalization is that, while the developed countries have higher levels of urbanization than the developing ones, the relationship between economic development and urbanization is not perfectly linear. The stage of national development, to some extent, determines the strength of this relationship. It is observed that accelerated economic growth at lower levels of development leads to a faster pace of urbanization. At higher levels of development, the rates of growth of urban population are low. The relationship between levels of economic development and growth of urban population is thus shaped like an inverse-U (Mills and Becker 1986).

Given the present level of urbanization, India is still predominantly a rural-agricultural country with three-quarters of its population living in rural areas and two-thirds of its workforce engaged in agriculture and allied activities. However, increasing levels of urbanization is accompanied by significant shifts in the structure of the economy. The share of the primary sector is declining while the share of the secondary and tertiary sectors is increasing, both in terms of employment and total output, and their contribution to the national income. The share of the urban sector in the national income has been disproportionately higher than the population share. Urban areas contributed nearly 29 per cent of GDP in 1951. This share was 43 per cent in 1981 and was estimated to be around 47 per cent in 1991. The urban/rural per capita GDP ratio has correspondingly increased from 1.96 in 1951 to 2.16 in 1991 (Mehta 1993). The share of the manufacturing sector in terms of

total urban employment has recorded consistently increasing levels between 1961 and 1981; this has decreased by about 5 per cent during 1981–91. A relatively larger proportion of the urban work force is now employed in the service sector.

The imbalance in the pattern of economic development and urbanization in India manifests itself both at the regional level as well as in relation to the high concentration of urban population and activities in a few large cities. Wide-ranging variations in the level of urbanization and urban growth rate bear some semblance to the cross-national patterns of economic development and trends in urbanization. The more developed and industrialized states have higher levels of urbanization and are now experiencing relatively slower urban growth rate, while less developed, industrialized states are rapidly urbanizing. The distribution of urban population of 217 million residing in 3768 urban centres is uneven across regions and city-size. In 1991, the 23 metropolitan cities accounted for 33 per cent of the total urban population while 64 per cent of the urban population of the country resides in the 273 cities above 100,000 population. It is quite likely that these 300 urban centres contribute over 80 per cent of income originating in urban areas. Such high levels of concentration of urban population and economic activities can be explained to some extent by the linkages of these cities to the external world markets.

### **Locational and Sectoral Shifts**

A second pattern observed is that the twin processes of economic development and urbanization are associated with locational as well as sectoral shifts of labour. The income elasticity of demand for manufactured goods being greater than that for food and other agricultural products, this sector has a higher potential for economic expansion and labour absorption (Mills and Becker 1986; Oberai 1993). Thus, urbanization generally entails shift of labour from lower income predominantly agricultural activities, to higher income industrial and service sectors. Such locational and sectoral shifts of labour imply a higher average income level which helps in attaining a faster pace of overall economic growth at the national and regional levels.

The decline in manufacturing employment and increase in service sector employment are particularly pronounced in the metropolitan and large cities. A strong association between Indian urbanization and industrialization has been observed. Nearly 74 per cent of all the

registered factories are located in urban areas which produce about 79 per cent of the net value added of the factory sector manufacturing units (Government of India 1988–89).

### **Imbalanced Growth**

A third pattern suggests that unbalanced growth is implicit in economic development and that the growth patterns are determined by terms of unequal exchange between regions/sectors as well as by the comparative advantage enjoyed by certain regions. Such an advantage could be physical, locational, economic or historical or a combination of these (Harris 1988).

In the pre-colonial period, the major urban centres of India were along the trade-routes. The prosperity of urban settlements in this era was linked to the global market, and many settlements decayed as the trade routes were changed. Such linkages to the global economy persisted in the colonial period as well.

Urban growth in the colonial period was characterized by the emergence of what is known as 'gateway' cities which were generally port cities conducive to trade of commodities and manufactured goods between the colony and the imperialist country (Kidwai 1993). Calcutta, Bombay and Madras are prime examples of such gateway cities that emerged and prospered during this period. In the post-independence period, these cities continued to experience higher levels of concentration of urban population.

However, high concentration of urban population and economic activities in large cities are also attributed to economies of scale, lower transportation cost and agglomeration economies. In the case of relatively less developed countries, both the number and size of urban centres increase with accelerated economic development and urbanization.

In this process, the contribution of the primate cities or the larger urban centres in the national economies is significant. For example, Sao Paulo contributes 36 per cent of Brazil's Net Domestic Product; Federal District in Mexico, 34 per cent; Lima in Peru, 43 per cent; Bangkok in Thailand, 37 per cent; and Nairobi in Kenya, 20 per cent (Kanhert 1987). Inefficiencies and infrastructural bottlenecks in these cities adversely affect the national economic output.

### **Inequities due to Urban Growth**

A fourth generalization suggests that gains accrued by way of urbanization and economic development are also not equally distributed across different segments of urban population. Access to resources and incomes varies a great deal within urban centres. The fast pace of urban growth and prosperity in the developing world is accompanied by high levels of urban unemployment, persistence of poverty, proliferation of slums and squatter settlements, and differential access to basic services. According to one estimate, between one-fourth and one-third of the urban population of developing countries has been classified as urban poor and their numbers are still increasing (NIUA 1990).

Indian urbanization, like that in other countries, is not without its pitfalls. The economic gains of higher productivity, the process of accumulation of surplus capital in land and housing, inadequate mass transportation services, insufficient drinking water and sanitation are manifestations not only of poverty of the population but also of the urban governments.

High levels of unemployment, poverty and increasing concentration of population in slums and squatter settlements are indicators of inequalities existing in urban India. As per the National Sample Survey data, the urban unemployment rates for males as well as females were three time higher than the rural unemployment rates between 1972–73 and 1989–90 (NSSO 1992). A high level of unemployment is accompanied by increasing marginalization and casualization of the urban work force, resulting in a consistently expanding urban informal sector (Pathak 1993). Although there has been some reduction in the incidence of urban poverty, it is still substantial. According to official estimates, about 20 per cent of the total urban population in 1987–88 was below poverty line, while an expert group estimated the urban poverty to be at 40 per cent for the same year (Planning Commission 1993). Furthermore, in the year 1981, 23 per cent of India's urban population was living in slums. The proportion of slum population in million plus cities was about 36 per cent, which conforms to the general pattern of high concentration of slum population in metropolitan cities in most developing countries (NIUA 1988).

The urban malaise is largely a result of misallocation of resources by the state, inability of the system of governance to capture a part of

the 'economic surplus' generated in the cities, and improper allocation of subsidies. As a result, the capacity of urban local governments to improve infrastructural services, provide better levels of living for the poor, and exercise of its larger role in improving the productivity of the urban areas, is limited. As stated earlier, the new economic policies and globalization of the Indian economy require a redefinition of the role of the state and of the local government.

### **Public Policies and Urbanization**

Despite the clear evidence of the strong relationship between urbanization and economic development, macro policies in the developing countries are often anti-urban, at least in rhetoric. Cities, particularly large cities, were regarded as parasitical and their growth implying massive concentrations of poverty, was viewed as a threat to social betterment (Peterson et al. 1991). Restricting the growth of large cities, reducing migration to cities, achieving a 'balanced' urban pattern etc. have been the professed urban policy goals in the past. Yet the cities have continued their growth unabated, despite these policies. Market forces have thus shaped the pattern and level of urbanization far more than public policies.

In India, public policies have caused distortions in the market and led to misallocation of resources. The dispersal of industries to backward regions through infrastructural investments and high subsidies to enterprises, have had huge economic costs. These have been attractive only to those large firms that can internalize all the agglomeration economies available in the cities. Small firms continue to locate in and near the major cities.

The other market distortion caused by public policy is with regard to large subsidies available to urban residents and enterprises for infrastructural services, housing and food. While these subsidies are essential for a specific section of the urban population, its wrong targeting, and 'across-the board' nature of these subsidies, benefit the unintended groups, leading to reduction in the cost of living of high wage labour. Its repercussions on the urban labour market is lowering of the supply price of labour. This increases the profitability of modern enterprises. It forces the firms in the traditional/lower circuits of the urban economy to subsist with low wage labour and low technologies.

If public policies are directed to target the subsidies to specific groups, and to remove the market distortions, the higher productivity of cities will be reflected more realistically in prices and wages. This would lead to more efficient resource allocation over space, and to a system of urban settlement that is truly reflective of economic efficiency.

### III ECONOMIC POLICIES AND GLOBALIZATION

A very short span of just five years has witnessed a world-wide trend towards the withdrawal of the state from its traditional regulatory role, and the adoption of market-based economic growth strategies. This overwhelming response in favour of a 'common world ideology' has prompted some to even proclaim it as 'an end of history'. The underlying motive of such dramatic shifts in economic policies was clear. The world economy was integrating at a rapid pace, and here was an opportunity for a nation to benefit from the prosperity of some and the poverty of others.

#### **Macro-economic Policy in India**

The Indian economic policy has been cast in a mould similar to that prevalent in some other countries. From a very regulated policy regime that sought to isolate the nation from the global economic markets, the first wave of policy changes occurred in India after the oil shock in 1973. With the changes in the political arena and with the lessening of the oil crisis, the commitment to reform waned for a while. It resurged, rather feebly, in the mid nineteen eighties. The New Economic Policy (NEP) announced in 1991 is, however, more radical, and is aimed at, (i) restoring macro-economic stability, (ii) integration with the global economy, and (iii) increasing economic efficiency. It includes policy measures such as encouraging greater participation of the private sector, disinvestment in state-owned public sector enterprises, deregulation of industries, liberalization of trade and foreign investment and changes in the fiscal policy.

Like any economic policy, NEP also aims to bring about macro-economic stability, a faster pace of economic growth, higher level of employment and income, and better standards of living. It is also generally agreed that in the process of restructuring the economy, the short-run consequences may be adverse for some sections of the

population and some enterprises.

The academic opinion on the ideology and content of the NEP is divided. Some scholars view the emphasis on economic growth and integration in the world economy as a step in the right direction. Some have questioned the lack of consciousness regarding social dimension, distributional questions and space for community initiative and action at the local level (Patel 1992; Alagh 1994). According to the die-hard critics, the economic policies have little hope of achieving the desired goals. They argue that the NEP lacks a broader vision and development strategy; the sequencing of reforms has been seriously flawed; the pace of reforms has been rather rash and cavalier, it has been initiated without taking cognisance of the absence of the required pre-conditions in Indian society; and that appropriate and broad-based safety nets have not been put in place (EPW Research Foundation 1994). Moreover, it is feared that the current international situation characterized by global recession, political conflicts and increasing protection of markets in the developed countries will put additional strain on the performance of the Indian economy in the nineties (Kumar 1992).

### **Global Economy and Foreign Investments in India**

Integration with the global economy is one of the stated goals of the NEP. Within a short span of three years, there already are some positive signs of 'openness' on the part of the Indian state for hastening the pace of economic reforms. The deregulations and financial reforms have generated a keen interest among foreign investors. Although the share of India in the global market is extremely small at present, yet it is growing at a rapid pace.

In the growing world market, where the net cross-border flows from investors have risen from US \$42 billion in 1956 to US \$ 159 billion in 1993, the share of the emerging markets of the Pacific Rim, Latin America and Asian countries has grown from US \$ 3 billion in 1986 to US \$ 52 billion in 1993. Among the Asian corporations, the Indian companies have become aggressive players in the global financial market place. During the period of May 1992 to April 1994, of the 196 global equity offerings from Asia 30 were from Indian corporate groups. Of the total of US \$ 18 billion raised in these offerings from Asia, US \$ 3 billion were from Indian companies (Business Today 1994).



The foreign direct investments (FDI) in India have also been growing at a fairly rapid pace since the opening up of the economy. During the first two years of its implementation, the total FDI in India was US \$ 3,525 million. The number of registered foreign investment institutions in India went up from 22 in March 1993 to 158 in March 1994. These firms had a net investment of US \$ 1494 million during the fiscal year 1993–94 (ILFS 1994).

India is thus clearly on the path to globalization. The system of governance at the macro-level appears to be performing its tasks appropriately. Yet there are persistent doubts about the macro and micro-systems of governance, particularly in the ability of the urban local governments to cope with the infusion of foreign investments and, more importantly, about their ability to create an environment conducive to making the Indian cities capable of competing with other global cities.

In this context it is important to note that the macro-economic policy in India, with its focus on trade and tariff measures, financial reforms and industrial sector reforms, have completely disregarded the urban dimensions. As stated earlier, economic growth essentially emanates from the cities. But the policy regime of urban governance in India has largely remained insensitive to the forces of globalization. In the emerging scenario of impacts, cities will need to be governed quite differently. A plausible scenario of the effect of the new economic policies and globalization on the urban sector in India is presented in the following paragraphs.

#### IV URBAN IMPACTS OF MACRO-ECONOMIC POLICY AND GLOBALIZATION

It is perhaps too early to assess the impact of NEP on the urban sector in India. We can only visualize its likely pattern. This is based, both on the expected consequences of certain macro-economic policy measures and also on the experiences of other countries where similar economic policies have been adopted.

The new industrial and trade liberalization policies are expected to accelerate the pace of industrial and economic growth in general. This will also mean a higher rate of urban population growth in the nineties, as against the slowing down of the tempo of urban growth in the eighties.

The spatial pattern of urban growth will exhibit some 'dispersal of concentration', but larger cities with better infrastructure will attract most of the investment, causing more urban spatial imbalance in the

short term. States will compete with each other to attract both domestic and foreign investment and will become selective in providing the necessary infrastructure at the best locations. This will induce further concentration of economic activities and population, in addition to the urban concentration that is likely to be brought about by the more efficient functioning of market forces, generally associated with deregulation and liberalization of the economy.

Further, it is expected that the export-led growth policy will lead to locational shifts of production or strengthening of the current trends in favour of large cities. Integration with the international markets will certainly influence the industrial structure of these cities, and cities will also be expected to offer a wider range of services. It is well known that official overseas development assistance, involving large-scale transfer of funds is largely non-spatial. But foreign direct investments, particularly that of multinational companies have distinct locational preference in and around metropolitan and a few better placed large cities (Sit 1993).

On the one hand, cities will be expected to play a more productive role and contribute to the national economic growth with limited transfer of resources from the higher levels of governments. At the same time, the deficit reductions at the state and national level will force these cities to bear the bulk of the burden of national growth through local innovations and initiatives (Peterson et al. 1991; Cohen 1990). Emphasis on better management of cities, redefining the role of local government in development, and greater participation of the private sector in performing various urban functions are some initiatives adopted by global cities undergoing the process of economic adjustment (Cohen 1990). Like the States, cities will also begin to compete with each other by increasing their attractiveness for industrial and business investment (Rodell 1993).

It is not possible to speculate about the potential global cities in India for lack of comparative data across the cities. As a proxy for the structural shift in city economies, the sectoral shifts of workers in the 23 million plus cities of India over the last two decades were examined. *Prima facie*, there does not appear to be any systematic pattern in these shifts. The shift in manufacturing employment over the past two decades and the categorization of cities according to the shift observed are given in Table 1. For nearly half of these metropolitan cities, manufacturing employment had increased during 1971–81, and decreased during 1981–91. These cities are listed in C1 and C2 according to the proportion of workers in the manufacturing sector.

In three metropolitan cities, high manufacturing employment has steadily declined whereas in two others, high manufacturing employment has persisted.

TABLE 1. Shift in Manufacturing Employment between 1971 and 1991

City	Workers in manufacturing employment years (%)		
	1971	1981	1991
A1 High and continuing high mfg. emp.			
Surat	47.46	55.87	55.67
Ludhiana	43.59	n.a.	44.50
A2 High with decrease and increase in mfg. emp.			
Calcutta	37.26	29.12	34.45
B High but continuous decline in mfg. emp.			
Bombay	40.96	38.91	35.68
Ahmedabad	44.66	43.87	35.68
Bhopal	26.17	24.46	18.42
C1 High with increase and decrease in mfg. emp.			
Bangalore	33.30	34.68	32.65
Pune	31.118	32.96	30.66
Kanpur	30.20	32.54	27.89
Vadodara	34.14	36.21	31.93
Indore	34.30	32.90	26.48
Coimbatore	35.81	37.50	36.85
Madurai	29.48	31.62	27.03
C2 Middle with increase and decrease in mfg. emp.			
Madras	27.83	28.37	25.90
Delhi	21.73	27.44	23.49
Hyderabad	20.09	23.18	22.33
Nagpur	22.42	21.70	20.83
Jaipur	19.59	26.58	22.20
Cochin	21.04	23.54	20.43
D Low mfg. emp.			
Lucknow	16.28	15.13	13.41
Patna	10.77	15.64	6.63
Vishakhapatnam	15.70	20.34	19.29
Varanasi	13.18	19.09	16.31

SOURCE. Census of India, 1971, 1981 and 1991.

Indian cities, thus, seem to have their own internal dynamics and do not appear to follow a general pattern of change in the city economy. Generation of employment in cities is influenced by the fortunes of the major industries in the city such as cotton textiles in Bombay and Ahmedabad and jute textiles in Calcutta. The general policy of ban on location of industries in metro cities in the eighties adopted by the state governments has also contributed to the decline in manufacturing employment in most metropolitan cities.

Looking at the current trends, it is difficult to foresee whether any Indian city will acquire a global status or not, but it is most likely that some will experience major structural shifts in the foreseeable future. Manufacturing will continue to be a major sector of employment, although at present its importance is waning. But with a positive attitude towards cities, the industrial location policies of state governments may be reversed and cities may re-emerge as production centres, not only for the domestic economy, but also for the global economy. The service sector, with a concentration of highly skilled labour and enterprises, has distinct agglomeration advantages in the city and is likely to grow further. How this sector can be promoted in the cities and linked to the global economy, depends to a large extent on local initiatives. Experiences of other cities in the world in this respect will be discussed in the following section.

#### V CITY ECONOMY AND GLOBALIZATION

The global economy has shaped cities for many centuries. The increasing integration of the world economy has led to increasing similarities in the processes of urban growth in many diverse countries (King 1990a). In the past, colonization was the link between urbanism and the world economy through extraction of surplus from the cities by colonial powers (King 1990b). This has changed dramatically in the current process of globalization of the world economy. The global cities of today serve as command points in the organization of the world economy. Sassen (1991) describes the role of New York, London and Tokyo as the command points of the world economy and also the key locations for finance and specialised service firms. These firms have replaced manufacturing as the leading economic sector. Some global cities are also sites of production in leading industries, especially production of innovations.

### **New Production Process**

The territorial dispersal of the economic activities of the trans-national corporations has integrated the system of production. It is now not uncommon to find production processes, that involve manufacturing of components, in five different continents and its assembly in the sixth continent. Such production processes demand locations that are closely linked to the world market. While ports served these functions in the colonial era, airports serve this function better in the contemporary one. Air cargo ports, with rapid clearance facilities, have become the norm in many countries.

In India, at present, very few cities qualify to perform this role. The infrastructure is limited and not adequate to the present volume of trade. Though the tariffs have been reduced, the procedural delays for customs clearance still remain. Much of the present foreign direct investment is oriented towards tapping the large domestic market, but very little of this is geared for integration into the world system of production. The infrastructural bottlenecks in the present metropolitan cities are a major constraint. Inadequate power, telecommunications, and transport facilities hinder the productivity of the cities. Until these bottlenecks are removed the role of Indian cities as centres of a global production process will be limited.

### **Emergence of Financial Industry and Innovation**

Global cities serve as the market place for financial innovations. The finance industry in the global economy has 'moved away from its role as a facilitator of production and distribution of goods ... the more it has taken on a life of its own, a fact that can be seen most vividly in the mushrooming of speculative activity', (Maydoff and Sweezy 1987, as quoted in Merrifield 1993). Finance is thus viewed as a 'fictitious capital' as opposed to 'productive capital'.

The finance sector is an area where the Indian cities have a potential role to play in the global market. As indicated earlier, nearly 160 foreign investment institutions (FIIs) have been registered in India. Most of them are located in Bombay. This sector requires access to the domestic financial market as well as telecommunication links to the world market. The major cities in India already have stock exchanges, around which domestic firms, offering financial services, have mushroomed.

How does the growth in the finance sector promote development of the global city and the national economy? Circulation of finance among the global conglomerates certainly increases the trade volumes on speculative bourses. To what extent then does the surplus in these speculative activities get invested within the city and national economy?

The boom in the stock market as a result of speculative activities has provided opportunities to the domestic corporations to tap the capital markets. Innovative financial instruments and debt market instruments are being used by these corporations to make use of the booming capital market. The government should create conditions for such instruments to be used to finance 'developmental' activities, such as infrastructure development at the local level. This will facilitate economic development and improve service levels.

The recently initiated programme with USAID support on urban infrastructure financing through the debt market in India is aimed at utilizing the emerging financial industry in India for urban infrastructure development. City governments, in partnership with private enterprises and financial institutions, are expected to create debt instruments under the programme to finance such projects. With the ease of flow of global financial capital in India, access to capital for infrastructure development is limitless as long as adequate rates of return are ensured. It is a challenge for the system of urban governance to make these projects commercially viable for attracting domestic and international capital. It is only through such efforts that 'fictitious' capital can become productive capital.

### **Real Estate Market and Financial Industry**

The immediate fallout of globalization trends and the global city phenomenon is the rapid rise in real estate prices. Harvey (1982) and Haila (1988), suggest that the surpluses of the financial industry get invested in real estate: land and property are treated as pure financial assets by it. The implications on the local land and housing markets in global cities are seen in the phenomenal rise in rents and land prices. The small numbers of foreign investment institutions in Bombay, relative to other players in the real estate market, have caused a rapid boom in this previously stagnant area.

The real estate market in a global city no longer remains linked to the domestic economy, as land and property become 'tradeable goods' like any other commodity. In the global cities of the world, major real

estate projects like the Battery Park in New York and the Docklands in London, are targeted to attract global investors. On a smaller scale, in the business districts of emerging global cities of the Pacific Rim and South-East Asian countries, many real estate projects aim to lure local and foreign investors.

In India also, the real estate developers appear to have responded to the globalization process. A major diamond trading centre, comparable in scale and technology to the one in Antwerp, is being constructed in Bombay. The Bombay Metropolitan Regional Development Authority, a government agency responsible for planning in Bombay, proposes to establish an international finance and business centre in Bombay. A private corporation in Delhi proposes to establish a world trade centre in Gurgaon, near Delhi. These are signs of the efforts of the local governments and private sector enterprises in India to respond to forces of globalized economy.

### **Public Policy and Globalization**

The new economic reforms package being implemented in India has ushered in some major changes in the system of governance at the macro level. However, its impact on urban areas have not been clearly understood. The emergence of global cities in India is dependent on the performance of the economy and the extent to which it gets integrated with the world market. While this has not yet happened, there are clear signs that appropriate public policies at national and local levels will have a significant effect on the role of cities in the global market.

In the context of the uncertainty about the impact of the new economic policy in India, it is of some interest to examine the role of public policy in the economic restructuring of the newly industrialised economies (NIEs) of East-Asia, the so-called East-Asian miracle (World Bank 1993). It needs to be appreciated that reforms in these countries coincided with the industrial restructuring in Europe, North America and Japan and the consequent transfer of capital to the NIEs (Schoenberger 1988). The economic and political stability, a co-operative market, investment in human capital and an efficient bureaucracy were common features of successful East-Asian economies (Leipziger and Thomas 1994).

Douglas (1994) argues that the NIE states have enjoyed an unusually high degree of autonomy, which is rare in other parts of the

world. This has been made possible because of four factors: (a) absence of powerful rural-based landed interests, unlike Latin America and South Asia; (b) small and weak capitalist class in the initial period of industrial expansion that was easily leveraged by state; (c) in its historical struggle against communist totalitarianism, the state was able to make use of its mission of capitalist development to impose an authoritarian rule; and (d) the 'post-confucianism' seen as a code of ethics to guide behaviour that is institutionalized in part by a centralized bureaucracy, which is authoritarian in nature and is allowed to formulate policy goals independently of particular groups.

The two principal characteristics of state interventions in NIEs were: (a) development of institutional mechanisms that allowed us to establish clear performance criteria for selective interventions, and monitor performance; and (b) the costs of interventions, both explicit and implicit, did not become excessive. As Page (1994) observes, the governments in NIEs used a combination of fundamental and interventionist policies to accumulate physical and human capital, allocate this capital to highly productive investments, and acquire technology through foreign participation to achieve rapid productivity. In doing this, the political leadership adopted the principle of shared economic growth as a major social goal and relied extensively on the private sector. The deliberation councils in Japan, Korea, Malaysia and Singapore enabled the private sector groups to influence the formulation and implementation of government policies.

Effective participation of bureaucracy in core economic ministries also helped to accelerate the process. This is quite in contrast to the fear of 'orthodox-paradox' expressed by some scholars in India. Jain (1994) denotes the 'orthodox-paradox' as 'the attempt to use the agencies and personnel of the state to diminish and dismantle their own power'. He argues that the pace of reforms initiated in India is very slow because of this; they are yet to percolate down to the state and local system of governance.

However, as Waterbury (1993) states, '(while) the institutional culture of public property regime, combined with the constellation of coalitional interests, dependent on that regime, mean that successful reform is nearly impossible'. Yet when fundamental restructuring is entered upon, none of the threatened interests appear capable of blocking the restructuring. 'The reasons for this stem from their organizational weakness and their loss of legitimacy (if they ever had one in the first place) among the growing portions of society that did



not directly benefit from the social pacts, such as the rural population, those in the informal sector and the middle-class consumers who have become particularly sensitive to deteriorating quality of services and products'.

The state can thus use the growing discontent and dissatisfaction, among the masses about the system of government, to usher changes in the mode of governance. This does require strong commitment and will on the part of the political leadership. The NIE experiences also suggests that a 'strong state' and an effective bureaucracy, that is open to the acceptance of private enterprises, can indeed bring about structural changes and promote broader societal goals.

Experiences of NIEs and other global cities suggest that success is achieved, not by the total withdrawal of the state and allowing the market to work on its own, but by strategic interventions of a strong government which facilitates the market. For this to happen in India, there is a need to search for a new mode of governance that promotes globalization and urban economic development. While the preconditions prevailing in NIEs do not obtain in India, the positive role of the state in promoting economic development can certainly be emulated.

#### VI NEW MODE OF URBAN GOVERNANCE FOR ECONOMIC DEVELOPMENT

The growing literature on the role of cities in national economic development has one common theme: the neglect of the city by the macro-economic policy makers. As Cohen (1990) states, 'if one of the objectives of adjustment is to increase productivity, it should be self-evident that the productivity of the urban economy should be a priority policy focus'. According to Kahnhert (1980), 'the city should be considered as an arena whose markets need to function more efficiently, where the prerequisites for economic activity such as infrastructure need to be available, and where the productivity of the labour force should be improved by human capital investment'.

The new mode of governance in the context of globalization is beyond the traditional concerns of municipal management. It now entails the promotion of the city as a 'product'. This shift from managerialism to entrepreneurialism, according to Harvey (1989), is due to four basic reasons.

First, the competition within the international division of labour provides an opportunity to create specific advantages for a city through

public and private investment in physical and social infrastructure. Such infrastructure would strengthen the economic base and is likely to increase the attraction of a city.

Second, improving the competitive position of a city with respect to the spatial division of consumption requires that cultural, entertainment, upmarket shopping district, etc., which have become the mainstay of global travellers, should be vigorously promoted. Global consumers are attracted to cities that are innovative, exciting, creative and safe places in which they would like to live, visit, invest and consume.

Third, in the global competition for the acquisition of key control and command functions in high finance, government or information technology, cities find these activities appealing as 'the golden path to survival'. But the monopoly power of the global cities—London, New York, Tokyo, Paris—is hard to break, and for other cities, trying for this position, the competition in this realm is very expensive.

Finally, there is also competition for a share of the redistribution of surplus. As the liberal economic policies are set in motion, there is a withdrawal of the state from the social sector. Assistance to the urban area, however little to begin with, also dwindles. That section of city population which does not derive any benefit from the surpluses of the global economy, and is often deprived of its normal work opportunity, would strive for its share. The enterprising system of governance will need to recognize this and incorporate it in its economic strategy.

### **Decentralization as a Mode of Governance**

The democratic decentralization, envisaged through the recent Constitution (Seventy-Fourth) Amendment Act on municipalities in India, stipulates planning for economic development as one of the major functions of a municipal government. The national system of governance has thus provided a mandate to the local government for its economic development. But the severe infrastructure deficiencies, the highly regulated and controlled land and property markets, the limited financial resources of the local governments, and the inadequate managerial, institutional, and technical capacities of the local governments, are major constraints that limit their ability to adequately handle economic development.

From among the range of functions listed in the Twelfth Schedule of the Act, the municipal governments in India, at present, have been carrying out very few functions. In many states even the 'basic municipal functions' of provision of water, sanitation, primary health care, primary education, etc. have been gradually withdrawn from the municipalities. The numerous para-statal agencies, established to provide the basic municipal services, have also not been able to adequately perform their tasks.

It is of some interest to note the Brazilian experience of decentralization in the context of current Indian efforts. In 1979, under constitutional amendment, the Brazilian government created multi-municipal authorities for major cities. The municipalities regarded this as an encroachment on their domain. These metro agencies did not receive co-operation from the local government and were abrogated in 1988 under the decentralization efforts. The Greater London Council and the Metropolitan Manila Commission were also abolished by their national governments, albeit for a very different set of reasons. But the abolition of the 'super-agencies' in all these cases, have led to greater responsibilities for the local governments.

Will the seventy-fourth Constitutional Amendment Act bring about similar actions on the part of the state governments, which have created such organizations in India? Although, it is too early to suggest that similar institutional restructuring will also take place in India, a preliminary review of some of the states' efforts suggests that the institutional structure is unlikely to alter.

Thus, while the seventy-fourth Constitutional Amendment Act holds a great promise for restructuring the system of urban governance in India, in the context of urban economic development, very little has been achieved. The statutory basis of the role of cities in promoting economic development remains unaltered, except for the fact that it is a mandated function under the constitution. It is hoped, however, that in the process of 'learning by doing' the city governments will discover the new modes. Unless the city government asserts itself to perform its mandated functions, the new mode will remain an illusion.

### **System of Governance and Economic Development in Cities**

Under the present mode, no particular agency or institution within the government, has an explicit mandate for the economic aspects of city growth. In fact, at least in rhetoric, the policy regime appears to be

against economic growth in cities.

### **Industrial Development**

The industrial policy of 1991 brought a radical change in deregulating most of the national-level regulations pertaining to the establishment of new industries. But, it persisted with an anti-urban bias in disallowing major industries within 25 kilometres of metropolitan areas. Although, through caveats, it provides an opportunity to the State and city governments to permit industries in cities requiring rejuvenation or designated industrial areas, the local policies against industrial expansion in cities have persisted.

The state governments continue to promote industrial development in 'backward' areas of the state away from the major cities. The financial assistance and subsidies to industries, though withdrawn at the national level, still continue at the state level. The state-level industrial infrastructural institutions are also asked not to develop infrastructure around the major cities.

There are, however, signs that under the liberal policy environment, the state governments have become more aggressive in competing with each other to attract foreign direct investments and domestic industrial investments. These efforts include quick processing of applications granting concessions and providing requisite incentives. From the industrial entrepreneur memoranda (IEM) with the Ministry of Industries, it appears that the states of Maharashtra, Gujarat and Haryana, with comparative advantages of a diverse economic base, have been able to attract nearly half of the total national industrial investments. Although disaggregated analysis on locations of these industries is not available, preliminary results suggest that the new industries are being located in or around the larger cities.

The urban local governments are at present not involved in the process of industrial growth, as the regulatory functions of registration of industrial establishments under the various existing statutory and procedural requirements are with the state governments. Much of the industrial growth within and around the city is, thus, outside the 'formal' system of governance. Though considered informal, unregulated and small-scale, these enterprises have been growing rapidly, often in contravention of the master plan of the city. For example, the city of Delhi has over 1,00,000 small industrial establishments, whereas its master plan for 2001 does not provide for

any industrial development. The situation in other cities is not very different. Thus, instead of promoting industrial growth in a systematic and rational manner, the city governments are forced to adopt flexible policies toward this growing sector.

With globalization, the present role of city governments in the sphere of economic development needs to be changed. City governments will need to aggressively market the city as a location for production-related activities and services. This may involve revision of its policies for location of industries within and around the city, of providing adequate infrastructure and ensuring that the surplus generated in these activities is invested for overall development in the city. The local governments will also have to develop plans and procedures that promote economic development in cities through the creation of sites for industries.

### **Business Enterprises**

Commercial establishments are subjected to fewer regulations by urban local governments. Besides the designated business districts, commercial establishments are also permitted to be established in predominantly residential areas. The registration under the Shops and Establishment legislation is also fairly simple. Thus, commercial enterprises, unlike industries, do not face any major constraints. Though the city governments do not actually promote them, they at least seem to welcome them.

### **Land and Property Development**

The statutory basis of urban governments in shaping economic growth is embedded in its role in land and property development. Though in most cities, the preparation of plans for the city has been usurped by the metropolitan-level urban development authority, city governments continue to exercise some control over such activities.

Urban development plans in India essentially are land-use ones with prescribed development controls, based on notions of public safety and health, order and efficiency in urban services and promoting orderly growth of cities that is aesthetically pleasing. These plans are quite static, in the sense that they are designed for a target year with little scope for mid-course correction. The economic structure of the city is assumed to be given, and no plan is made to promote economic development,

or to finance the proposed infrastructure. The local government is thus thought to be essentially concerned with regulating the building activity in the city.

Land and property development in cities are regulated not only by the zonal plans, but also by other state-level regulations. Mehta and Mehta (1990) describe the long delays in getting the requisite permissions for transfer of lands, registration of sales, conversion of agricultural land to urban uses, approval of layouts and sub-division, approval of building plans and building permissions to start development of a property. These procedures take between three months to three years. The costs of these delays are substantial and are eventually passed on to the buyers of property. The resultant impact of such high cost delay on the land market is adverse. The supply is artificially restricted and the high transaction costs increase the market prices.

Improving the efficiency of the land and housing market is extremely crucial to the productivity of cities. The urban local government has been, and will continue to exercise an important role in the real estate sector. The national and state governments will need to modify their current practices, simplify procedures and facilitate the building industry.

Mehta (1993) lists a set of reforms necessary for increasing the efficiency of land markets, increasing participation of the private sector, promoting equity and access of land to the poor, financing land development, and strengthening the role of the local government. The suggested action at the national level includes removal of the Urban Land Ceiling legislation, discouraging bulk land acquisition by public authorities, providing fiscal incentives for the private sector to undertake low-income housing, and developing institutional structures for financing land and infrastructure projects through capital and debt markets. The state government will also need to reform its land revenue codes to make land transfers and registration simpler, improve its land and property registration systems, introduce tax on vacant urban land to curb speculation, promote public-private partnerships for land development, grant autonomy to local governments to develop rational land-based taxes and recover costs of development through land-related charges.

The agenda for reforms in the land and property area is indeed large. The local governments will also need to develop capacity to move away from static land-use based plans and develop strategic

approaches that shift away from regulations and controls on urban development, to promoting and managing growth in cities.

### **Towards a New Mode of Governance**

Liberal macro-economic policies and decentralization of municipalities through the Constitution (seventy-fourth) Amendment Act, have opened up opportunities for the city government to be a major promoter of economic development within its jurisdiction. But as argued earlier, governance is not only what the governments do, but is a collaborative effort of all the stakeholders in the city's future. Among the stakeholders, the governments at national, state and local levels will have an important role to play, but so will the industrial and business enterprises as well as the residents themselves.

Urban economic development is not the responsibility of the municipal government alone. As it is, the performance of the municipal government is influenced by the central and state government's regulations and financial controls. Poor urban services may be attributed to an inefficient municipal administration. But instead of increasing the supply of these services, it may be more important to improve the efficiency of their delivery. Such efficiency will come about when both the private sector and the community are involved.

### **Role of the National Government**

Urban development issues have generally been relegated to the state governments in India. Yet the national government, in the past, has often had a far reaching influence on urban development. The often cited example is that of the Urban Land Ceiling legislation of the national government that has adversely affected the urban land and property markets. Poor budgetary support for urban infrastructure development and inadequate financial institutions for urban development are some other lacunae in the national urban policy.

The enabling and facilitative role of the national government in urban development will be served only when it accepts certain basic premises as a part of its macro-economic policies. These premises include: (a) increasing the efficiency of urban markets through enabling regulations and procedures; (b) increasing participation of private, co-operative and household sectors in provision, delivery and maintenance

of urban infrastructure and services; (c) strengthening the capacity of local governments; and (d) establishing or promoting institutional finance mechanisms for urban development.

It is important to recognize that in most countries the cities receive substantially more support from the national government than in India. For example, in Britain the Inner Urban Areas Act of 1978 provided a range of powers to local authorities to grant assistance to industries and carry out industrial area improvement in cities with severe economic problems. The local enterprise boards established in these cities as a separate institution within the city government had a specific mandate to play a promotive and pro-active role in economic regeneration (Hausner 1987). More recently, 'City Challenge', a programme funded by the national government, has been introduced in Britain. Under this programme, local authorities in partnership with local business and community bid for funds to assist regeneration of their urban area (Booth 1994). Similar programmes exist in other European and North American countries, in which the national governments provide funds for infrastructure, and exempt debt instruments such as municipal bonds from taxation.

The China Open Cities Project is another model worth emulating in India for the mega-cities, as also the Integrated Development of Small and Medium Towns (IDSMT) programme. Under the open cities project, cities that have the potential for foreign investments are identified, and are helped to plan and develop the managerial and administrative skills needed to link the cities to the global economy and thus contribute to China's national development.

In this context it may be suggested that the recent mega-cities programme, initiated in five major cities by the central government, needs to be recast from its original objective of being only an infrastructural development programme. It is necessary to view these five cities as potential global cities and provide the necessary assistance by structuring these programmes after the City Challenge programme of Britain. In this manner, instead of mere transfer of funds from the central government to the local government for infrastructure development, the city governments in India could be coaxed to establish partnerships with business and the community.



## **Urban Local Governance**

With the supportive and enabling national and sub-national policies for urban economic development, the major responsibilities of improving the urban productivity and making the city compete in the global market, will be that of the local system of governance. In India, the urban governments and various state-level agencies responsible for provision of urban services, appear incapable of performing these tasks owing to severe limitations of managerial, technical and financial capacities. While strengthening the local governments to perform these tasks would be on top of any agenda for local action, evolving a system of governance that incorporates all the stakeholders would be equally important.

Cities are the centres of the emergent global society. Increasingly, economic development is being driven more by globalization than nationalization. National responses to global opportunities are clearly spelt out in the macro-economic policies of trade and tariff reforms, deregulations and privatization, making the society more open and reducing the role of national governments. The activities related to the creation of global linkages such as identifying opportunities, financing, handling transnational flows, structuring and servicing global markets are primarily located in cities (Knight 1989).

The approach to city development thus needs to be based on positioning the city, not in the national market context, but in the context of the global market. While the federal political structure in India has led to erosion of the powers of city governments, the cities have themselves become an arena for the national party-based policies, rather than serving their own constituencies. The role of the city in the global society will thus have to be understood from within.

City building will become increasingly competitive as more cities take up the challenge of the global vision and develop local programmes. In doing so the city will not only have to create conditions for linkage with the global economy, but will also need to improve the quality of life that it offers to its residents. Unless the residents perceive the quality of life in their city as better than offered elsewhere, the city will not be able to create an interest in the global vision. As Knight (1989) suggests, 'the power of the city will thus depend less on powers from above and more on powers from within, that is, on the effectiveness of the civic process'.

### **Partnership among Stakeholders**

The crisis of managing cities in the face of the rapid rise in demand for urban services is likely to worsen if the onus remains only on the local government. The urban local government today is alienated from the civic society. The residents do not identify with it as it is perceived to be unresponsive and apathetic to civic problems. The citizenry and business enterprises have lost faith in the system because of its corrupt practices and hostile attitudes. The local government is also seen as pursuing only its self-interest rather than larger societal interests. The urban local government, thus, in addition to the crisis of institutional capacities, also suffers from a crisis of identity.

The vision of thinking globally must emanate from the collective will of all the stakeholders in the city—the municipal government, the industrial and business establishments and the community. If it is portrayed as only the vision of the municipal government, it is unlikely to receive the requisite local support.

The new mode of governance is that of partnership among all the players in the city. Such a partnership has to be built on the strengths of each stakeholder—the efficiency of use of capital by the private sector, the concern for effectiveness in delivery of services of the community sector and the macro perspective of the government. Such partnerships have become the mainstay of local economic development programmes in cities around the world. Many of these efforts were initiated to rejuvenate the declining central city economy. Are such ventures possible in India? Can the stakeholders come together to form such partnerships?

Mehta (1992) cites the example of ALERT (Ahmedabad Local Economy Rejuvenation Trust), established by the textile labour union, the textile mill owners, the citizens and academic institutions. ALERT proposes to utilize the land of 15 textile mills that have been closed for the past eight years affecting nearly 20,000 workers. The usual process of liquidation of the assets of these mills has been initiated and is expected to take a decade more before the workers get their dues. ALERT proposes to use the land worth Rs 1000 million, to develop industrial, commercial and residential complexes. The project envisages the transfer of land development rights to the trust with an initial seed capital for the trust to start the project. The state and the national governments have, as yet, not agreed to amend the current regulations and procedures to facilitate this process.

In Bombay, the Bombay Forum set up under the aegis of the Bombay Chamber of Commerce, has prepared a perspective of the city's role in the globalizing economy. Though initiated by the private sector, the Forum interacts with the local and State government to convince them about the potential role of Bombay as a global city.

## VII CONCLUSION

The concept of governance implies more than just what the governments do. A system of governance is 'good' when all the stakeholders—the government, the bureaucracy, the business enterprises and the civil society—cohesively collaborate to achieve certain economic and social goals. In the context of the economic policies enunciated in India, which aim at the global market, the role of a system of urban governance that promotes economic development in cities is crucial.

The new industrial and trade liberalization policies are likely to accelerate the pace of economic growth and consequently the pace of urbanization. Cities with better infrastructure are likely to attract most of the new investments. Competition in the global market may lead to restructuring of the existing economic base, and increase in unemployment in the short run. In the absence of a concerted response at the city level, the adverse impact of the liberal economic policy may predominate.

At present, the central and state governments in India are not responsible for promoting economic development in cities. On the contrary, they have adopted restrictive policies aimed at curbing the growth of cities. In addition, the weak financial base and limited managerial capacity of urban local bodies have prevented them from actively participating in economic development. The challenge to face the forces of globalization of the Indian economy is immense, and requires a new mode of urban governance.

The new mode of urban governance visualized is that of partnership of all stakeholders for economic development in cities. This envisages a facilitative and promotive government. Its premises include, (i) increasing the efficiency of urban markets through enabling regulations and procedures, (ii) increasing the participation of private and community sector in the tasks of the city government related to urban services and infrastructure, (iii) strengthening the capacity of the local government to adjust itself to its restructured role, and (iv) establishing or promoting institutional structures and financial

mechanisms for urban development.

Urban governments will have to take a lead in convincing the national and state governments about the important role that cities have to play in the national and state economic development. They should promote partnerships with the private sector and involve the general public in the broader vision. Unless such a collective effort is made and a new mode of urban governance emerges, the positive role of Indian cities in the global economy will remain a mirage. Such an effort is also essential for mitigating the adverse effects of the ongoing macro-economic adjustment of the new economic order.

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## **Institutional Aspects of Urban Governance**

ABHIJIT DATTA

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# 3

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# 3

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## Institutional Aspects of Urban Governance

ABHIJIT DATTA

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### I HISTORICAL BACKGROUND

An exploration into the urban institutional system within the political arrangements of governance reveals a close linkage between constitutional development and the growth of municipal institutions in India. Madras received its municipal charter as early as 1687 and municipal institutions outside the Presidency cities were created from 1842 onward; it was only after the 'Mutiny' of 1857 that the British began seriously to think about the large-scale municipalization of the country—partly to relieve the imperial exchequer—so that by 1870 there were about 200 municipalities throughout British India (Tinker 1954).

However, Indian enthusiasm in this respect was limited, in spite of the famous Ripon Resolution of 1882 that emphasized political education even at the cost of efficiency in local government. From the nationalists' point of view, local self-government was meaningless without political participation at the higher levels of governance; whereas the British officials in India resisted all attempts to free the local authorities from the apron-strings of district administration.

Following the Montagu-Chelmsford Report, under the Government of India Act, 1919, municipal institutions were finally released from the control of the district officers and the Indian political leadership became more enthusiastic about municipal affairs. However, with the grant of provincial autonomy under the Government of India Act, 1935, the interest of Indian nationalists in municipal affairs waned, and political participation in the provincial legislatures took the centre-stage of Indian politics. A similar shift of political attention at the national level took place after Indian independence in 1947, with adverse consequences for both federalism and local government in India. Politically, therefore, municipal institutions were important for a brief period of only 16 years between 1919 and 1935. Their political eclipse became complete with the rise of statism during the four-and-a-half-decades of the post-independence era, until the passage in 1992 of the constitutional amendments by the Indian Parliament, which accorded

constitutional status to local governments under a liberalized economic regime. As in the past, major reform of local government is still being initiated by the central government rather than by the States within which local governments operate under the Constitution.

## II GOVERNANCE IDEOLOGY AND INSTITUTIONS

### **Political Goals**

The political basis of urban institutions in India was rooted in English 'utilitarianism', reflected particularly in the writings of John Stuart Mill on 'local representative bodies' (Mill 1861). According to Mill, one of the main reasons for having local government was 'public education of the citizens'. The same thinking is traceable in the Ripon Resolution of 1882 which envisaged 'the small beginnings of the independent political life' through the introduction of local government to replace 'the more autocratic system'—the district administration.

Later, the Decentralisation Commission (1909) recommended the elimination of official control over municipal bodies. This was supported by the Montagu-Chelmsford Report (1918) which laid stress on the educative principle, and extended franchise and popular control in local bodies. It conceded that the origin of district administration in India was an imitation of the 'quasi-military' organization of the Moghul empire and as such was incompatible with the British concept of local government (U.K. 1918).

The same idea was elaborated by the Simon Commission (1930), which contrasted the British and the French patterns of local government. In the former, government is decentralized and local governments form a detached system; under the latter, government is deconcentrated and local governments are attached to the central government through its field administration. Second, under the decentralized system, local government has a will of its own; while under the deconcentrated variety, local government is informed by a single will of the state.

Prior to the 1919 reforms, local self-government in India essentially belonged to the continental variant (U.K. 1930). After the reforms, only municipal government in India was detached from the district administration and rural local government continued to function on the French type of local administration. According to a perceptive commentator, the contemporary confusion on the role of local



government in India stems from a lack of clarity about the concept of local government so precisely stated during the colonial era (Bhattacharya 1972).

Recently, a revival of interest in local government parallels a shift in the political ideology of the country, in the wake of economic liberalization initiated in 1991. Efforts to accord a constitutional status to local government started in 1989, but was finally legislated through the seventy-third and seventy-fourth Amendments to the Constitution in 1992—one for rural local government (panchayat) and the other for municipal government. Both the amendments are similar in conception, design and broad contents. The important aspects of the seventy-fourth Amendment are: (a) regular conduct of elections and limited period of supersession, (b) political representation and reservation of seats for the weaker sections, (c) proposed devolution of functions, and (d) arrangements for adequacy of finance through fiscal review, assignment of revenue authorities, and fiscal transfers. The bill also indicated the moribund nature of municipal affairs as follows:

In many states local bodies have become weak and ineffective on account of a variety of reasons, including prolonged supersessions and inadequate devolution of powers and functions. As a result Urban Local Bodies are not able to perform effectively as vibrant democratic units of self-government. (India 1991)

### **Institutional Reality**

The institutional reality of urban governance in India stands in sharp contrast to the lofty idealism of utilitarian philosophy. Colonial urban policy, as identified by Oldenburg, was designed to ensure the security and salubrity of the ruling class by an elaborate system of political control of all urban public institutions (Oldenburg 1984). These institutional objectives in the national capital territory of Delhi, which replicates the governmental arrangements in other urban centres of the country—albeit in a highly concentrated form—are summarized in Table 1. It will be noticed that the colonial authoritarian structure of urban governance is being continued even in the post-independence period. Such a form of governance is intolerant of any political opposition to the regime that is largely urban-based. Consequently, political power-sharing with decentralized urban institutions is resisted in a seemingly multi-level polity.

The only exception to the situation seems to be the management

system of Calcutta and Howrah municipal corporations with their cabinet-type municipal executives in the town halls and multi-party borough committees at the zonal level (Mukhopadhyay 1984, pp. 117–29). Whether this arrangement will survive in the event of different political parties controlling the state and municipal levels in Calcutta and Howrah remains to be seen.

### III INSTITUTIONAL STRUCTURE AND PERFORMANCE

#### **Typology**

Municipal institutions are set up in designated urban areas as defined by the census and also in areas of special importance as decided by appropriate government authorities. The census criteria for an urban area covers: (i) population size of 5000, (ii) population density of 400/per km<sup>2</sup>, and (iii) 75 per cent of the adult male population to be engaged in non-agricultural occupations. However, some state governments require an adequate level of potential income in the municipal authority to be created and also specify a higher level of population size.

On the other hand, there are no criteria to determine areas of significant urban characteristics such as temple towns, pilgrimage and tourist centres, rapidly industrializing areas and military stations. The small towns are covered under the discretionary criteria of urban settlement until these reach the required population threshold of about 10,000 for municipalization with fully elected councils. Again, when a municipal area reaches about 300,000 population it is generally considered fit for being accorded municipal corporation status. The distinction between a municipal council and a municipal corporation mainly rests in their different executive structure; and also in terms of their functional areas, tax powers and nature of state control.

The seventy-fourth Amendment now specifies the categorisation to be limited to three: (a) transitional urban areas will have town councils (*nagar panchayat*), (b) smaller urban areas would have municipal councils, and (c) larger urban areas would be covered by municipal corporations. The State governments would decide the criteria for different types of municipal institutions. In addition, it would be open to constitute industrial townships outside these three categories which need not be elected bodies. The position of the cantonments are left

Table 1. Public Institutional objectives in the National Capital Territory of Delhi

Colonial Public Institutions	Security		Salubrity		Control	
	Colonial	Post-Colonial	Colonial	Post-Colonial	Colonial	Post-Colonial
<ul style="list-style-type: none"> <li>• Cantonment Board (military station)</li> </ul>	<ul style="list-style-type: none"> <li>•To provide security to the ruling elite in the adjoining capital enclave democratic</li> </ul>	<ul style="list-style-type: none"> <li>•To assist civil power when requested, although poses threat to the native civilian government</li> </ul>	<ul style="list-style-type: none"> <li>• To ensure the special health needs of the Indian troops and to keep them away from population</li> </ul>	<ul style="list-style-type: none"> <li>•Being continued, although the original objectives are no longer sustainable  cantonment</li> </ul>	<ul style="list-style-type: none"> <li>•To create a nominated local authority primarily for the civil area within the chairman</li> </ul>	<ul style="list-style-type: none"> <li>•Being continued as part of an all-India policy, now it is partly elected with an ex-officio</li> </ul>
<ul style="list-style-type: none"> <li>• New Delhi Municipal Committee (capital city)</li> </ul>	<ul style="list-style-type: none"> <li>•To create a capital city which is physically separated from the old city and is easily defendable</li> </ul>	<ul style="list-style-type: none"> <li>• Being continued, but road linkages improved</li> </ul>	<ul style="list-style-type: none"> <li>• A cordon sanitaire between Old Delhi and New Delhi created through open spaces and zoning restriction</li> </ul>	<ul style="list-style-type: none"> <li>•Being continued, although open spaces are getting reduced</li> </ul>	<ul style="list-style-type: none"> <li>•To create a nominated local authority for ensuring central control</li> </ul>	<ul style="list-style-type: none"> <li>•Being continued: now half of the committee members are nominated from the general public with an official president</li> </ul>
<ul style="list-style-type: none"> <li>• Delhi municipal Committee (old city)/Municipal Corporation of Delhi (entire territory, excluding the military station and the capital city)</li> </ul>			<ul style="list-style-type: none"> <li>• Municipal Committee created for the old city to levy local taxes and for providing local civic services</li> </ul>	<ul style="list-style-type: none"> <li>•Municipal Corporation with enhanced powers of local taxation and functions: territory wide services largely under the corporation</li> </ul>	<ul style="list-style-type: none"> <li>•Elected body control exercised by the Dy: Commissioner (district officer) under the central government</li> </ul>	<ul style="list-style-type: none"> <li>•Being continued but all administrative control exercised by the Administrator-government appointed municipal executive as in rest of India</li> </ul>
<ul style="list-style-type: none"> <li>• Delhi Improvement Trust (old city)/Delhi Development Authority, Delhi Urban Arts Commission (entire territory, but effectively excluding the military station)</li> </ul>			<ul style="list-style-type: none"> <li>• Improvement Trust to decongest the old city</li> </ul>	<ul style="list-style-type: none"> <li>•Improvement Trust replaced by the Development Authority to develop the territory</li> <li>•DUAC created to preserve the architectural and garden city character of the capital enclave</li> </ul>	<ul style="list-style-type: none"> <li>•Under the central government: public land ownership to strengthen planning regulations and exclusive land use in the capital enclave</li> </ul>	<ul style="list-style-type: none"> <li>• Being continued</li> </ul>

unaffected by the seventy-fourth Amendment. Two problems remain unsolved in this context: (a) the justification for executive differentiation between the municipal councils and the municipal corporations, and (b) the democratization of the cantonment boards in future.

Apart from municipal institutions, the Indian urban scene is cluttered up with a host of para-statal and departmental agencies dealing with urban services, in addition to the general regulatory activities through the police and district administration, so much so, that the substance of urban governance really lies with the State government, rather than in the municipal institutions. Jones explains this phenomenon from his case study of Indore city politics:

The bulk of the important decisions affecting the city's political destiny are made externally, at higher levels of politics. In fact, the governance of the city ..... is essentially by the state government. (Jones 1974, pp. 363)

TABLE 2. Jurisdiction and Ownership of Special Authorities within Metro-Areas

Function	Delhi	Calcutta	Madras	Bombay
1. Water and Sewerage	UT (L)	M (S)	S (S)	S (S)
2. Bus transport	UT (N)	M (S)	M (S)	L (L), S (S)
3. Suburban railways	UT (N)	M (N)	M (N)	M (N)
4. Electricity	UT (L,N)	M (S), S (S)	S (S)	L (L), S (S)
5. Town planning	UT (N)	M (S)	M (S)	L (L), M (S)
6. Area development	UT (N)	L (S), M (S)	M (S)	M (S), S (S)
7. Housing	UT (N)	L (S), S (S)	M (S)	M (S), S (S)
8. Slum improvement	UT (N)	M (S), L (S)	S (S)	S (S)
9. Telecommunications	M (N)	M (N)	M (N)	M (N)
10. Industries	UT (UT)	S (S)	S (S)	S (S)

SOURCE. Datta and Chakravarty (1981)

NOTE. Outside notation indicates jurisdiction, notation within brackets indicate ownership.

L – Local, M – Metropolitan, UT – Union Territory, S – State,

N – National

An example of jurisdiction and ownership of special authorities in India's four metro-areas is presented in Table 2. Admittedly, the metropolitan areas are somewhat atypical of the urban institutional scene. In the smaller cities and medium-sized towns the municipal institutions would be responsible for a much wider range of urban services, but for existence of improvement trusts and the functioning of state-wide para-statal. Likewise, the smaller towns would be covered by the district-centred para-statal and state functional directorates operating through the district administration. Two issues appear important in this context: (a) depoliticization of urban development, and (b) extension of State functional domain.

The colonial distinction between local development and maintenance that gave birth to the urban improvement trusts and municipal statutory functional committees, was actuated by an altruistic bureaucratic belief in depoliticized urban development. After independence, this idea received additional support from the ruling politicians at the state and central levels through the perpetuation of non-representative development and functional authorities on grounds of their constitutional prerogative. This is what is termed by an analyst as the 'sovereignty trap' in describing the Indian urban political scene (Norman 1976).

The absurdity of the idea was challenged thus:

The argument that the local government bodies are political institutions and, therefore, not to be relied upon might have been valid in the heyday of improvement trusts before Independence but smacks of absurdity in the present context. (Datta 1974, pp. 120)

It was also pointed out that avoidance of municipal politics will only overload state politics where the issues may not be relevant:

Even if municipal politics is avoided by creating special purpose bodies the new organizations will soon get enmeshed in another style or level of politics. The great problem in a vast metropolitan community is not to avoid politics, but to have an arrangement of government through which political forces find meaningful expression. (Bhattacharya 1978, pp. 40)

Growth of functional para-statal and departmental agencies for urban services is also due to the desire of State functional departments

to create their exclusive domain, which is insulated from general government control by patron-client relations between the parent department and its dependent agencies. The idea that these authorities are not hemmed in by bureaucratic procedures would be generating additional functional resources, would enable induction of 'experts' and would be 'autonomous' in taking decisions, are all myths of public institutional development. The real purpose seems to be to widen the power domain of special functional interests at the cost of general government at the State and field administration levels, thus creating subsequent problems of resource allocation, personal management and institutional co-ordination (Datta and Chakravarty 1981).

### **Municipal Functions**

Following the British practice, municipal bodies possess legally delegated specific powers and functions under the doctrine of ultra-vires (Dillon's Rule) limiting local choice and diversity. The German doctrine of 'general competence', on the other hand, allows local authorities to undertake any activity that is not expressly reserved for the higher levels of government under legal or constitutional provisions. The earlier municipal legislations contain a residuary clause allowing them to promote the state health, sanitation, education, culture, welfare or convenience of the inhabitants of the municipality" (e.g. Bengal Municipal Act, 1932, Section 108) that would virtually cover the entire range of state list functions enumerated in the Constitution (Datta 1982).

Although in a constitutional sense all local functions are concurrent in nature, the process of legal delegation was expected to create an autonomous local authority. In practice this has not happened in India as, even when functions are expressly delegated to the municipal authorities, the state governments intrude into the municipal domain through parallel legislations or executive decisions to operate in the same functional area ('sovereignty trap'). Only in regard to such minor functions as disposal of the dead, or maintenance of cattle pounds, have the states not as yet shown any active interest (Datta 1984). This implies that although the system of functional delegation formally follows the British practice 'the unlimited encroachment into the municipal domain by the states approaches the Soviet system' (Datta 1984, pp.21).

TABLE 3. State-Municipal Functional Allocation

Constitutional Entries (Schedule 7)		Actual Functions	Functional Allocation	
			Existing (Schedule 7)	Proposed (Schedule 12)
II/1	Public order	• Fire services	mS	7M
II/6	Public health and sanitation; hospitals and dispensaries	• Public health, sanitation, consrvancy & solid wastes management	Ms	6m
		• Regulation of slaughter houses & tanneries	Ms	18M
		• Dispensaries, primary health centres	Ms	-
II/10	Burials and burial grounds; cremations and cremation grounds	• Burials & burial grounds, cremations, & cremation grounds	M	14M
II/30	Vital statistics, including registration of births & deaths	• Vital statistics, including registration of births & deaths	Ms	16 M
II/11	Education	• Primary education	mS	-
II/13	Communications	• Roads & bridges	Ms	4M
		• City transport	mS	-
II/16	Ponds and the prevention of cattle trespass	• Cattle pounds	M	15 M
III/17	Prevention of cruelty to animals	Prevention of cruelty to animals	S	
II/17	Water, that is to say, water supply, irrigation & canals, drainage & embankments, water storage & water power.	• Water supply for domestic, industrial and commercial purposes	Ms	5M

TABLE 3. Contd.....

Constitutional Entries (Schedule 7)		Actual Functions	Functional Allocation	
			Existing (Schedule 7)	Proposed (Schedule 12)
II 19	Forests	<ul style="list-style-type: none"> <li>Urban forestry, protection of the environment and promotion of ecological aspects</li> </ul>	S	8M
II 28	Markets and fairs	<ul style="list-style-type: none"> <li>Markets &amp; fairs</li> </ul>	Ms	—
II 33	Works, land & buildings vested in or in the possession of the state	<ul style="list-style-type: none"> <li>Property vested in or in the possession of the municipalities</li> </ul>	Ms	—
III 20	Economic and social planning	<ul style="list-style-type: none"> <li>Planning for economic &amp; social development</li> </ul>	S	3M
III 23	Social security and social insurance, employment and unemployment	<ul style="list-style-type: none"> <li>Safeguarding the interests of the weaker sections of society, including the handicapped &amp; mentally retarded</li> </ul>	S	9M
		<ul style="list-style-type: none"> <li>Poverty alleviation programmes</li> </ul>	S	11M
II 33	Theatres and dramatic performances entertainments & amusements	<ul style="list-style-type: none"> <li>Promotion of cultural, educational &amp; aesthetic aspects</li> </ul>	mS	13M

SOURCE: Datta (1992a)

M – Municipal, S – State. Capital letter indicates major responsibility, small letter indicates minor involvement

In spite of the long list of functions contained in the municipal legislations, the major functions that the municipal authorities actually handle are: (i) public health and sanitation, (ii) water supply and drainage, (iii) public works and roads, (iv) primary education, and (v) health clinics and maternity homes. Other functions are relatively minor or incidental to these main responsibilities. The usual practice is to divide the state functions into various sub-functions and delegate



some of these to the municipalities, sometimes retaining their development component and delegating only the operation and maintenance tasks. It is also a common practice to divide municipal functions into obligatory and optional ones. In practice this has only an accounting significance for maintaining an active list of the obligatory functions, since it is impossible to lay down objective standards of performance of the municipal regulatory, house-keeping and civic functions (Datta 1992).

We now turn to the constitutional design and operative aspects of state-municipal functional allocation as detailed in Table 3. It will be seen that the municipal bodies derive their functions not only from the State list (list II), but also from the concurrent list (list III) of the Indian Constitution (7th Schedule). The 12th Schedule under the seventy-fourth Amendment seeks to widen the municipal operative sphere into three new areas: (i) economic and social planning, (ii) care of the weaker sections, and (iii) poverty alleviation. On the other hand, municipalities are not being encouraged to widen their human development activities, especially in primary health care, nutrition, elementary and primary education and personal social services. The main thrust of the 12th Schedule seems to be to re-orient the municipalities from their earlier preoccupations with public health and sanitation to water supply, roads, physical planning and environmental control and shelter-related activities—a bias originating from the Central Ministry responsible for drafting the functional list.

### **Territoriality**

Big city governance in India encounters two types of areal problems: (a) decentralisation of city services, and (b) performance of metropolitan tasks. In both these directions the seventy-fourth Amendment seems to have broken new ground. What distinguishes the seventy-fourth Amendment's approach to the areal problems of large cities is its recognition to relate these to the existing local representative municipal councils and the future emergence of joint authorities to tackle metropolitan tasks.

● *Decentralization in big cities:* The problem of decentralization of big city services arises from the differential access and distribution of community services within the city jurisdiction. In a sense, this is an extension of such differentials between the urban and peri-urban areas

outside the legal city boundaries. Within Indian cities, the central or core areas and the government enclaves (i.e. the civil lines) have traditionally been favoured by the affluent, and municipal services are primarily oriented to these areas owing to rate-payers or elite pressures. As a result, the rest of the city is left with sub-standard quantity and quality of civic services (Misra and Sarma 1979).

Historically, two contrasting approaches were adopted by Calcutta and Bombay to solve this problem. Calcutta always resisted extension of its boundaries to cover the undeveloped suburban areas where smaller municipalities could cater to the specific needs of their poorer constituents. Bombay, on the other hand, extended its boundaries first to its immediate suburbs and then to its extended suburbs. Thus the civic budget is divided between the core city, suburb and extended suburb having 'differential standards of municipal services, with differential taxation' (Datta and Chakravarty 1981). Over the years these differences have narrowed down; Calcutta has extended its boundaries in phases, and Bombay has stopped expanding.

The other problem of inclusion of large rural territory within a designated city area is usually faced when a municipal council is upgraded to a municipal corporation status. But nowhere the problem is as acute as in Delhi where at the time of its incorporation in 1958, nearly 75 per cent of its area was rural—even now about 50 per cent of its area is rural. To extend and upgrade the civic services to reasonable urban standards in the rural areas, the city corporation has to spend enormous sums, both in investments and maintenance for which it is not compensated after a brief initial period. The representation of rural interests within the city corporation also creates anomalies in city governance.

Various attempts have been made by the big cities in India towards decentralisation of urban services (Abhijit Datta; Bappaditya Chakravarty 1981). By and large, these attempts are mainly for bureaucratic deconcentration, rather than towards political decentralisation. Only in Delhi and Madras, attempts were made for involving ward councillors in the zonal or circle committees, but due to long spells of supersessions of Delhi and prolonged supersession of Madras corporations, these experiments could not be worked out. The only example now of big city decentralisation comes from Calcutta and Howrah since the 80s, as was referred to earlier.

The seventy-fourth Amendment has broken new grounds in this direction by mandating for creation of elected ward committees and

zonal committees in the larger cities (with a population of 300,000 and over) and representing their chairpersons in the city councils. In doing so, the elected ward councillors are given primacy in area-level decision-making. Whether this will lead to political conflicts between the town hall and the zonal committees (group of ward committees) remains to be seen. Even if it does, this may be the only way to solve the differential area interests within the larger cities between the core and its suburbs, and also between its urban and rural interests.

● *Metropolitan tasks*: Indian interest in metropolitan development really started in greater Calcutta where the city refused to extend its boundaries to cover the 30-odd riparian municipalities on both sides of the Hooghly river. Even before independence, the Rowlands Committee recommended that '...the Municipalities in the industrial area be amalgamated into groups which will be sufficiently influential and resourceful to ensure a high and uniform standard of municipal services on both banks of the Hooghly. We believe that such amalgamation would result in increased efficiency, and in economy' (Bengal 1945).

The same problem engaged the attention of the urban planners in the mid-sixties when the Basic Development Plan for metropolitan Calcutta suggested that as many as 11 special-purpose bodies be created for planning, water and sanitation, traffic and transportation, housing, slum improvement, area development in three locations, new bridges, parks and recreation and education (West Bengal 1966). The preference for such an array of special authorities was traceable to the State functional interests, and also to the bias of the foreign consultants. How these authorities would sustain themselves on the limited urban revenue base, in competition with the existing multipurpose municipal bodies, did not restrain the planners. Also, the political problems of resource allocation and inter-institutional co-ordination have surfaced in later years whenever such a non-political approach to metropolitan tasks has been attempted through bureaucratic institutions.

The institutional alternatives attempted in the context of metropolitan Calcutta adopted two main approaches, (i) single city approach, and (ii) special authority approach. Within these two broad categories, three more sub-categories were added: single city-annexation, consolidation and joint ventures; special authorities—local, state and metropolitan. The conclusions are worth recounting:

- In any reforms of metro-governmental dimension, a *de novo* restructuring of all public agencies and authorities functioning within the metro area is involved.
- The political climate must be favourable for such a move, both at the State and local levels.
- The benefits of such reform would outweigh the internecine institutional conflicts in the metropolis.
- Once the outline of governmental reforms are clear, the question of fiscal reforms could be taken up.
- In undertaking such reforms, the colonial system of administration, with its attendant tilt in favour of the bureaucracy, needs to be corrected to usher in a system of responsible and responsive political executive at the local and metro levels (Datta 1977).

Later, an examination into the working of the four metropolitan development authorities in India revealed that:

In the fields of urban development, creation of the metro-authorities does raise the expectation of a break from the colonial legacy, here too one could point out a number of strands that are the logical culmination of colonial experimentations and practices.... but almost invariably justified on grounds of national integration, expediency and constitutionalism. (Datta and Chakravarty 1981)

A recent advocacy of the metropolitan view, on the other hand, suggests that there is a need for a purposeful system of metropolitan management to generate data, undertake planning, provide area-wide services, and secure institutional co-ordination, through capital budgeting by a metro-authority (Sivaramakrishnan and Green 1986).

However, this view has come under the criticism that '..... for a "metropolitan" development programme to succeed it may be necessary to initiate a programme of strengthening municipal bodies through their direct participation in development, and deal with some of the critical area-wide problems only selectively at the higher levels of government' (Datta 1987).

Apart from Calcutta, the experience of other metro-cities on metropolitan development might now be briefly touched upon. In Bombay, the earlier policy of city limit extension has recently given way to the constitution of a number of municipal corporations beyond the city limits. As was predicted earlier, '..... the BMC is faced with

the choice of either disintegration or creation of other municipal corporations around its borders (Datta and Chakravarty 1981, pp. 40).

In Madras the suggested solution was:

Assuming that the city corporation area would be kept undisturbed, two possible developments might be envisaged: (a) the entire MMA might conveniently be covered by the revenue district of Madras, thereby making it possible for a single rural district council to function, and (b) the new towns being developed by the MMDA might be accorded the status of municipal townships. (Datta and Chakravarty *op. cit.*, pp. 38)

So far no attempt at local government reorganisation in the Madras metropolis has taken place; this is, in part, to protect the institutional status of the Madras metro-authority.

In Delhi the suggestion was:

If the MCD is shorn of its Territory-wide functions, its internal territorial disparities and contradictions become obvious. The rural areas under its control could be organized as a separate rural government unit. The rest of the urban area might conveniently be regrouped to create a number of homogenous and viable municipal authorities..... (Datta and Chakravarty *op. cit.* pp. 31)

Since local government recognition in Delhi is tied-up with the issue of its political status at its territory level, there is a reluctance to take suitable steps in this direction. It is known, however, that the central government would like to break up the corporation into a number of smaller ones, but without touching the rural areas within the proposed new corporations (Datta 1992b). On the other hand, the political party dominant at the territory level resists the break-up of the corporation for fear of losing the political primacy of the old city (like the city of London) and shifting the locale of political power to the official city (like the city of Westminster). Also, in Delhi, the corporation is the only fully democratic political institution in the entire national capital region and its demise would be opposed on political grounds.

The political aspects of city and metro-authority relationships in these four metro-areas are also instructive. In Calcutta, the metro-

authority went into limbo once the corporation got elected in the early eighties. In Bombay, the metro-authority could not extend its operative jurisdiction within the corporation limits owing to political opposition from the corporation; and in Madras the corporation had to be superseded in the early seventies for the metro-authority to function—an action that still remains to be rescinded. Only in Delhi were the metro-authority and the corporation created at the same time in 1958. The creation of the former was justified on grounds of huge financial outlay, its limited jurisdiction only in designated areas and its temporary nature (Datta and Chakravarty pp. 46). The subsequent working relations between the corporation and the metro-authority in Delhi reflect the political power struggle between the territory and the centre.

At this stage it is worthwhile to mention the provisions of the seventy-fourth Amendment on metropolitan planning and development. It has been provided that all metropolitan areas with a population of one million and over, will have a metropolitan planning committee to prepare a draft development plan, which has to be approved by the concerned state government. The composition of this committee requires at least 75 per cent of its members to be drawn from the municipal bodies and *panchayats* in proportion to their population size, and the rest to consist of representatives of the state and central governments. The authority to act on the approved plan, however, rests in the respective municipal bodies and *panchayats*. The approval process is a mere indication of the commitment of development finance for the plan by the state and central governments.

Therefore, metropolitan development and its subsequent maintenance will henceforth be locally-based, and the existing single-purpose, multipurpose, and district-centred development organisation will undergo a change. At the same time, the capacity of the municipal institutions will have to be strengthened before they are able to substitute the existing state-sponsored, special-purpose institutional setup. Meanwhile, one might predict the future emergence of joint authorities of the local bodies in a metropolis to substitute the existing development and other functional authorities; some of these might like to act as such joint bodies in future, but their accountability would have to be local rather than translocal. One thing, however, is certain, the institutional dinosaurs of India's urban Jurassic Parks will not be the same in the coming decade.

## IV ACCOUNTABILITY IN URBAN GOVERNANCE

**Upward Accountability**

The structural distinction between the British and the French systems of local government have been blurred in operational terms, particularly since the eighties. In reality there seem to be basically two types of local government: one, local government with sufficient autonomy as in all liberal democracies, and two, local government that does not possess effective bargaining power, as in the authoritarian regimes (Regan 1987). There is little doubt that in India local government belongs to the second category in spite of structural differences between its municipal and *panchayat* components.

With regard to centre-local relations in the Third World, three models have been observed: (i) the overcontrolled, (ii) the undercontrolled, and (iii) the perversely regulated (Dillinger 1993). However, their divisions are not so clear cut. For example, municipal institutions of the southern Indian states could be placed under the first category, while those in the rest of India could be placed in the third category, although in matters of unbridled municipal supersession the distinction becomes artificial. Also, the functional overlaps between the state and municipal governments in India would come under the second category.

The Indian variations in State-Municipal relations in institutional and functional terms, in law but more so in practice, could be exceedingly complex, as was revealed in a study of four states with varying attitudes of the state functional departments towards municipal institutions:

Regarding State-Municipal Functional relations, Tamil Nadu and Maharashtra exhibit the common features of an integrative administration, although the general frameworks of State-Municipal relationship in these two States are not the same. In West Bengal, the general framework is liberal; the formal nature of State-Municipal relationship is integrationist; and the actual nature of State attitude to municipal administration verges on a *laissez-faire* policy. Only in Gujrat the general framework of intergovernmental relationship and State-Municipal functional relations strike a unifying note. It will be interesting to observe how in one specific state the different state functional departments conduct their relationships with the municipalities (Bhattacharya 1972).

The suggestion to make a single state study of state-municipal functional relations was made on the lines of a similar study conducted earlier in Britain (Griffith 1969). No such study has since been undertaken in India.

In the wake of centralization of the municipal personnel system, the state machinery for municipal supervision has been strengthened in a number of states through the creation of municipal directorates. Such centralization has had the unfortunate consequence of weakening the role of the executive chairmen of the municipal councils and correspondingly allowing the state governments to control municipal affairs from within. Also, these directorates in some states have been delegated the governmental powers of municipal supervision and control—a power traditionally reserved for the minister in a parliamentary democracy (Bhattacharya 1969b).

With the transformation of the states' erstwhile local government departments into urban development departments, the housekeeping role of states *vis-a-vis* municipal authorities has assumed an anti-municipal stance owing to their conflict of interests. In such a situation, it might be desirable to revert to the earlier arrangement of locating local government supervision responsibilities in a state housekeeping department, as in the case of the central home ministry dealing with centre-state relations (Datta 1980). The differences in the functional lists under 11th and 12th Schedules would then disappear and a uniform policy towards local government might emerge. Whether this will result in the unification of the local government system, as advocated earlier (Bhattacharya 1969a), will depend on the future of district administration in the country (Datta 1989).

### **Local Accountability**

The degree of institutional autonomy of municipal authorities may be gauged by the extent of their accountability to the local electorate. From this angle, the official centred executive in the municipal corporations negates local accountability and, therefore, institutional autonomy. This was forcefully expressed by the West Bengal minister while piloting the new Calcutta Municipal Corporation Bill in the State Assembly which provided for a municipal political executive:



Sir, the first requirement in a democratic society is that government, whether central or local, would be accountable to the electorate. One wonders how a local government which exists in name only and whose major powers and functions are statutorily assigned to a non-elected individual, no matter how dedicated he may be, can pass the acid test of accountability. (Calcutta Corporation 1980)

Since municipal management structure was left untouched by the seventy-fourth Amendment, it is difficult to see how mere democratization of the municipal councils and ensuring regularity of their elections could ensure local political accountability. Strengthening of municipal finance through the finance commission mechanism would presumably improve municipal effectiveness in the provision of urban services, but this would not ensure sensitivity to electorates' needs.

An alternative to local political accountability is to permit market forces to operate in the provision of municipal services so that the consumers may ensure market accountability in terms of their revealed preferences (Paul 1991). However, such a market solution is possible only in respect of purely private goods provided by the municipal authorities—an extremely limited option in India. Most of the municipal services are either public or merit goods where only the delivery system could be altered through partnerships with non-governmental organisations or the private business sector. But if the major responsibility for the provision of urban services lies outside the municipal sphere this privatisation of major urban services must also start at the state level. Apart from solid wastes management, other municipal services are not quite suitable for such competitive ventures.

#### V CONCLUSION

The following conclusions may be drawn from this study:

In the first place, it seems that the colonial mind-set is still dominant in the post-independence period among the bureaucracy and in the State governments. They prevent substantive changes towards decentralization in urban public institutions such as, the cantonments, district administration, improvement trusts/development authorities, and states' functional boards. The impact of economic liberalization and the changes envisaged under the seventy-fourth Amendment are yet to be felt in the municipal sphere.

Again, it is necessary to understand the *raison d'être* of the 73rd and seventy-fourth Amendments even in a limited federation such as India which seeks to empower both the central and local governments to promote participative democracy at the grass-root level. In future, the States are likely to be sandwiches between conditional central assistance for local government and political demand for greater decentralization from the newly elected local representatives. Therefore, even if the scope and contents of the seventy-fourth Amendment are somewhat modest in terms of decentralization, the unfinished tasks are likely to be resolved in the local political arena. As a reaction, this will generate pressures for structural changes in Indian federalism as well.

Finally, formal urban institutional reforms need to be matched by corresponding changes of their instrumentalities, that is, in the colonial bureaucracy in terms of its structuring, accountability, and exit policy. Similarly, the introduction of management incentives in municipal governments may have limited success so long as the overprotected colonial bureaucracy does not operate in a competitive organizational environment at all levels of government.

In short, despite recent conferment of constitutional status to Indian municipal authorities, the prevailing ethos and instrumentalities of urban governance in India continues to reflect patrimonialism which is inimical to the emergence of a civil society within a decentralized polity.

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# 4

## **Politics and Bureaucracy in Urban Governance: The Indian Experience**

ASOK MUKHOPADHYAY

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# 4

## Politics and Bureaucracy in Urban Governance: The Indian Experience

ASOK MUKHOPADHYAY

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### I INTRODUCTION

Urban governance connotes the process of governing the urban areas. It includes the functioning of the urban government (that is interplay of elective and bureaucratic elements in it) as well as the relation between it and the civil society. The actors in the urban economy and the citizens as consumers of civic services interact with local politicians and administrators managing the urban government, which is legally a creature of the higher-level state government. The nature of urban governance, therefore, is to be understood in terms of not only of the municipal management pattern but also of urban politics and bureaucracy vis-a-vis the civil society, the state-level political leadership, para-statal agencies engaged in planning and development of urban areas and, finally, of the over-all political culture.

### II MUNICIPAL MANAGEMENT PATTERN

At present there are two basic types of urban governments in India—municipality in small towns and cities, and municipal corporations in big cities.<sup>1</sup> The municipality has a directly elected council (board) which elects its chairman and forms the standing committees. The chairman enjoys full powers of decision-making and administration in consultation with the council and its committees. This is interpreted as the essence of local democracy. There are basically three management patterns in administering the municipalities. In some states the locally recruited bureaucracy assists the council and the chairman in the governance process, and functions under the total control and supervision of the chairman and the council. Under the second pattern, the chairman and council are assisted by a state cadre of municipal bureaucracy recruited and managed by the state. In a few other states, the top layer of the municipal bureaucracy is drawn from the national and state-level bureaucracy on a tenure basis (Mukhopadhyay 1985).<sup>2</sup> Under the unified or integrated municipal

personnel system, the executive officer comes from 'outside', virtually as an agent of the state government, and exhibits an attitude which is more state-oriented than municipality-oriented. He is likely to imagine himself as an officer of the state with the job of setting right the 'delinquent' councillors and the messy municipal administration. In governing a municipality town there is no division of powers between the deliberative and executive wings, and the authority and responsibility for taking and enforcing decisions in urban governance is diffused among the council, the chairman and the administrative staff. In practice, the chairman is the executive head and he supervises and controls the entire municipal administration.

In big cities, the management pattern reveals a sharing of governing power between the elected corporation, standing committees and municipal Commissioner who legally is one of the municipal authorities. The Commissioner enjoys all the executive powers and is not under the control of the mayor whose role is largely ornamental or of the corporation whose main job is deliberation. The elected councillors deliberate on policies and approve the budget but the Commissioner exercises executive powers. There is an intrinsic conflict between the Commissioner, who is usually an Indian Administrative Service (IAS) officer appointed by the state government, and the corporation which is an elected body. The municipal administration generally suffers from poor quality staff; it is very susceptible to local pressures; and has antiquated systems of internal management. The staff is poor because of low prestige, poor service benefits and usually poor working conditions. Management is difficult because the staff is appointed by the elected municipal authority giving little control to the executive. The elaborate separation of powers between the deliberative and executive wings reflects a bias against the role of politics in urban governance, and is only a compromise between the claims of democratic participation and the requirements of administrative efficiency. It has, neither in theory nor in practice, been a solution to the problem of democratic management of urban development.

Recently the mayor-in-council (M-I-C) form of the urban management has been adopted in West Bengal's municipal corporations (Mukhopadhyay 1985).<sup>5</sup> The full powers of governance, both policy-making and executive, are vested in the M-I-C while the municipal Commissioner heads the administrative wing and functions under the general control and supervision of the mayor who is the chief executive. This form of management empowers the mayor to choose the other

members of the M-I-C and distribute responsibilities among them. The M-I-C has been given three major roles to perform as the: (i) political executive, (ii) decision-making authority, and (iii) participant in management function. This system restores the much-needed nexus between urban management and politics and has been advocated on the grounds of better political accountability of the decision-makers in urban governance. The elected representatives of the people have been designated as the sole municipal authority for urban governance. Under this system there is a unified executive, and clear lines of responsibility, control and accountability have been established. The municipal commissioner, deputed by the state government, no longer enjoys the final authority in municipal administration but functions as a co-ordinating officer. The administrative heads of functional departments theoretically function under the dual control of their respective member of the M-I-C and of the municipal commissioner. But, in practice, they care more for the control exercised by the member of the M-I-C than for the commissioner's control. When there is any inter-departmental conflict in decision-making, the matter is settled for all practical purposes by the mayor, with or without the advice of the commissioner. The supremacy of the elected elements over the municipal bureaucracy in decision-making has been the hallmark of the management practices under the M-I-C system.

The M-I-C system of urban government has been functioning in Calcutta and Howrah since 1984, and the same pattern of management structure was introduced in 1994 in the newly-created municipal corporations of Asansol and Siliguri in West Bengal. It cannot, however, be said to have been fully tested, because the same combination of political forces called the Left Front has been in power since 1977–78 at both the state level and the city level. Hence there has been, till date, no occasion of confrontation between the state government and the municipal corporation. It remains anybody's guess how the state-city relation will take shape once two different political parties come to control the state government and the city government. Under the M-I-C system the traditional power of the state government to dissolve or supersede the municipal corporation has been retained. It would ultimately depend on the existing political culture—accommodative or confrontative—to give this democratic experiment a fair trial. The values, attitudes and habits of functioning of the political parties would significantly influence the nature of state-city relations in urban governance.

The overwhelming political control over urban planning and development exercised by the state-level leadership has not allowed the civil society's specific relation with the new pattern of urban management to be tested. In India, not much research has been done to discover the nature of relation between the commercial world as the main spokesman of the civil society and the urban government. But it is fairly apparent that the civil society in urban areas primarily looks to the state-level administration for protecting its interests, and seeks to exercise influence on the process of urban governance through the state-level political leadership and the para-statal agencies like urban development authorities.

### III MANAGEMENT UNDER SUPERSESSION

Both the municipal council and the municipal corporation are liable to be superseded by the State government on grounds of mismanagement. Municipal supersession is essentially political in nature. Its use is inextricably connected with the evolving political culture, that is, the nature of political power structure at the city level and its vertical and horizontal linkages. This power has so far been very liberally used by almost all state governments, mostly on party political considerations and sometimes on technical-administrative considerations. When a municipal council is superseded, the powers of the council are vested in an administrator, usually the sub-divisional officer, appointed either on a full-time or part-time capacity by the state government. In a superseded municipal corporation, the administrator is usually a senior IAS officer who just waits for his next posting and hardly takes his job seriously whatever he does, he does at the bidding of the state government (Mukhopadhyay 1986; Bhattacharya 1982).<sup>4</sup>

### **Decision Making**

In terms of the science of administration, decision-making in urban governance is both 'programmed' and 'non-programmed'. The functions, such as calling tenders and selecting contracts, billing for property taxes, issuing trade licences, arranging and maintaining municipal services, are, for the most part, 'programmed' and are under the jurisdiction of the municipal bureaucracy. Political leadership is given jurisdiction over 'non-programmed' decisions that relate to making options and assessing alternative courses of action in a



multichoice situation, and evaluating the potential outcomes by anticipating possible future consequences of action. Urban planning and development is an example of 'non-programmed' decision-making. Decisions in this respect are those concerned with levying taxes, sanctioning of building plans, approval of site development projects and new capital investment in municipal services. These are matters in which State government also has a say, directly or indirectly. The legislative scheme of urban governance is such that the state government can intervene in extraordinary situations and in crises of management can even pre-empt the decisional jurisdiction of the municipal government.

There is no reason to think that the municipal bureaucracy is a homogeneous power group. Sometimes there are competitions and conflicts within the bureaucracy itself. Municipal administration needs the services of both generalist and specialist administrators. The departments of conservancy, water supply, medical and public health, building, lighting, accounts etc. are headed by technical people. These specialist administrators usually harbour professional jealousy, and resent the bossism of the chief executive officer, his deputy superintendent and other generalist officers. The specialist administrators question the competence of generalist administrators while the latter complain against the former's narrow technical perception of civic problems and their larger implications for urban governance. It is not an uncommon experience in India's urban governance to find these two sets of officers suffering from their respective professional arrogance and also vying with each other to curry favour with the councillors and political executives. Sometimes technocrats throw a spanner in the works to create administrative difficulties for generalist executive officers and vice versa.

#### IV POLITICS AND BUREAUCRACY IN MUNICIPALITIES

So far as governance of smaller urban areas is concerned, the role of the bureaucracy has been minimal in the separate personnel system but important in unified and integrated personnel systems. In the separate personnel system it is easy for the elected councillors and the chairman to influence the quality of governance (Mukhopadhyay 1986).<sup>5</sup> This explains the corruption in urban governance in many small and medium towns. The chairman has the power as well as inclination to bypass the municipal bureaucracy, if and when found necessary. In big

cities also, this is possible. The councillors' interference with the work of the municipal executive was held to be at the root of Calcutta's manifold civic malaise such as inefficiency in service delivery, mismanagement and financial bankruptcy (Government of West Bengal 1949).<sup>6</sup> This kind of perspective led the rural-urban relationship committee to argue that politics and political parties weaken municipal administration. But the committee betrayed a pathetic lack of understanding of politics and the role of political parties in local government as it ignored vital questions regarding the sources and functions of municipal politics. The assumption of a political approach to urban governance had also long been a stumbling block to creative thinking about municipal politics and urban governance (Srinivasan Sharma 1965; Government of India 1966).<sup>7</sup> It can be argued that all the vices laid at the door of local government can be discovered also in the upper levels of government (Barfiwala 1954).<sup>8</sup>

In the unified and integrated systems there very often are tensions between elected leadership and bureaucracy leading to delays and deadlocks in urban governance (Mukhopadhyay 1985).<sup>9</sup> Councillors come in close contact with municipal bureaucrats mainly at the committee and ward levels. It is the councillors' anxiety to serve their constituencies which mostly brings them in conflict with the officials who belong to the state cadre and are eager to check the councillors' enthusiasm, ostensibly to uphold the norms of municipal administration. The bureaucrats bring in their own norms and sense of propriety which do not tally with those of councillors. Sometimes the bureaucrats challenge the councillors at the overt or covert instance of higher-level bureaucracy or state level politicians. On the other hand, there are instances when municipal administrators have to rely on the councillors for local data and information and political intervention in administrative situations. Councillors informally supervise municipal activities at the ward level and act as useful liaison points between the municipal bureaucracy and the citizens. It is the party political complexion of the state government and of the municipal council which determines the nature of tension or collaboration existing between politicians and administrators (Rosenthal 1970; Jones 1974).<sup>10</sup> Whenever the political leadership in municipal government is divided and weak, the municipal bureaucracy asserts its powers and also exercises influence by playing one group of councillors against another. In such situations the bureaucracy tries to function in an 'autonomous' manner, thereby either protecting citizens' interests against corrupt councillors

or jeopardizing democracy in urban governance.<sup>11</sup> The worst thing happens when the elective and the bureaucratic elements manage to come to some sort of an understanding on the principle of 'live and let live' and share the loaves and fishes of office. An unholy alliance between politics and bureaucracy destroys both the efficiency and participative value of local government (Sharpe 1970).<sup>12</sup>

#### V POLITICS AND BUREAUCRACY IN MUNICIPAL CORPORATIONS

The rationale behind the separation of powers between the executive wing and the deliberative wing of Indian city government is to eliminate the authority and interference of councillors in administrative matters (Vajpayi 1966; D.P. Singh 1968).<sup>13</sup> There are both overlapping and segmented jurisdictions allotted to the corporation-committees mayor on the one hand and to the municipal commissioner on the other, in the administration of big cities. The functions of urban governance are of such a nature as to admit of overlapping powers and jurisdictions of the deliberative and executive wings of big city government (Ashraf 1977).<sup>14</sup> The commissioner has to act as the eyes and ears of the state government and he is tempted to confront the elected local leadership, the experience of governing Calcutta in the fifties and sixties is an eloquent testimony to this. The problem of deliberative-executive relationship in municipal government, especially in corporation cities, has been found to be a major area of tension (Rosenthal 1976).<sup>15</sup>

Until recently, the overall Indian experience has been that regular election of municipal bodies is a rare phenomenon, West Bengal in the last decade being an exception. The situation is expected to change in favour of regular election under the seventy-fourth amendment to the Constitution of India. When a municipal body remains under supersession, the municipal bureaucracy exercises full power of urban governance. Experience suggests that this state of affairs nowhere leads to better governance in any sense of the term. Collection of taxes, maintenance of civic services, enforcing discipline and minimizing corruption are not necessarily carried out more efficiently, as illustrated by the experience of Calcutta corporation under supersession from 1972 to 1978. Rather, a semblance of administrative discipline is restored and civic services better performed only when there is an elected popular leadership which remains accountable to their political masters at regular intervals.

The mayor-in-council pattern of urban management, as a viable and acceptable mode of urban governance, seems to be the trend of the future. More than once, the all-India mayors' conference has already voiced its unanimous demand for the introduction of the M-I-C model throughout India. The elected and accountable leadership in a competitive democratic political set-up would be alert and responsible in dealing with citizens' needs, and courageous and responsive in dealing with the bureaucracy which would be functioning under its general control and supervision. In this connection three crucial questions may be asked: (a) Does democratic participation increase administrative efficiency? (b) Are its consequences conducive or obstructive to administrative efficiency? and (c) Are the role and behaviour of elected representatives conducive to good governance?

The organization and management pattern of urban government and the nature of urban politics may be able to provide an answer to these questions. The requirements of good governance are (i) efficient fulfilment of public goals, and (ii) ensuring public accountability. These two objects can be realized only through the rule of elected politicians controlled by party discipline. The M-I-C form of urban government satisfies these criteria. 'Efficiency' is a complex concept and it is not the only value in administration (Self 1977).<sup>16</sup> Liberal political philosophy places its faith in the primacy of political participation over administrative efficiency in local government. Its classic example is found in Lord Ripon's Resolution (1882) which advocated the establishment of local self-government institutions by providing for the right of ratepayers to choose their representatives on municipal councils and reducing the official element in local bodies. It is remarkable in its clear articulation of the liberal faith in the primacy of political participation over administrative efficiency in local administration. The resolution declared 'It is not primarily with a view to improvement in administration that this measure is put forward and supported. It is chiefly desirable as an instrument of political and popular education (Ripon Resolution 1930).'<sup>17</sup>

The essence of the point still remains relevant. The elected elements in urban government not only act as an instrument of political and popular education but ensure public accountability which is as much necessary as efficient fulfilment of public goals.

## VI CITIZEN PARTICIPATION

Experience gained so far suggests that fuller democracy and citizen participation can be achieved through urban community development projects. The improvement of the quality of life in traditional areas of a city can be accomplished most effectively with the full and equal participation of the people. Through a genuine partnership planning and executing the improvements, there seems to be a greater possibility of minimizing the disruptive and traumatic effects of change and the unanticipated consequences of planned social change (Cousins 1981, Mukhopadhyay 1993).<sup>18</sup> Urban life in India still retains elements of rural orientation as well as social mobilization. The emergence of new forms of voluntary associations organized by political parties and trade unions represent new social forces in urban life. The decline of some old social forces facilitates the impact of mass politics on urban governance. These developments cause discontinuities in its power structure. In the emerging political culture of India in the wake of policies of liberalization and globalization, the non-government organizations (NGO) and community-based organizations (CBO) are likely to play a greater role in urban management in future. But the success or failure of the new pattern of interaction between politics and the bureaucracy depends upon the overall political culture prevailing at a particular time and place. While the structure of a municipal corporation *formally* separates administrative and political actors, municipal councillors manage to influence the character of administrative behaviour (Church 1976).<sup>19</sup> They bring to bear a set of political and personnel resources in order to force administrators to approach problems of decision-making in a manner that usually individualizes decision-making for particular groups or individuals—what is sometimes seen as humanizing decision-making. As Rosenthal has argued, though administrators tend to view such individualization of administration as inappropriate, this is a major societal function performed by municipal politicians in an otherwise highly bureaucratized situation (Rosenthal 1976).<sup>20</sup>

## VII COUNCILLOR-BUREAUCRAT INTERFACE

Essentially a prismatic society by nature, India is experiencing a serious lack of balance between the rate of political development and bureaucratic growth. Bureaucracy at the local level has been expanding in size and given more responsibilities at the cost of its efficiency and

especially its ability to stand up to the pressure of self-seeking politicians. Municipal administration is exposed to the direct gaze of councillors at several points. It is useless to talk about deliberative-executive separation. Ali Ashraf's inquiry into the patterns of dominance, interests and values of municipal leaders in Calcutta corporation between 1924 and 1964 and the mechanisms of their control over the municipal bureaucracy reveals interesting information on politics and bureaucracy in urban governance. He has shown how the mechanism of control is determined by the social and political affiliations of municipal leaders. The councillors and standing committee members try to influence the bureaucracy in respect of the priorities of development expenditures, award of contracts, assessment and valuation of property and promotion and disciplining of employees. The mechanisms of influence range from personal request to open threats of political revenge (Ashraf 1966).<sup>21</sup>

The general experience has been that there has been a sort of reversal of roles of local politicians and bureaucrats in urban governance in that local politicians are seen to be interested more in such matters as tenders and contracts, sanctioning of building plans, recruitment, transfer and posting of staff and employees and disciplinary control over them, sale of municipal lands and properties and such other functions that traditionally belong to the sphere of the bureaucracy. On the other hand, the bureaucracy plays a crucial role in policy matters affecting urban governance and also in the planning and development of urban areas. Sometimes a strange duality in the councillors' role is noticed. Ali Ashraf found that when it came to examining civic projects in detail, the councillor-members of the committees and the councillors of the corporation had hardly any time to go through the intricacies of a matter; by contrast, councillors showed considerable activity and vigilance where their particular constituency or other interests were specifically affected. This is nothing very surprising. City councillors in western cities spend some of their time in meeting citizens to hear mundane grievances but that does not take all their time since they are not involved in routine administration (Rees & Smith 1964; Hecló 1969).<sup>22</sup> But research evidence suggests something peculiar in Indian experience. Roderick Church finds that virtually the entire job of the Indian city councillor revolves around administration.

The councillors usually show little concern with policy, general issues or matters that do not concern the immediate allocation of municipal services. Instead they are output-oriented and concerned with administrative demands and the outcomes of administrative decisions (Church 1976).<sup>23</sup>

Rosenthal's study of Agra and Poona corroborates Church's viewpoint. He finds that:

Much of the corporators' actual work involves efforts on their part to particularise bureaucratic performances. Pressures may be exerted on local administration by local groups, through friendly official ministers in the state government through party contacts, but the most institutionalised form of making demands on the municipal administration is through the corporators. Indeed, many corporators see such activities as the primary aspect of their role (Rosenthal 1970).<sup>24</sup>

Philip Oldenburg's study of the different participants in the city government of Delhi at the ward (neighbourhood), zonal and headquarters level has revealed that the councillor is, effectively speaking, the municipal administration at the ward level. His *political* role is all-pervasive. The deliberations at the corporation and committee meetings are primarily concerned with deliberation, legislation and policy-making. But the councillors actually discuss many things, including 'executive' matters. As a linkman between the citizen and the administrator, the councillor interprets the problems of his constituents and asks the officer to attend to those. The officers also find this role of the councillor quite helpful in bringing to their notice information about the people and the problems of the locality. At the zonal-level meetings the councillors and the officers come in close contact and work in consultation with one another. At the ward level the councillor keeps a watch on what the officers do and virtually plays the role of member in the administrative process. As Oldenburg notes, the basis of the councillor's power over the officers is threefold. The councillor's expertise, his influence over transfer and promotion of officers and his ability to 'expose' or 'slander' the officer (Oldenburg 1978).<sup>25</sup>

Church has given several reasons for the Indian city councillor being so involved in administration rather than in policy matters:

First, financial and legal restrictions imposed by state governments severely limit the ability of municipalities to make important decisions about priorities in public policy. This means the councillor is not especially likely to be involved in policy-matters or to consider policy-making an important part of his role. Second, .. The problem is acute scarcity and the fact is that many perfectly legitimate demands must go unfulfilled. In this situation the councillor becomes an additional lever of influence for citizens with demands, and he necessarily becomes involved in administering scarcity. Third .. General inefficiency and corruption in municipal administration, together with interference in administration by other councillors, means the councillor cannot rely on rules and policy guidelines to ensure that his constituents receive their share of civic services. There is usually a large gap between policy and what eventually emerges at the administrative level. For a councillor to content himself with policy matters and to leave administration to others would be the height of folly (Church 1976).<sup>26</sup>

Councillors exercise influence over administrators in a number of ways and they realize that most administrators play a political game. Apart from personal friendship, councillors use coercive means such as political backing, agitation and blackmail to get their demands attended to by the officers.

If the functional roles the municipal councillors *actually* play is taken into account, they are generally found to be playing four types of roles: (i) ombudsmanic role, (ii) managerial role, (iii) legislative role and (iv) political role. The councillor very often acts as the grievance-redressal man for his constituents; this role is most conspicuous at the ward level. Second, the councillor participates in decision-making at the committee level. Third, at the council meeting the councillor takes an overall city-wide view of the major problems. Fourth, as essentially a political animal involved in conflict situations, the councillor takes a *partisan* view of governance, which the administrators resent as undue interference in administration (Bhattacharaya 1982).<sup>27</sup>

Bureaucrats, in practice, play multiple roles in administration. They pre-eminently function as adviser to their political executives. The politicians have many sources of advice and bureaucracy is an important source. Bureaucrats monitor the state of affairs within their departments and serve as an important antenna to feed the political executive. They are in contact with not only the persons and problems within the municipal government but generally keep a close watch on



the reactions of the civil society generated outside it. They know the rules and regulations and also interpret them as and when necessary. Second, they function as diplomats in the local community. They have to face the pressures of the civil society, talk with the people who matter within and outside the municipal government, receive memoranda and petitions and negotiate over the demands in accordance with the broader policy frame determined by the political executive. Where the municipal commissioner is vested with full executive powers, he plays this role almost independently and indicates through his 'diplomatic' moves how much of the demands upon the municipal government can be accepted and how much of the pressures can be accommodated. In small and medium municipalities also, the bureaucracy is seen to be playing this role quite successfully within the parameters set by local politics. Third, a successful bureaucrat also has to play the role of a scholar and a barrister. He collects and collates data about the problems and policies which he handles and prepares the brief for the mayor or the member of the M-I-C or, in a municipality, for the chairman and the council. If the issue is not politically sensitive, the political design-makers prefer to be guided by the notes and briefs prepared by the bureaucracy. The task of urban governance, especially in big cities, is so complex as to necessitate the participation of outside groups in such municipal activities as poverty alleviation programmes with socio-economic contents. By education and training, bureaucrats are in a better position than politicians to tackle the NGOs and CBOs working in urban governance, especially in regard to legal and financial problems. When the big cities are involved in the globalization policies of the government, the municipal bureaucracy has to function as a serious partner of the political executive in negotiating and implementing urban development programmes.

#### VIII URBAN DEVELOPMENT AUTHORITIES

In India, the management of urban infrastructure has not remained under the exclusive jurisdiction of the municipal government. The policy of integrated urban development programme has produced, since the seventies, a large number of urban development authorities in big, medium and growing towns, and metropolitan development authorities in metro cities. These development authorities have been set up with interdisciplinary expertise for planning, co-ordinating, implementing (where necessary), funding and supervising urban development

programmes. An understanding of the urban development authorities would help illuminate the nature of an important part of urban governance in India and facilitate the answer to the question of 'who gets what, when and how' in major Indian cities.

These development authorities were justified as ideal administrative instruments to carry out urban extension schemes, leaving the core city in the charge of the municipal government. Urban development was sought to be kept separate from urban politics, mainly following the colonial tradition of improvement thrusts. These development bodies are nominated by the state government, bureaucratic in composition and unaccountable to the local people. But as planning and development process becomes complicated, and more and more citizen participation is demanded, these bodies prove to be politically counterproductive. These bodies play an important part in urban governance but they are far away from people's participation and response. In their working they are insulated from local politics but are heavily influenced by state-level politics. They often function in an authoritarian manner in making decisions on capital budgeting *vis-a-vis* the local civic bodies, and they release funds on condition of scheme-vetting and monitoring by them. Experience suggests that these bodies do not augment the management capacity necessary for urban governance. While giving constitutional recognition to the urban local government, the seventy-fourth Constitutional Amendment remains silent on the role of the development authorities *vis-a-vis* an elected municipal government. It is relevant to note here that, the Development Authority must receive inter-institutional legitimacy and acceptance in the governmental framework by which alone it can achieve the credibility of commanding and orchestrating the total urban programme (Biswas 1982.)<sup>28</sup>

The existing development authorities, however, fail to pass through this acid test since bureaucracy dominates in this aspect of urban governance.

#### IX MAYOR-IN-COUNCIL AT WORK

The M-I-C system, working for the last 10 years in Calcutta and Howrah, seems to have been accepted as a better management pattern by both the politicians and bureaucrats. The reasons for the politicians positively preferring the new system are mainly two. First, under the previous system the councillors had to approach the commissioner and

request or cajole him to undertake development work in their constituencies and to attend to citizens' complaints. As the supreme commander of municipal administration, the commissioner used to exercise considerable discretion in accommodating or rejecting the councillors' requests and demands. Under these circumstances two possible consequences could result: either the councillors would develop some sort of understanding with the commissioner, sometimes leading to administrative malpractices or they would engage in constant confrontation with the commissioner, most often leading to administrative tensions and sometimes creating deadlocks. The commissioner, conscious of his powers and prerogatives and serving on deputation, very often did not care to redress the councillors' grievances, nor did he have much stake in his job as the head of the municipal executive. If the commissioner happened to enjoy the confidence and backing of the state-level political leadership, he could easily ignore or resist the demands of the elected councillors and also of the mayor. The powers and style of functioning of the commissioner typified the politically irresponsible municipal administration. The M-I-C system has done away with this institutional anachronism and has allowed the elected councillors to play their representative role more meaningfully.

Recent inquiries suggest that the councillors are happy in having a larger political role in as much as they have their own elected members of the M-I-C as the political heads in charge of functional departments of municipal government. Their approaches to the political executive are now political and they receive much more attention from departmental heads than before. As a result, not only is the councillors' self importance gratified, but, more importantly, citizens' complaints are attended to much more quickly and satisfactorily than before. The high-handedness of the municipal bureaucracy has been significantly reduced.

On the other hand, most of the municipal bureaucrats, especially the middle-level officers, also find the M-I-C system definitely better than the previous system. Now the technocrats and administrators can have access to their political executive much more easily than they could to the commissioner under the old system. Experience shows that the municipal officers are now in a better administrative position to understand the thinking of the political executive, and they find wider scope and more time to discuss both contents and implementation of policies. For the middle-level officers, who

constitute the real backbone of administration in a municipal corporation, it has been a more satisfying professional experience to discuss points with a responsible political figure engaged whole-time in municipal management, and also having local political roots, than to receive orders from the commissioner who belongs to the superior civil service and functions under the remote control of the State government. This especially has been the experience of technocrats in the municipal administration. The decision-making process under the M-I-C system has been more open and less suffocating in so far as the specialist administrators feel more easy and less inhibited working under a political boss than under an IAS boss. The professional tension and rivalry between the generalists and specialists are remarkably less now than before.

Again, decision-making is quicker as the officers can take decisions after consulting their member of the M-I-C. Under the previous system, there used to be procedural delays as files had to be submitted to the Commissioner who then gave his ruling on them. Moreover, as local political leaders, the members of the M-I-C themselves take an interest in nursing their constituencies and meeting citizens' demands. Very often they, on their own, ask their departmental officers to take prompt decisions to attend to citizens' complaints. The people are thus better served under the M-I-C system of urban management.<sup>29</sup>

#### X URBAN POLITICS

De-bureaucratization' as a politico-administrative process in urban governance appears to be more a chimera than a reality. The traditional 'plural' society consisting of castes, linguistic groups, ethnic and religious communities is undergoing rapid transformation under the impact of India's urbanization process and the interplay of party politics. But these processes have not led to full social mobilization of urban dwellers in Indian cities. Ethnic, linguistic and occupational identities create separate foci of urban politics which the municipal bureaucracy is constrained to take into account in its encounter with the municipal leadership. Different models of urban politics such as 'patronage politics', 'accommodation politics' and 'confrontational politics' are seen to prevail in different contexts depending on the overall nature of state politics and political culture (Rosenthal 1976).<sup>30</sup> In most cases there have been frequent clashes, conflicts and misunderstanding between the two elements. Instead of trying to develop a culture of co-operation, each element has sought to rule over

the other, leading to the steady growth of a culture of mutual suspicion and studied avoidance. Doniad Rosenthal's study of administrative politics in Poona and Agra clearly appreciates the close relationship between politics and administration. He maintains that where the state-level political leadership is effective in its own sphere (as in Maharashtra), the quality of municipal administration has a respectable reputation. This is in contrast with the situation in Uttar Pradesh where the political leadership is deeply divided and apparently makes use of the bureaucracy to advance factional interests, rather than meet the administrative commitments to the public (Rosenthal 1978).<sup>51</sup> The politics-bureaucracy interaction in Indore municipal corporation has been studied by Rodney Jones who has found that municipal politics as such is no autonomous political phenomenon and is essentially linked with the state-level political process (Jones 1974).<sup>52</sup> Therefore the point is, that understanding the processes of urban governance needs the study of both state and city politics.

#### XI CONCLUSION

Good governance of urban areas is frustrated by a variety of factors, of which politics-bureaucracy interaction is a significant one. The roots of conflicts between politics and bureaucracy in India's urban governance, if adequately researched, would illuminate the ramifications in it of politics and the role of local elites and the bureaucracy, their values and orientations, their interests and their mechanisms of control over urban governance.

'Governance' is basically the process of the state authority exercising coercive power and civil society, encompassing the private sector economy and groups and individuals, pursuing their economic goals. In the context of increasing liberalization and globalization the civil society in India is sure to assert itself, giving a new twist to urban governance. Democratic values are likely to gain in strength. More accountability and greater transparency in decision-making would require open government and people's participation in governing India's urban areas. The seventy-fourth Amendment to the Constitution has made a small beginning by recognizing the role of municipal governments in the process of planning and development of urban areas. The interplay of politics and bureaucracy, conducted with diverse nuances in different contexts, are crucial in determining the nature and style of urban governance which, in its turn, largely depends on the nature and essence of the overall political culture of a society.

## End Notes

1. The other two traditional forms of urban government, namely, 'notified area authority' and 'town committee' have gone out of existence with effect from 1st June 1994 under the Nagarpalika Act 1992 (Constitution Seventy-fourth Amendment Act). This act also provides for a third variety called nagar panchayat for small towns in a phase of transition from a rural area to an urban area.
2. For a detailed discussion of these three varieties, see Asok Mukhopadhyay, *Municipal Personnel Administration*, New Delhi: Indian Institute of Public Administration, 1985, Ch. 2.
3. For detailed discussions, see Nagarlok (New Delhi), Special Issue on Mayor-in-council, October–December 1981; also Asok Mukhopadhyay, *Municipal Personnel Administration*, New Delhi: Indian Institute of Public Administration, 1985, pp. 9–26.
4. For a discussion on the role of municipal Chairman, see Asok Mukhopadhyay, *Municipal Management and Electoral Perception*, Calcutta: World Press, 1986, Ch.2; also Mohit Bhattacharya, Role of Municipal Councillor in Urban Development, *Nagarlok*, July–September 1982.
5. Asok Mukhopadhyay, *Municipal Management and Electoral Perception*, Calcutta: World Press, 1986, Ch. 2.
6. Government of West Bengal (LSG Dept), *Report of the Calcutta Corporation Investigation Commission*, Calcutta, 1949.
7. Government of India, *Report of the Rural-Urban Relationship Committee*, New Delhi, 1966; also R. Srinivasan and B.A.V. Sharma, 'Politics in Urban India: A study of four Corporations', in S.P. Aiyer and R.Srinivasan (eds.), *Studies in Indian Democracy*, Bombay, 1965.
8. C.D. Barfiwala's note of dissent in *Report of the Committee on the Relationship between State Governments and Local Bodies*, Government of India, New Delhi, 1954.
9. Asok Mukhopadhyay, *Municipal Personnel Administration*, Ch. 5.
10. R.Jones, *Urban Politics in India: Area, Power and Policy in a Penetrated System*. Univ of California Press, 1974; also D.B Rosenthal, *The Limited Elite: Politics and Government in Two Indian Cities*, Univ of Chicago Press, 1970.

11. Karl Marx theoretically visualised such a role of bureaucracy in special political situations in his *The Eighteenth Brumaire of Louis Bonaparte*.
12. For a discussion of these values, see L.J. Sharpe, 'Theories and Values of Local Government', *Political Studies* (Oxford), June 1970.
13. R.B. Das and D.P Singh (eds.), *Deliberative and Executive Wings in Local Government*, Institute of Public Administration, Lucknow University, 1968; also D.K. Vajpeyi, 'Municipal Corporations in Uttar Pradesh: Elected Representatives and Executive Officers', *Journal of Administration Overseas*. October 1966.
14. Ali Ashraf, *Government and Politics of Big Cities: An Indian Case Study*, 1977, Ch.5.
15. D.B. Rosenthal, *The Limited Elite*; also Philip Oldenburg, *Big City Government in India: Councillors, Administrators and Citizens in Delhi*, New Delhi: Manohar Publication, 1978; and Ali Ashraf, op. cit.
16. Peter Self. *Administrative Theories and Politics*, London: George Allen & Unwin. 1977. Ch.8.
17. United Kingdom. The Ripon Resolution (1882) quoted in the *Report of the Indian Statutory Commission*. 1930. Vol. 1. London.
18. W.J. Cousins, 'Community Participation in Urban Development: The Next Step', *Nagarlok*, July–September 1981; Ashok Mukhopadhyay, 'Community Participation in Urban Development' in B. Mohanty (ed.), *Urbanisation in Developing Countries*, New Delhi: Concept, 1993.
19. R.Church, 'Authority and Influence in Indian Municipal Politics: Administrators and Councillors in Lucknow' in D.B. Rosenthal (ed.), *The City in Indian Politics*, Thomson Press (India), 1976.
20. D.B. Rosenthal, *The City in Indian Politics*, Introduction.
21. Ali Ashraf, *The City Government of Calcutta: A Study of Inertia*, Bombay: Asia Pub., 1966, pp. 50–51.
22. A.M Rees and T.Smith, *Town Councillors*. London: The Acton Society Trust, 1964: H.Hugh Hecló, 'The Councillor's Job', *Public Administration* (London), Summer 1969.

23. R. Church. *op. cit.*
24. D.B. Rosenthal, *The Limited Elite*, pp. 119.
25. P. Oldenburg, *op. cit.*, pp.73.
26. R.Church. *op. cit.*, pp.174.
27. Mohit Bhattacharya, 'Role of Municipal Councillor in Urban Development', *Nagarlok*, July–September 1982.
28. Kalyan Biswas, 'Urban Development Authorities', *Urban India* (New Delhi ), vol 2 (2), June 1982.
29. This review of the functioning of the M-I-C system is based on interviews with the councillors and administrators of Calcutta Municipal Corporation in May–June 1994.
30. D.B. Rosenthal (ed.), *The City in Indian Politics*, Introduction.
31. D.B. Rosenthal, *The Limited Elite*.
32. R. Jones, *Urban Politics in India*.



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## **Access of Urban Poor to Basic Services: An Analysis in the Context of the Changing Perspective of Urban Governance in India**

AMITABH KUNDU   ■   SHIPRA MAITRA

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## **Access of Urban Poor to Basic Services : An Analysis in the Context of the Changing Perspective of Urban Governance in India**

AMITABH KUNDU    ❑    SHIPRA MAITRA

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### I. INTRODUCTION

In recent years decentralization has become the keyword for urban governance in India. The issue has come to the forefront of national debate with the passing of the seventy-fourth Amendment to the Indian Constitution at the central level and of corresponding legislations, legislative amendments, ordinances, etc. at the state level. It may be noted that the attempts to bring about the decentralization of administrative and planning responsibilities, by assigning these to elected local bodies, started sometime in the mid-eighties. Certain manoeuvres by the central government to establish direct contact with local bodies, by-passing the 'unfriendly' governments at the state level, emerging out of the short-run exigency of the situation, also contributed to the process. With the decline in budgetary allocation to the urban development sector and reduction of subsidies for certain infrastructural and basic amenities in the early eighties, the private sector made its presence felt in the field. Furthermore, the state-level agencies, created during the sixties, which had taken over many of the functions of local bodies, came in for sharp criticism on grounds of inefficiency, lack of cost effectiveness and continual dependence on governmental grants. The 'financial discipline' imposed by the central government and Reserve Bank of India forced these public agencies to generate resources internally, or borrow from financial institutions and, in a few cases, from the capital market. As a result, the cost of institutional borrowing significantly increased, hindering their expansion and sometimes adversely affecting their normal functioning.

The limited withdrawal of the state created a vacuum which was sought to be filled by private agencies, local bodies, community-based organizations (CBOs) and non-governmental organizations (NGOs). The adoption of the policies of economic liberalization in 1991 further reinforced this trend. Facilitating the entry of private entrepreneurs and strengthening the political and financial base of local government, NGOs, CBOs etc. thus became a political necessity. Empowerment of

local bodies and other organizations at the grass-roots level to undertake development and maintenance functions, and assuring them of financial powers through constitutional/legislative provision may, therefore, be seen as a culmination of this process of economic liberalization in the country.

The access of the bottom 40 per cent of the Indian population to infrastructural facilities and basic amenities has been low (Kundu: 1993). This is often believed to be so *because of* planned interventions and not *in spite of* them. Activating the market forces and injecting efficiency and accountability into the functioning of public agencies are, therefore, expected to increase the total production of these services which ultimately will benefit all sections of the population, including the poor.

The alternative viewpoint here is that the present level of deprivation of the poor is a consequence of the failure of planning, or of it being hijacked by market forces. Scholars have argued that excessive bureaucratization, corruption, domination by vested interests etc. need not necessarily be considered an integral part of planned intervention. It is also argued that an increasing reliance on the market for basic services reduces their availability to the poor. Public agencies in the past, even when backed by subsidized funds and other concessions, were not able to reach them. One important reason for this was that the cost of these services still worked out to be higher than what the poor could pay or were willing to pay. The benefits of the system, therefore, often 'trickled up' to people in higher-income brackets. Opening up of the market for the provision of the facilities is, in fact, likely to make them more unaffordable.

It is impossible conclusively to demonstrate how the changes in the nature of governance in recent years have affected or are likely to affect the access of the poor to basic amenities. This is because temporal data on the level and quality of the facilities reaching people in different income or expenditure brackets are not available. A seven-year period of structural adjustment is too short to make any judgement, especially since no systematic collection or tabulation of information has been made with this objective in view. As a result, scholars take positions mostly based on their predispositions. Indeed, the issues at hand are so critical that the people cannot afford to wait for reliable data to assess the impact of the new system of governance on the availability of basic services.

In this chapter, an attempt has been made to analyse the possible effects of the changes in organizational structure and policies on the access of the urban poor to basic amenities. This has been done primarily using the information pertaining to the functioning of the concerned agencies, and the structure of programmes and schemes. In the absence of quantitative data on the levels and quality of facilities, disaggregated by income groups, the deductive inferences arrived at through an analysis of the changes in organizational structure and nature of the schemes would be useful. In section 2, following the present introductory section, an attempt is made to look at the existing organizational and financing systems designed for the provision of basic amenities, and the changes brought about therein in recent years. The possible impact of the seventy-fourth Constitutional Amendment on the systems is also discussed. Section 3 briefly reviews the functioning of the programmes and schemes, highlighting, once again, the modifications/ alterations introduced in the late eighties and early nineties. In both the sections, the focus is on how the recent changes would affect the availability of the amenities to the poor. In the last section, the demands made by the poor on urban governments and the impact of changes in urban governance on the access of the poor to basic services have been analysed in some detail.

## II MANAGEMENT AND FINANCING OF BASIC SERVICES

India inherited from the colonial period, a system of urban governance which was fraught with serious contradictions. The financial powers of the local bodies were weak and they were dependent on the state and district administration for monetary assistance. The imperial rulers were not very keen on strengthening their taxation and non-taxation powers, as these bodies were thought to be the stronghold of the national movement for Independence. In addition, the central government did not want to take the total responsibility of providing basic services such as water supply, sewerage, sanitation and solid waste disposal by making massive capital investments for this purpose. It always looked for local agencies that could share the costs for major capital projects. Given this equivocal position of the British government, the sorry state of municipal finance, on the eve of Independence, is understandable.

With Independence, political power changed hands from the British rulers to local elites. The latter had a vested interest in maintaining

their access to high quality amenities that could not be obtained through the fragile civic bodies. Also, manoeuvring the political process at the local level would have been far more difficult than doing so at state level. The sixties and seventies, therefore, saw the creation of a number of state-level agencies, and the supersession of local governments—the former usurping many of the functions of the latter. Constitutionally, the responsibility for providing these rests with the state government which they tried to fulfil through their own departments, state-level boards/corporations and bodies at city level instead of through the local governments. It is thus evident that vested interest in the urban elite class, who were able to manipulate the political processes and institutions at the state level, were primarily responsible for the creation of organizations directly under the state government. They were entrusted with the responsibility of providing basic services, thus, marginalizing local governments.

In most of the states, the developmental and maintenance responsibilities are currently separated and assigned to different agencies. Capital works for provision of these services are undertaken by the concerned state government departments, such as public health, engineering, public works, urban development, local self government and so on, through their divisional and district offices. With the creation of the para-statal agencies functioning directly under the state government, as mentioned earlier, the responsibility of making capital investments has been transferred to them. These agencies such as the water supply and sewerage boards, take up development projects mostly on behalf of the state governments, local bodies, slum boards, government and semi-government organizations and at times private agencies. Some of the government departments, namely, the railways, several large public as well as private sector undertakings and agencies such as Steel Authority of India Ltd., Bharat Heavy Electricals Ltd., etc., invest in water supply and drainage projects within their townships or localities and also maintain them. Besides, a few of the large corporations/municipalities with a strong economic base also make such investments. In a few metropolitan cities, besides the municipal corporation, metro-level water boards and urban development authorities also invest in water supply, sewerage and sanitation facilities. Most of the states make funds available in their plans and budgets for capital investments in water supply, sewerage and sanitation, since these sectors are the responsibility of the state government. Where state-level boards have been created, most of the capital projects are

executed by them. For projects undertaken by the boards on behalf of municipal bodies, the responsibility of arranging funds is that of the latter. The projects are normally financed through a mix of loans and grants. The loans are obtained (through the boards) from Housing and Urban Development Corporation (HUDCO), Life Insurance Corporation (LIC), etc., while the grants come from the state government. The boards draw the loans with state government guarantee, although the responsibility of repayment lies with the local bodies.

Sometimes slum boards or municipalities are able to meet the entire project cost out of their own resources and approach the state-level boards to undertake the projects on their behalf. In such cases, the required funds are deposited with the board, which in turn constructs, operates and also maintains the projects for the slum boards or municipalities on payment of specific charges as agreed upon. These are known as deposit contribution projects.

In addition to the above, the state-level boards take up capital projects on their own, using their internal resources supplemented by borrowings from state governments, LIC and other agencies. They can also raise loans in the open market or borrow from nationalized banks. However, several restrictions imposed by RBI make direct access to the capital market extremely difficult. Finally, there are international agencies such as the United States Agency for International Development, World Bank, etc. that finance specific projects on water supply and sanitation, as also those on integrated urban development which incorporate the provision of these services.

It may be pointed out that for smaller municipalities, grants from the government constituted a substantial portion of the total funds even in the late eighties. The loan/grant mix varied with the status of the civic body, the grant component being higher in case of smaller and economically weaker local governments. In most of the states, water supply projects for towns with populations less than 20,000 were financed entirely through state governments' grants-in-aid. In the nineties, however, the grant component has virtually disappeared and the local bodies are required to finance their capital schemes for the provision of basic services through loans from government, HUDCO or any other institution.

The organizational structure and supporting financing system prevailing in the seventies and early eighties have changed significantly in recent years. The eighties saw dramatic changes relating to urban

governance. The budgetary allocation for government departments to make investments and provide equity support/grants to para-statal undertakings, allowing them to launch capital projects, was drastically cut down. Inefficiency, bureaucratization and the low rate of return on the capital locked up in these undertakings are generally mentioned as the reasons for restricting their operations. The urban elite class seems to have become disillusioned with these undertakings for these very reasons and have argued that they be made accountable and that the market be opened up to private entrepreneurs. The cost of borrowing for these undertakings has gone up significantly, discouraging them from going in for financially unremunerative projects, mostly pertaining to water supply and sanitation facilities. Only HUDCO came forward with a scheme in the late eighties to provide capital for investments in infrastructural projects at less than the market rate. As a consequence, state-level water supply and sanitation boards, development authorities, municipalities and other concerned government bodies have come to depend increasingly on borrowings from HUDCO for their infrastructural projects, particularly in towns with less than a million population. However, the rate of interest charged by it for these projects has increased in recent years resulting in a reduction of disparity in the interest rates among its different schemes.

The interest rate charged for infrastructural projects in cities of different population categories are given below:

	Cities/Towns (Population)	Rate of Interest ( % )
i.	Upto 5 lakh	14.5
ii.	5 lakh to 10 lakh	17.0
iii.	Above 10 lakh	18.0

SOURCE: Published and unpublished documents of HUDCO.

The rate also varies with the size of the loans as well as the nature of the scheme. HUDCO finances 80 per cent of the project cost in land acquisition schemes and 75 per cent in commercial schemes. However, in case of water supply schemes, only 50 per cent to 75 per cent of the cost is covered, depending on the nature of the scheme as well as on the repaying capacity of the borrowing agency. The provision of a smaller proportion of the cost in case of water supply



schemes is due to their unremunerative nature and the risk factor involved. It may also be mentioned that the loans under other schemes earn a higher interest rate. Moreover, HUDCO finances up to 90 per cent of the project cost in case of infrastructural schemes for the economically weaker section (EWS) population. For people in higher income groups the loan amount can be 60 per cent. The loan is to be repaid in quarterly instalments within a period of 10 to 15 years. HUDCO is also the premier financial institution for disbursing loans under the central government's urban development schemes. The loan as well as the subsidy money are released through it, as will be discussed in the following section.

It must be pointed out that small-sized municipalities (with less than hundred thousand population) and economically weaker agencies often find it difficult to approach HUDCO for loans, even under the central government schemes.<sup>1</sup> They generally are not in a position to obtain the state government's guarantee owing to their uncertain financial base. Getting a bank guarantee for them is even more difficult. In Uttar Pradesh, for example, only the para-statal agencies such as housing and water supply boards, development authorities and municipal corporations have been given state guarantee, to the total exclusion of smaller municipal bodies.

The responsibility of maintaining the basic services is that of the local governments. In situations, however, where local bodies are financially or organizationally weak, state government departments or state-level boards take up the maintenance responsibility for short or long durations. In some states, the state-level boards construct as well as maintain the water works, including organizing bulk and retail sales. In Madhya Pradesh, for example, where capital projects have been undertaken through World Bank assistance, the state government is maintaining them, although revenue is being collected by the municipalities. Maintenance of water supply and sewerage systems directly by the state governments or indirectly through state-level boards and other bodies is not uncommon.

### **Possible Impact of Constitutional Amendment on Urban Governance**

The Constitutional (Seventy-fourth) Amendment Act, 1992 is being hailed as a major step in reforming the present system of governance and taking power to the people by initiating a process of democratic

administration and planning at the grass-roots level. It is surprising that much of the discussion on the Act has taken place in an atmosphere of confrontation between central and state governments on one side and local governments on the other. The passing of the Act, after a couple of abortive attempts, has been applauded as a landmark of victory for the people in their battle against bureaucracy. The proposed transfer of administrative and planning functions to municipal bodies, along with certain powers of taxation and the setting up of formal procedures for supersession, new election, devolution of funds through the state finance commissions, etc., has been generally welcomed. It is argued that the people at ward, municipality, district and metropolitan region levels would now be able to formulate programmes and schemes for meeting their own developmental and welfare needs, much better than what was possible under the centralized system.

Devolution of powers to impose and collect certain taxes by municipal bodies, assignment of certain other taxes collected by state government to them, disbursement of grants from the consolidated fund are the important provisions for augmenting resources at the local level. It is expected that streamlining of procedures through state finance commissions would increase the total amount of transfer to local governments and would reduce ad-hocism and administrative hassles. The questions that need to be answered empirically in this context are as follows:

- Will the new dispensation for imposition and collection of taxes by local bodies and assignment of (state level) taxes and grants increase the total resources available to them? and
- Will the availability of funds to municipal bodies become more equitable across different size class of urban centres?

There is no evidence to indicate that the system of governance at the local level is free from the pressures of vested interests, similar to those operating at the state level; therefore, mere transfer of power to raise resources to elected representatives at the local level may not necessarily result in larger earnings.

Importantly, the pattern of urban growth in India across states/districts and size classes shows a significant distortion. The small and medium towns with population below 50,000 in the backward states experienced rapid growth during the seventies and eighties similar to that of class I cities. In the developed states, however, the larger

towns grew at a relatively faster rate. Detailed empirical analysis reveals that the growth of small and medium towns, located mainly in backward districts, was not backed by the growth of manufacturing or other economic activities and infrastructural facilities (Kundu 1992). The probable explanation for this could be rural poverty, stagnant agriculture, absence of sectoral diversification etc. With the decline in central or state assistance, most of these towns, lacking adequate basic amenities and experiencing high population growth, have already gone dry in resources and are unable to make investments in improving infrastructure and basic services. Thus, the small towns owing to their poor economic base and incapacity to mobilize tax and non-tax revenues have increasingly come to depend on grants-in-aid (Table 1).

TABLE 1. Per Capita Income of Local Bodies (Rs)

	Metro	Class I	Class II	Class III	Class IV	Class V	Class VI	All India
1974-75								
Ordinary								
Income	90	44	41	30	25	27	36	54
Tax	72	28	22	19	17	17	24	38
Non Tax	6	6	10	5	4	4	7	6
Ordinary								
Grants	12	10	9	7	5	5	5	10
1979-80								
Ordinary								
Income	127	63	53	44	37	42	49	75
Tax	98	35	29	23	19	23	24	49
Non Tax	10	7	7	5	4	5	9	7
Ordinary								
Grants	19	21	18	15	13	14	16	19

SOURCE. National Institute of Urban Affairs (1983)

The disparity in per capita ordinary income and its various components across size class of urban centres at all-India level is brought out in Table 1. It may be noted that the per capita ordinary income for class IV, V and VI towns is a third of that of the metropolises and about half that of class I cities. The tax and non-tax revenues together constitute 70 per cent of the ordinary income in case of the former, while the figure in case of metro cities is 85 per cent. The grants for the smaller towns grew by about 200 per cent at current prices during the period 1974–75 to 1979–80; the corresponding increase in case of metro and class I cities was only 100 per cent. The low economic strength of small and medium towns may also be inferred from the fact that while class I cities on an average had over 30 per cent of their male workers engaged in manufacturing, the figure was less than 8 per cent for towns with less than 50,000 population (1991 Census). As high as 20 per cent of the male workers in the latter were engaged in the agricultural sector which could hardly be expected to yield any revenue to the civic authority. The tertiary activities in these towns were also of low productivity. As a result of all these, the level and quality of basic services were extremely poor. What is worse is that the situation has been deteriorating over time. It would, therefore, be reasonable to argue that the seventy-fourth Amendment Act, by making the civic bodies in small and medium towns increasingly dependent on their own tax and non-tax resources, has increased the disparity in the level of services and economic infrastructure across different size classes of urban centres. This has adversely affected the level of basic services in small and medium towns and their capacity to absorb any future growth of population or attract new economic activities.

The segmentation of large cities into rich and poor colonies has become accentuated in recent years. This is manifested in an increasing gap in the level and quality of urban amenities. This process is being accelerated by market forces as well as governmental programmes, and is pushing the poor out of the high-income localities. Poor migrants generally have sought refuge in slum colonies in city peripheries or on marginal lands within the cities. The formation of ward committees vested with certain powers and responsibilities for resource mobilization and planning in case of large cities is likely to accentuate this process of segmentation. Needless to point out that the high-income wards, capable of generating larger revenues from their residents and economic activities would be able to provide high quality services, while the poor

wards would be forced to adjust their services to match their affordability or paying capacity. As a result, several localities may have to settle for a very poor quality of basic services—much below the normative standards set up by national or international agencies.

The resource scarcity being faced at the central, state and local levels and the reduction of current and capital expenditures under the new economic programme (NEP) have created further uncertainty with regard to the provision of basic amenities to the urban population, particularly the poor. Before the adoption of NEP, the role of the central and state governments in local affairs was not clearly defined. It consisted of *ad hoc* and fragmented efforts at carrying out projects. However, since the early eighties, there has been a definite shift of responsibility to the local level to provide basic amenities.<sup>2</sup> This may have serious consequences as it has been done without examining the economic base and resource raising capacity of local bodies.

### III PROGRAMMES FOR BASIC SERVICES

Basic services cover items of physical and social development that fall within the jurisdiction of central and state governments. It is difficult, constitutionally, to earmark the administrative jurisdiction for programmes pertaining to basic services. In urban areas, these programmes were started in the mid-fifties. Many of these were launched by the central government but subsequently transferred to the state sector. Several state governments started such programmes on their own at different points of time. It would be difficult to collect the information and analyse all the programmes and schemes launched by state governments as they vary from state to state and are under the control of different departments. The on-going programmes started in the central sector that constitute the major component of the total activities for augmenting urban basic services in the country will be discussed here in some detail.

The Task Forces on Urban Development (Planning Commission 1983) had pointed out that all formal housing schemes of the government are 'way beyond the means of the Economically Weaker Sections and Low Income Groups and there is insufficient evidence that the urban poor have benefited from these'. Also, the resource requirement for such housing schemes for the poor would be enormous. Accordingly, in the eighties, the government came up with programmes for providing only water supply, sanitation and a few other facilities.

These programmes sought to cover a substantially larger segment of the uncovered population than the formal schemes on housing. This policy shift brought the costs of the facilities within the affordable limits of the poor households, a condition that was considered necessary for cost recovery and the long-term sustenance of the programmes.

TABLE 2.1 Details of Major Programmes for the Urban Poor

Name of the scheme	Launched in	Coverage	Beneficiary category
(1)	(2)	(3)	(4)
1. EIUS	1972 (transferred to in 1974)	All urban area subject to column (4)	Slums where minimum 2/3rd of the slum families earn less than Rs. 250 p.m.
2. UBS	1985 (1990-91)	All urban areas below 1 lakh population	Slum dwellers in selected urban areas
UBSP (new name for UBS under the eighth plan)	1990-91	Slum pockets within specific towns selected by the state	All residents of slum pockets in selected towns
3. IDSMT	1979-80	Towns up to 3 lakh population	Local bodies in selected towns
4. LCS	1980	All towns with population below 5 lakh	All the households in the towns stated in col. (3)
5. Shelter sanitation programmes for the footpath dwellers	1980	All urban areas having shelterless people	Footpath dwellers
6. NRY (a) SUME	1989	— All urban settlements excluding cantonment areas	— All urban households with annual income less than Rs 11,550
(b) SUWE		All towns with population below 1 lakh excepting hill areas	All poor persons in the urban area
(c) SHASU		All towns with population from 1 lakh to 20 lakh	All urban EWS households with annual income of less than Rs 15,000

TABLE 2.2 Details of Major Programmes for the Urban Poor

Funding agency (5)	Mode of finance (6)	Repayment period (years) (7)	Interest Rate (%) (8)
Central government (withdrawn from 1985) state government	Incentive central grant (14%) (withdrawn in 1985)	—	—
Central government state government	Grants in the following proportion 20% (Central) 40% (State) 40% (UNICEF)	—	—
Central government state government	Grants in the following proportion: 60% (Central) 40% (State)	—	—
Central government state government	Loan varying according to the size of the town	23	10
Central government HUDCO	Subsidy from central government and loan from HUDCO	12	10
Central government HUDCO	Subsidy from central government and loan from HUDCO	10	10
Central government state government HUDCO, bank	—	—	—
25% subsidy central and state government in 60:40 ratio	25% subsidy 75% loan from bank		—
25% subsidy shared between central and state government in 60:40 ratio	25% subsidy 75% loan from HUDCO	Between 5 to 15 years depending on the nature of the project	14
— do —	25% subsidy 75% loan from HUDCO	10	10

Centrally-sponsored programmes in urban areas, having components of basic services, can be placed in two categories (i) Physical and social development programmes and, (ii) Poverty alleviation programmes.

Important physical and social development programmes<sup>3</sup> currently being implemented in the country are as follows:

- Environmental Improvement of Urban Slums (EIUS)
- Urban Basic Services (UBS) and Urban Basic Services for the Poor (UBSP)
- Integrated Development for Small and Medium Towns (IDSMT)
- Low-Cost Sanitation Programme (LCS)
- Shelter and Sanitation for the Pavement Dwellers (SSPD).

Nehru Rojgar Yojana (NRY) is a poverty alleviation programme in urban areas. Although its basic thrust is employment and income generation for the urban poor, there is provision in it for basic services as well. Certain details pertaining to the centrally sponsored schemes and their financing are given in Tables 2 and 3.

TABLE 3. Financing Pattern of Centrally Sponsored Schemes

Name of scheme	Components		Finance norm		Budget allocation (Rs crore)*
	Loan (%)	Subsidy (%)	Centre (%)	State (%)	
EIUS	0	100	0	100	N.A
UBSP (1990-91)	0	100	60	40	100.00 (1990-94)
IDSMT (1980-81)	100	0	60	40	196.2 (1992-97)
SUME (1989-90)	75	25	60	40	142.17 (1989-93)
SUWE (1989-90)	75	25	0	40	190.83 (1989-93)
SHASU (1989-90)	75	25	60	40	89.44 (1989-90)
Low cost sanitation (1989-90)	50-75 (According to income of beneficiary)	45-25	100	0	175.55 (1990-94)
Night shelter (1990-91)	80	20	100	0	0.08 (1990-94)

SOURCE. Ministry of Urban Development, 1993-94, Annual Report

\* Rs crore is equal to Rs 10 million



● *Environmental Improvement of Urban Slums (EIUS)*: The EIUS was launched in 1972 as a major programme of the central government and was solely designed for the physical improvement of slums through the provision of facilities. In 1974, it was made an integral part of the Minimum Needs Programme (MNP) and transferred to the state sector. A scheme of central grants was also introduced to supplement state government funds, which continued up to 1985.<sup>4</sup> The planning commission specifies the target population to be covered under MNP in consultation with state governments. The latter select the slums according to the guidelines issued by the central government. Following these, slums, with two-thirds of the families earning less than a certain income, are selected for improvement (Table 2). Generally, the scheme is restricted to notified slums located on government lands where there is no possibility of undertaking a slum clearance or redevelopment scheme in the next 15 years in case of pucca built-up tenements and 10 years for hutment-type tenements. This ensures the period of benefit of the project to be long enough to justify the capital expenditures. However, slums on private lands have also been brought under the programme in a few cities where their number is large. In the Eighth Plan, the scheme has been taken up with UBSP, NRY and the Scheme of Liberation of Scavengers (SLS) so that all these together 'form a co-ordinated whole'.

● *Urban Basic Services*: The Urban Basic Services (UBS) scheme was introduced in the Seventh Plan as an extension of the Urban Community Development programme existing earlier. The focus of the scheme is on women and children. However, the entire project population benefits from it owing to the adoption of an integrated approach. The most important feature of the project is its community-based approach, involving physical and financial participation of the beneficiaries. The scheme is taken up in slum pockets within specific towns/cities, selected by the state governments in consultation with the central government.

Under the scheme, the residents of identified poor localities prepare micro development plans in consultation with the community organisers and present them to the neighbourhood development committees. These micro plans are integrated into the UBS scheme at the town level with the help of local bodies. These are, then, co-ordinated at the state level and monitored at the national level. The finances are made available in proportion to the size of the slum population in each town.

The scheme has been renamed as Urban Basic Services for the Poor (UBSP) in the Eighth Plan. With this, greater emphasis is being placed on fostering neighbourhood development committees in slums to ensure the effective participation of slum dwellers in the activities under the scheme. An attempt is also being made to co-ordinate the social services, income generation activities and physical facilities provided through programmes of various government departments and to ensure their convergence.

The pattern of funding under the UBSP has undergone certain changes. Previously the funding for UBS was shared by the central government, state government and UNICEF in the ratio of 20:40:40. Now, UNICEF has, by and large, withdrawn its support except for providing funds for training UBSP officials. The cost for the programme is now shared between the central and the state governments on a 60:40 basis (Table 3).

● *Integrated Development of Small and Medium Towns (IDSMT):* The Integrated Development of Small and Medium Towns programme was mooted during the sixth plan in 1980–85 to improve the quality of economic infrastructure and public utilities in a select set of towns, to enable them to act as growth or service centres for their rural hinterland and thereby reduce the migration towards the metropolises or a few other large cities. Although the programme was basically launched to restructure the hierarchy of urban settlements by promoting middle-order towns, this was to be achieved partly by providing basic services to the poor and improving their economic conditions, so that their migration towards metro cities was arrested. It may thus be seen that although IDSMT is not specifically focused on the provision of basic amenities in the slums or other low-income colonies, this figures as one of its important components.

Initially the scope of the scheme was restricted to towns with population below one lakh (1971 census). In the Eighth Plan, it has been decided to include cities with population up to 3 lakhs (1991 census). The towns have been placed under four categories:

Category of Towns	Population
A	Less than 20,000
B	20,000–50,000
C	50,000–1,00,000
D	1,00,000–3,00,000

The activities under the programme are divided into two groups namely, central sector or part A, and state sector or part B. Activities in part A envisage development of economic infrastructure that will generate employment and income in the town. Acquisition of land for commercial and residential purposes, improvement in the traffic and transportation system, sites and services schemes etc. are included in it. In 1983–84, low-cost sanitation was also brought under Part A. Part B of the programme includes activities for improving the physical environment in towns—projects that generally are not remunerative. Upgradation of slums, low-cost schemes of water supply, sewerage, drainage, sanitation, preventive medical facilities and health care are covered under it. It may be noted that the central loan is available only for the Part A component of the scheme, leaving most of the welfare-oriented projects to be financed by the state governments.

The central support to the IDSMT programme came in the form of a soft loan, initially carrying an interest rate of 5.5 per cent which has now been raised to more than 10.0 per cent, to be repaid in 25 years. Repayment starts five years after the receipt of the loan although interest has to be paid for the intervening period as well. The scheme has been revised under the Eighth Plan as recommended by the National Commission on Urbanization (NCU). Selection of the towns is based on the urbanization strategy prepared by state governments. Preference is given to towns identified as generators of economic momentum by the NCU. The thrust of the programme too, has undergone a significant change in the Eighth Plan. Instead of only trying to remove the infrastructural deficiencies in the selected towns, the programme now dovetails employment generation with infrastructural development. This is being done to make the programme economically viable so that its dependence on government funds can be reduced and institutional borrowing increased. The plan stipulates that the 'budgetary provisions should be used mainly for the provision of seed capital to co-operatives and local bodies' and 'for critical infrastructure'.

The central government assistance was half of the total project cost, sanctioned as a soft loan until the Seventh Plan. The rest was to be borne by the state governments. According to the modified guidelines in the Eighth Plan, the central government's share *vis a vis* that of the state government, has increased from 50 per cent to 60 per cent.<sup>5</sup> (Table 3) Much of the financing would, however, be coming from institutional sources, and here the major responsibility of resource mobilization and

loan repayment is that of the state governments. The modified scheme also excludes the payment for land acquisition from the central government's share. This, and the stipulation that land must be made available within a year of approval, greatly increase the responsibility of the state governments. This may adversely affect the programme, particularly in the less developed states. The revised financing pattern is shown in Table 4.

TABLE 4. Financing Pattern under IDSMT in the Eighth Plan

Category of towns	Maximum project cost (lakh Rs)	Central assistance (%)	States' share (%)	HUDCO/others(%)
A	100	36	24	40
B	200	36	24	40
C	500	24	16	60
D	1000	18	12	70

SOURCE: NIUA (1983): Financial Resources of Urban Local Bodies in India and the Level of Services Provided.

It may be noted that the share of the central government works out as 60 per cent of the total budgetary support in case of towns in category A and B only, in the Eighth Plan. For others, it is less. Also, institutional finance emerges as the most important component in the funding of the schemes. Interestingly, the share of this finance coming from HUDCO and other agencies increases with the size of the town. Thus, larger cities that are able to attract larger institutional finance can spend more in per capita terms under the scheme.

● *Low Cost Sanitation Programme (LCS):* The goal of providing sanitation facilities to 80 per cent of the urban population was fixed in the early eighties with the announcement of the UN Decadal Programme for Water Supply and Sanitation. In view of the fact that provision of a sewerage system in the whole of the country was impossible, given the limited resources, low-cost alternatives were

encouraged by the government. Technical assistance was provided by the United Nations Development Programme (UNDP) and HUDCO loans were available for low-cost sanitation facilities in old city areas and slums. For individual toilets, loans were available up to 50 per cent of the cost at 6 per cent rate of interest repayable in 12 years. Urban water supply and sanitation, however, was kept in the state sector with no central funds coming directly for this purpose in the Seventh Plan.

A centrally-sponsored scheme was launched in 1990–91 with the objective of eliminating manual scavenging by converting dry latrines into water-borne ones. Assistance in the form of loans and subsidies was available for the purpose, covering all urban areas with population below 5 lakh. In the Eighth Plan, the scheme has been further improved. The pattern of financing has, however, changed to a mix of central subsidy and loan, routed through HUDCO. The subsidy component varies depending upon the income of the beneficiary household. See Table 5.

TABLE 5. Financing Pattern under Low Cost Sanitation Programme in the Eighth Plan

Beneficiary category	Monthly income (Rs)	Loan (%)	Subsidy (%)	Beneficiary contribution (%)
EWS	Less than 1250	50	45	5
LIG	1251–2650	60	25	15
MIG	2651–4450	75	Nil	25
HIG	More than 4450	75	Nil	25

The maximum repayment period for the HUDCO loan is 12 years and the rate of interest for all the categories has been made uniform to 10 per cent. There is thus, no concession to the poor in the interest rate charged.

Cost recovery according to the eighth plan is to be built into the municipal finance system. The metropolitan and other large cities are expected to make capital investment in water supply and sanitation facilities, besides covering their operational costs. Also, most of the development projects are to be undertaken through institutional finance rather than with budgetary support.

● *Shelter and Sanitation Programme for Footpath Dwellers in Urban Areas*: The Shelter and Sanitation Programme scheme was introduced in 1988–89. It is meant to cover urban areas including metropolitan cities, having a large shelterless population. The central government provides a small subsidy of Rs 1,000 per beneficiary through HUDCO. In addition, HUDCO provides loans up to Rs 4,000. In case the per capita cost for a night shelter exceeds Rs 4,000, HUDCO gives 50 per cent of the additional cost.

● *Special Schemes*: The central government, in the late eighties, sanctioned special funds to provide basic services to the urban poor. One such example is the Greater Bombay Project of urban renewal, slum upgradation and Dharavi (a massive slum colony) redevelopment, sanctioned through the prime minister's special grant. Home improvement loans are available under the project at a low rate of interest, payable over a period of 20 years. Another special scheme being implemented in the cities of Bombay and Calcutta, at the recommendation of the Ninth Finance Commission, aims at environmental improvement and provision of community facilities. The costs of the scheme are to be equally shared between the centre and states. The *ad hoc* nature of the schemes is responsible for its poor performance and low achievements.

#### IV SCHEMES STARTED OUTSIDE CENTRAL SECTOR

Several state governments have launched basic services schemes through their departments dealing with urban development or through slum improvement boards. These schemes generally receive assistance from international agencies.

Currently, the following three types of schemes are being implemented in the country: (i) slum improvement, (ii) slum upgradation, and (iii) slum reconstruction. Their approaches vary depending on: (a) the status of the land on which the slum development project is to be taken up and whether the ownership right of land, namely *Patta* is to be given to the beneficiary, (b) the socio-economic conditions of the slum dwellers, and (c) the conditions laid down by the financing agency with respect to cost recovery.

Slum Improvement Programme (SIP) involves merely improvement of the slum by the provision of a standard package of basic facilities. The schemes under it are of two types depending on whether the costs

of providing the amenities are recovered from the beneficiaries or not. This programme is directed towards the improvement of the physical conditions in the slum and does not include upgradation or construction of dwelling units. Also, it does not involve community participation as it is implemented through government agencies. It has, therefore, been regarded as a purely technical approach to slum development.

Slum Upgradation Programme (SUP), designed for the improvement of shelter quality along with the provision of basic services, was started in the seventies at the instance of the World Bank. Currently HUDCO also finances SUP under its Slum Upgradation and Improvement Scheme. Usually the same facilities are provided under it as in SIP. However, giving of land *Patta* on a *leasehold or freehold* basis is a requirement which distinguishes it from the SIP. It may be noted that even under the central government programme of EIUS, the provision of giving land rights to the beneficiary has not been made. The other distinguishing feature of SUP is the availability of a Home Improvement Loan (HIL) to the beneficiary on an optional basis.

The SUP can also be classified into two categories depending on the degree of formalization of land tenure. We may place the projects wherein *Pattas* are given to individual households on a freehold basis in the first category and those that do not bestow freehold tenure rights in the second.

The World Bank made its presence felt in the urban sector in the eighties by providing concessional finance to state governments for their urban development projects. Such projects are currently under implementation in the states of Maharashtra, Gujarat, Uttar Pradesh and Tamil Nadu (Table 5). The projects cover several sectors, such as shelter, slum upgradation, sites and services, transport, low-cost sanitation, water supply, solid waste management etc. The Ministry of Urban Affairs and Employment at the centre monitors the implementation of these World Bank aided projects.

Overseas Development Administration (ODA, presently Department for International Development), a British agency, is funding many slum improvement projects in Andhra Pradesh, Madhya Pradesh, West Bengal, Orissa and Kerala (Table 6). Importantly, these projects include provision of social and educational inputs besides physical infrastructure.

TABLE 6. Details of IDA and ODA funded Projects

Projects	Implementing agency	Period (Years)	Estimated cost (in Rs crore)	Funding agency
Urban Development Project	State Government or Urban Development Agency wherever constituted	1985-94	554.41	IDA
Gujarat Urban Development Project	As above	1985-94	197.21	IDA
Uttar Pradesh Urban Development Project	As above	1988-96	329.94	IDA
Tamil Nadu Urban Development Project	As above	1988-95	632.55	IDA
Hyderabad SIP-III	Hyderabad Municipal Corporation	1989-95	42.75	ODA
Visakhapatnam SIP	Visakhapatnam Municipal Corporation	1988-95	28.59	ODA
Vijaywada SIP	Vijayawada Municipal Corporation	1990-95	49.15	ODA
Indore HIP	Indore Development Authority	1990-95	34.54	ODA
Calcutta SIP	Calcutta Metropolitan Development Authority	1990-95	39.17	ODA



The Government of Netherlands is currently involved in a pilot slum improvement project in Bangalore with an assistance of Rs 1.6 crore. The details of activities are being worked out in consultation with the state government of Karnataka.

World Bank (IDA) assisted projects carry soft loans, that is, low rate of interest and a long repayment period. The central government gets the fund at a nominal interest rate of one per cent only while the states are required to pay 9–10 per cent interest. The ODA projects, on the other hand are smaller in size and receive assistance in the form of grants.

### **Urban Development Schemes in the Eighth Plan**

- *Urban Transport and Mega City Projects.* During the Eighth Plan, some new schemes, having a direct bearing on the provision of basic services, have been launched. The Ministry of Urban Development, as the nodal agency for urban transport, has initiated a study of 21 cities in different states, with the objective of developing a National Urban Transport Policy. An attempt would be made under the scheme to improve the transport infrastructure within these cities. While a small sum would be made available by the central and state governments it is expected that much of the investment for it would flow from private entrepreneurs, around this sum.
- *Mega City Project.* A new centrally-sponsored scheme called the Scheme of Infrastructural Development in Mega Cities was launched in 1993–94 in response to demands from state governments. It is meant for the cities of Bombay, Calcutta, Madras, Bangalore and Hyderabad. For quite some time the states have been pleading their inability to fund infrastructural investment in their mega cities, whose problems are largely due to migration from outside the state. The National Commission on Urbanization had recommended that central assistance may be provided for development of infrastructure in these national cities. It will be administered through the Ministry of Urban Affairs and Employment and funds would be channelized through a special institution (Consortium Fund) at the state level. The funds from the central government are to be used only as seed capital for the institution. The sharing between central and state governments would be 25:25. The remaining

50 per cent is to be mobilized from institutional sources and private entrepreneurs.

- *Accelerated Urban Water Supply Programme.* The Accelerated Urban Water Supply Programme is another centrally sponsored scheme included in the eighth plan, for providing water supply facilities to the towns with a population of less than 20,000 (1991 Census). This programme aims at improving the quality of life of the poor. The urban local bodies will be suitably strengthened and closely associated in the implementation of the scheme through community participation. It will be operationally integrated with the state public health engineering department, and will be funded by the central and state governments and concerned local bodies on a 50:45:5 ratio.

### **Direct Poverty Alleviation Programme**

Nehru Rojgar Yojana (NRY) is the anti-poverty programme for urban areas which is primarily designed to raise the income levels of the urban poor and is implemented through municipal bodies.<sup>6</sup> It has three components, (i) The Scheme of Urban Micro Enterprises (SUME), (ii) The Scheme of Urban Wage Employment (SUWE), and (iii) The Scheme of Housing and Shelter Upgradation (SHASU).

The first two components of the programme, namely, SUME and SUWE are directed towards income generation by providing self and wage employment respectively. Importantly, SUWE scheme is directed towards the construction and improvement of social and economic infrastructure, including water supply and sewerage/sanitation facilities for area development. The third component, that is, SHASU is for shelter upgradation for the poor through family labour and some governmental support. It includes provision and upgrading of basic services attached to dwelling units, while generating employment for the people. A loan upto Rs 3,000 at a very low rate of interest and a subsidy up to Rs 1,000 is provided to the beneficiaries identified by the urban local bodies. In case of an additional financial requirement, loans can be obtained from HUDCO at a higher interest rate.

The funds for the training component under SUME and SHASU come entirely from the central government. The remaining expenditures under these programmes are shared equally between the central and the state governments. The expenditure under SUWE is to

be shared on a 80:20 basis. In the eighth plan, however, the share of the central government has been fixed at 60 per cent under all the three schemes. One can argue that the central government's contribution in area development projects, that are less remunerative, was large compared to the income generating projects in initial years. This, however, has been significantly reduced in recent period.

### **Sensitivity of the System to the Poor**

It has been mentioned earlier that a number of agencies have been created in several states to provide basic services, specifically to the poor and slum dwellers. In a few states, slum clearance boards have been set up that relocate pavement dwellers and shanty settlements from public places and high density residential neighbourhoods within the cities to peripheral areas. The boards also take up integrated housing projects for the poor that include provision of water supply and sanitation. In some of the metropolitan cities, there are slum and squatter wings within the development authorities such as the slum wing of the DDA or the municipal and anchal development sector of CMDA. In other large cities, development work in slums is undertaken by the regular departments of the municipality or its special slum wing or bustee cell. Despite all these, most of the projects for the provision of basic services in low-income colonies are taken up by the concerned state government departments or para-statal agencies. The responsibility of maintenance of these facilities in the slum areas also lies on the general administration of municipalities. As a result, the role of the vested interests and local elites in the selection of infrastructural projects and their maintenance cannot be ruled out. It is, therefore, not at all surprising that the distributional network by its very design discriminates against the low-income population, particularly those residing in isolated slum colonies.

A recent study by Kundu (1993) reveals that most of the urban poor draw water from public stand posts (PSP) managed by urban local bodies. People in regularized slums as also in certain unauthorized colonies have this facility within the locality while the others have to either get their water from a PSP outside the locality or from households in the neighbourhood that have domestic connections. The study further indicates that piped water in low-income colonies is available for short durations at low pressure, and the supply is often erratic. Since a large number of persons are dependent on one PSP or

tubewell in these colonies, long queues and hours of waiting are inevitable. The per capita water consumption, therefore, is extremely low.

It is not always possible to give water through PSPs to all slum localities owing to their distance from the existing pipelines and inadequacy in the supply of water. As a result, tubewells and handpumps have been provided in a large number of colonies. This of course is more common in cities where the water table is high. The quality of water in such cases has generally been noted as unsatisfactory, often causing water borne diseases and epidemics.

A section of the urban poor has domestic connections for water supply. Most of these are unmetered and, therefore, the payment is minimal. Even for metered connections, the payment works out to be about the same since the poor belong to the lowest consumption category. The problem, therefore, is not one of non-affordability of the current expenses. On the other hand, since the user charge is low, non-priority use of water or its wastage is very high by the non-poor. It is unfortunate that pricing of water has not been applied as an instrument to rationalize its use which could have increased water availability in the slums through PSPs (Kundu: 1993).

Affordability is an important factor where capital expenditure is involved in obtaining a new domestic connection. In case of the old quarters of large cities, many of the pipelines providing domestic connection need replacement. There is great risk of epidemics being caused by the seepage of sewer water through corroded water pipes. Many among the poor cannot afford the capital expenditure needed for replacing such pipes, and are apathetic to the danger of water pollution; they believe that such expenditure should be borne by the government. In certain large cities, the risk of epidemics is also high due to the shallow tubewells provided in slum areas. Local authorities become alive to the dangers caused by these tubewells, owned privately or publicly, only after a few hundred lives are lost.

The poor generally use free community toilets built by state governments or local bodies on open spaces for defecation. Slums either have open drains or are bereft of any drainage facility. Even in large cities, reported to have been fully or partially covered by an underground system, many of the slum colonies are unsewered. Owing to lack of proper maintenance, many of the toilets, built under government programmes, are rendered unusable. Because of non-availability of water near the toilets, negligence, and inadequate sanitary

staff and other such problems, many of these remain choked for several days in a month. Defecation in open spaces, along with overflowing toilets and drains pose a major health problem, particularly during the rainy season.

A small fraction of urban poor have toilets in their houses. These are mostly dry latrines cleaned by municipal staff but sometimes privately as well. Their maintenance is not very satisfactory owing to a paucity of funds with the local bodies. The sanitation tax and user charges together work out to be not more than Rs 5 per month in most cities. Besides, the recovery rate is very low.

The major problem with private latrines is not their current but their capital costs, which even with a subsidy component, works out to a few hundred rupees. The poor do not get individual connections not only because they cannot afford them but also because they consider these to be unnecessary. Also, the conversion of dry latrines into water-borne ones has been extremely tardy, despite the subsidy component in the schemes.

Given the high cost of construction and maintenance of flush or dry latrines, sanitary toilets with septic tanks have emerged as a low-cost alternative. These have been promoted by HUDCO as well under the LCS schemes. Here the responsibility of local bodies is much less as the tanks have to be cleaned only once in a period of five to ten years. In many cities and towns, local bodies are now permitting the construction of dwelling units only when the individual or housing co-operative undertakes to dig its own tubewell and septic tank, placing no extra demand on the municipal system. Inability to meet this requirement often puts the settlements of the urban poor into the unauthorized or illegal category.

In recent years, as discussed earlier, some efforts have been made to extend sewer lines or provide open drains to the slum colonies under state and central sector schemes. The problems in cost recovery and limited budgetary support have hindered the implementation of the schemes. This is particularly so because the Eighth Plan places greater reliance on institutional finance and internal resource mobilization for the provision of basic amenities.

An analysis of the programme and schemes undertaken by the central, state and local governments for providing basic services (see section 3), reveals that the major concerns and areas of emphasis have significantly changed during recent years with the changing policy perspective at the macro level. It may be seen that during the seventies and earlier, most of the programmes pertaining to basic services were

financed primarily by the central government. However, now, there is a distinct shift of responsibility from the central to the state governments and local bodies. The EIUS and UCD were started with a central grant of 100 per cent and 50 per cent, respectively. These programmes are presently being financed totally by the state and local governments. The UBS and IDSMT are comparatively new schemes that still enjoy a certain amount of central assistance as loans. However, these are much less than that provided in the earlier programmes. The same is true of SUWE under the anti-poverty programme. All these changes have adversely affected the availability of basic services to the urban population, particularly the poor. Many of the state governments have closed down the anti-poverty programmes with the discontinuation of central assistance. A few others have opted for institutional funds for the projects at a high rate of interest, instead of making budgetary provision for it, thus diluting the pro-poor bias. The weak financial position of the state governments and local bodies have seriously hampered the implementation of basic service schemes. Furthermore, the international agencies as well as HUDCO, which finance the state sector schemes, mostly insist on cost recovery under the urban slum improvement schemes by increasing water rates, property taxes and so on. Many local bodies have found it difficult to comply with this requirement.

The experience of the EIUS in many states shows that the ceiling on per capita expenditure, even after the recent revision, comes to only Rs 500, which is utterly inadequate for the services to be provided according to the stipulated norms. In many states, the actual expenditures have been much more than this ceiling. In the states where additional resources could not be placed at the disposal of the project authorities, either the quality of the services suffered or fewer people have been covered.

Low-cost sanitation facilities have been extended to the urban population under different state government schemes with 50 per cent of the cost coming to the beneficiary as a grant and the remaining as a loan at a low rate of interest. And yet, it has remained beyond the affordability of the people below the poverty line. Also, where people have been provided with toilets, the recovery of the implementation charge or the loan has been very poor.

In some of the towns, the responsibility of constructing and maintaining latrines has been given to Sulabh International, an NGO which runs on business principles. Sulabh undertakes it on a pay and use basis. In several localities, where the residents are extremely poor

or unruly, it has failed to collect the user charges. In all such situations the maintenance expenditure is borne by the local bodies, and this then becomes an additional burden.

The selection of towns under IDSMT schemes is often guided by political considerations as well as economic viability. It is seldom based on an analysis of infrastructural deficiency. As the state governments have to repay the central assistance, only those projects get cleared that are remunerative and less risky. Slum improvement and provision of basic services that are included in part B of the programme, therefore, are often left out. Unfortunately, unlike low-cost sanitation, no special allocation has been made for slum improvement under this programme.

It has been proposed that part A and part B of the programme should be merged to give a wider choice to the local authorities. This, it is hoped, will improve the financial viability of the programme and improve recovery rate. With the acceptance of this, components such as slum improvement and provision of services, that have low commercial value, will be accorded a still lower priority.

HUDCO loans can indeed be availed of by housing boards, slum clearance boards, development authorities, local bodies and others for upgrading and improving the basic services in slum areas at a much cheaper rate than those obtained from the World Bank. However, these loans are available only when the agency grants tenure rights of land for not less than 20 years, or when the state government guarantees that the occupants will not be removed until the loan is repaid. This condition has often come in the way of the local bodies and other authorities obtaining HUDCO loans.

TABLE 7. Agency-Wise Distribution of Infrastructural Financing  
by HUDCO 1987-94 (March)

Agency	Sanctioned projects (Rs crore)	Percentage share
Housing boards	40.58	3.36
Water supply and sewerage boards	356.18	27.73
Development Authorities	399.19	31.08
Municipal Corporations	390.10	30.36
Municipalities	97.99	7.67
Total	1284.04	100

SOURCE. Records of HUDCO (unpublished)

An analysis of infrastructural finance disbursed through HUDCO (given in Table 7), shows that the development authorities and municipal corporations that operate at the city level have received more than half of the total amount whereas agencies such as water supply and sewerage boards and housing boards, that have the whole state within their jurisdiction, have together received less than one-third of the total. One can, therefore argue that cities with a strong economic base that are attracting private sector investment both from within as well as outside the country, are also able to get a disproportionate share of the subsidized HUDCO funds.

It should also be noted that at the beginning of the eighties, a concern for water supply and sanitation problems in the country was expressed, and a sense of urgency was shown by the central government through the adoption of the Master Plan for the Water Supply and Sanitation Decade. Ambitious targets were fixed for providing these services to the urban population with special provisions for extending them to fringe areas. Unfortunately, these plans were not matched by a corresponding allocation of resources or by the launching of major programmes, barring the few, as discussed earlier. The capacity of the state government to undertake this responsibility was extremely limited. No major attempt could, therefore, be made to strengthen the existing delivery system and ensure its better management, particularly in the context of the poor. Within the policy perspective of the new economic policy and the eighth plan, institutional and private capital are being brought in for the provision of these services. As a result of all these factors, the water supply and sewerage/sanitation scenario now, particularly in terms of their access to the poor, does not seem to have changed for the better. The overview of the present system of governance and the changes introduced in it during recent years reveals that the future does not hold forth much promise in this regard.



## End Notes

1. To get a loan, the agency must provide a state guarantee/bank guarantee or should mortgage its property. The loan application is to be accompanied by a bank draft of Rs. 10,000 (relaxable for EWS schemes) to meet the documentation and incidental charges. This amount is not refundable. Besides, there are other payments such as front end fees, risk charges etc. to be paid by the agency applying for a loan.
2. A somewhat similar situation existed in the early eighties in USA. The absence of a well-defined role for the federal government and unco-ordinated system of sharing the responsibility had led scholars to argue that the inter-governmental system is a directionless Leviathan. (Brennan and Buchanan, 1979). Announcing that the federal system was in disarray, the Reagan administration lauched 'major reforms' transferring many of the welfare programmes, particularly provision of basic amenities, to the local bodies. This led to a sharp increase in disparity in the level of expenditures and quality of services among cities and communities. This policy was strongly criticized as the 'Newest Federalism' which significantly reduced the availability of basic services to the poor, and jeopardized the system of 'safety net'. The lack of basic amenities and the poor quality of life in the low-income communities increased social tensions, resulting in group violence.
3. For a detailed discussion on these and earlier programmes, see Kundu (1993).
4. The per capita expenditure under the programme was raised to Rs.250 in 1984, and then to Rs.300 in 1985. In the Eighth Plan, the figure was revised to Rsd. 525 (all at current prices).
5. Besides, it provides a grant to the local bodies to the cost of preparation of project reports up to two per cent of the project cost or Rs.2 lakh whichever is less.
6. Besides the municipality, NGOs have a significant role to play in implementing NRY, especially in training and strengthening the backward-forward linkages of the scheme, setting up municipal service centres and housing corporations under SHASU.

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## **Participation and Urban Governance**

MEERA MEHTA

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# 6

## Participation and Urban Governance

MEERA MEHTA

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### I INTRODUCTION

The last decade has seen dramatic changes in the political and economic systems around the world. The rise in democratic polity, with, in the Soviet bloc and growing disenchantment with the traditional role of the government in the development process. There is an increasing belief in the participation of the private sector in the process of provision and maintenance of urban services. This represents a truly global phenomenon ranging from divestiture of public utilities in Great Britain, contracting of services in the United States, the rise of the market economy in the former Soviet union and China to the embryonic attempts at privatization in South East Asia and, now India.

These changes are both momentous and represent rather uncharted territory in the social and economic history of this country. However, in relation to these, one often tends to neglect the considerable social changes taking place in the urban centres. It is indeed surprising that not much attention has been paid to the fact that the intense and sustained social unrest in the country has been far more widespread in the urban areas. The rising trend of inequality, apathy, and a loss of faith in government characterise the cities today. However, the few rays of hope during the recent spate of violence throughout the country have come from local efforts involving partnerships between the community and local governments.

The rising disenchantment with the governmental role requires a complete rethinking of its mode of governance, rather than negating the government itself. The government and the associated public authorities have an important role to ensure public purpose and equity in the emerging new arrangements. However, the past experience of almost half of a century of governance in India has clearly shown that the nature and system of government, especially the processes and procedures which hamper creativity, innovativeness, and ultimately effectiveness, need to be changed. The main agenda for urban governance should focus on supporting this transformation in the role of local governments and public agencies.

It is in this context that the issue of participation becomes extremely important. It recognizes the need for community control and empowerment and the need for transforming the government through cooperation and collaboration with different stakeholders of the civil society. It recognizes the need to go beyond the procedures of representative democracy as well as the tokenism of many of the legal provisions for public participation. It recognizes that completely new methods of cooperation and interaction will be necessary. It also necessitates the strengthening of community based organizations, associations and NGOs representing the different forms of civil society. It is the government itself, along with the established NGOs and their many a networks, which will have to perform this role. The government will have to recognize them not as their adversaries but as partners in development. This requires a critical appraisal of the existing systems to identify the potentials and constraints for the changed roles.

- **An Overview:** This paper, first reviews the evolution of the concept of participation in urban governance. The review suggests three main themes in the changing context of participation. First, the notion of *alternative development*, which emphasizes people centred development that is both equitable and environmentally sustainable. Second, the shift towards a wider perspective incorporating the civil society at large rather than just the participation of beneficiaries in isolated projects. There is now a new recognition of the importance of evolving processes which combine the different stakeholders in governance. Third, the role of the government itself is changing in all spheres of governance. It is now being viewed as a facilitator and an enabler rather than a regulator and a provider. The developmental concerns have also broadened to include wider definitions of environmental quality and a new focus on the poor and women as the disadvantaged. Most importantly, however, the issues related to equity in distribution and mobilization of resources are becoming important. The notion of participative urban governance itself is also changing from the early emphasis on participation in development projects to partnerships for service delivery and public policy debates. In line with this is the widening objectives from mere *instrumental* ones related to effectiveness and efficiency to capacity building and empowerment.

In the second section, we focus on the different stakeholders from the civil society who have long been ignored in governance. In India, it is still the NGOs who dominate the scene. However, amongst them,

a change in roles to strategising expansion and development of apex organizations are the new trends. Similarly, consumer and citizens' forums are in a very nascent stage in India and require considerable support for participating in governance process more effectively.

The definition of urban governance can be very broad based. However, in the next section, we identify three specific areas of urban governance which are relevant for participation. These are development projects, delivery of urban services and broader policy issues and planning. We trace the Indian experiences in each of these areas, based on the available evidence.

While the Indian experience in evolving a participatory form of urban governance, is at best, weak and fragmentary, the wide variety of experiments and efforts do present possibilities for a sustained and focused effort in the future. It, however, is necessary to point out the utter paucity of analytical literature and even good documentation to derive a generalized picture from these, at times, disparate experiments. It is essential to assess the impact of the Indian experiences more rigorously within a consistent framework in order to identify the constraints and potentials emerging from these.

The fourth section outlines the vision and the main lessons emerging from the Indian experiences. The long term vision of this approach is that participation will not be an operational strategy but a form of governance itself. Within this perspective three main lessons are identified from the Indian experiences. The first is the inadequate coverage and development of organizations of the stakeholders. A far more proactive and promotive role for government is evident here. This is certainly possible in view of the already changing role of the NGOs and other representatives of the civil society. The biggest constraint, however, relates to totally inadequate institutional arrangements for participative governance.

Based on these findings some operational strategies are suggested for turning the vision of participative urban governance into a shared mission. The first of these is to strengthen the "voice" of the stakeholders through supporting development and capacity building of their organizations. In this respect, more innovative partnerships as well as greater devolution of power and resources to these groups appear essential. Most debilitating constraint, however, is the apathy and ignorance created by shrouding the process of governance in unnecessary mystery and even mystique by the government, which has tended to become the new *Brahmin* guarding the spread of knowledge

to a select few. There is thus an urgent need to demystify urban governance through greater transparency and interaction with representatives of the civil society. The seventy-fourth Constitutional Amendment presents enormous opportunities for operationalizing some of these strategies effectively and rapidly in the coming years. Specifically, the envisaged NGO representation on the ward committee, the need to prepare reports on incidence of subsidies in urban services and the possibility or even encouragement to partnerships for provision of urban services are some of the enabling provisions.

The final section suggests that there really is no dilemma regarding the need and even inevitability of participative urban governance. The dilemma, however, concerns the ability and willingness of the stronger stakeholders in governance today to share the power and information through collaboration and cooperation. Similarly, the dilemma also relates to the NGOs and other groups representing the weaker and disadvantaged groups of stakeholders, to be ready to cooperate and to have the necessary abilities and skills to lobby and negotiate effectively. The resolution of these dilemmas will determine the course of urban governance in negotiating the rapidly spreading social tensions in the Indian cities.

## II. PARTICIPATION—EVOLUTION OF THE CONCEPT

The concept of participation in urban governance cannot certainly be claimed as new. In fact, it maybe argued that the notion of urban governance, based as it is on a notion of local self rule, itself embodies this principle. Conventionally, however, participation has meant direct participation by small groups in well defined activities, generally confined to specific projects. This rather narrow view of participation has undergone dramatic changes over the years. The new outlooks are both in relation to the community empowerment and a much wider perspective of participative urban management structures with definite linkages between the two trends. We trace these changes in the following pages.

### **Changing Context of Participation**

Over the years, the need for and understanding of the nature of participation has undergone tremendous changes. It is possible to trace three different strands of ideas which have emphasized the need for participation. These are, however, not exclusive and have tended to

merge and overlap in actual practice.

- **Alternative Development:** The origins of the *alterative development* model can be traced back at least to the sixties, when “movement politics stirred the world from Beijing to Paris.” The wide variety of movements essentially represented, in a historical perspective, “the rise of the civil society as a collective actor, working for political agendas outside the established framework of party politics.” (Friedman, 1993). This trend was paralleled by an intellectual movement which fought for an alternative development approach for the developing countries. While the economic realities have moved these countries away from the alternative economic doctrines, there has been an increasing recognition of other issues in this approach related to environment, women’s role and status and the need for more effective participation of the civil society in development policy and practice.

The alternative development has also been associated with other more doctrinal beliefs linked to the notions of the supremacy of the community action with a negation of all the actions by the state, and therefore, by extension, avoidance of all political action. In this view, the *people centered development* must remain authentic by focussing only on the community or the people and completely negating, avoiding the state and the political action. (Korten, 1990 as quoted in Friedman, 1993). However, this is a very narrow view of people centered development. While the community action is important, the role of the state, albeit in a changed manner, by *reinventing the government*, is also crucial. This is because the focus areas are wide ranging and include the role of women, protection of the environment and common resources, removal of the inhibiting factors to human development like hunger, poor health, poor education, constant fear of dispossession and social conflicts that are common in most communities. The role of the state, however, is viewed in the context of the need to evolve mechanisms for moving from *exclusion of a large majority to their empowerment*.

This is clearly reflected even in some of the recent international efforts culminating in the passing of a resolution (Agenda 21) on *Promoting sustainable human settlements development*, at the UNCED conference in Rio de Janeiro in 1992. In a sense the Agenda 21 brings together the two main strands of *alternative development*, namely, the emphasis on *basic needs* rather than only growth maximization and the notion of *outer limits* in relation to the *planet’s resources and its environment to sustain such growth*. This view of alternative



development emphasizes a people centered development and necessitates that it begins at the local level.

- **Reassertion of the Civil Society:** The last two decades have also seen nascent efforts of the reassertion of the civil society. This has come in the wake of a clearer understanding of the limits of the representative democracy for effective service delivery, especially in the urban centres. The widespread alienation of the civil society, especially the exclusion of the disadvantaged from the developmental processes coupled with a general perception of the failure of the urban government to meet the needs of its citizens, have necessitated alternative forms of associations of the civil society.

It is in this context that there has been a growing awareness of the role of the *Third Sector* in developmental processes. Whether it is in the national policy outlooks or the agenda of the international agencies, there is a consensus on the potential offered by the non-governmental organizations, especially for reaching the low income population and those in the informal sector and for environmental and resource issues with long term social impacts. It is in these aspects that the role of NGOs has been found to be potential.

Over the years, there have been significant changes in the strategies adopted by the NGOs. This is especially true for the more activist NGOs as compared with the others focussing on the service delivery functions. In the initial years these NGOs have tended to take a more confrontationist attitude with an anti-establishment stance. However, over the years there has been a greater sensitivity to the role of the government and a greater readiness to negotiate and enter into partnership arrangements. This has also led to the establishment of networks and coalitions in their efforts to lobby and influence policies at local, regional, national and international levels. Besides, these networks have also provided a forum for information exchange and sharing of experiences.

It is in their new role that the NGOs become important links in any effort in improving the participatory character of urban governance. In fact, the notion of urban governance itself undergoes a tremendous change with an active participation of the civil society.

- **Facilitating and Enabling Government:** The third major strand of idea has been the changed role of the government itself. From the early decades in the second half of this century when the state was

perceived as a provider, there is now a disenchantment with this role. The role of private sector and the community or popular sectors, has been found to be very important. In many of the urban developmental functions, it is recognized that it is the latter which has in fact catered to the needs of the low income population, largely through informal processes. The changed role of the state as a facilitator and an enabler has become the main premise of the new policy perspectives.

The facilitator, role of the government automatically suggests the need for enhanced participation by different stakeholders in the urban developmental process. In fact, the role of the government will essentially be to evolve the necessary structures and procedures for cooperation and partnerships amongst them. This of course leads to a totally different view of participation, in terms of its purpose and underlying rationale, the different actors or stakeholders as well as the appropriate methods and mechanisms for making the governance truly participative. We discuss these in the following sections.

### **Developmental Concerns for Participation**

In this wider context of participation, the specific developmental concerns have also shifted considerably to encompass a large number of issues. The repertoire of this new paradigm is very wide and largely within the perspective of *Alternative Development*, as discussed above. It may be broadly grouped into three main categories:

- **Urban Environment:** Beginning with the approach of community participation in development projects, the initial emphasis was on improving the quality of living environment. This first referred to the physical environment, especially including shelter and infrastructure services.

However, over the years, the notion of urban environment has become more broad based and includes not just the natural environment but also the social aspects, especially related to education and human health. In this sense, it deals with the collective services and common resources which are also the prime concerns of any system of local governments. Specifically, it includes environmental services, namely, water, sanitation and solid waste management; social services related to education and health; and the conditions of common resources like air, water, public open lands and vegetation.

The focus on participation essentially relates to the effectiveness in service delivery and project implementation. The role of various forms of participation and of the civil society outside the representative political processes can have tremendous influence on these concerns. It must, however, be recognized that the extent and nature of participation will differ considerably for different services and even components of each service, depending on its characteristics.

- **Gender and Poverty:** The inequitable access to a better environmental quality for different groups in society has emerged as a second main focus of the developmental process. Emergence of the *growth with justice* models, in response to the failure of the trickle down theory, has helped to highlight these further. Over the years, in the context of developing countries, mainly two disadvantaged groups have been focused on, namely the poor and the women.

This concern also coincides with the shift from participation as a means to improving project performance to participation being reviewed as an end, leading to empowerment. Thus, the empowerment through developmental efforts remains a prime concern. Empowerment is visualized to occur through enhanced knowledge and information, access to credit and mobilization for effective participation in developmental activities. It also envisages a pro-poor bias and gender awareness in all developmental activities, especially the public programmes and service delivery.

- **Equity in Resource Allocations:** The most important, but probably the least understood, of the developmental issues is the question of an equitable allocation of resources. In fact, the *alternative development* model emphasized the inequitable global economic arrangements, suggesting the need for a new *economic order*. These concerns, however, transcend different levels, as the question of equity in resource allocation needs to be focused at the local levels also.

Unfortunately, the various NGOs partly due to their disciplinary bias, have focused on environmental and social services and have tended to neglect the broader issues of resource allocation totally. On the other hand, on the side of the government, there is a lack of adequate transparency in resource allocation processes and outcomes. For more effective participation in these, there is an urgent need for demystification and transparency. At the same time, the organizations representing the civil society also need to take a greater interest in the

issues of resource mobilization and allocation, in order to make these more equitable for the disadvantaged in society.

### **Need/Rationale for Participation**

During this decade there has emerged a new understanding of politics and participation. While democratic societies are supposed to automatically ensure participation, the election processes do not necessarily lead to active participation of service users and producers (when they are different from the public agencies) in its design, planning and delivery. This is partly due to the fact that the political process, especially in the urban areas, is rather far removed from most citizens due to the sheer size of the urban centres. Thus, "the voice of the people cannot be heard at all if the channels are limited to the formal structures of local government. (Sivaramakrisnan, 1994). This suggests the need for alternative structures which enable a far greater and effective participation of citizens, especially the more disadvantaged ones like the poor and the women.

Over the years, the basic rationale and nature of participation has undergone tremendous changes. In the urban context, and in relation to the process of urban governance, two strands of changes maybe traced which also suggest the evolution of the entire paradigm of participation.

- **Areas of Urban Governance:** The concept of governance goes beyond the routine government functions and emphasizes the manner in which the developmental activities are carried out to ensure an adequate quality of living environment and to promote the economic vitality of the city. In this sense, governance goes beyond just maintenance of public order and suggests a more proactive and promotive role for the different levels of the government.

With respect to the concept of participation, three areas of urban governance are particularly relevant. The first two of these relate largely to smaller community levels with more direct approaches like *development projects* and *delivery of urban services*. Development projects refer to time bound and a definite set of investments to improve the quality of living environment in different parts of the city. They may encompass slum improvement related projects, provision of community level infrastructure facilities as well as employment programmes. In addition to these, there are many other social and environmental

services that are critical for urban life. For example, water and sanitation, collection of solid waste, education and health are amongst the important ones. In the past most efforts at participation of urban communities have been in these contexts.

The third area of governance relating to the *consultation for public policy and planning* is now being recognized as being of significant importance. This necessitates actions at the city and larger levels, where the conflict between representative and participatory approaches come into sharper focus. It also relates to policy decisions which have larger city or regional impacts and, therefore, are not generally given priority by smaller community based groups. This necessitates other forms of participation to have the representation from different interest groups in the civil society.

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TABLE 1. Objectives of Participation

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Area of Governance	Objectives of Participation
Development Projects	Effectiveness Efficiency Cost sharing Capacity Building Empowerment
Local Services	Coverage Effectiveness Efficiency Community awareness Capacity Building Empowerment
Public Policy and Planning	Effectiveness Equity Capacity Building Empowerment

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- Objectives of Participation: The second major shift has been in terms of the envisaged objectives of participation. The earlier idea of participation, as largely linked to development projects, was with a view

to improve *effectiveness* and project efficiency. Effectiveness refers both to the extent of achievement of a given objective of the project as well as the qualitative results on critical parameters. Participation was felt to contribute to a improving effectiveness by a better understanding of the needs and preferences of affected groups and their greater satisfaction due to their involvement.

*Project efficiency* on the other hand refers to the costs associated with a given level of outputs. This improvement can be effected by participation through better coordination and cooperation between the main stakeholders, leading to less delays and smoother project implementation. Another project linked objective has been *cost sharing*, which helps to reduce public costs, but more importantly helps to improve the stakes of clients in the project with the resultant the resultant benefits for both effectiveness and efficiency.

These project linked objectives or rationale of participation have often been called instrumental ones or as means to some other ends. The NGO sector has particularly pleaded for empowerment strategies and not being satisfied with minor project level objectives. In this vein, the objective of *capacity building* refers to both the project linked approach and as a means. The experience in many development projects suggested that they lacked sustainability and often the poor maintenance and client apathy led to rapid deterioration in living environment. The concept of capacity building is thus to enable the communities to continue with the regular functions as well as participate in project deliberations more effectively.

While the importance of participation for improved project performance is clearly recognized by most governments and funding agencies, there has also been considerable criticism of the *instrumental* view, especially from the NGO sector. They have emphasized “the *change-inducing* (UNESCO, 1986) or *authentic* community participation (Midgley, et.al, 1986) where people’s involvement is seen as an on-going process and an end in itself.” (Shetty, nd). It is within this perspective that *empowerment*, with both political and psychological overtones, is suggested as a main objective. It basically refers to a greater exertion of pressure by the disadvantaged groups and their ability to initiate actions on their own, due both to self esteem and access to better knowledge, information and resources. There is also a recognition of great potential in community based action and that empowerment will help to release this for developmental concerns. Further, it is also realized that the society is fast moving towards an information revolution and access to

knowledge and information represents power and status. The community empowerment thus also necessitates better access to these.

Empowerment clearly implies the need for processes which can respond to the demands and initiatives from the community level organizations. This leads us to the question of larger city level policy issues and two important objectives become important from this wider perspective of participation. First, is the issue of improvement in *coverage* of local collective services. Secondly, ensuring *equity* in decisions of public resource allocation become important. In the urban context, both the intra urban spatial equity and across groups in society. The main focus of participation is to help protect the interests of the disadvantaged groups, and use the resource allocation to achieve a more balanced distribution of urban services.

- From Projects to Planning and managements: The widest use of participation in urban governance has been in development projects, where attempts are made to involve the *beneficiaries* in its planning, implementation and later operations. The focus in such attempts was on improving the project effectiveness and efficiency and cost or resource sharing through either self help or later community based cost recovery. While such efforts certainly help to improve the cost effectiveness of project investments, they may not lead to more sustained participation in developmental processes later.

Some of the most widespread illustrations of this approach are the urban projects funded by the World Bank and other international agencies who have often used the concept of community participation in their development projects. The emphasis there has been to organize the *beneficiaries* into user groups. The nature of participation, however, was most intense for information sharing and consultation. Participation in actual decision making has been only modest. This approach, however, also showed the critical importance of technical inputs. Failure and shortcoming on this front also hampers effective and real community participation. (Paul, 1987, pp. 28) The attempts at capacity building and empowerment have, however, received far less emphasis in development projects.

The empowerment theme leads to the possibilities of greater demands for services. This will necessitate widening the process of governance to include the voice of the civil society, and especially the disadvantaged groups, to be heard and attended to in decisions related to service provisions and resource allocations. It is this recognition that

has led to enhancing participation in other areas of urban governance, especially provision and delivery of urban services and the larger issues of public policy, planning and resource allocation.

This widening of the concept of participation is supported by the global trend towards decentralisation, especially greater control by the local governments. As we noted above, however, for the local governments to be effective, the political process of the representative democracies may not suffice. This has led to a search for more effective ways of involving the civil society, to ascertain their preferences, to monitor and be the watchdogs to give feedback on governmental policies and programmes and to be more direct partners in the developmental process and urban governance.

### III. CIVIL SOCIETY AS A STAKEHOLDER IN URBAN GOVERNANCE

Any strategy of participation must first of all clearly identify the different stakeholders in the process of urban governance. The three main stakeholders are i) the government itself, ii) the civil society which is the main consumer of the services and as represented by different collective forms and lastly iii) the other private producers of these services. Each of these are represented by their primary units as well as at higher levels representing a larger collective association. As the government and producers are being dealt with in other accompanying papers, we focus more on the different forms representing the civil society.

#### **Representatives of Civil Society**

For effective participation, the civic society needs to be organized into groups representing different collective interests. These may range from neighbourhood based community organizations (often referred as CBOs or resident welfare associations), to organizations which support the development of such CBOs (often referred as the non-governmental organizations NGOs) or different forms of citizen or consumer forums (CFs) which represent the interests of specific groups in society. A variety of associations of such primary CBOs, NGOs or CFs at regional, national and even international levels have also been formed in recent years.



TABLE 2. Representatives of Civil Society

Type		Main Rationale	Members	Examples from Indian cities
Primary	Community Based Organizations (CBOs)	To pursue Common Interests	Groups of people living or working together	<ul style="list-style-type: none"> <li>• Thrift and Credit Groups</li> <li>• Housing Societies</li> <li>• Resident Welfare Associations</li> <li>• Neighbourhood Committee</li> </ul>
	-Non-Governmental Organizations (NGOs)	To pursue developmental mobilization objectives on a non-profit basis	Group of Socially Motivated Individuals; Social Workers	<ul style="list-style-type: none"> <li>• SEWA, Ahmedabad</li> <li>• SPARC, Bombay</li> <li>• Sharan, New Delhi</li> <li>• AVAS, Bangalore</li> <li>• ASAG, Ahmedabad</li> <li>• Vikas Centre for Development, Ahmedabad</li> </ul>
	Consumer Forum (CF)	To Safeguard Interests of Specific Consumer Groups and Influence Public Policy	<ul style="list-style-type: none"> <li>• Entrepreneurs or</li> <li>• Group of socially motivated Individuals/ Social Workers</li> </ul>	
Apex	Federation	To pursue Common Interest and Promote new Groups	Primary CBOs, NGOs or TCGs	<ul style="list-style-type: none"> <li>• FTCA-Federation of Thrift Credit Association-Hyderabad</li> <li>• Women's World Banking</li> <li>• National Slum Dwellers' Association, Bombay</li> </ul>
	Support	To provide Support Services to Primary Groups and Influence Public Policy	Group of Socially Motivated Individuals; Social Workers	<ul style="list-style-type: none"> <li>• PRIA-Society for Participatory Research in Asia</li> </ul>
	Citizens' Forum	To be Watchdogs for Municipal Services	Other Primary CBOs/NGOs	<ul style="list-style-type: none"> <li>• Express Group of Citizens, Poona</li> <li>• Proposed ward committees under the seventy-fourth CAA</li> </ul>

- **Typology of NGOs:** The NGOs have come to be recognized as an important cornerstone in any strategy of participation, whether at the level of development projects or in larger concerns of consultations on public policy. However, why is it necessary to typify the NGOs? As suggested by PRIA (1991), “the experience of voluntary development organizations and other non-governmental organizations in India has become so diverse and multifaceted that there is a need to systematise and classify this vast range.”
- **Rationale:** Most of the earlier attempts at such classification have tended to focus on the basic rationale. The differentiation is generally made between those with a belief in *relief and welfare* approach and those who believe in *struggle and empowerment*. It is argued that the former are more likely to work with the government while the latter may find themselves in conflict with both the government and the political parties. The Indian experience, however, suggests that even those with a belief in struggle and empowerment have over time realized the need for developmental activities. Similarly, those with a relief and welfare approach have realized that for sustainability, community capacity and control are very important.
- **Size:** PRIA (1991) also provides additional considerations related to the size of the NGO. (See Table 3). The question of size is extremely important. One of the major limitations of the NGO sector has generally been its limited coverage and reach. This means that the possibility of growth in the size and, therefore, an expansion in its coverage, become critical to overcoming this constraint.
- **Primary and Apex Organizations:** With the growth in number and size of NGOs, a variety of federations have emerged to serve the common interests and to provide the support services which are not possible to internalize for most, except a few very large, NGOs. It is thus useful to distinguish between primary and apex NGOs. The primary ones are either the community based organizations (CBOs) or the other NGOs. The CBOs are formal or informal associations of a group of people, either living or working together and formed to pursue common interests. The NGOs, on the other hand, are associations established to *pursue developmental objectives on a non-profit basis* (Forbes and Paltenberg, 1993).

TABLE 3 Size of Non Governmental Organizations

Size	Characteristics
Small	Few fulltime staff with volunteers. Work confined to a few areas/ localities. Internal funds
Medium	Several slums - About 10 full time staff. Some external funds. Annual budget about Rs1 lakh
Big	25-50 full time staff. Several cities on a programme basis. Annual budget about Rs 5-20 lakhs
Large	100 or more full time staff. External funds from many sources. Annual budget about Rs 50 lakhs or more.

SOURCE. Based on PRIA (1991), pp. 33-40.

The basis for the apex institutions is the need to share experiences and *overcome isolation*, for protection of legitimacy and identity (PRIA, 1991), sharing critical services and the desire to influence policy and programmes in a larger perspective. These needs emerge from the specific organizational and management environment in which the primary CBOs and NGOs operate.

This new trend of apex institutions take many forms, including federations, support organizations and networking. Federations may be either general or evolved around specific issues. However, they will have a specific group of primary organizations associated with them. The support organizations, on the other hand, do not necessarily have a specific constituency and can provide the necessary services to the NGO sector as a whole. For example, the Society for Promotion of research in Asia (PRIA) is such a support organization. (See Box 1).

**Box 1****Society for Participatory Research in Asia (PRIA)**

Started in 1982 PRIA is a unique support organization which combines professional management, largely associated with the corporate sector, with socially committed activism associated generally with the *voluntary* sector. Its basic mission is to create opportunities for sharing, learning from experiences and enabling dialogue across groups. Its focus in activities is on studies, research and documentation, arranging for *educational events and preparation and publication of educational materials*. In recent years influencing public policy and strengthening the environment for effective reassertion of the institutions of the Civil Society have gained strategic importance for PRIA. Its specific areas of work include Occupational and environmental health, participation and governance, institutional development and developing global alliances. In its role as a support organization, PRIA essentially attempts to strengthen the organizations committed to people centred development, especially by improving their information and knowledge base, building internal capacity for organizational and financial management.

Networking suggests a more loose organizational form with a focus on exchange of ideas and experiences and providing opportunities for dialogue, consultation and cooperation. This is preferable when a large variety of organizations are involved and very formal structures may become difficult initially. A major issue here has in the past been for the NGOs with different basis, approaches and styles to come together effectively. As PRIA (1991) highlights this with the case of AVARD, where coming together has often been quite difficult.

Based on a study of 18 leading NGOs in Indian cities, it is possible to illustrate the typologies using the three criteria of status (primary/apex), rationale and size. The evidence presented in Table 5 highlights the changing nature of the NGO typologies. Interestingly, over time many of the NGOs who started with a predominantly struggle and empowerment rationale have taken up development activities also. Similarly, most of the NGOs who have gone beyond the *small* category have taken on some of the support functions. At least three of the NGOs had begun with the apex function. This changing role of the NGO has implications for its own internal organizational structure and nature of linkages, as we discuss in the next section.

### **Development of NGOs in India**

Over the past four and a half decades since independence there has been a tremendous rise of Non-Governmental organizations in India and the world over. They have emerged as a major lobbying force for the downtrodden, for bringing and keeping alive the long term social concerns like environment and women's role and for organizing and representing the civil society in various the local, national and international forums. Their nature, developmental concerns and internal and external linkages have undergone significant changes over this time. We trace these based on the available scanty evidence. It is indeed surprising that despite the growing importance of this sector, there is very little rigorous documentation of these efforts.

While the roots of *Voluntary movement* are found even in pre-independence period, the more development oriented growth of Non-governmental Organizations (NGOs) started only after independence as the Voluntary Action groups joined in the task of nation building. During the first two decades the NGOs continued to join the government in these efforts. The student movements during the sixties also strengthened these developments. It was during the seventies, however, that there was a lot of reflection on, and at times a disenchantment with the governmental actions.

The limitations of these actions in reaching the disadvantaged and a complete lack of participation of these groups in the developmental processes led to a new emphasis on conscientization and people's participation. The early emphasis on "social work with a focus on charity now veered towards development work and community mobilization" (PRIA, 1991).

During the eighties, these trends were further strengthened with the entry of young professionals in this area. In fact, it was during this period that the notion of Voluntary action started to change to the notion of Non-Governmental Organizations. While the social commitment continued in these efforts, it was no more visualized as being voluntary and for charity. There was also a greater consciousness regarding the need to *come together* and support the more sustainable development of this movement with the necessary planning and management. This has led to the growth of Apex organizations which we referred earlier. This growing awareness, however, needs to be translated into policies which directly or indirectly promote such organizations. More importantly, however, there is a need to evolve

processes which enable their participation in larger policy issues and planning processes.

### **Organizational Roles and Linkages**

A critical aspect in moving towards such systemic and sustainable efforts for participation in urban governance through the collective associations of the civic society, is the need to carefully nurture appropriate organizational forms. This is indeed difficult as these alternatives appear to have very complex and diverse organizational structures and it may be difficult and indeed inappropriate to have simplified organizational forms. However, it is possible to identify the main roles or orientation necessary for successful organizations. Based on a study of 18 different NGOs working in the areas of shelter and finance with the urban low income communities, Mehta (1994) identifies the following three main roles.

- a grass roots base,
- a wide ranging set of developmental activities,
- an ability to strategies expansion, external linkages and influence policy environment.

This study also found that all the three roles are critical to successful NGO operation in terms of their coverage and extent of activities. Those with only a grass roots base and a limited set of activities have a limited reach and little capacity to expand their operations. Those with the strategising capacity were able to mobilise resources, receive technical assistance, enhance interactions and were able to expand their coverage in an effective manner. On the other hand, a few NGOs which lacked a strong grass roots base were also unable to grow beyond isolated projects.

The important, though the more difficult role of strategising can also be performed by a federating apex organization. In such a case the apex organizations for CBOs or NGOs may not have any direct grass roots base. Their focus is largely on the strategy function with the developmental activities focussing on support to the primary organizations. The apex organization must be evolved to support strong primary organizations and have continuing relationships with them. Ideally, they must also have representation from the primary organizations. Without this clear linkage, the strategic efforts of the

apex organization are not likely to be very effective.

The functions performed by the Apex NGOs may also be replicated by governmental organizations with a specific mandate to reach the disadvantaged groups. In fact, as we review later in the next section, some of the attempts by the governmental programmes like the Urban Basic Services for the Poor (UBSP) have attempted to do exactly this.

TABLE 4. Organizational Forms and Roles

Type of Organization		Role of Organization		
		Grass Roots Base	Developmental Activities	Strategy
Primary	CBO	Direct	Community Priorities	—
	NGO	<ul style="list-style-type: none"> <li>• Direct</li> <li>• Through NGO</li> </ul>	Developmental Goals	<ul style="list-style-type: none"> <li>• Expansion strategy</li> <li>• Vision</li> <li>• External linkages</li> </ul>
Apex	NGO	—	Support to Primary Organisations	<ul style="list-style-type: none"> <li>• External linkages</li> <li>• Expansion strategy</li> <li>• Policy advocacy</li> <li>• Vision</li> </ul>
Govt.	—	—	Support to Primary Organisations	<ul style="list-style-type: none"> <li>• External linkages</li> <li>• Expansion strategy</li> </ul>

A recent study of 18 different NGOs in urban India finds that some of the NGOs evolve rather complex organizational linkages to ensure that all the three important roles are fulfilled. Table 5 highlights these. More indepth inquiries are necessary to understand these linkages so that the governmental programmes like the UBSP may adopt these structures. In the UBSP, the community structures of primary CBOs provide the grass roots base. The strategising function for expansion and external linkages is envisaged to be provided by the UBSP staff at city level. However, in many of the cities, this structure is very weak and hence the programme impact also remains weak. The developmental activities are envisaged through all the governmental programmes to be availed through convergence. In this manner, the NGO organisational linkages can be used in a governmental programme which can then be replicated more rapidly and widely than any NGO based programme.

TABLE 5. Typologies of Urban Non-Governmental Organisations

	Primary		Apex		Size (Small Medium Big Large)	
	Relief and Welfare	Develop ment	Struggle and Empower ment	Federa tion		Support
SEWA		o	●	o	o	Large
BCC		●		o		Big
SPARC (NSDF)		o	●	o	o	Big
FTCA				●	o	Medium
AVAS		●				Small
VIKAS		●				Small
LWS	●	o				Big
Sharan		●	o		o	Medium
Deepalaya	●	o		o		Big
CEDMA		●			o	Big
Shramik Bharati		o	●	o		Medium
Adhikar		o	●	o		Medium
CASP PLAN	●	o				Small
PUNERVAS				o	●	—
DPG		o			●	Medium
Asha Niketan	●					Small
Unnayan		o			●	Medium
DCA	●	o				Medium

SOURCE. Derived from Mehta (1994) and NIUA (1994).

NOTE. ● Main/Initial Role, o Secondary/Second Stage Role



Another important aspect in the growth of the NGO sector in India is the role played by both some of the large primary NGOs and the apex federations. In the first case, the primary NGO either actively promotes its philosophy and organisational style by starting new organizations in different cities or initiating similar activities. SPARC and NSDF have followed this approach not only in many other Indian cities like Lucknow, Bangalore and Poona, but even internationally in South Africa. SPARC enables the women from the slum communities to spread the philosophy and strategic approaches through experience sharing and training. This can be a very effective strategy for rapid growth. The UBSP can emulate this approach for further expansion effectively.

In an alternative approach, the growth impulses can also come from simply diffusing the idea and the philosophy through experience sharing, or the former associates in an NGO setting out to start a similar NGO themselves. SEWA, Ahmedabad represents such a case where its philosophy and approach have been used by affiliated SEWAs set up in several other Indian cities.

#### IV. INDIAN EXPERIENCES IN PARTICIPATIVE GOVERNANCE

While the Indian experiences in evolving a participatory form of urban governance are at best weak and fragmented, the wide variety of experiments and efforts present some possibilities for a sustained and focused effort in the future. It, however, is necessary to point out the paucity of analytical literature and even good case documentation from which future directions may be derived meaningfully. Systematic efforts are crucial in this regard both to evolve more meaningful strategies and to share experiences amongst the different actors in this process. Such sharing of experiences is also crucial, as these approaches require continuous innovation and adaptation.

We have grouped the different experiences into three areas of governance. Our attempt is to assess these within the conceptual framework suggested in the previous section. We also highlight the main lessons from the existing approaches and potentials for the future. Table 6 highlights main approaches and examples from India.

#### **Participation in Development projects**

In terms of its reach and coverage, incorporating community participation in developmental projects has probably been the most

widespread form of participation in urban governance. In relation to the three developmental concerns for participation which we referred earlier, this mode largely relates to the first set of concerns related to the urban environment, encompassing the environmental services like water, sanitation and solid waste collection. The urban component of social services (especially health) is very small or even nonexistent. Further, these are more appropriate to review in the next section on delivery of services. In recent years there have also been some attempts to introduce specific employment programmes for the urban poor.

- Environmental Improvement of Urban Slums (EIUS): The governmental developmental projects with significant community participation potential have largely been those related to the development of slum settlements. Unfortunately, however, this has not been true for the most important nationwide programme of the Environmental Improvement of Urban Slums (EIUS). It started out as a centrally funded programme, but has later been transferred to the State sector. Over the years, many local municipal governments have also undertaken this with their own budgetary allocations. This programme has, according to the official estimates, covered almost 20 million slum dwellers (45 per cent of total slum dwellers) by 1990.

The programme, however, has been implemented as a typical sectoral departmental activity with no effort at involving the local communities in selecting the service levels, technology, location, etc. This has led to serious service gaps in implementation. An evaluation of this programme in Ahmedabad suggests that the services provided are generally inadequate in magnitude, are poor in quality, inappropriately located within the slum settlements and suffer from poor maintenance as nobody owns up to the *government* services. As a result, the assets are often in a perpetual state of disrepair and have no real value for the slum communities (Boni, 1985).

It is indeed surprising that there has not been any significant attempt to incorporate the simple community participation principles for making the service provision more effective and sustainable, despite the evidence from some of the more successful examples from rural as well as urban settings. The following three main constraints in this regard may be identified. These have to be viewed in relation to the pressure on the ill-equipped municipal functionaries to fulfil the targets, rather than meet the needs of local citizens.

Attitudes	-	that community participation is time consuming and not really essential
Lack of skills	-	especially for community mobilization
Lack of CBO/NGO structures	-	lack of strong CBOs with an ability to take management responsibilities

• ODA/World Bank Slum Projects: As against the rather dismal performance of the EIUS with respect to participatory approaches, the projects funded by some of the international agencies have emphasized the need for community participation to a far greater degree. While rigorous evaluation studies are not available even for these projects, some observations are possible. In the ODA slum upgradation projects, the principle of community participation has been the main basis as they have followed the community development model. Thus, formation of appropriate community structures has been a prerequisite for undertaking the developmental works and service delivery. These community groups have then also undertaken service provision or effectively supervised its provision. However, even in these projects there has not been adequate attempt made to mobilize community resources and tap its potential in a wider perspective. The community also has essentially been a recipient and has not participated directly in the selection of service levels and technology. Further, as the ODA funds have come as grants and the community did not pay for the services, its real and effective choice has not really been understood or explored. At the same time, the quality and adequacy of services, user satisfaction and later maintenance are evidently far better than in the settlements covered under the EIUS mode.

In the World Bank approach, while there has been an emphasis on cost recovery, the community affordability and willingness to pay have not been ascertained effectively. The programme also did not attempt very effectively to evolve a base of community structures, especially in Madras. Even in the later programmes in Bombay, it has been difficult to evolve these in the envisaged time. The programme has faced long

delays. It would be essential to review the reasons for this as to whether they relate to the need for more time or use of inappropriate methods or the far greater politicization in the slum settlements in larger metropolitan centres like Bombay.

- Urban Community Development (UCD/UBS/UBSP): The third set of slum related projects have been those in the mode of urban community development. Compared to the rather top down nature of the EIUS scheme, this set of programmes envisage an emphasis on the role of the community at the grass roots. The need for community mobilization to precede other activities is clearly recognized in this approach.

The first formal approach at urban community development in India was the Delhi Urban Community Development pilot Project, in 1958, sponsored by the Ford Foundation. About 20 different pilot projects were started in by the Government of India in the next two decades with UNICEF support. The most successful of these was the Hyderabad UCD Cell in the city Municipal Corporation. Based on this experience, the national government launched a major programme of Urban Basic services (UBS) with UNICEF support in 168 towns during the Seventh five year plan.

Based on the UBS experience and the recommendations of the National Commission on Urbanisation, a Urban Poverty Alleviation division was established in the Ministry of Urban Development in 1990. This cell developed a revised programme of Urban Basic Services for the Poor (UBSP), which was launched along with the employment programme of Nehru Rozgar Yojana (NRY). The Eighth Five year plan envisages a coverage of 500 cities and 12.5 million urban poor under the UBSP during the period of 1992–97. By 1993–94, it had become operational in 280 cities with a coverage of almost 5 million slum dwellers. While adequate qualitative assessment of the community structures under the UBSP is not available, the numbers are certainly impressive, with more than 50000 community volunteers and over 5000 neighbourhood committees, largely composed of the representatives of slum women.

TABLE 6. Operational Strategies for Participation in Urban Governance

Area of Governance	Participation		
	Objective	Approach/ Strategy	Examples
Development Projects	Effectiveness	.Self help	.Slum Upgradation Projects
	Efficiency	.Community Mobilisation	.BUDP-Sites and Services Project
	Cost sharing	.Information Sharing and Consultation	
	Capacity Building Empowerment		
Local Services	Coverage	.Delegation	.NGO Schemes of sectoral ministries
	Effectiveness	.Participatory Monitoring	.Ward Committees of seventy-fourth CAA
	Efficiency	.Oxd feedback	.Express Group of Citizens, Poona
	Community awareness Capacity	.Contracting of Services	
	Building Empowerment	.Partnerships through Community Mobilisation	
		.Information Exchange and dissemination	.Contracting of Municipal Services
		.Social Mobilisation	.Partnerships for SWM/Health (EXNORA)
			.Law Enforcement (Bhivandi)
			.Total literacy Campaign
Public Policy and Planning	Effectiveness	.Coordination/Interaction with Bureaucracy	.Ward Committees
	Equity	.Interest Group Lobbying	.Plan Committees
	Capacity Building Empowerment	Legislative Channels	.National Campaign for Housing Rights
			.Public Interest Legislation
			.Town Planning Acts

**Box 2****Hyderabad Urban Community Development Project**

Often cited as the most successful of the urban community development projects, the Hyderabad UCD has expanded from a coverage of 4000 population at its inception to over 500000 population (80 per cent of slum population) over a 15 year time span. Today it covers the entire slum population. The programme is a part of the Municipal Corporation, and over the years has received assistance from many international agencies. Its focus, especially at the initial stage was to identify the felt needs and create linkages with the necessary government programmes. Over the years, however, many development activities have been incorporated, the latest being the slum upgradation and social facilities and activities under the ODA funding. The success of this UCD programme illustrated the possibilities of governmental agencies also undertaken people centred planning with the right leadership and motivation. The Government of India programme on Urban Basic Services has been influenced to a great extent by this experience.

The UBSP as a strategy has tremendous potential for incorporating the participation of the weaker sections of the urban population in all governmental programmes. In this sense, UBSP goes beyond the usual objectives of improving the effectiveness of a single project with an emphasis on capacity building and empowerment. Besides, its idea of convergence hopes to create linkages of the community structures with the different sectoral departments. In practice, however, the programme as being implemented at present does not provide adequate opportunities for the community structures to make effective choices, mobilize resources and gain control over other resources. This may make it difficult to sustain these over time. Similarly, the idea of convergence requires clear institutional arrangements encompassing different sectors and departments. Other available evidence from evaluative assessments emphasize the need for appropriate staff, strong support at the city level and the need for allowing and encouraging local initiatives. (NIUA, 1993 and Mehta, 1993).

- Employment Programmes for the Poor: The Government of India employment related programmes for the urban areas are fairly recent, as the efforts in the past were largely confined to the rural areas. The first such programme was the Self-Employment Programme for the Urban poor (SEPUP) by the central government in 1986. It essentially

focused on promoting self-employment amongst the urban poor through access to subsidised credit. During the five years of its operation, it fell short of even the envisaged targets by about 25 per cent. (Reserve Bank of India, 1991–92 as reported in Pathak, 1993).

This small programme was subsumed in 1991 by a larger programme of Nehru Rozgar Yojana (NRY). It aims at skills upgradation through training, provision of credit for self-employment and provides for wage employment through creation of community based physical assets and shelter upgradation. NRY has been more successful in achieving its targets, especially for credit and wage employment. However, its performance in field is adversely affected by a total lack of any participation of the community in selection of the beneficiaries and cost recovery. A recent ongoing evaluation study highlights this. The delays and inappropriate beneficiary selection can be resolved to a great extent through effective community participation. Similarly the assets created under the wage employment component of NRY were not for community based physical assets as envisaged (ORG, 1993). It is clear that the employment programmes, especially those focussing on credit and wage employment need to involve community groups to a far greater extent. As pointed out by Nagraj (1993), absence of involvement of the beneficiaries into the process and the excessive orientation on fulfilment of targets, “bring about a *fractured* perception of the programmes on the part of the key agents”.

Further, a recent study highlights the importance of Community based Finance Systems (CFSSs) for appropriate targeting and better loan recovery (Mehta, 1994). Their financial performance is reasonably good and there are significant possibilities of using these for reaching the urban poor. In fact, the UBSP programme, discussed above, also plans to include development of such CFSSs as a part of its strategy. In Kerala, the community groups formed under the UBSP have been able to access large volume of funds from NABARD a rural apex finance agency, on a line of credit basis for providing finance to the poor women for income generating activities. A recent initiative of the Department of Women and Child Welfare attempts to do this by setting up a special credit fund for women. The aim of such endeavours, however, must be to support the development of the CFSSs in a financially viable manner and to integrate them into the general financial systems rather than keeping them continually dependent on low cost governmental or donor funds. The subsidies, to the extent that are likely to be available, need to be spent on meeting the initial administrative costs and for risk

fund. One such proposal for housing finance is under consideration just now under the Indo-USAID Housing Finance Expansion Program.

- **NGO Partnerships in Development Projects:** It has become fashionable to have NGO involvement in governmental schemes and projects. However, this involvement is often not evolved within a well defined strategy focussing programme/project objectives, relative strengths of the NGO sector and the existence of strong and genuine NGOs in the local context. At the same time there are some successful cases of NGO partnerships, especially for shelter and environmental improvement projects. For example, the efforts of AVAS in Bangalore for shelter improvement, CEDMA for housing for the poor in Madras, BCC for a slum upgradation projects in Baroda, etc. provide successful ventures, where there was a significant involvement of the community in design and implementation.

The major limitation of the NGO linked partnership is the limited scale and reach of such efforts, as brought out by a recent study of the 9 NGOs who were involved in housing and infrastructure projects, none had been involved in more than 4 projects (NIUA, 1994). Further, in any expansion through such modes, the NGO management capacities come under strain and the costs are also likely to go up considerably. A better approach would be to more carefully identify the strengths of NGOs in a local context and develop a detailed strategy to incorporate the NGOs at appropriate stages of the project cycle. Such strategy formulation itself, however, must be done jointly with the NGOs and the community groups.

### **Partnerships for Service Delivery**

Besides the development programmes, the urban governance also implies delivery of many services which are critical to urban living. It is well known that in many cities throughout the country, the local governments are not able to provide many of the services for all its citizens. In such situations, the rich manage to find other private alternatives which are affordable even though they may not be environmentally sustainable or appropriate. The poor, however, are totally priced out or are forced to avail inadequate or qualitatively poor services, often paying more for these than the richer and more fortunate citizens. In such situations, partnership arrangements may help to improve the coverage or effectiveness of services. This would, however,



require considerable community involvement in design and monitoring.

Such partnerships may take place between public agency and the community or private contractors with NGO or community monitoring the process. Alternatively, government may use existing NGOs for improving the service delivery. Such efforts may happen either at the initiative of the government, NGO or by the community based organization itself.

- Delegation through Government Schemes for the NGOs: Almost every sectoral ministry or department has over the years evolved schemes for direct assistance to NGOs for service delivery. However, the share of these in the total sectoral allocation is generally very small and it has reduced further. For example, a recent standing parliamentary committee on finance found that the budget allocation for voluntary organizations had been pruned from Rs 64 million to only Rs 12.5 million from 1993–94 to 1994–95. (Economic Times, 1994).

In addition, the government has also set up institutions which provide funds for the NGOs. The most common of these have been in adult education, literacy, health care, environment and social forestry. A major one has been the Council for Advancement of Peoples' action and Rural Technology (CAPART). While, most of these operate for NGOs from rural areas only, their effect on the NGOs has probably been mixed. On one hand, such funds have provided the necessary finance to many NGOs to remain viable. At the same time, however, as such funds generally come with strings attached, the NGOs dependent on them also have to tow the government line fairly closely. A study by PRIA (1991) points out that many NGOs who refuse to do this find that their *grant in aid* is not continued.

There is no comprehensive assessment of the impact of these efforts on the NGO operations in the urban areas. In a way, however, it may be argued that many alternative avenues will help the NGOs to have choice amongst these. On the whole it appears that a more careful assessment of the rationale for NGO involvement is necessary to maximize the benefits from such schemes in the future. In fact it may even be desirable to encourage the formation of NGOs and CBOs (as being done in the UBSP strategy) in areas where the government presence is weak and the NGO may hold advantage. As for example, in the health sector, the totally inadequate urban services suggest the need for promoting and nurturing such ventures.

- **Local Government Contracting:** The second form of partnerships for services is through management contracts. In this form, a local authority contracts with a private firm, another public agency or community groups to take responsibility for operation and maintenance of a service or specific tasks like bill collection. These arrangements may also be based on a profit sharing arrangement where the private firm is authorized to levy charges for the services rendered within set guidelines. Such contracting is already being used in India, especially for services related to solid waste management, sanitation, development and maintenance of green or recreation spaces like parks and gardens and those related to roads and street lights. (See annexure 1 for prevalence of management contracts in Indian cities). Such contracting would be appropriate in situations of potential improvements in cost efficiency, increase in service coverage (or better targeting) or improvement in service quality.

**Box 3****Contracting Out in Rajkot**

Rajkot, like many other cities in India, has contracted out a number of municipal services to private firms as well as community groups. The most prominent of these are the solid waste management, and maintenance of street lights, public toilets and gardens. Others include recreation services and afforestation. Interestingly, while this has led to some cost savings, to the extent of 5 per cent of the total revenue expenditure on service provision, the major purpose has been rationalization of labour management within the Corporation. However, this has been done without any effort at retrenchment (which would be in any case impossible given the labour laws) but by freezing new recruitment for existing vacancies. Contracting has also helped the Corporation to increase service coverage for essential services and provide extra services (like aviary, aquarium and afforestation) which may not have been possible otherwise. In case of neighbourhood gardens, maintenance has been handed over to local residents with positive results. RMC has been careful in controlling the extent of contracting out to ensure service by public department in case of service disruption. More studies are necessary to assess the effect of competition on costs and service performance.

*Source: RMC (1993), as reported in Mehta (1993)*

Mehta (1993) discusses in detail the important issues related to the design of such contracts. No detailed assessment of such contracts is available for India. However, it appears that the role of community in local level monitoring would be quite important in such arrangements. For community contracts, the relevance and importance of the service for the community become crucial. Bombay has seen some innovative attempts in using or enabling community groups in such partnerships. In New Bombay, the development authority, CIDCO has sought the participation of community groups or individuals for cost recovery and bill payments. This has yielded excellent results. In South Bombay, in an upper income area, a residents' association has been actively involved in developing and maintaining a local playground and park. The development and maintenance of neighbourhood parks has been also handed over to local residents in Rajkot. These examples suggest that the communities will be ready to take over services which they consider as important and not a prime responsibility of the government. Even for other services like water and street cleaning residents maybe involved through innovative efforts, as suggested by the EXNORA example in Madras.

- **Innovative Public-Private-Community Partnerships:** A large number of urban services suffer not so much from a lack of resources, as from the total apathy of the different actors involved. Thus, the users or consumers have become mere recipients and for the providers, it is a job rather than service to a client group. On the other hand, in many critical services, there is no provision being made at all in urban areas. For example, the public health services are abysmally poor in urban centres. Mehta (1993) in a study of Aligarh, a medium sized city in Uttar Pradesh, brings this out clearly for both education and health services.

In either of this situation of no service or very poor and inadequate services, far more innovative efforts are necessary which essentially enhance the role of different stakeholders in the process of service delivery. Such efforts, though still very rare have started to show the way towards improving the service delivery and ultimately the quality of life in our cities. An excellent example of such efforts is the work of the EXNORA group in Madras where they have transformed the solid waste management through involvement of the community at the neighbourhood level, without adversely affecting the role of informal sector (See Box 4).

The Government of India programme of Urban Basic Services for the Poor also envisages development of such innovative partnerships in selected demonstration cities with UNICEF support. The idea of these demo towns, as they are called, is to illustrate low cost but effective ways of meeting the needs of the disadvantaged urban population. In one of the demo towns of Uttar Pradesh, Aligarh, a very innovative project for Community Health Services has been proposed. This attempts to develop a partnership amongst the community, the local private practitioners, the public health service personnel and the NGOs in the city. It plans to use the existing arrangement of local private practitioners (the RMPs—Registered Medical Practitioners, who are essentially para medical staff) to enable the community to have easy access to immunization and other MCH services.

**Box 4****Exnora for Solid Waste Management in Madras**

EXNORA stands for ideas which are EXcellent, NOvel and RADical. It started with a rather simple vision to improve the cleanliness of Madras streets, create awareness amongst the citizens and to do this with their active participation. It has generated a system of garbage collection which has retained the role of informal rag pickers, by enabling them to receive salaries which were paid by the contributions by the residents. In Madras, over 500 local EXNORAs are working with an average of 75 households each. Each has a committee which manages organization effectively. EXNORA also works in the slum areas of Madras. It has also attempted to introduce operational efficiency into the solid waste management system. The system is also sustainable as people have been willing to meet the costs of primary collection, despite this being a municipal responsibility. Even in the slum areas by combining labour inputs with financial, it has been to evolve a cost effective and self sufficient system. It has helped to generate a greater awareness about the services, amongst the citizens as well as the a more positive and enthusiastic response from the Corporation to have the garbage collection schedule followed more closely. These experiments have been also emulated by other cities in India, as for example Baroda, a large city in Western India.

*Source: Menon, A. (1993).*

Another such innovative partnership to improve the monitoring of local services and create more direct interactions between the municipal authorities and community groups has been undertaken in

Poona through the efforts of the Indian Express groups of newspapers. Known as the Express group of citizens, it has evoked considerable interest from both the community groups and the municipal authorities. However, initial inquiries in Poona suggest that the areas housing weaker sections have had more difficulties in effective participation. This suggests the need for better consultation and capacity building for such networks.

The main advantage of developing such partnerships is not just improved service delivery, but equally, if not more importantly, the greater and more meaningful participation of the stakeholders in the process of urban governance. As has been shown in Bhivandi, this will also lead to their greater commitment and help to control the widespread social unrest evident in Indian cities.

### **Box 5**

#### **Express Groups of Citizens and Poona Corporation**

The newspaper group, Indian Express has recently begun a very innovative idea for enabling the citizens and the Poona Municipal Corporation (PMC) to start dialogues on provision of services and other issues. For this an Express Group of Citizens (EGC) is organized as an informal association, for every municipal ward. This includes two representatives from every residents' welfare association (or housing societies), representatives from the slum settlements and local NGOs and prominent social workers. Each EGC holds a meeting once a month, which is attended by a senior officer of the PMC and the local councillor. A lively exchange of information takes place at this meeting where the people's grievances are raised and specific actions are suggested. The actions are reviewed in the next meeting for their status. While it helps the RWAs to perform a watchdog function, it also provides an opportunity to the PMC to learn about the delivery problems as well as to put their constraints more directly to the people. While this may have begun partly out of the fear of the media represented by the newspaper (which gives these meetings a wide coverage), in the future PMC may well be able to use this forum to bring in important changes in tax and charges, if it can demonstrably improve its service delivery. Similarly, while the focus at present is only on delivery of service at the local level, it may well provide a forum to discuss major policy and planning issues.

*Source: NUA, ongoing study on Decentralization of Municipal Administration  
- Based on discussions with Dr. G. Jha.*

## **Consultations on Public Policy and Issues**

Despite the growth of NGOs in the past four decades in India, their role in influencing larger public policy is still rather new and tentative. In the past, "much of their attention and energy has been in creating alternative models, innovations, experiments and not so much in influencing the process of formulating and implementing public policies" (PRIA, 1991). However, these groups have recognized this need from their practical experiences as well as through the networking. In the former, there has been a clear recognition of the limits to their efforts in isolated communities due to the inherent limitations imposed by the larger policy frameworks.

In a representative democracy like India, the public policy maybe influenced through three different modes as discussed below. While recent literature has highlighted the role of urban social movements in influencing policy and programmes at the local level, there have been considerable constraints on the spontaneous rise of such movements in India.

- **Interactions with the Bureaucracy:** The first mode is through the regular channels of policy formulation in which the bureaucrats and officials at different levels are engaged. This necessitates opportunities for interaction created either through informal interpersonal channels of communication between the leaders of the NGOs and the officials or through more formal modes with appropriate representation of the civil society on appropriate committees and decision making forums.

This is the most prominent mode of influence as has been used by the NGOs, especially for representing the interests of the poor and the disadvantaged. However, the emphasis has largely been on the informal channels and the efforts have largely not been very systematic. Many adhoc citizens groups of concerned professionals or social workers have also often attempted to influence public policy. For example, in Ahmedabad, the Sabarmati River Front development has received attention of many such groups, including the local architects and urban planners, educational and research institutions as well as NGOs. Professional NGO groups and internationally renowned local citizens have attempted to influence plans related to local issues like water supply services, development of parks, facilities for the children etc. These efforts have, however, been only adhoc in nature and need to be incorporated in a more systematic fashion.

The provisions in the recent seventy-fourth Amendment do provide for greater opportunities for incorporating the views of NGOs in the formal governance process, through their representation in the ward and district level committees. It is in this view that the few and isolated attempts of citizens' forums and at times leading citizens to influence public policy become important.

- Interest Group Lobbying: The second mode as suggested by PRIA (1991), is through the efforts of *organized interest groups*. This maybe done through efforts to influence the political parties and the elected representatives or by creating a more favourable public opinion through public awareness. While political lobbying is a well known and accepted route in western democracies, its use in India is still not very common. However, the more powerful interest groups like the corporate sector, real estate developers, financial institutions, etc., have been more apt at lobbying in a systematic manner as they have been able to devote far greater resources on research, documentation and strategizing.

The interests of the poor and the disadvantaged in such lobbying have received far less attention. This is partly due to the fact that the poor are themselves often not organized enough to take concerted action. The NGOs who largely represent their interests, have traditionally abhorred political action and contacts. They also have not devoted adequate resources to the necessary research and documentation for clearly identifying the policy agenda for which they need to lobby. It is of course also true that for policy issues alternatives are far more complex and require more innovation and debate. This is evident from a very intense lobbying effort by the National Campaign for Housing Rights (NCHR) to influence housing policy to be more favourable to the poor. While the efforts of the NCHR at mobilizing a nationwide drive are commendable, it may be argued that it failed to identify a few critical policy decisions as being the most important. Its approach at an alternative housing policy formulation was perhaps far too ambitious and hence, in the ultimate analysis not very successful. Such efforts can draw lessons from the lobbying styles of corporate sector, where certain key essential decisions are identified and pursued rigorously.

The interest group lobbying may also be done by influencing public opinion, rather than direct political lobbying. This requires media support and other means of generating public awareness around issues of public concern. While NCHR tried to create an awareness amongst the professionals in the shelter sector, their efforts at public

awareness were rather weak. PRIA (1991) points to the rather successful public awareness campaign by the state government of Gujarat in favour of the Narmada dam, which has kept the popular opinion in Gujarat totally in sympathy with the governmental actions.

Another aspect of lobbying in the western democracies is also the very important role played by groups for protection of consumer interests. With liberalization and India's entry into global markets, consumer protection becomes important. However, this is one area which has received hardly any emphasis in most NGO efforts. Ahmedabad based Consumer Education and Research Centre is an unique organization of this type. It has so far paid limited attention to urban services. However, it is currently engaged in a major project for environmental monitoring. CERC combines lobbying and legislative action with strong research and documentation efforts.

Despite these efforts at influencing public policy, on the whole record of the NGOs and other representatives of the civil society has been rather weak in India. Further, the few efforts have been confined to public policies in the area of social sectors like education, health, child and women welfare, etc. A major lacuna has been on the more planning related issues and especially those related to resource mobilization and allocation. The NGOs have traditionally been averse to *finance*, and this has prevented any deeper insights into the above issues. This is unfortunate as often the resource allocations determine the access to services. The government on the other hand has generally tended to mystify, often unnecessarily, the entire question of resource allocation. Within the local urban government, often important investment decisions are not debated adequately even by the elected politicians, let alone by the civil society at large. This entire outlook needs to be changed and the efforts are necessary from both the sides, the NGOs and civil society to understand the resource linked issues and for the government to simplify and make the resource linked issues more transparent.

- **Legislative Channels:** A third channel of influencing the policy issues and plans for the civil society is through the legal process or by the statutory requirements, as in the town planning Acts. Under this, the public authorities are required to invite public objections through gazette notifications. Unfortunately, however, these provisions have largely been used only by the landowners directly affected by the land use plan provisions. The NGOs and other concerned about the rights



of the poor have not made any effective use of such available legal provisions.

A more effective legal channel has been the public interest litigation which has become "a popular supportive intervention to strengthen the work of NGOs in influencing implementation and development of public policy" since the early eighties. (PRIA, 1991). The public interest litigation permits the NGOs or any other socially concerned parties to approach the court for legal justice without determining the *locus standi*. PRIA (1991) highlights the three important basis for public interest litigation, namely, to ensure the implementation of a legislation or constitutional rights, to alert the state to societal injustices and lastly, to evolution of public policy itself on the basis of case laws. While the PIL has been used more in the rural issues, it presents tremendous possibilities as evident from the stay on slum evictions in Bombay and the more recent Ratlam case whereby the courts have directed the municipal government to ensure provision of sanitation facilities, regardless of the fact that the state government had usurped this function. In this regard, however, it is also necessary to review the Consumer Protection and Redressal Act (COPRA), which was recently amended but failed to include the municipal services.

On the whole, however, far greater efforts are necessary to involve the civil society and especially the groups representing the interests of the disadvantaged in the process of policy formulation and planning. More innovative techniques need to be evolved for this. Similarly, the NGOs need to also make greater efforts to build up capacities for contributing effectively to such consultations and cooperative ventures.

#### V. PROPAGATING PARTICIPATION: VISION AND STRATEGIES

The changing perspective on participation also implies considerable adaptation in strategizing these objectives, goals and developmental concerns. Our interpretation of participation has been rather broad based, inclusive of the social practices as emerging by various forms of articulation of the civil society's role in the developmental processes. However, we also hinted at the need to support and incorporate these practices in the context of governmental decentralisation tendencies already in evidence. This requires an operational strategy with a clearer idea of its basic orientation and based on the characteristics of the main stakeholders.

## **Vision**

The basic premise is to move towards collaborative actions rather than the confrontationist attitudes evident in the literature on social movements. The vision also seeks to create a balance between confrontation and cooperation. The former is necessary to ensure a focus on the disadvantaged. However, without cooperation, it is not possible to move towards workable and effective strategies. The need is to strengthen the negotiating skills, especially of the disadvantaged, as these are crucial for such cooperation and partnerships. It is the realization that for all civilized societies, governance is essential. However, the forms and patterns of governance will need to change drastically in the coming years. While total anarchy is not a viable alternative, incorporating the strengths of community based initiatives will lead to a new form of anarchistic governance, which will be more participative and effective. The long term vision of this approach is that participation will not be an operational strategy but a form of governance itself.

The civil society and the citizens at large will have a far greater influence over the government and other service providers through “voice”, by enhanced lines of communication. While the differences in interests of different stakeholder will not wither away, there will be greater transparency and a better distribution of communication and negotiating skills amongst them.

## **Lessons from the Indian Experience**

The brief review of the Indian experiences in participative government in the previous section, suggests a few important lessons. While there is certainly a need to assess and evaluate the impact of these efforts in more rigorous comparative frameworks at least three important considerations are relevant.

- **Inadequate Coverage and Development of Organisations of the Stakeholders:** The review clearly highlights the greater success or effectiveness in situations where there were strong and sustainable community organisations or these were developed. Even in the simplest form of development projects, the role of such CBOs is of great importance. Similarly, for primary NGOs, a strong grassroots base is found to be extremely important.

The review of programmes and service delivery also suggests that at the city level, it has been possible to enhance the coverage of participative practices considerably once the base of CBO's and NGOs is already in place. However, this requires considerable and intense manpower inputs on a sustained basis for an adequate time period. While the costs of these need not be very high, appropriate staff selection with both skills and aptitude for community mobilization are critical in this. Such going to scale also necessitates considerable skills of strategising and management.

Many of the approaches at community mobilization efforts have, however failed to even attempt real capacity building. Most of the efforts have concentrated on instrumental objectives of improving provision or delivery of only a specific service. While the NGOs have focussed more on capacity building, their efforts generally do not have a good reach. However, there have been a few NGO operations like the SEWA in Ahmedabad which have achieved considerable success in expansion. Amongst the governmental programmes, the only exception to this is the UBSP programme which aims to develop community structures to support the convergence process rather than mere service delivery. However, even in UBSP, greater efforts are necessary to enable communities to learn management skills for resource mobilization, making informed choices on service levels, technology and external negotiations.

The apex organisations for representing the interests of the disadvantaged groups are only now emerging on the scene. These have a tremendous role to play in moving towards participative governance. Efforts are necessary to understand their structure. Government allocations for NGO support need to be evolved more carefully to develop such organisations, rather than simply using the NGOs as an additional service delivery mechanism.

- **Changing Role of NGOs and Other Representatives of Civil Society:** Despite the growth of NGOs in India, for many the roles have still remained narrow and limited. At the same time, it is worth noting that there is a growing awareness among some of the NGOs for the need to consolidate and expand their activities. There is also a growing realisation amongst some NGOs to introduce more effective management structures, to systemize their efforts and to consolidate them with rigorous documentation. This new vision is shared by many NGOs and especially those with more professional outlooks and styles.

Thus, the image of the NGO from a social welfare voluntary organisation is fast changing to a more professionally managed organization with a social commitment towards the disadvantaged groups in society.

These changes are still nascent and require considerable support. The new apex organisations have so far been quite weak in influencing public policy and larger planning and resource allocation decisions. The general aversion of most NGOs to 'finance' has also been a hindrance in this regard.

Interestingly, however, the NGOs have a variety of organisational linkages to fulfil the different roles of grass roots base, promoting developmental activities and strategising vision, expansion and external linkages. Different patterns for their growth are also evident. There are important lessons from these which maybe emulated by public-private-community partnerships.

The emergence of other representatives of civil society, notably consumer and citizen forums are very recent. However, in the changing economic order and a changed governmental role to facilitating, their contribution as watchdogs becomes important. The opportunities presented by the seventy-fourth Constitutional Amendment need to be exploited fully for such purposes. For example, the Amendment provides for ward committees in all cities with more than 3 lakhs population. These are expected to have at least two NGOs as representative members. This will be an important way to influence the local service delivery. Similar representation at the city level is also envisaged. However, to contribute effectively to these, the NGOs themselves need to strengthen their efforts at good research and documentation as well as maintaining a strong grass roots base.

- **Inadequate Institutional Arrangements for Participative Governments:** The review of Indian experiences clearly highlights the adhoc nature of CBO-NGO participation in urban governments. While the adhoc arrangements may permit more flexibility, they also suggest less commitment. Possibilities of participation in governments will remain dependant on the interests of specific bureaucrats and their rapport with the NGO leaders. The lack of clearly detailed, though flexible institutional arrangements and responsibilities inhibit processes which can be replicable in other situations. Alternatively, where there have been attempts to formalise, as in the governmental schemes for voluntary agencies, their role is generally limited to only service

delivery or help in implementation of developmental projects.

There have been some attempts to evolve new institutional arrangements which run across sectoral ministries and departments and focus on convergence of programmes and services for the disadvantaged. At the most local community level, the needs are diverse and cut across sectoral organisations of the governments. Convergence has thus emerged as a major plank in many programmes, including the Urban Basic Services for the Poor (UBSP). Many social sector departments in different ministries including education, health, family welfare, women and child development etc. have also attempted to introduce the concept of convergence in their programmes. (Mehta 1993 and TOI, 1994).

However, in all of these it is essential to clearly detail out the appropriate institutional arrangements and responsibilities with the necessary guidelines from the higher levels in sectoral line departments. This requires considerable advocacy and coordination at each level of the government which has different programmes reaching the urban poor.

The arrangements for incorporating consultations with the stakeholders in civil society for the formulation of public policy and planning, are totally inadequate or nonexistent at present. Thus, while some attempts to generate a national debate on education policy was made, such efforts are only adhoc in nature. Especially at the local level while there is a realisation of the need for such cooperation, the efforts have so far only been initiated by citizens' forums or large apex NGOs only.

### **Operational Strategies**

The lessons from Indian experience clearly point to the limited and fragmented operationalisation of the emerging vision of participative governance. Thus, while there is a far greater acceptance of its need, it is still essential to evolve operational strategies propagating participative governance on a much wider scale.

- **Strengthening Voice of Stakeholders:** Probably the first important task in operationalisation is to support development of organisations which can effectively become the voice of different groups in civil society. In relation to urban governance, three specific groups need to be promoted. The first are the community based organisations with a

capacity to voice the community demands and prioritize these, be the watchdogs for service delivery and mobilize community resources for local level management. The second are the different citizens and community forums who can help to monitor the services as well as contribute effectively to policy debates and planning. The third are the apex NGO organisations which will provide federating and support services for the primary NGOs and help them to strategies their expansion and external linkages.

The government role must move away from using the NGOs for mere service delivery to this larger role. The government can also play a more proactive and promotive role to develop support mechanisms for such organisations by adapting the NGO roles and organisational linkages. While the seventy-fourth Constitutional Amendment provides the opportunities for the NGOs to participate in urban governance, the facilitator and enabler role of the government requires that central and state programmes carefully support the development of such organizations without using them for mere service delivery.

The major dilemma here is the need to strengthen the “voice” of the disadvantaged so that it can sustain the competition from the better off sections in the society. The brief experience of the Express Group of citizens in Poona certainly points in this direction. Without such a focus, there will only be a further strengthening of the more organised and articulate interest groups in civil society.

- **Innovative Partnerships:** The emerging experiments in innovative partnerships need to be scaled up considerably. At present, the starting of such partnerships is dependant on initiatives of a few individuals or organisations. While this is extremely important, carefully designed incentives and a much greater effort at documentation and sharing of experiences can help to propagate the idea further.

Many of the ongoing governmental programmes will benefit tremendously by casting them in the public-private-community partnerships mode rather than the departmental delivery which is being currently used. It may be useful to draw lessons from the World Bank funded PROSANEAR project in Brazil which strives to foster technical and institutional innovation. New approaches were introduced in this project “for involving the communities in the decision to participate in the project..... and for enabling the households to make choices about service levels.”

The innovative partnerships need to capitalize the strengths of each of the partners. In this regard, it must be also recognised that the communities cannot do everything. Thus, to support community initiatives or enable them to make more informed choices on service levels, they must be able to assess the costs and benefits of all important alternatives. This requires technical support which must be provided. Similarly, the community must also have adequate information. Such innovative partnerships will also help to enhance management capacities of communities, besides improving the effectiveness and efficiency of projects and service delivery.

- **Demystifying Urban Governance:** One of the most debilitating of the constraints to participative governance is the unnecessary mystification of the process of governance. For the common citizen, this has created a total sense of apathy, bred often on ignorance. Any efforts to change this need to be encouraged. The Poona experiment by the Express Group is one such attempt where by the local citizen groups are able to monitor the local services and in the process demystify this aspect of governance.

Similar efforts are, however, also necessary for larger policy issues and important planning decisions. Wider public debates and popular consultations are necessary on key investment decisions. This, however, necessitates the governments to present the decisions in a proper perspective along with the analysis of alternatives. Such debates must involve all the stakeholders who are directly affected as well as for larger projects even larger forum of civil society. New techniques and methods need to be evolved for such consultation. The western countries have experimented with many such methods besides the interest group lobbying which is widely prevalent in United States. Thus, while the government needs to introduce these methods to open up their decision-making processes and make them more transparent, the NGOs, and especially the Apex ones, need to also develop capacity to fruitfully contribute to such debates in the future. They must also learn the techniques of lobbying as practised by the corporate sector to keep the arena of influencing political action open and accessible.

The opportunities that are provided by the seventy-fourth Constitutional Amendment, which require the municipal authorities to prepare detailed reports on the effect of pricing and financing mechanism and tracing the equity in incidence of subsidy, need to be used innovatively to introduce the long needed transparency in

governmental functions. This will gradually lead onto the demystification of urban governance.

#### VI. IN CONCLUSION

This paper has been an attempt to weave together the emerging conceptual understanding on the objectives and nature of participative governance and also to assess the Indian experiences in this framework.

The review of the conceptual frameworks suggests a move towards a broader approach to participation, both for more effective urban management and for empowerment of the disadvantaged which will help to pressurize the public policy for more equitable distribution of resources. While this vision is shared by many of the strong non-governmental organisations representing the civil society, and at times enlightened bureaucrats, its operationalization is still in a very nascent and experimental stage. As we move towards a more clear operational strategy, it is extremely important to learn from these experiences, preferably through more participatory evaluation techniques.

The dilemma for participative governance certainly is not regarding its relevance. In fact, it may be argued that it is inevitable, as without such participative arrangements the quality of life for a large majority cannot be improved in a sustainable manner. Further, in the newly globalising world, and the envisaged enabling role of the government, urban life is going to be characterized by a far greater degree of interdependence and linkages which transcend levels from global to community. In such a changing social scenario, participation fulfills both instrumental function of effectiveness and efficiency, as well as, and perhaps, more importantly, the psychological one of protecting identity of communities and ensuring the legitimacy of governance.

The dilemma, however, is whether those who currently derive short-term benefits from the repression of the disadvantaged and a governance process shrouded under mystery will be ready to see the long-term vision of strengthening the "voice" of all the stakeholders. Similarly, the dilemma also relates to whether the NGOs, who currently lay a claim on being the voice of the disadvantaged groups in civil society, are ready and equipped to move towards collaborative ventures, and willing to negotiate and lobby with the skills essential in the world dominated by the power of knowledge and information. All the partners in urban governance have to change, adapt and be willing to experiment in this process of *reinventing* governance itself.



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 ANNEXURE 1. Management Contracts for Services in Indian Cities, 1993
 

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Service/tasks	Cities
<b>Sanitation and public health:</b>	
<ul style="list-style-type: none"> <li>• Conservancy: drain cleaning Sanitation: maintenance of STP</li> <li>• Construction and Maintenance of toilets</li> <li>• Mosquito control</li> </ul>	Guwahati, Bangalore, Jodhpur, New Bombay, Ludhiana Faridabad, Delhi, Hubli-Dharwad, Aurangabad, Kalyan, Jaipur Cochin
<b>Solid waste management:</b>	
<ul style="list-style-type: none"> <li>• Garbage collection: disposal, street cleaning</li> </ul>	Guwahati, Ahmedabad, Rajkot, Baroda, Bangalore, Cochin Bombay, Pune, Jalandhar, Amritsar, Ludhiana, Jaipur Baroda, Kalyan
<b>Roads and streets related:</b>	
<ul style="list-style-type: none"> <li>• Road construction</li> <li>• Road maintenance</li> <li>• Street lightning</li> </ul>	Ahmedabad, Cochin Bangalore, Cochin, Jaipur Ranchi, Rajkot, Faridabad, Jodhpur
<b>Water supply:</b>	
<ul style="list-style-type: none"> <li>• Maintenance of water supply system</li> </ul>	New Bombay
<b>Tax Collection:</b>	
<ul style="list-style-type: none"> <li>• Collection of entry tax, other local taxes/charges</li> <li>• Parking lots: collection of charges Gardens and parks, etc.</li> <li>• Development and Maintenance of garden parks: playgrounds/sports complex, swimming pool, planetarium, traffic islands</li> <li>• Social forestry, tree planting along streets</li> </ul>	Guwahati, New Bombay Guwahati, Pune Rajkot, Baroda, Bombay, Faridabad, Hubli-Dharwad, Bangalore, Cochin Kalyan, Pune, Amritsar, Ludhiana Jalandhar, Jaipur Baroda, Rajkot
<b>Others:</b>	
<ul style="list-style-type: none"> <li>• Bus terminus shelters</li> <li>• Ward security</li> <li>• Market development</li> <li>• Maintenance of vehicles</li> <li>• Land development</li> <li>• Maintenance of libraries etc.</li> <li>• Milk market</li> </ul>	Ranchi, Cochin Ahmedabad, Rajkot Ahmedabad, Kalyan Rajkot Faridabad Faridabad Hubli-Dharwad

SOURCE: Based on the data from Ministry of Urban Development as reported in Mehta (1993)

## Abbreviations

ASAG	Ahmedabad Study Action Group
AVARD	Association of Voluntary Agencies in Rural Development
AVAS	Association for Voluntary Services and Action
BCC	Baroda Citizens' Council
BUDP	Bombay Urban Development Project
CAA	Constitution Amendment Act
CAPART	Council for Advancement of People's Action and Rural Technology
CASP PLAN	Community Aid and Sponsorship Project-Plan International
CBO	Community Based Organization
CEDMA	Centre for Development-Madras
CERC	Consumer Education and Research Centre
CF	Consumer Forum
CFS	Community Based Finance System
CIDCO	City and Industrial Development Corporation
COPRA	Consumer Protection and Redressal Act
DCA	Delhi Catholic Archdiocese
DPG	Development Planning Group
EGC	Express Group of Citizens
EIUS	Environmental Improvement of Urban Slums
EXNORA	EXcellent, NOvel and RADical
FTCA	Federation of Thrift and Credit Associations
LWS	Lutheran World Service
MCH	Maternal and Child Health
NABARD	National Bank for Agriculture and Rural Development
NCHR	National Campaign for Housing Rights
NGO	Non-Governmental Organization
NIUA	National Institute of Urban Affairs
NRY	Nehru Rozgar Yojana
NSDF	National Slum Dwellers' Federation
ODA	Overseas Development Agency
ORG	Operations Research Group
PMC	Pune Municipal Corporation
PRIA	Society for Participatory Research in Asia
RMC	Rajkot Municipal Corporation
SEPUP	Self-Employment Programme for the Urban Poor
SEWA	Self Employed Women's Association
SPARC	Society for Promotion of Area Resource Centres
STP	Sewage Treatment Plant
SWM	Solid Waste Management
TCG	Thrift and Credit Groups
UBS	Urban Basic Services
UBSP	Urban Basic Services for the Poor
UCD	Urban Community Development
UNESCO	United Nations Economic and Social Commission
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development

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## **Public-Private Participation in the Provision of Infrastructure to Tirupur: A Governance Perspective**

USHA P. RAGHUPATHI

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# **Public-Private Participation in the Provision of Infrastructure to Tirupur: A Governance Perspective**

USHA P. RAGHUPATHI

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Governance deals with the relationship between government and the civil society. Changes in the system of governance must be guided by greater accountability and efficiency in management. Governance with greater accountability can also be brought about through fiscal innovations, including private sector financing of urban infrastructure projects. In recent years, the private sector has been playing an increasing role in the provision and management of urban infrastructure and services in India. The functioning of local governments can also be strengthened and made more efficient by such private sector involvement.

The new economic policy of the Government of India, initiated in the early 1990s, encourages private sector participation in urban infrastructure projects. The Central Government, in its attempt to cut down the budgetary deficit, has had to make cuts in its allocation to different sectors. This has led the government to invite the private sector, including external partnerships, in the provision of urban infrastructure through various arrangements such as BOT, BOO, etc. The government is increasingly playing the role of a facilitator rather than that of a provider. In this liberalized environment, the entry of the private sector into the hitherto government held sector of water supply has also become possible.

This paper discusses a case for governance through fiscal innovation using public-private sector participation in water supply as an example. The case is of a small town called Tirupur, located in southern India, where the government has taken a major initiative in involving private sector in the provision of infrastructure for the city's industrial estate as well as for the city itself. This initiative will improve both the economic and social life of the residents of the town.

Tirupur town, which resembles an overgrown village, is going to be the first town in the country to have a water supply project that will be developed and implemented through a public-private partnership arrangement, in this case, by a joint venture company. It will also have the first water supply project that will be commercially viable and financed through debt and equity.

## I BACKGROUND

Tirupur is a special grade municipal town located 50 kms to the north-east of Coimbatore (a major city in Tamil Nadu) in southern India. It is spread over an area of 27.20 sq. km. In 1971 the town recorded a population of 113302 which increased to 235661 by 1991 (Census of India). By the turn of the century its population is projected to grow to over 300,000. The town has been experiencing a decadal growth of 42 to 46 per cent since 1971 (Table 1). Migration to the town has been increasing due to growth in the economic activities and nearly 40,000 people migrated to the town during 1981-91. Until 1970 almost four-fifths of the land in Tirupur was used for agriculture; this dropped to 39 per cent in 1980 and further to 35 per cent in 1990. Since 1990, the town has developed in all directions, encompassing the villages in the periphery of the town.

Today, Tirupur is a booming business centre. The economic base of the town is largely connected with the manufacture of cotton knitwear garments. The origin of the hosiery industry in Tirupur may be traced to the 1930s. The first hosiery unit was set up in 1935 and since then, the industry has graduated from a cottage industry into a small scale industry. Today, Tirupur has the largest concentration of cotton knitwear units in the country.

Often referred to as the "banian city" (the vest city), it mainly produced vests and undergarments, initially for the domestic market but later started exporting these and other cotton knitwear garments in a big way to worldwide markets. The growth experienced by the town has been phenomenal. Tirupur accounts for over three-fourths of India's cotton knitwear exports. In 1986 exports from the town were a mere Rs 0.18 billion worth. By 1992, the town contributed Rs 15 billion through direct and indirect exports. It is estimated that this figure may almost reach Rs 25 to 30 billion in 1997 (see table 2 for the growth in exports from the town). In 1986, there were only 10 to 15 leading exporters in the town and within a span of a decade the number of exporters increased to nearly 400 (1996). This spectacular growth has been achieved despite poor levels of support infrastructure such as water supply, effluent disposal, roads, power, and telecommunications.

TABLE 1. Population Growth of Tirupur

Year	Population	Variation	% increase
1901	6,056	—	—
1911	9,429	3,373	55.69
1921	10,851	1,422	5.08
1931	18,059	7,208	16.42
1941	33,099	15,040	83.23
1951	52,479	19,380	58.55
1961	79,773	27,294	52.00
1971	113,302	33,529	42.03
1981	165,205	51,903	45.81
1991	235,661	70,456	42.65

SOURCE. Census of India

The sudden growth of the town has widened the gap between demand for and supply of infrastructure. Water supply in the town is extremely inadequate. Until some years ago the town used to get a supply only once a week, which in 1996-97 improved to 1-2 hours on alternate days. The main source of water to the town is from rivers and some portion of the demand is met from tubewells. Water for industrial use is not available from the municipal supply and the industrial units have to make private arrangements for their entire requirement.

Water pollution levels in the town have been rising over the years. The town has no sewerage system and the only river that passes through the town called Noyil is, in fact, an open sewer now. The industrial units do not have effluent treatment facilities. The bleaching and dyeing industries consume large quantities of water and dispose it untreated into the Noyil River. This water is carried to downstream villages affecting their agriculture, human habitation and all forms of

life along the way. The ground water pollution in many places was noted due to a fall in the yield of agricultural land. Some of the fresh wells dug up yielded coloured water indicating that the chemicals had seeped into the soil and had reached the aquifer.

TABLE 2. The Success Story

Year	All India		Tirupur (Direct Exports Value)	
	Pieces in million	Value in Rs crores	Pieces in million	Value in Rs crores
1984	49.54	89.77	10.42	9.69
1985	56.68	104.89	17.21	18.69
1986	80.20	159.38	28.87	37.40
1987	112.24	283.85	39.17	74.49
1988	120.95	358.19	45.19	104.24
1989	165.60	543.17	61.40	167.39
1990	222.20	851.24	88.87	289.85
1991	243.30	147.03	90.50	429.48
1992	303.00	1894.69	133.90	773.37
1993	413.10	2874.38	889.30	1162.43
1994	407.00	3151.30	176.40	1318.00
1995	218.00	1733.71	212.56	1448.76
			(From January- June)	(From January- December)
1995 (January-June)			106.50	727.62
1996 (January-December)			151.16	1136.74

SOURCE: 'Growing on a Paradox', *Business Standard*, July 31, 1996

The haphazard growth of the town without proper environmental regulations enforced by the Municipality or the Tamil Nadu Pollution Control Board (TNPCB) have encouraged exporters to discharge effluents



consisting of toxic chemicals and colours in the Noyil River. Many dyeing units discharge their effluent into any open water body or even on land. This has considerably increased health risks in the town and also affected water supply.

The roads in the town are in poor condition with many potholes. The roads are also very congested and are unable to take the daily traffic load. The traffic is a mix of vehicles ranging from bullock carts to trucks. The power situation is appalling, with power tripping at least six to seven times a day. Most units operate on captive power. The telecommunication system is inadequate and outdated. In the absence of the latest communication technology, designs have to be couriered abroad for approval, increasing the order-process time.

It was the critical water supply situation along with the lack of other support infrastructure for industrial growth and exports, that brought about this new financing innovation in this sector.

Tirupur is a contradiction in some respects. It is possible to find the old with the new, and traditional with the modern in the town. For instance, it has very modern industrial units with fully automated equipment on the one hand, and on the other, even today, one of the most common modes of transporting goods in the town is a bullock cart. Water is supplied to the town through pipelines, water tanker trucks as well as from wooden water drums loaded on bullock carts. It is unusual to find a booming town having a strong economic base to have such antiquated systems of service delivery.

## II WATER SUPPLY SITUATION

One of the main problems in Tirupur today is water supply. The town gets potable water for just one to two hours on alternate days. Since piped water supply is insufficient, water tankers can be spotted all over the town. The most common sight in the town is that of men, women and children either carrying water or waiting for water tankers at designated spots.

The first water supply scheme for the town was commissioned in 1932 and was designed for a population of 20,000 with a per capita supply of 22.7 litres per capita per day (lpcd). The distribution from this source, which was 8 kms. away, was confined to the limits of the old town. This source could not, however, alleviate the water problems of the town and a new scheme called Bhawani River Scheme I, the source of which was 55 kms away at Mettupalayam, was commissioned

in 1962. The source, with a capacity of 7.0 mld of water, supplied about 5.0 mld to the town, the rest was supplied to the way side villages. However, the town's population grew at an unexpected rate due to the export activity, which forced the town to think of the second water supply scheme called the Bhawani River Scheme II. This scheme was an augmentation scheme. The first phase of this scheme has been implemented and the second phase is under completion. These schemes were and are being implemented by the Tamil Nadu Water and Drainage (TWAD) Board.

**Box 1**

<b>Source of Water Supply and Capacity</b>				
Source	Year of Commissioning	Capacity (in mld)	Quantity pumped (in mld)	Distance to source (in Km.)
Kovilvazhi River Bed	1932	0.5	N.A.	8
Bhawani River Scheme I at Mettupalayam	1962	7.0	7.0 (Supply to town is 0.5)	55
Tube wells	-	1	—	—
Bhawani River Scheme II at Mettupalayam	1994	33.00	22.00 (Supply to town is 17.0)	55
SOURCE: Tirupur Municipality				
NOTE: mld - million litres daily				

At present, the town gets only 27 mld from both the schemes whereas the present demand is 34 mld which is expected to rise to over 41 mld by 1999. About 1.3 mld of water to the town is supplied through tankers.

Most of the commercial and industrial establishments in the town depend on water tankers for their water requirements. The present industrial consumption by the bleaching and dyeing factories of Tirupur is approximately 75 mld. The Tirupur Municipality does not supply water to industries, who obtain water from ground water resources mainly through water tankers. This meets nearly 65 per

cent of their requirement while borewells meet the remainder. The balance of 27 mld is drawn from borewells installed by the industries. Most of this water is ground water obtained from agricultural fields.

There are almost 400 to 500 tankers plying in the town daily supplying upto 48 mld of water to industries. Some of the tankers supplying water to industries are owned by the industries themselves, while others belong to private water tanker operators. In fact, supplying water through tankers is a big business in Tirupur and it has become evident that some of the farmers in the agricultural areas surrounding the town have given up agriculture and have taken to the more lucrative business of supplying water. However, depletion of ground water as well as its contamination is forcing industries to go farther and deeper in search of water-both of which are costly solutions.

### III TIRUPUR MUNICIPALITY'S FINANCES

Tirupur was accorded a municipal status in 1960. It had a revenue of Rs 103.12 million and a revenue expenditure of Rs 88.26 million in 1994-95 (Kirloskar Consultants and CEPT, 1997). The main source of revenue for the municipality are property tax, shared revenue from the state, non-tax revenues such as fees, income from properties and grants. Property tax has been the single largest source of revenue for the Municipality contributing between 31 to 41 per cent of the revenue income from 1991-1995. The major heads of expenditure have been public health and sanitation, and water supply & drainage on which 33.6 and 39.8 per cent of the total revenue expenditure was spent in 1994-95.

The financial performance of Tirupur Municipality has been creditable judged by the operating ratio from 1991-1995 which has been over 0.72 during these years (Table 3). However, the debt servicing of the Municipality has not been prompt, resulting in a net overdue of Rs 333.89 million (as in 1994-95).

With this financial position of the municipality, the level of revenues generated, as well as the legal constraints under which it functions, the Tirupur Municipality was not considered an appropriate institution to take on a large integrated infrastructure project designed on commercial lines.

TABLE 3. Tirupur Municipality - Revenue and Expenditure

Heads	Revenue Account (Rs in 00,000)			
	1991-92	1992-93	1993-94	1994-95
<b>A. Income</b>				
1. Property tax	162.58	207.71	328.70	23.11
2. Professional tax	7.01	3.13	12.09	25.16
3. Entertainment tax	116.54	100.52	205.07	119.33
4. Other tax	1.00	0.45	0.44	3.14
5. Water charges	19.73	35.58	66.68	61.76
Sub-total	306.86	347.39	612.98	632.50
6. Revenue grant	56.50	18.10	10.07	18.15
7. Revenue grant	2.37	4.66	2.72	5.24
8. Miscellaneous	148.99	179.57	270.73	365.49
9. Remunerative	3.89	27.87	5.40	9.82
Sub-total	211.75	230.20	288.92	398.70
Total	518.61	577.59	901.90	1031.20
<b>B. Expenditure</b>				
1. General administration	48.98	52.77	62.55	72.76
2. Public works & roads	0.38	41.14	32.23	99.36
3. Education	78.33	19.19	33.49	0.36
4. Water supply & drainage	117.78	156.96	207.23	296.89
5. Street lighting	17.45	19.71	27.12	40.85
6. Public health & sanitation	41.31	175.41	277.63	351.46
7. Solid waste management	69.35	4.30	8.85	18.53
8. Other minor expenditure	4.33	0.53	0.45	2.42
Total	407.91	470.01	649.55	882.63
9. Existing debt servicing	53.39	130.76	48.91	35.46
Surplus/deficit (incl. debt servicing)	57.31	-23.18	203.44	113.11
Surplus/deficit (excl. debt servicing)	110.70	107.58	252.35	148.57
10. Operating ratio	0.79	0.81	0.72	0.86

SOURCE. Kirloskar Consultants Ltd. and CEPT, School of Planning (1997), 'City Infrastructure Priorities-Tirupur', Report prepared for Community Consulting International, New Delhi

## IV INFRASTRUCTURE FOR TIRUPUR

Until the Tirupur project came about, urban infrastructure projects in the water supply, sewerage, drainage, and road sectors were undertaken only by the state level government agencies. In the state of Tamil Nadu it was the Tamil Nadu Water Supply and Drainage (TWAD) Board which undertook all capital projects. The initial project proposal for improving water supply, drainage and sewerage for Tirupur was prepared by the TWAD Board. Later, when Tamil Nadu Corporation for Industrial Infrastructure Development (TACID), a Government of Tamil Nadu agency, was set up in 1993 to provide infrastructure to industrial areas of the state these schemes became a part of the integrated infrastructure project for the town.

## V PRIVATE SECTOR INVOLVEMENT

In early 1990, Tirupur Exporters Association (TEA), an association of the export industries, approached the State Government requesting for infrastructure for the industrial estate. The request proposal consisted of projects for water supply, effluent treatment, roads, telecommunications and power. The initial project proposal for providing water supply and drainage was drawn up by the TWAD Board. Estimates for other components such as roads, telecommunications, and power were provided by the respective government departments. A master plan for the town-Tirupur Area Development Project (TADP) was, thus, formulated for improving the infrastructure of the town.

Considering the magnitude of investment required, the State Government suggested that private sector funding should be sought for the project. This led to designing the entire project on a commercial format with full cost recovery and paved the way for private sector participation in the water supply sector.

The TEA approached TACID requesting it to provide infrastructure for Tirupur, emphasizing its woeful inadequacy and the importance of Tirupur as an important foreign exchange earner for the country. TACID's then chief showed sufficient interest in helping Tirupur with the required infrastructure. However, the agency showed its inability to finance the proposal. It was at this stage that a financial institution, called the Infrastructure Leasing and Financial Services (IL&FS), got involved in the project. TACID asked the IL&FS to prepare a feasibility report and arrange for financing of TADP. The

IL&FS was interested in the project because it was a new area for them to work on and it made long-term business sense to enter this sector. Profit motive was not the prime mover for IL&FS but the vast potential for financing water supply projects in Indian cities certainly made business sense. The main actors at this stage of the project were TACID, IL&FS and TEA.

IL&FS got involved in the project towards the end of 1993 and prepared the initial feasibility report at the behest of TACID. The feasibility report was submitted with cost estimates by the middle of 1994. The project was structured on commercial lines and was viable as an integrated project with the following components:

<b>Tirupur Area Development Project</b>		<b>Box 2</b>
Components	Cost (in Rs millions)	
1. Water supply	2530	
2. Municipal Sewerage	1990	
3. Effluent Treatment	1050	
4. Road Improvement and Expansion	320	
5. Housing	6600	
6. Telecommunications	645	
Total	13135	
SOURCE: IL&FS		

(Only the first four components of the project costing Rs 5890 million are being implemented by NTADCL. The remaining two components will be taken up by developers and the concerned state level agency respectively.)

In the initial stages the only institutions involved in decision making were TACID (GoTN), TEA and IL&FS. Tirupur Municipality's role in decision making of any kind was negligible mainly because such powers in the state vest with the Municipal Administration and Water Supply (MAWS) Department of the state government. Municipalities are agencies for carrying out the operation and maintenance functions and are not really planning and decision making bodies for major capital works. It was only after the decision to implement the project was taken by MAWS Department that the Tirupur Municipality got involved in the project.

## VI PARTICIPATORY APPROACH

The project has used a participatory approach to project planning. The IL&FS did the feasibility study for the project. It held discussions with the citizens, and conducted quick household surveys to determine the willingness to pay for water supply. IL&FS also held discussions with the industry to ascertain the demand for infrastructure and its willingness to pay for it.

At a later stage IL&FS got a detailed Environmental Impact Assessment report prepared by consultants. An Economic and Social Assessment of the project was also done by another consultant. At the initial stage NGOs were not contacted but later with the involvement of consultants these contacts started. Consultants have also carried out detailed household surveys and survey of industries to determine their requirements and willingness to pay.

## VII RAISING RESOURCES AND INSTITUTIONAL ARRANGEMENTS

After the submission of the feasibility report by IL&FS to TACID, the question of raising resources and managing the project came up. It was jointly decided by GoTN (through TACID), TEA and IL&FS that Tirupur Municipality, with its legal, financial, managerial and other constraints, was not the appropriate agency to implement the project and raise resources. Therefore, it was decided to set up a special purpose joint venture company called 'New Tirupur Area Development Corporation Limited' (NTADCL) to raise required resources (both through debt and equity), construct, operate and maintain the created assets. NTADCL, which was registered as a company in February 1995, was expected to raise resources from both internal (public and private) and external sources.

The NTADCL, which had main participation from TACID, TEA, and IL&FS, decided on the financial structuring of the project. The equity for the company has been mobilized from Government of India (GoI), GoTN through TACID, IL&FS, and TEA and it is expected that the BOT operator would also be an equity holder in the company (See Box 3).

Once the project is on stream, resources will be raised through debt instruments including Water Bonds. Long term debt is also being raised from multilateral and bilateral agencies for the project with repayment periods ranging from 20 to 30 years.

<b>Financing Plan for NTADCL</b>				<b>Box 3</b>
Project Cost	:			Rs 5890 million
Means of Finance				
● Debt : Equity	:			2.6:1
● Equity	:			Rs 1630 million
● Debt	:			Rs 4260 million
Debt	RS in million	Equity		Rs in million
Supplier Credit	500	GoTN/TACID		100
Commercial Banks	500	GoI		100
Debt FIS	1000	TEA		100
World Bank IL&FS	1500	IL&FS		100
USAID IL&FS	750	BOT Operator		230
		Surplus from Land		1000
SOURCE: IL&FS				

The equity for NTADCL has been so structured that the BOT operator also invests in equity, to not only mobilize additional resources, but also to create his stake in the project and the returns therefrom. This, it is expected, would ensure completion of the project on time and its regular and proper maintenance. The equity participation from GOI and GoTN ensures that the project has government approval. It will also help in the public approval and appeal of the Bonds, as and when they are issued.

#### VIII BIDDING FOR THE PROJECT

The Expression of Interest advertisement for the construction, operation and maintenance of the Tirupur project was given by NTADCL towards the end of December 1994. This advertisement was given for inviting bidders through international competitive bidding. As a response to the advertisement, 43 bidders expressed interest in the project.

Shortlisting of bidders was undertaken towards the end of February 1995. After the first shortlisting 9 bidders were selected.



Later, in July 1996 another shortlisting was done during which only 4 bidders were selected. Two pre-bid conferences were held with the shortlisted bidders during 1996. These conferences were held to clarify issues relating to technical matters and legal issues regarding contracts. The final bidder is expected to be selected by the end of 1997. The criteria on which shortlisting was being done included financial strength, technical capability, etc. The final selection of bidder would depend on the unit cost of water.

The construction of the project is to be completed within a period of three years. The bidder is expected to finance part of the equity and debt for the project and could also mobilize construction period finance. The bidder would be responsible for the execution of the project from the designing to the commissioning of the project, including operation and maintenance for a period of 30 years. The responsibility to bill the consumer and collect revenue will also be that of the bidder. The selected bidder will also contribute to the capacity building of the staff of Tirupur Municipality with regular training during the concession period.

#### IX SUMMING UP

The Tirupur project is an innovative and unique approach to financing environmental infrastructure projects in India. It is the first project in the water supply, sewerage and drainage sector which has been designed on commercial lines and is being implemented with public-private sector participation.

Once the project is on stream, the residents of the city as well as industrial and commercial establishments will benefit substantially. The residents are expected to get about 110 lpcd of water every day of an assured quality. Provision of adequate quantity of water daily will also save valuable time for the residents of the town. The residents can then put this time to economically productive work. The industries will also get an assured quantity and quality of water which will help them boost their production. This, in turn, would give a boost to exports which would increase the foreign exchange earnings for the country.

The provision of a sewerage system to the town, non-existent today, will improve the sanitary conditions in the town. This will have a beneficial impact on the health and productivity of the residents. The municipality will also benefit by the sewerage system. It will be able to improve sanitary conditions in the town without incurring any capital expenditure.

Construction of Common Effluent Treatment Plants will reduce water pollution in the water bodies in and around the town. This, apart from improving the health of residents, will also help in prolonged harnessing of ground water which, in future, will be uncontaminated.

Overall, the entire project will have a beneficial impact on the economic and social life of the town. This would not, however, have been possible if the project had depended only on budgetary support from the government. This method of funding causes delays and projects may not fructify.

Involvement of private sector in this project has helped the project to be designed on a commercial format. The advantages of such a commercially viable venture are:

- The capital as well as O&M costs can be recovered.
- This will help in proper maintenance of the system and creation of funds for capital replacement as and when required.
- Pricing of water at an appropriate level will reduce wastage and increase its judicious use. This will also prolong the life of the source.
- The quality and quantity of water can be assured due to adequate finances.

This mode of governance is likely to have greater acceptability in future. It reduces the financial burden on municipal governments for funding capital projects. Purchase of water from a private provider will improve the administrative and collection efficiency of the Municipality. However, increasing water tariff may not be easy because the municipal officials have to deal with the elected representatives and the public when increasing tariff.

#### X IMPLICATIONS FOR GOVERNANCE

This paper brings into focus an innovation in financing having implications for urban governance. Under the present system of governance, local governments are responsible for the provision and maintenance of civic infrastructure and services. While the local governments are expected to be efficient and responsive, in reality many of these institutions are almost obsolete with very few powers vested in them.

Adopting a new mode of financing local infrastructure can bring about a change in the method of functioning of local governments. The capital works for infrastructure such as water supply, sewerage and drainage have traditionally been financed by the state through budgetary allocation. This has had its impact on the pricing and cost recovery of utilities and services. In the present system the tariff generally does not reflect the capital cost incurred and there is often no debt repayment. The tariff, in most cities, barely covers the O&M costs. The level of collections made through cost recovery often do not affect the grants made to local governments and, therefore, there is no real accountability of local governments to higher levels of government or to the citizens.

The Tirupur project, which uses a new mode of financing and managing an integrated infrastructure project with focus on water supply, is likely to bring in accountability in the system. Since the project has not been financed through budgetary allocations but through equity and market borrowings, the project has to recover full costs in order to be financially sustainable. The tariff fixed, while not reflecting the cost of supplying water for some sections of the population, does increase the burden on others due to cross-subsidy built into the tariff. And even the subsidized population has to, over time, start paying more for water. This will result in greater accountability as there will be greater public scrutiny of the functioning of the agency as well as the service. The quality of the services will be a concern of everyone as almost all the residents will be paying for the service. This will also bring in greater participation from the users of the service. Since there will be a stake in the service and its efficiency and quality for those financing, managing and using the service, there is likely to be greater interest in the functioning of the agency for all the stakeholders. Overall, the governance in the town is likely to improve and it will be more responsive to the needs of the population.

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# 8

## **Fiscal Innovations and Urban Governance**

OM PRAKASH MATHUR

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# 8

## Fiscal Innovations and Urban Governance

OM PRAKASH MATHUR

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### I INTRODUCTION: EXPLORING THE CONNECTIONS BETWEEN FINANCE AND GOVERNANCE

Numerous studies have been carried out in recent years on the finances of local governments in the developing economies.<sup>1</sup> With few exceptions, these studies are focused on one single issue: what should be done to improve and strengthen the finances of local governments? What instruments should be used to make the local governments financially viable? What should be done to enhance their creditworthiness so that they can have access to the capital market and enter into such financial arrangements as would permit them to meet their growing expenditure responsibilities?

Mention should be made at the outset that the issue of the finances of local governments has historically been a matter of widespread concern in most developing economies, mainly on account of the extremely unsatisfactory state of their finances and their high level of dependency on the Central and provincial or state governments. Its growing importance in recent years has, however, been enhanced by a large scale reappraisal of the role of local governments that has taken place in a number of developing countries. Recent years have seen, almost universally, strong trends towards decentralization and consequential reallocation of functions and responsibilities between the different levels of governments.<sup>2</sup> In this context questions have been asked about the role, functions and responsibilities of local governments: should the local governments be concerned – as provided for in the classical formulation – with resource allocation functions such as the provision of public goods whose benefits are likely to be limited to local jurisdictions or should they assume responsibility for such functions as economic stabilization, income redistribution and poverty reduction?<sup>3</sup> Drawing justification from the principle of *subsidiarity*, many developing countries have favoured a decentralized organization of responsibilities where a function is assigned to a higher level of government when it is in a *better* position to carry it out compared to

a lower level of government. With the application of this principle, local governments in many countries are experiencing fundamental changes in the division of authority *vis-a-vis* the higher levels of governments and *vis-a-vis* the market.

**Box 1*****The notion of subsidiarity***

— just as it is wrong to withdraw from the individual and to commit to the community at large what private enterprise can accomplish, so it is likewise unjust and a grave disturbance of right order to turn over to a greater society of higher rank functions and services which can be performed by lesser bodies on a lower plane. This is a fundamental principle of social philosophy, unshaken and unchangeable. Of its very nature the true aim of all social activity should be to help members to the social body, but never to destroy or absorb them.

— Papal Encyclical Quadragesima Anno

In many countries, the role of local governments has undergone a major shift on account of the new fiscal realities facing them. These realities characterized by severe limitation of financial resources have led to *downloading* of a large number of functions and responsibilities to local governments, often unaccompanied by devolution of fiscal powers and financial resources.<sup>4</sup> As a result of both the trends toward decentralization and fiscal pressures, local governments have come to acquire, in a number of countries, economic and social responsibilities that are often *new* and *unanticipated*. These have led them to ask if these are their legitimate responsibilities, and what should the local governments do to generate resources in order to meet expenditure on such responsibilities? What kinds of new fiscal and other instruments should they bring into use?

A second development that has brought the issue of the finances of local governments to the forefront is the increased mobility of capital, technology and other factors of production across nations, combined with the worldwide trends toward globalization. Although theories about the local effects of globalization and global restructuring process are partial and far from robust, indications exist that there is considerable *local sensitivity* to such processes. In several instances, the fiscal problems of city governments have been compounded by global economic restructuring and shifting locations of labour and capital.<sup>5</sup> A few studies that have analyzed such effects have shown that

globalization has, on the one hand, led to the reformulation of relations between the public and private sectors at the local level and, on the other hand, to increased competition between cities and city governments for domestic and external investments.<sup>6</sup> Cities in many developing countries are at the centre of globalization, and are being called upon to enhance their competitiveness and to respond to the challenge of the opening up of the national economies.<sup>7</sup> Globalization has accelerated the demand for city-based infrastructure and services, and has led the local governments to innovate new financial and other partnership arrangements for meeting the increased infrastructure and service requirements.

Yet another development that has made a vital impact on the finances of local governments is the global thrust towards *governance*. Governance has acquired a new meaning wherein it is seen as a process of setting priorities and sets of actions *not only* by the government but by other stakeholders as well—the non-governmental sectors, the business, industry and in fact, the civil society as a whole.<sup>8</sup> In its new formulation, governance is much more than making available to citizens certain social goods e.g., water supply, conservancy services, primary health, roads, and street lighting; it is concerned as much with the institutional arrangements (who does what), the financing modes (how are the different functions financed i.e., via tax, non-tax, grant or debt financing), cost recovery mechanisms, fixation of accountability and the like. Good governance requires a *proper choice* of fiscal instruments, choice clearly falling on those instruments that have a wider civil society acceptance and which are likely to lead to greater accountability and transparency. It has added a new dimension to the fiscal behaviour and responsibilities of local governments.

As these pressures have mounted, local governments in the developing countries have resorted to using a mix of fiscal instruments and arrangements for raising resources and better managing the patterns of expenditure. Experience in the developing countries indicates that these have typically included putting into use innovative sources of local revenues, improved efficiency in local tax collection, reduction in capital expenditure, new intergovernmental fiscal arrangements, selling local (municipal) assets, deferment of maintenance, expenditure control and management, and long-term borrowing. In many countries, strategies in this sphere have meant adoption of such options as privatization, public-private partnerships, and implementation of market-oriented cost recovery approaches.<sup>9</sup> Many countries have



established municipal development funds (MDF) to compensate for the lack of long-term capital for urban infrastructure.

Changes of a somewhat similar nature have been observed in the system of local government financing in India.<sup>10</sup> As in the case of much of the developing world, the finances of local governments in India too have historically been in a dismal state. Recent estimates have shown that the locally-generated tax revenues comprise only 4.6 per cent of the total revenues raised by the Central government and 8.05 per cent of revenues raised by the state governments.<sup>11</sup> On a per capita basis, the municipal governments raise only about one-fifth of the revenues raised by the Central government. Considering the fact that the municipal areas produce over 50 per cent of the country's GDP, it is evident that the municipalities are not able to establish effective linkages with activities carried out within their own jurisdictions. Much of the GDP gains from city-based activities accrue to either the Central or state governments.<sup>12</sup> Furthermore, the municipal governments are able to finance no more than 60–65 per cent of their recurrent expenditure out of their own, locally-generated resources. For historical reasons, user charge as a principle for charging for services is applied, at best, on a limited scale.

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TABLE 1. Revenues of the Central, State, and Municipal Governments  
1991–92

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Government	Total (Rs billion)	Per capita (Rs)
Centre	833.2	986.8
States	484.6	573.9
Municipalities	39.0	205.3

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SOURCE. Finance of State Governments, 1993–94. Reserve Bank of India Bulletin 1994.

In the allocation of fiscal powers, the municipal governments in India have access to revenue sources that are characterized by low level of elasticity and buoyancy, with the more elastic of them constitutionally falling within the domain of the Central and state governments.<sup>13</sup> Moreover, the municipal governments enjoy little

autonomy in adjusting the tax bases, tax rates and even the procedures for tax administration and enforcement. The entire local tax and non-tax system is thus obsolete and has seriously constrained the efficient functioning of cities and their governance.

The municipal governments in India have encountered increasing demographic and social pressures in recent years. During the census decades 1971–91, for instance, urban population in the country increased at annual rates varying between 3.1 to 3.8 per cent, and doubled from 109.1 to 217.6 million persons. This demographic expansion was accompanied by a phenomenal increase in the number of persons below the poverty line, which rose from 60.1 million in 1973-74 to 83.3 million in 1993-94. This phenomenon which is also associated with the growth of slums and squatter settlements has placed an enormous financial strain on local governments.<sup>14</sup>

Parallel to the developments in the other parts of the world, cities and city governments in India have come to also face the multiple challenges of decentralization, globalization, and governance. The Constitution (seventy-fourth) Amendment Act, 1992 has ushered in the country an era of democratic decentralization incorporating specific provisions for the empowerment of local governments.<sup>15</sup> The Amendment Act has laid down in the 12th Schedule of the Constitution a list of functions that it considers *appropriate* to be performed by the municipal governments. Many of these functions e.g., planning for economic and social development, urban poverty alleviation, urban forestry, and protection of the environment are *new and unanticipated*, and carry important redistributive and interjurisdictional implications. The Amendment envisions, over a period of time, a major vertical and horizontal restructuring in the state-municipal fiscal relations. Questions have thus arisen as to who, and which level of government, should finance such services as economic and social planning, and poverty alleviation, and what should be the respective roles of the Central, state, and local governments in their financing? The idea of decentralization to the local level as a way of improving government responsiveness and accountability is very much related to the notion of fiscal responsibility, which requires that governments making decisions on expenditure programmes should assume responsibility for taxing those who benefit from them. Decentralization is expected to also generate greater efficiency in service delivery and lower public spending.

**Box 2**

## Defining horizontal and vertical restructuring

- Horizontal restructuring refers to the redefinition of public-private and reconstitution of local government roles *vis-a-vis* the market.
- Vertical restructuring refers to revising the functional and fiscal relations between the different governmental levels.

Several cities in India are faced with the challenge of globalization. Recent estimates indicate that cities, particularly the larger cities, have become the major destination for foreign direct investment (FDI). Several of such cities are in direct competition for attracting such investment. This has accelerated, in a significant way, the demand for developed land, housing, roads, power, water supply, sewerage systems, and other linked services and infrastructure. Indeed, the fruition of such investments is linked directly to the availability of infrastructure and services in cities and towns. Given the increasing recognition that traditional sources (e.g., public sector financing) are unlikely to be adequate for meeting the city-linked infrastructural needs, questions have arisen as to what the local governments should do in order to attract investment for the provision and upgradation of city-based infrastructure and services? What sources should they tap for raising new capital resources for financing infrastructure and services?

Mainly as an outgrowth of the provisions of the Constitution (seventy-fourth) Amendment Act, 1992, recent years have also seen, in the country, an increasing discussion on governance, in particular, on the relationship of elected representatives, bureaucracy, and the civil society. What role should these stakeholders play in the governance of cities? Who should be responsible for determining local priorities? Implicitly, these discussions have brought in issues of accountability and of instruments that would be able to finance services for which the municipal governments in the new set-up are responsible. Pressures have mounted on local governments *albeit* in different ways, leading them to consider how to better use the given tax bases, improve financial performance and management, apply more appropriate pricing systems, and enter into financial partnerships in order that the infrastructure and services needs of cities can be effectively met.

These changes in the role and responsibilities of local governments are accompanied by important initiatives that are designed towards

local fiscal strengthening, the most important of these being the earlier referred to Constitution (seventy-fourth) Amendment Act, 1992. This initiative has enabled the states with a unique opportunity to redesign a system of local governance and finance that is coherent and adapted to today's needs. Specifically, it contains a provision for the setting up in each state of a Finance Commission to determine the principles governing:

- 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 and the allocation between the municipalities at all levels of their respective shares of such proceeds;
- the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the municipalities;
- the grants-in-aid to the municipalities from the Consolidated Funds of the states.

Independent of the Constitution (seventy-fourth) Amendment Act, attempts have been made in different states and cities, so far selectively, to improve and strengthen the finances of municipal governments as also to enable them to raise additional resources and involve other partners in the provision of what have traditionally been labelled as municipal infrastructure and services. In several parts of the country, the basis of property taxation has come under major review and restructuring. Property taxes as would be shown later, have been an important and stable source of revenue for municipal governments but in recent years have suffered on account of a highly constrained system of valuation and assessment and poor administration and enforcement. Several states and cities are now attempting to reform the property tax system in order to enhance the revenue-yielding capacity of this important source. Several municipal governments have introduced changes in the system of financial accounting and management in order to be able to streamline and better manage municipal expenditures. A major development in recent years has been to privatize municipal services and involve the private sector in their provision, delivery and management. Similarly, a few municipal governments (e.g., Ahmedabad, Pune and Nagpur) have taken steps to access the capital market for financing their growing infrastructure needs.

While these actions are still limited to a few municipal governments, yet these are important landmarks in the history of municipal finance in India. The issue is: are these actions and fiscal instruments serving revenue-raising goals and also leading to better governance of cities? To what extent have the fiscal initiatives led to or promoted accountability, transparency and participation? Have these been designed in a way that these have wider popular acceptance? Is there any link between fiscal innovations and governance?<sup>16</sup> The issue ranges over a wide spectrum of public finance concerns, including the nature of taxes that should be raised within cities and their distributional impact, questions of fiscal responsibility, accountability and control, debt financing, and how local finance might be improved to limit economic decline and social disparities within cities.

This study is designed to look at such issues. The study consists of a documentation of fiscal initiatives<sup>17</sup> in respect of:

- reform of property taxation in Andhra Pradesh
- issuance of bonds by the Ahmedabad Municipal Corporation
- public-private participation in the provision of infrastructure to Tirupur (Tamil Nadu).

The documentation comprises a description of these initiatives, the forces that led to them, and a set of observations on the extent to which these initiatives have contributed to what may seem to be good governance characteristics. Part II of the study is devoted to a description of the initiatives. Part III of the study provides a set of observations on the interconnections between sound local finance and urban governance.

## II CASES OF FISCAL INNOVATIONS

### **Case 1: Reform of Property Taxation in Andhra Pradesh**

Property taxation is perhaps the most widely-used source of revenue for local governments throughout the developing and developed world. It has been long favoured as the principal source of revenue for local governments, mainly due to the perception that it possesses the characteristics of a benefit tax. Unlike other forms of taxation, property tax is said to be particularly suitable as a local tax because of its immobility. As a consequence, property tax is seen as promoting

accountability in local government decision-making—local governments being answerable to those who bear the cost of their actions, i.e., the citizens.

The theoretical framework of property taxation is well articulated in public finance literature. This tax is to be associated with a number of distinct advantages. These are:

- The object of taxation, i.e., the property is immobile, at least in the short run, and therefore, taxation of property is difficult to avoid or even shift.
- A tax on property provides no *direct* competition to other taxes that are typically imposed by the Central and state governments.
- It allows the application of the benefit principle because local services are, in some degree, capitalized into property values. Property taxes are ways to allow owners and occupants to contribute towards the cost of local services.
- It is relatively stable in times of economic slowdown. Also, the effects of price movements on property taxes are minimal.
- It can be responsive to economic growth provided it is accompanied by good property tax policy and administration.
- It causes only minor distortions in resource allocation.<sup>18</sup>

Given these theoretical and practical advantages, it is surprising that property taxes in India have not been adequately mobilized for raising resources in the country.<sup>19</sup> Indeed, these do not form a part of the country's tax policy, nor has the *reform* of these taxes been considered an integral part of the ongoing tax reform process. The result is that property taxes, despite their being the primary source of revenue for municipal governments, remain *minor* in terms of revenue yields. In 1990–91, property taxes in India are estimated to have generated only about Rs 14,250 million of revenues, forming 2.6 per cent of the total tax revenues of the Central and state governments, and 0.25 per cent of the country's gross domestic product (GDP). These shares have changed little over the years, notwithstanding an extraordinarily large increase in land and property values, and a dramatic increase in the share of construction sector in the country's GDP.

TABLE 2. Revenue Significance of Property Taxes (1990–91)

Estimated yield from property taxes (Rs million)	14,250
Property tax yield as a % of GDP	0.25
Property tax yield as a % of total tax revenues	2.6
Property tax yield as a % of total municipal revenues	40–45
Property tax yield as a % of total municipal expenditure	25–28
Per capita property tax yield (Rs)	65

SOURCE: NIPFP (1995), *Redefining State-Municipal Fiscal Relations: Options and Perspectives for the State Finance Commissions*.

Property taxes in Andhra Pradesh<sup>20</sup>—the state of this case study—constitute an extremely important source of revenue for the municipal governments. In 1991–92, the total yield from property taxes amounted to Rs 400.7 million or 50.9 per cent of the total internal resources generated by municipal governments. It formed 0.1 per cent of the state's gross domestic product. The productivity of property taxes in the state as measured in terms of yield per capita (Rs 55) was lower than the All-India average.

Until the property tax system in Andhra Pradesh was changed in 1993, assessment of properties for tax purposes was based on the annual rateable value (ARV) of land and buildings. The annual rateable value was defined as the gross annual rent at which a property may reasonably be expected to be let out from year to year. In this sense, annual rateable value was a hypothetical rent or a notional rent, held as a proxy for market rent of the concerned property. In the case of rented properties, annual rateable value was assessed on the basis of the actual rent excepting for those properties where a "fair rent" had been fixed under the Andhra Pradesh (Lease, Rent and Eviction) Control Act, 1960.

The Andhra Pradesh Municipalities Act, 1965 which contains procedures for levying this tax, provided for a revaluation of properties and consequently of tax liabilities, once in five years. Similarly, the Act provided that annual rateable value of properties was subject to

different kinds of deductions and rebates, these being rebate related to owner-occupied houses, rebate for repairs and maintenance, depreciation for the age of the building, rebate on early payment, and vacancy remission. Exemption from local property taxation also constituted an important ingredient in Andhra Pradesh. Thus, properties used for public worship, educational purposes, charitable hospitals, irrigation works, and buildings whose ARV was below a threshold were exempted from payment of property taxes. The underlying considerations in granting exemptions were social justice, compensation to those properties which provided, directly or indirectly, those services which had characteristics of merit or public goods, and high administrative and collection cost in tax collection, particularly from low tax-yielding properties.

The property tax system in Andhra Pradesh as in the other states of the country, however, was choked in each of its components and sub-components. For instance, the method of assessing property values on the basis of ARV, i.e., rent at which a property may reasonably be expected to be let out from year to year, proved to be *ad hoc*, discretionary and subject to varying interpretation (see Box 3). Similarly, serious problems were noted in using the 'actual rents' for assessing property values as in practice, actual rents were made up of a number of components (a lump sum payment, a monthly rent, and monthly rent divided into rent for space and rent for fixtures), making assessment on that basis, an extremely difficult exercise. The properties which were under rent control hardly yielded any tax revenue. The problem was compounded further as, notwithstanding the provision in the Andhra Pradesh Municipalities Act, only a few municipalities undertook periodic revaluation of properties which resulted in large scale inequities in the system, retarding the yield from property taxes.<sup>21</sup> Field evidence showed that as a result, the differences between the assessed value and market value of properties widened, and led to large scale stagnation in the revenues from property taxes. The various types of exemptions and rebates further constricted the tax base. The system of door-to-door tax collection promoted rent seeking collusion between the assessor, tax collector and tax payer resulting in massive leakages and corruption. Giving monetary values to the lost income on account of these infirmities of the system (e.g., inability of the annual rateable value to capture the market rents, of large scale rebates and exemptions) is a hazardous exercise, but the facts that (i) assessment to market rent ratios were in the range of 50–60 per cent, (ii) only about 30–35 per



cent of the total number of properties constituted the tax base, (iii) rebates were substantial, and (iv) rent control acts significantly limited the annual rateable value, the loss to the total property tax yields could be as high as 150–175 per cent of the actual collections on this account.

**Box 3**

***A description of the rental system***

The rent prescribed by the statute is a hypothetical rent, as hypothetical as the tenant. It is the rent which an imaginary tenant might be reasonably expected to pay to an imaginary landlord for the tenancy of this dwelling in this locality, on the hypothesis that both are reasonable people, the landlord not being extortionate, the tenant not being under pressure, the dwelling being vacant and available to let, not subject to any control, the landlord agreeing to do the repairs, and pay the insurance, the tenant agreeing to pay the rates, the period not too short nor yet too long, simply from year to year.<sup>22</sup>

It is in this background that the Government of Andhra Pradesh undertook to reform the property tax system, clearly with the objective of better tapping this source of revenue and eliminating the deficiencies of the prevalent system. *Significantly, the initiative for the reform emanated from the chief political executive of the state who found the entire system inefficient, stagnant, discretionary, and administratively loose.*

The key to the reform process lay, at the outset, in identifying a method of assessment that would best reflect the value of a property. Three main methods of valuation, namely, rental value, capital value, and site area are generally used in the different parts of the world. The main advantage of the rental value is that it is based on the income concept and is easier to comprehend. This system yields good results where the size of the property rental market is large. On the other hand, the capital valuation system is effective in situations where property sale and purchase transactions are common. The issue was as to which of the three would yield better results. For the state, the issue was: should the existing method of using a "hypothetical rent", or 'actual rent', or 'fair rent' be continued for assessing the value of a property? Or, should it be jettisoned in favour of using the capital value? Or, should it be done on some other basis such as the site or area valuation using characteristics of the site/area? There were other

issues as well, particularly as these related to the overall tax incidence, rebates, exemption, and collection system but these were secondary to the prime issue of assessment and valuation.

In its totality, the Andhra Pradesh property tax reform whose foundations were laid in 1989, was driven by the following objectives:

- To evolve a scientific method of assessment and levy of property tax by incorporating in it the principles of equity, objectivity, fairness and simplicity.
- To levy property taxes uniformly in respect of buildings similarly situated;
- To delink the operation of Rent Control Act from the assessment of property tax.
- To reduce the discretion of the assessor and avoid arbitrariness in assessment.
- To make tax administration efficient, transparent and effective in the levy of property tax.
- To improve buoyancy in the property tax revenues.

Taking the first objective as being central to the reform process, the Government of Andhra Pradesh weighed the relative advantages of the three alternative systems, and considered their feasibility in the light of (i) political acceptance, (ii) compatibility with the legal framework, and (iii) the revenue generating goals. The choice was made in favour of the site/area based system under which the annual rental value of properties could be fixed with reference to the characteristics of the area, using such indicators as location, type of construction, plinth area, age of the building, and the nature of use. The Andhra Pradesh government adopted this method as it, *prima facie*, seemed to possess such advantages as objectivity in assessment, procedural simplicity, standardized methodology, and better clientele appreciation and cooperation.

The new method of property assessment involved several interconnected steps:

- division of the city into convenient, contiguous and largely homogeneous areas/zones, based on three factors, namely: (a) availability of services like water supply, street lighting, roads and drains; markets and shopping centres; educational institutions; banks, postal services and public offices; medical

facilities; and factories and industries; (b) nature of construction of properties; and (c) the nature of use of properties (e.g. residential, shops, industry, offices and banks, educational institutions, hospitals and nursing homes, cinema theatres, hotels and restaurants, godowns and others);

- a sample survey of 20 per cent of all properties in each zone to determine the prevalent rental values and to fix the rental ranges in each zone/area;
- issuance of a draft public notification showing the division of the city into zones and the rental ranges, for inviting objections from the public: it marked a significant departure from the earlier practices when no such consultations were considered essential;
- issuance of a final notification giving the maximum and minimum rental values for each of the zones/area.

The reform process also included decisions in respect of the rebates and exemptions, and tax payment procedures. Considering the fact that the reform process must be gradual, issues pertaining to the rebates and exemptions were left untouched, meaning that rebates extended earlier on account of owner-occupancy, age of the building, and repairs were permitted to be continued in the new system. Similarly, exemptions were not only continued but their scope was expanded to cover those owner-occupied residential buildings whose property tax burden was below a threshold level. In order to limit the incidence of the new system, the increase in property taxes was capped so as not to exceed 75–100 per cent of the previous tax level.

The new system incorporated two other innovative features. The first related to the procedure for property tax payment. Unlike in the past where a door-to-door collection was prevalent, the new system brought the banking sector into the local tax system. As an incentive to the banking sector, arrangements were made with the banks that they could retain and use for limited periods, the property tax payments. A second feature of the new system was the introduction of an incentive grant wherein, municipal bodies were given fixed amounts ranging between Rs 1.5 million and Rs 4.0 million if they were able to raise tax collection efficiency to 85 per cent of tax demanded.

Consequent upon the decision of the Andhra Pradesh government to introduce the new system, several municipal bodies passed resolutions to adopt it and set up committees to suggest strategies for

putting it into practice. Other municipal bodies extensively communicated with tax payers, the details of the new system. The new system came into effect on 1 April 1993. As a result, property tax yields have risen dramatically in Andhra Pradesh, and the expectation is that when all municipal bodies including the three corporations which are still resisting its extension, the increase in property tax yield may be 100 per cent over the previous periods.

The area-based method constitutes in recent times the most important initiative taken in the country to eliminate the arbitrariness from which the system of estimating the ARV has historically suffered<sup>23</sup>. The approach is effectively a formula for property valuation where a property is defined by a vector of specific attributes. Hence, conceptually, what has been tried in Andhra Pradesh is that the value of a property has been determined as a discrete function of six attributes:

$V = f(\text{plinth area; land area; location; type of construction; type of use; age})$   
 where  $f(\cdot)$  is a linear combination of these attributes.

Putting the new system into effect has meant a process involving:

- an explicit recognition by the state government that the earlier system of property taxation was arbitrary and non-performing
- a political decision to replace it with a system which could narrow down the gap that existed under the old system between the assessed value of properties and market value of properties
- wider acceptance of the system by municipal governments and tax payers
- broad understanding on the zoning and classification of cities, notwithstanding the problems that are inherent in any such exercise
- use of measurable norms in the assessment and valuation, irrespective of the basis of assessment, thus ensuring that such a standardization would be equitable and be able to withstand the rigors of the law
- simplicity and transparency in the application of the new system, enabling individuals to calculate the ARV and the property tax burden
- use of the banking sector in the tax collection strategy.

The impact on account of the restructuring of property tax assessment is particularly noted in two areas: on the revenues of the municipalities, and tax payers' acceptability. The growth trends of property tax revenues during the pre- and post- reform period are presented in Table 3. There has been a 61 per cent increase in demand on residential assessment and more than 90 per cent in non-residential assessments. Given the fact that the new system provides for incentives to efficiency considerations, the prognosis is that the growth trends in revenues may persist in the future.

TABLE 3. Property Tax Yields in Andhra Pradesh

Year	Property tax yields (Rs million)	Additional revenue due to restructuring of property taxes (Rs million)
1992-93	3753.3	—
1993-94	3979.4	226.1
1994-95	4848.1	868.7
1995-96	5909.0	1060.9

SOURCE. Naidu. *ibid.*

The other impact is on the tax payers' acceptability of the area-based taxation which constitutes, in different ways, one of its most crucial non-revenue gains. The process in which the new taxation system was introduced in the state has demonstrated that the citizens would accept a system which is simple, which is non-discriminatory, and which allows them to file objections. These are important gains and impinge heavily on the sustainability of the area based taxation. It has also been upheld by the judiciary on the ground that it maintained objectivity and rationality.<sup>24</sup>

Any reform process must recognize that property tax policy formulation is the responsibility of state governments, and the execution of policy that of the municipal governments. A prerequisite for reform lies in political will and political initiative and acceptance of the reform by the tax payers. A concomitant step is to demonstrate

how *all* could gain from the property tax reform. For instance, the state governments may be able to reduce grants to municipal governments. The municipalities could increase revenue on property account and may secure greater autonomy in rate-setting. The tax payers could in the long run have lower tax rates due to the repealing or reduction of rebates and exemptions. The Andhra initiative demonstrates that it is possible.

### **Case 2: Issuance of Bonds by the Ahmedabad Municipal Corporation**

One of the critical issues that India has in recent years been confronted with is how to finance and maintain municipal infrastructure and services. Municipal infrastructure and services have thus far been financed out of grants and loans from the state governments. Institutional financing has also made inroads into selected municipal infrastructure. The role of municipal bodies in creating infrastructural capital has been marginal, if not non-existent, principally on account of their inability to generate any revenues beyond what are necessary to operate and maintain such services as water supply, sewerage, roads, primary health, street lighting and the like. Indeed, most municipal bodies in the country have large revenue deficits which are met out of the existing system of intergovernmental transfers.

Note needs to be made of the fact that the statutory framework which lays down the powers of municipal bodies *also* does not provide to them any major role in the sphere of capital financing of infrastructure and services. Their borrowing powers are statutorily restricted, evidently for the reason that unlimited municipal borrowing could have serious repercussions on the macroeconomic fiscal balance and stability. In most states, municipal corporations are permitted to borrow only within certain limits which are defined generally in terms of the percentage of the annual rateable value of properties or of the value of the Corporations' physical assets.<sup>25</sup> Moreover, they can borrow only with the permission of the state governments.<sup>26</sup> There also exist detailed requirements for the creation of sinking funds, control on investments and monitoring by state governments. The key point is that the municipal corporations have not made use of even these limited powers for augmenting their infrastructure and services. Debt financing of municipal infrastructure remains far from being a common practice in Indian cities.<sup>27</sup>

The Ahmedabad Municipal Corporation (AMC) has recently completed the necessary formalities for raising a Rs 1,000 million loan from the market by issuing what are called municipal bonds. The issuance of municipal bonds by the Ahmedabad Municipal Corporation is the first case of its kind, and constitutes an extremely important fiscal initiative on the part of a local body in the country. This case describes how a medium-sized municipal corporation, faced on the one hand with deteriorating finances and declining levels of services, and on the other hand, with bleak prospects of raising loans from the traditional sources such as the state government, undertook major initiatives, initially to reform the tax system and procedures *but later used the improved revenue streams to enter the capital market on the strength of its own balance sheet.*

Located in the state of Gujarat<sup>28</sup>, Ahmedabad is a large metropolis with a population of 3.5 million persons, growing at an annual rate of approximately 3–3.5 per cent. In the post-1991 period, Ahmedabad city has received substantial industrial investments on account of the generally progressive and forward-looking policies of the state of Gujarat. Ahmedabad's economic contribution to the state's GDP has also been substantial, and is reflected in the accelerated development of its industrial base and construction activity.

Ahmedabad city is run by the Ahmedabad Municipal Corporation (AMC) which was established in 1950 under the Bombay Provincial Municipal Corporation (BPMC) Act, 1949. The AMC's main functions under the Act are to provide water supply, sewerage, solid waste management, street cleaning, street lighting and public health. Although not obliged under the Act, the Ahmedabad Municipal Corporation runs hospitals, medical colleges, and local transport. The main sources of AMC's revenues are the taxes on property and octroi levies, which account for 80 per cent of its total revenues. Octroi is the main tax and contributes 72–75 per cent of the tax income. The Corporation can borrow in the market in accordance with the provisions laid down in the BPMC Act. The Act lays down the borrowing powers and the procedure by which the Corporation can raise, deploy and service the loans. The clarity in the borrowing powers and debt-servicing arrangements are a positive feature of the BPMC Act.

The Ahmedabad Municipal Corporation had a sound financial base until the early 1980s. However, the financial condition of the AMC started deteriorating in the latter part of the eighties, to the extent that at the close of the fiscal year 1993–94, the AMC had accumulated a

deficit of approximately Rs 60 million on revenue account alone. The growth rate in the revenue yields of the two main taxes, namely, property taxes and octroi hardly reflected the rate at which the construction and other activities were expanding in the city. The non-tax component of the AMC was non-performing, and the administration and enforcement of municipal taxes were lax. Low level of education, poor work conditions, and inadequate training and support of the Corporation's staff contributed to the deficiencies in performance.

TABLE 4. Revenue Income and Expenditure of Ahmedabad  
Municipal Corporation

Year	Revenue income	Revenue expenditure	Cumulative balance (– or +)
1989–90	1354.5	1420.5	–178.7
1990–91	1486.6	1604.4	–296.5
1991–92	1746.6	1748.5	–298.4
1992–93	1988.8	1998.2	–308.8
1993–94	2197.6	2248.9	–359.1

SOURCE. Asnani, *ibid.*

NOTE. The outstanding balance at the commencement of the fiscal year 1989–90 was Rs 112.8 million.

The administrative leadership and management of the Ahmedabad Corporation was changed in 1994, and was immediately confronted with a host of questions: what should be done to stem the deterioration in the finances of the Corporation? Did the problems lie in tax structures, assessment or their administration and enforcement? What should be done to raise additional resources in order to meet the burgeoning financial requirements of city infrastructure? The administrative leadership fixed for itself the following priorities:

- restore balance and stability in the finances of AMC,
- build confidence in the public in respect of AMC's capacity to efficiently and equitably deliver services,



- assess the credit worthiness and risk level in the finances of AMC.
- put to effective use the existing statutory provisions for mobilizing additional resources.

Following the fixation of priorities, the Ahmedabad Municipal Corporation undertook bold measures to improve the administration and enforcement procedures in respect of property taxes and octroi, and simultaneously to project an image of the Corporation as a body which was sensitive to people's needs, aspirations and priorities. On the tax front, the AMC undertook to strengthen the property tax base and collection procedures. The collection of property tax in Ahmedabad had been extremely tardy, with the collection being less than 30 per cent of the tax demanded. A primary reason for this was lack of transparency in the valuation of ARV which almost invariably was contested in courts, leading to delays, deferment, reassessment and the like. In 1994, the AMC introduced a series of measures to improve property tax collection which included:

- disconnection of water supply and drainage lines on non-payment of property tax
- advertisement of names of major defaulters in newspapers
- attachment of property of major defaulters
- restructuring and strengthening of the property tax administration
- reorganization of the data bank on property taxes, particularly in respect of tax demand and collection from individual properties
- regular monitoring of tax collection

On somewhat similar lines, the AMC focused on the preparation of a valuation manual for the levy of octroi and a series of steps to locate and plug those points from where funds were being siphoned off. These comprised the following:

- formation of vigilance squads to monitor the octroi checkpoints
- creation of a data bank on the prices of goods which were subject to octroi levy
- establishment of a market research wing to continually update the data bank on prices

- induction of professionals for checking the valuation of goods at major octroi collection points.

The impact of these measures was immediate: collection to demand ratio in respect of property taxes rose from 28.3 per cent in 1993–94 to 32.9 per cent in 1994–95, and in the subsequent year, to 44.6 per cent. In the aggregate, property tax revenues increased from Rs 442 million in 1993–94 to Rs 800 million in 1995–96—posting an increase of nearly 80 per cent in two years. Revenue from octroi levies also witnessed an increase of a similar order, from Rs 1296 million in 1993–94 to Rs. 2030 million in 1995–96. The sum result of the different measures including those which covered the non-tax component of AMC's revenues was that the AMC's continuing deficit on revenue account turned into a surplus in 1994–95. This surplus which was Rs 18.7 million in 1994–95 rose to Rs 518 million in 1994–95, and immediately helped to restore the citizens' confidence in the AMC's capacity to effectively administer the local tax structure and prevent leakages and corruption.

TABLE 5. AMC's Revenue Income and Revenue Expenditure  
(Rs million)

Year	Revenue Income	Revenue Expenditure	Surplus/ Deficit (+/-)
1993–94	2197.6	2248.9	-359.1
1994–95	2854.6	2476.7	+18.7
1995–96	3748.1	3248.9	+517.9

The changed financial scenario enabled the AMC to undertake smaller capital projects of high priority to both meet people's needs and aspirations and to instil confidence among its clientele that it can deliver. However, Ahmedabad city's capital requirements were large, needing substantial funding. The new administrative leadership also needed further evidence of the fiscal strength of the AMC particularly whether the spurt in revenues was a temporary, short-lived phenomenon, or a sustainable one. The AMC's leadership was also aware of the expansion that had taken place in the country's capital market offering an important potential source of resources. The issue

was whether given the surpluses that the AMC had been able to generate over a brief two year period and given the initiatives that it had taken to reform its main revenue sources, AMC could put to use such innovative instruments as the issuance of municipal bonds. India has had no tradition of municipal bonds; at the same time, it was aware of municipal bonds as being one of the most important revenue sources for municipal and local governments in the USA. Securing long-term financing like bonds, however, was essentially a function of the faith in the system responsible for spending and management. Did the AMC possess this faith?

A useful instrument for assessing the creditworthiness of a body corporate such as a municipal corporation or of a specific debt obligation is *credit rating*. It is a rating of the relative safety of payment of interest and principal on a debenture, structured obligation, preference share, fixed deposits, or a short term instrument. Credit rating, in assigning a rating, considers a mix of factors that bear on the creditworthiness of the borrowing municipal government which include the economic base of the city, current financial position of the concerned city government, debt-related factors, legal and administrative issues and project-specific issues. The Ahmedabad Municipal Corporation decided to have its proposal to raise Rs 1,000 million from the capital market credit-rated. It entrusted this task to CRISIL, a credit-rating agency in India, which, after detailed investigation into the finances, liabilities and future prospects gave an A+ rating for the issuance of this Bond. An A+ rating means adequate safety of the timely payment of interest and principal. This process has been of particular interest: it has made the evaluation of credit risk to the public, and it is also a public announcement to investors that the state government will not bear any losses on the investment. In providing this rating, CRISIL observed that:

The management, namely the executive and the executive wing, have been instrumental in improving the fiscal profile of the corporation, specifically with reference to tightening the tax assessment and collection mechanisms. The management has also been able to set the agenda for property-tax reforms, which would have far-reaching implications on AMC's fiscal status. Such measures have been supported by the State government and bureaucracy, which adds to the stability of these reforms. The management has also initiated measures to improve its own administration system by hiring consultants in specific areas, going in for increased computerization and recruiting professionals

directly into the Corporation at various levels.

The outlook for AMC's finances, in the medium term, is positive as the Corporation has been able to upgrade the tax administration framework. In the long term, the Corporation's ability to implement the proposed property tax reforms would further strengthen the tax base of the Corporation. In addition, AMC has initiated efforts to diversify its revenue base by undertaking activities like commercial property development. These reforms are expected to be supported by the political and administrative wing at the state level, as they would add to the financial health and autonomy of municipal bodies in Gujarat.

Presently, there are significant demand-supply gaps for all core services extended by AMC. AMC is addressing this issue by undertaking multiplicity of projects in all core service areas. The implementation of the proposed capital projects would depend on its ability to enhance its resource base and sustain the growth in revenues. In addition, the Corporation's ability to exercise control over its expenditure would be of critical bearing. The prevailing policy framework would have to be sustained to achieve the desired results.<sup>29</sup>

The Ahmedabad Municipal Corporation is now poised to issue Municipal Bonds. The Bonds to be issued will be general obligation bonds; for their redemption, a portion of the revenue receipts has been pledged and earmarked. The Corporation proposes to open an account to ensure that the dedicated funds remain untouched and set aside exclusively for paying back the bond amount. Though the public at large has not been involved directly in decision-making on the issuance of Bonds, a survey conducted to ascertain the attitude of citizens has revealed a high degree of willingness on their part to invest in them. The willingness to invest in such Bonds which are fixed obligations and which could constrain local fiscal flexibility demonstrates that the funds so raised will be invested for meeting the citizens infrastructural priorities and needs.

#### **Box 4**

##### ***The typology of bonds***

General obligation bonds pledge the full faith and credit of the issuing government. The issuing government makes an unconditional pledge of its powers of taxation to honour its liability for interest and principal repayment. Revenue bonds pledge only the earnings from revenue producing activities, often the earnings from the facilities being financed with the revenue bonds.

The steps taken by the Ahmedabad Municipal Corporation on the governance of the city have been very visible. The entire relationship between the Corporation and its citizens has changed. The citizens who viewed the Corporation as an inefficient organization, now look upon the Corporation as a body which can deliver the goods and services for which it is responsible. It has introduced a sense of partnership and participation among citizen groups.

### **Case 3: Public-private Participation in the Provision of Infrastructure to Tirupur**

The provision and financing of municipal and city-based infrastructure and services in India have historically been a responsibility of the state and local governments. Special-purpose public undertakings have also invested substantially in the financing of such infrastructure as water supply and sewerage, and on a smaller scale, citywide roads. The underlying rationale in public sector financing lies in the fact that many of these infrastructural services are in the nature of 'natural monopolies', or characterized by 'externalities', 'non-excludability', and 'low price elasticity of demand', and have, as a result, been financed out of the publicly-raised resources.

#### **Box 5**

##### ***Characteristics of infrastructural services***

***Natural monopolies:*** Most urban infrastructure services are natural monopolies and their marginal cost declines over a very large range of output. As such, it has been feared that the private sector might exploit its monopolistic situation.

Such services include water, waste water management, telephone, electricity, bridge, and road networks.

***Externalities:*** Many services like sanitation and solid waste disposal have significant external economies. As a consequence, market-based systems may fail to provide the service in adequate quantity and quality.

***Non-Excludability:*** It is difficult to exclude anyone from using, say, roads or public lighting. The consumer may refuse to pay for the service since he may be able to use it free of charge legally or otherwise.

***Price elasticity of demand:*** Certain infrastructure services being necessities (like water) have almost inelastic demand. Private provision of these could result in exploitative pricing unless prices are regulated.

***Requirement of heavy investment in capital equipment:*** This has discouraged private sector entry into certain infrastructure segments.

— The India Infrastructure Report, pp: 27–28 (1996: New Delhi)

Recent years have witnessed in the country a major shift in thinking about the financing modes of such infrastructure and services. For one thing, it is increasingly recognized that public sector resources may not be sufficient to meet the infrastructure investment requirements of cities and towns. The India Infrastructure Report, for instance, has estimated such requirements to be anywhere between Rs 800 billion to Rs 940 billion for the period 1996–2001.<sup>30</sup> Given the demand on public resources from other sectors, this scale of funding is unlikely to be available for urban infrastructure, thus opening it to other financing modes and alternatives. Secondly, the last few years have generated within the country a debate on the role of governments including that of local governments and what they should be concerned with. This debate has resulted in two related strands of policy: *privatization*, and the trend to an *enabling role for the government*. In a sense, privatization is an extension of the principle of subsidiarity which requires that the government should undertake functions only to the extent that it can do so better and more efficiently than the private sector. This line of argument has reinforced the need to distinguish between the provision of public goods and services and their production and delivery.<sup>31</sup> Better understanding and application of such distinctions or what Rakesh Mohan calls, the *unbundling of services*, has led to an increasing interest of the private sector in the provision of such services.

As distinguished from the concept of privatization, the term 'enabling government' has come into being to describe a situation where on the one hand, conditions are created for the participation of the non-governmental sector in the provision of services and infrastructure, and, where on the other hand, the non-governmental

#### Box 6

##### *The issues of enabling government*

- What size, level and structure of government is best suited to perform an enabling role ?
- How can government facilitate activity by the private and voluntary sectors in order to bring about pluralistic governance?
- How can higher levels of government facilitate lower levels of government in the discharge of their duties ?

sector is given the *right* to compete with the government for the production of these services. *These developments have ushered in the*

country an era of pluralistic type of governance, and as a consequence, government as historically understood is being gradually substituted by a pluralistic range of *governance bodies* involving the public, private and voluntary sectors.

It is in the context of this policy shift that a small, but a highly specialized town called Tirupur compelled by the need to survive in a highly competitive global market, and actively supported by the different levels of government took the initiative of involving the private sector in the provision of a good which has historically been viewed as a natural monopoly, i.e., water supply. The key factor in the initiative, evidently an innovation in the Indian context was the economic compulsion: good quality water must be available in adequate quantities for the cotton knitwear garment industry if the industry is to remain competitive in the international market. Water was a crucial infrastructure input in garment production for purposes of washing, dyeing, bleaching and other processes. The existing modes of drawing water were become unreliable and constrained, and leading to negative externalities whose costs were too high for the industry to stay economically viable.

Tirupur is a special grade municipal town located 50 kms to the north-east of Coimbatore in Tamil Nadu in southern India.<sup>32</sup> In 1971, the town recorded a population of 113,302 which increased to 235,661 by 1991. By the turn of the century its population is projected to increase to over 300,000. The town has been experiencing an annual population growth rate of between 3.6 and 3.8 per cent. The economic base of the town is almost wholly linked with the manufacture of cotton knitwear garments. Often referred to as the *banian city* (the vest city), it initially produced vests and undergarments for the domestic market but later extended its production for the global markets. The growth and development of Tirupur as a consequence has been phenomenal. Tirupur today accounts for over three-fourths of India's cotton knitwear exports. In 1986, exports from the town were a mere Rs 0.18 billion. By 1992, the town exported garments of the value of Rs 15 billion. It is estimated that the value of exports will reach Rs 25 billion—Rs 30 billion in 1997. In 1986, there were only 10 to 15 leading exporters in the town but within a span of a decade the number of exporters has risen to nearly 400 (1996). This spectacular growth has been achieved notwithstanding the poor levels of support infrastructure such as water supply, effluent disposal, roads, power, and telecommunications.

The growth of population and industry has widened the gap between the demand for and supply of infrastructure and services. Water supply in the town is extremely inadequate. The main sources of water to the town are rivers and borewells. While the Tirupur municipality provides water for household consumption, garment industry uses non-municipal sources such as the private trucking of water and borewells for meeting its requirements. As such, the cost of water is extremely high. The town has no sewerage system and the only river that passes through the town called Noyil is, in fact, an open sewer. The industrial units do not have effluent treatment facilities. The bleaching and dyeing industries consume large quantities of water and dispose the same untreated into Noyil river. This water is carried to downstream villages which has affected their agriculture, human habitation and all forms of life. The haphazard growth of the town coupled with poor enforcement of environmental regulations by the municipality and the Tamil Nadu Pollution Control Board (TNPCB) have encouraged exporters to discharge effluents consisting of toxic chemicals and colours into the Noyil river. Many dyeing units discharge their effluent into any open water body or even on land. This has phenomenally increased health risks in the town and also affected the supply of potable water.

Tirupur town has a municipal body, and is governed for its functions and fiscal powers by the Tamil Nadu Municipalities Act, 1965. In 1994–95, it had a total revenue income of Rs 103.12 million and an expenditure of Rs 98.26 million on revenue account. The main sources of revenue for the municipality provided for in the Act are taxes on property, non-tax revenues such as fees and fines, income from municipal properties, and state government transfers on account of shared taxes, grants and loans on capital account. Property tax is the single largest source of revenue for the Municipality, and contributes anywhere between 30–40 per cent of the revenue income of the Tirupur municipality. The major heads of expenditure i.e., public health and sanitation, and water supply and drainage accounted for in 1994–95, 33.6 and 39.8 per cent of the total municipal revenue expenditure.

Measured in terms of the growth rate of revenue income and other financial ratios, the financial performance of Tirupur Municipality can be said to be creditable. However, the debt servicing of Tirupur Municipality has been far from satisfactory, with the result that it has a large accumulated debt of over Rs 330 million. With this financial position and the level of revenues that the Tirupur municipality is able to



generate, it is not in a position to undertake any large scale expansion of infrastructure and services that it is responsible for.

Towards the end of the 1980s, the garment exporters of Tirupur formed an association, called the Tirupur Exporters Association (TEA) with the objective of bringing to the attention of the government the problems of the industry. The TEA represented to the Central government and the state government of Tamil Nadu to accord to Tirupur, the status of an Export Growth Centre and make special funding arrangements for infrastructural development. The TEA argued that investments in infrastructure were essential both to enhance the production and productivity of the garment industry as also to improve the quality of exports. Plans were accordingly formulated on the assumption that public sector financing would become available for the augmentation of infrastructure and services. However, on account of the scale of requirements, these plans made no progress. Public sector financing of this scale proved elusive.

The Tamil Nadu Corporation for Industrial Development (TACID) which had been set up in 1991 to advance the interest of the industry in the state made a similar assessment, and observed that in view of the non-availability of public funds other institutional and financial options should be explored. One option that was to be explored was that of involving the private sector in the provision of such services as water supply, sewerage, effluent disposal and roads. A key question was whether it was at all possible to develop a project covering these components which would be financially viable and able to pay for itself. Of these, water was the only component that lent itself to direct charging. Cost of the other components could be met only through taxation. Given this context, the issues that arose were: In what manner should the private sector be involved in this project? What should be the mode? Should the private sector be encouraged to develop, manage and operate it on an ownership or lease basis or on a Build, Operate and Transfer (BOT) format? What kinds of concessions will the private sector require in order to undertake such a project? The possibilities of private sector participation in the provision of such services also presented questions pertaining to the sources of financing, determination of a unit price, regulations, accountability and the like.

The entire exercise entailed several interrelated steps:

- Establishment of the feasibility and financial viability of the project covering water supply, sewerage and drainage facilities,

industrial effluent collection and treatment system, and improvement and expansion of intra-city roads. The Infrastructure Leasing and Financial Services (ILFS), a private sector company, undertook the task of preparing the feasibility report, and presented what finally came to be known as the Tirupur Area Development Plan (TADP). The feasibility report provided details of the costs, pricing, and recovery mechanisms, establishing that the project was financially viable and that it could pay for itself. The Plan entailed an estimated investment of Rs 5,890 million. It is important to point out that this exercise was preceded by large scale field surveys, focusing on the willingness and ability of households and industry to pay for the services and on the environmental impact of the project on the neighbouring villages. The surveys constituted an extremely crucial input to the TADP exercise.

- Determination of the institutional responsibility for the project. A critical question was about the institutional framework that would be able to undertake responsibility for the project. Considering the fact that the implementation of the Tirupur Area Development Plan (TADP) would necessarily involve raising resources both in the domestic and international capital market and require expertise in entering into complex equity-debt arrangements, a decision was taken to create a special purpose vehicle (SPV), a joint venture company, called the New Tirupur Area Development Corporation Ltd (NTADCL). From a strategic, resource-raising and risk sharing point of view, creation of such a vehicle was considered to be the most effective option. Regulations of various types and internal management capacity of the Tirupur Municipality did not allow it to play this role. NTADCL was incorporated in 1995 and a memorandum of understanding signed between the State government of Tamil Nadu, TACID, ILFS, and TEA on the broad parameters on the design of such a project. It was an unique institutional format of pluralistic governance which included the governments, state-level parastatal agencies, a private sector financing company, and the exporters association which was the principal user or the beneficiary of the proposed project.
- Consideration of the financing options for the TADP. While it was generally understood that public sector financing of the

order envisaged was unlikely to be available, other questions concerning the debt-equity proportions and the mechanism of raising debts confronted such agencies as the ILFS and the state government. A broader equity base was considered essential and desirable in order to secure the cooperation of the participating agencies and timely completion of the project. As such, a decision was taken that NTADCL—the agency responsible for the implementation of the project, will have equity holders comprising the Government of India, TACID, TEA, ILFS and the Built-Operate-Transfer operator. The participation of TEA (Tirupur Exporters Association) was significant as it was the single most important beneficiary of the project. Similarly, the equity participation of the BOT operator was viewed as necessary for ensuring their continued attention to the operation and maintenance of the project. Debt, it was decided, will be raised from the financing institutions such as the World Bank, USAID, ILFS and supplier of equipments by the issuance of what are tentatively called the Water Bonds. Debt-equity ratio is envisaged to be 2.6:1. A linked but critical decision in this respect was to sell water on the principle of full cost recovery in the aggregate, meaning that the pricing could differentiate between different consumer groups according to their ability to pay. This principle alone could ensure the financial viability of the project.

- Selection of the Build-Operate-Transfer (BOT) operator. The key to the success of the project and, indeed, of the larger issue of the private sector participation in such projects as water supply and sewerage, is the operator who is to be responsible not only for creating the infrastructural capital but also for operating and maintaining the same for 30 years. The operator has to also secure adequate return on equity within a limited time period before transferring the project to NTADCL. In view of the planned financial participation of the international and domestic institutions in this project, it was decided to seek global tenders on the established BOT patterns and norms. The entire process of reviewing the tenders has since been conducted by experts unconnected with the participating institutions and other stakeholders in an open and transparent manner. The final selection is to be made shortly.<sup>35</sup>

The Tirupur project constitutes a major step in putting into practice the principles underlying privatization and enabling government, and a typical case of government facilitating activity of the private and other sectors. Given the parameters and scale of the project, the development of this project has taken several years which has seen wide-ranging consultations, involving public and private sector institutions, domestic and international financing companies, and the producers and consumers of services. It has demonstrated that there are diverse arrangements for financing municipal infrastructure and services of which Tirupur represents only one model. The Tirupur project is designed on the principle of transparency, i.e., the need to maintain the link between local benefits and local costs in a way to ensure taxpayers awareness.

### III A SET OF OBSERVATIONS: EMERGING CONNECTIONS BETWEEN FISCAL INNOVATIONS AND GOVERNANCE

An attempt has been made in this study to explore, with three distinct examples, the interconnections between local fiscal innovations and governance: to ascertain whether these innovations led to, promoted or advanced in any way, what would seem to be the chief characteristics of good governance, i.e., decentralization, accountability, local initiatives, transparency, civil society movements and participation. The key to the study is to be found in the underlying proposition that sound local finances are an essential component of good governance, and governance can hardly be considered effective if the governments—be they Central, state or local—are unable to adhere to the canons of fiscal discipline, fiscal efficiency, and fiscal autonomy. The context of the study is significant in that the past few years have witnessed in India, as in several other developing countries, an unprecedented level of interest and debate on local governance, and wide-ranging actions to empower local governments to enable them to address the numerous challenges they are faced with. *The Central government's initiative to amend the Constitution in order to strengthen the foundations of democratic decentralization at local levels, efforts on the part of at least a few state governments to reform the local tax system, adoption by municipal governments of new modes of financing and resource-raising, and emergence of public-private partnerships in the provision of infrastructure are but a few examples in this direction.* The three cases documented in this study have shed further insights into the connections between fiscal innovations and governance. Although

generalizations on them may be difficult to arrive at, the fiscal innovations provide interesting propositions through which local and state responses to the challenges they are faced with, can be better understood. For instance, the three cases show that:

- *A simple, transparent and undifferentiated tax system has a greater possibility of securing clientele acceptance and of being sustained, even if it entailed a higher tax burden.* The Andhra Pradesh initiative in respect of property tax reform strongly suggests that notwithstanding the general reluctance on the part of municipal councils to increase the tax burden on their constituencies, a system:
  - which is simple and comprehensible,
  - which is standardized, and which is designed to eliminate the discretion in estimating the annual rateable values (ARVs) or the property tax burden, and
  - which is transparent in that the tax rate ranges are known to the tax payers through gazettes, newspapers and media, will be widely acceptable.
- *Efficient administration and enforcement of tax system are crucial for securing public support on such issues as raising resources in the market, pledging revenue streams for redemption of loans, and the like.* The Ahmedabad case on the issuance of bonds shows that efficient administration and enforcement of a tax system, development of a data bank that updates information on the market prices of goods which are subject to tax levies, and taking up of steps that prevent leakages and corruption, are necessary to not only restore the confidence of the citizens and tax payers in the functioning of a local body, but also essential for local governments to use instruments such as the open market borrowings for raising resources. Public cooperation and good governance can not be expected to follow in the absence of an efficient and equitable tax administration.
- *Public sharing of credit-rating information is an important input to building alliances and partnerships with the non-governmental sector and other interest groups.* The credit-rating of a corporate body such as the Ahmedabad Municipal Corporation has shown that it is an extremely useful instrument not only for

determining the creditworthiness and risk-taking capacity of a local body, but for demonstrating to the citizens where the potentials lie, what part of the potentials are currently tapped or not tapped, and the local body's financial strengths and weaknesses. Such exercises and information sharing have led to the participation of industry and business in taking up projects (e.g., slum upgrading) that would ordinarily fall within the jurisdiction of local bodies.

- *Public financing of infrastructure is only one alternative; given the right price signals public-private partnerships are possible to be forged in the delivery of even those services which are characterized by 'externalities'.* The Tirupur case shows that there exists in practice an array of strategies and diverse arrangements to make use of the different stakeholders in the provision and delivery of services. It has demonstrated that the government itself can create conditions for the private and voluntary sectors to take up activities which are ideal for market-type pricing regimes, and thereby bring in pluralistic governance.
- *Commitment and leadership are critical to initiating changes in the local fiscal arrangements.* In Andhra Pradesh, initiative for change in the property tax system emerged from the highest political executive of the state who found the earlier system, constraining in terms of its revenue generating capacity, discriminatory and iniquitous, and opted for a system that was simple, open and non-discriminatory. The Ahmedabad initiative was led by the administrative leadership of the Corporation who put to effective use the existing statutory and other provisions for improving its finances. For long term and sustainable growth of the Corporation, the initiative included measures such as professionalization of the key functions of the Corporation, information sharing, and forging alliances with key stakeholders. In Tirupur, it was the Tirupur Exporters Association and its economic interest that led to institutional restructuring and public-private enterprise for the delivery of services. What is important to recognize is that leadership exists at all levels and need not necessarily emanate from the public sector.

Underlying in these propositions is the general theme that the challenges which the local governments in India have come to face with

in recent years are being responded to in different ways and with varying degrees of success. Different modes appropriate to local conditions have been used to improve the level, quality and delivery of urban services. Citizens' acceptance of higher tax liability and new partnership arrangements in the expectation that they will be the eventual beneficiaries are important steps towards better governance of cities. As pressures on local governments mount and as they acquire new roles and responsibilities, these will have significant implications for local public finances with emphasis shifting to issues of choice, efficiency and accountability in the delivery of local services, many of which essentially are publicly-provided private goods. The challenge for the local governments will be to provide those services that citizens are prepared to pay for.

ANNEXURE 1. Taxation Heads Assigned to the Union and the States in the Constitution (As Listed in the Seventh Schedule of the Constitution)			
Union		States	
Entry in List I of the Seventh Schedule	Head	Entry in List II of the Seventh Schedule	Head
82	Taxes on income other than agricultural income	45	Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes.
83.	Duties of customs including export duties	46	Taxes on agricultural income
84.	Duties of excise on tobacco and other goods manufactured or produced in India except: a. alcoholic liquors for human consumption; b. opium, Indian hemp and other narcotic drugs and narcotics; but including medicinal and toilet preparations containing alcohol or any substance included in subparagraph (b) of this entry.	47	Duties in respect of succession of agricultural land
85	Corporation tax	48	Estate duty in respect of agricultural land
86	Taxes on the capital value of the assets, exclusive of agricultural land of individuals and companies; taxes on the capital of companies	49	Taxes on lands and buildings



Union		States	
Entry in List I of the Seventh Schedule	Head	Entry in List II of the Seventh Schedule	Head
87	Estate duty in respect of property other than agricultural land	50	Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development.
88	Duties in respect of succession to property other than agricultural land	51	Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India: a. alcoholic liquors for human consumption; b. opium, Indian hemp and other narcotic drugs and narcotics; but not including medicinal and toilet preparations containing alcohol or any substance included in subparagraph (b) of this entry.
89	Terminal taxes on goods or passengers carried by railway, sea or air: taxes on railway fares and freights.	52	Taxes on the entry of good into a local area for consumption, use or sale therein.

ANNEXURE 2. Twelfth Schedule Article 243W of the Constitution  
Seventy-Fourth Amendment Act 1992 on Municipalities

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

## End Notes

1. All references to local governments in this study refer to *urban* local governments. These include municipal corporations, municipal bodies and other forms of city/town governments.
2. Recent studies have shown that as a political phenomenon, decentralization is widespread in developing and transitional economies. Of the 75 countries with population greater than 5 million, all but 12 claim to have embarked on some transfer of political power to local units of government. See, William Dillinger, *Decentralization and its Implications for Urban Service Delivery*, The World Bank (1994: Washington D.C.), and Roy W. Bahl and Johannes F. Linn, *Urban Public Finance in Developing Countries*, The World Bank (1992: Washington D.C.).
3. In the classical formulation, the public economics literature assigns three roles to the public sector: (i) macro stabilization, (ii) income distribution, and (iii) resource allocation. The public economics model assigns the first two of these roles to central government. Subnational governments enter the picture only with respect to the third role of government—resource allocation. See, R. Musgrave and P. Musgrave, *Public Finance in Theory and Practice*, McGraw Hill (1984: New York). Views on fiscal federalism and decentralization in general are constantly changing between nations and, across time, within particular nations. See, Vito Tanzi, "Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects", *Annual Bank Conference on Development Economics*, The World Bank (1995: Washington D.C.), and Wallace E. Oates, "Fiscal Decentralization and Economic Development", in *National Tax Journal*, Vol. 46, No. 2 (1993: Washington D.C.).
4. Such downloading is uniquely observed in transitional economies where budget cuts and public sector restructuring implemented by higher levels of government have trickled down to the local level. The fiscal pressures have created a chain reaction as one level of government undertakes to reduce its transfers to the next level of government. See for further discussion, *Environment and Planning*, Vol. 12, 1994, and A.R. Hobson and France st-hilaire, *Urban Governance and Finance: A Question of Who Does and What*, IRPP, (1997: Quebec).
5. Janice Caulfield, "Taxation and Equity within Metropolitan Areas", presented at the OECD/Sweden Workshop on *Governing Metropolitan*

*Areas: Institutions, Finance and Partnerships* (1997: Stockholm).

6. See Fu-chen Lo, "Changing Patterns of Global Production, Technologies, and the World City System", The United Nations University (1996: Tokyo), and Fu-chen Lo and Yue-man Yeung, *Emerging World Cities in Pacific Asia*, The United Nations University (1996: Tokyo).
7. See, Om Prakash Mathur, "Governing Cities: Facing Up to the Challenge of Poverty and Globalization", in Patricia McCarney (ed.), *Cities and Governance*. University of Toronto (1996: Toronto).
8. McCarney et.al., "Towards an Understanding of Governance: The Emergence of an Idea and its Implications for Urban Research in Developing Countries", in Richard E. Stren (ed.). *Urban Research in the Developing World* (1994: Toronto).
9. An interesting table on local choices of fiscal strategies is contained in Terry Nichols Clark (ed.), *Urban Innovation: Creative Strategies for Turbulent Times*. (1994: Sage Publications). Also, see Jeffrey I. Chapman. *Long-Term Financial Planning: Creative Strategies for Local Government*, ICMA (1967: Washington D.C.), and OECD, *Infrastructure Policies for the 1990s* (1993: Paris).
10. India is a federation of Union and states; the subject of local government falls within the domain of states who are responsible for their creation, constitution, and assignment of functions and fiscal powers.
11. See, National Institute of Public Finance and Policy, *Redefining State-Municipal Fiscal Relations : Options and Perspectives for the State Finance Commissions*. (1995: New Delhi).
12. The inter-governmental allocation of the sources of revenue is structured in a way that much of the gains from activities undertaken in cities accrue to the Central and state governments. (See Annexure 1)
13. The Constitution of India does not directly assign any tax powers to local governments. The state governments out of the tax powers that they enjoy under the Constitution allocate a few taxes to local governments (see Annex 1).

14. For a fuller discussion, see, Om Prakash Mathur, "State of India's Urban Poverty" (1994: Asian Development Review, Manila).
15. The Constitution (seventy-fourth) Amendment Act, 1992 assigns a constitutional status to local governments, meaning that they stand protected by the Constitution from arbitrary dissolution or suspension. It provides for regular elections at municipal levels, with provisions in respect of elections having been brought *at par* with those at the level of states and the Centre.
16. The ability of municipal governments to levy their own taxes, set and adjust user fees, and raise their own revenues with the approval of their own constituents is an essential, and often overlooked, aspect of effective participation democracy. See Mark H. Bidus, *Municipal Development and Democracy in Central America*, U.S. Agency for International Development (1995: Washington D.C.).
17. There are other fiscal initiatives too; however, this paper is limited to studying these initiatives only.
18. R.J. Bennet summarizes the advantages of property taxation: "It undoubtedly has strong advantages in being cheap and easy to administer: it allows easy definition of the tax base, and relates local taxation to services that result from the distribution of property." See, Bennet (1980), *The Geography of Public Finance*, pp 290.
19. Property taxes in India owe themselves to Entry 49 in List II of the Seventh Schedule of the Constitution of India which provides for the levy of taxes on lands and buildings. Taxes on land and property are, however, levied by municipal governments in accordance with the procedures laid down in the State municipal acts. The procedures lay down the tax bases, rate structures, rebate and exemption policies and measures for dealing with payment delays and defaults. The autonomy of municipal governments in formulating property tax policy is severely limited, and allowed at best in fixing the tax rates within certain ranges and often in designing collection strategies. Since property tax policies are determined by State governments, there is a large scale diversity in almost every sphere of property taxation. Thus, for instance, a tax on land and property is an *obligatory* tax in some States and an *optimal* tax in others, with the result that a number of municipalities have opted not to levy any property tax at all. Diversity is particularly sharp in the structure of tax rates.

20. Andhra Pradesh is one of the twenty six states of the Indian federation. In 1991, its population was 66.5 million persons. The total urban population of the state was 17.9 million or 26.9% of the state's total population.
21. The Andhra Pradesh Municipalities Act, 1965 mandates the revision of property tax every five years, but as revision invariably meant enhancement and consequent litigation and also a long process of appeal, the quinquennial revision did not take place regularly. Only 19 local governments out of the 109 in the state revised the assessment by 1981 and 50 undertook the revision between 1982 and 1989. There were no revisions in the remaining municipal bodies. See Naidu, *ibid*.
22. Taken from Rakesh Mohan (1983), "Indian Thinking on Property Tax Reform", in A. Datta, *Property Taxation in India*. Indian Institute of Public Administration, New Delhi.
23. Note should be made of the fact that there are other valuation systems too, such as the capital valuation which have not been experimented with so far. The capital valuation system is noted for its other advantages.
24. The merit of the Assessment Rules, 1992, is that they rid the house-owners of the harassment and the constant threats of revision of annual rental value by the concerned officials of the corporation. The earlier system of taxation left too much discretion in their hands. Now, the only thing that has to be ascertained is the carpet area of the house, the rest is determined by the Rules and the notifications. There is no question of the revision of annual rental value periodically on the ground that the rental value has gone up. A new system, with all good intentions is being tried out—a system designed in the interest of the body of house owners—tax payers as well as the corporation. May be, this is the trial and error method. Unless found to be offending the Constitutional or a statutory provisions, it must be allowed to be worked. One should start with the presumption that the corporation knows what is the better method of classification. It has chose to divide the Municipal corporation area with reference to roads for valuation of holdings. It is difficult for the court to substitute its opinion for that of the corporation nor can any one guarantee that if the municipal corporation area is divided on the basis of zones it will be a perfect classification and would eliminate all complaints and grievances of differential treatment. It is because of the inherent complex nature of taxation that a greater latitude and larger elbow room is conceded to the

legislature—or its delegate, as the case may be—in such matters. Judgement of the Supreme Court in the case of Patna Municipal Corporation Act—Assessment of Annual Rental Value of Holdings Rules (1994: Patna).

25. Municipal Corporations in India are larger municipal bodies (usually with over 300,000 population). These are governed by different statutes and enjoy comparatively wider powers and responsibilities. There are large-scale inter-state differences in the borrowing powers of municipal corporations. Municipal bodies do not enjoy these powers.
26. The state governments exercise strict controls over those municipal governments which are indebted.
27. Interestingly, the issuance of local debt was earlier considered synonymous with local irresponsibility. In fact, the opposite may be true now. A government that eschews debt issuance is acting irresponsibly. Since capital facilities provide services over a long period of time, it makes sense to pay for these facilities over a long period.
28. Gujarat is one of the twenty six states in the country. In 1991, it had a total urban population of 14.3 million, forming 34.5 per cent of the state's total population.
29. The Credit Rating Information Services of India Limited (CRISIL), Credit Rating of Municipal Bonds: Rating Report on Ahmedabad Municipal Corporation (1996: New Delhi)
30. Government of India. *The India Infrastructure Report: Policy Imperatives for Growth and Welfare* (1996: New Delhi). The report is popularly known as the Rakesh Mohan Committee Report.
31. Traditionally, one factor that has influenced the structure of government and the division of functions has been the extent of the economies of scale in the production of services. Once provision and production functions are dissociated, these services can be produced by whichever sector is able to achieve the scale economies.
32. Tamil Nadu is one of the twenty-six states in the country. In 1991, it had a total urban population of 19.1 million which formed 34.1 per cent of its total population.
33. Final selection is to be made by October 1997.

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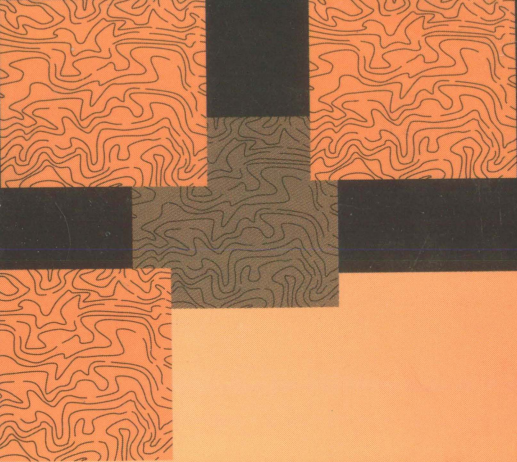
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**India : the challenge of urban governance**  
**Edited by Om Prakash Mathur**

What should be done to manage and govern cities in the developing countries?

Cities in the developing countries are continuing to grow at rates that are far in excess of the capacity of city administrations to cope with. Cities in many countries are encountering the challenge of the erosion of borders, or globalization, as it is generally referred to. Cities, often the same cities which are racing up to enhance their competitiveness in the global and national markets, are simultaneously faced with the challenge of widespread poverty and deprivation. As the developing countries begin to accept the inevitability of urbanization and as they recognise that there are limits to what the State can do, the issue of how to manage urbanization and govern cities has become extremely important in most discussions on urban policy.

It is in this context that leading urban researchers from India have looked at, in the context of India's urbanization, the issue of urban governance, the roles of the State and the market, and their capacities to be able to deal with the problems of growth, poverty, globalization and decentralisation. This book, *India : The Challenge of Urban Governance* consists of their contributions.

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