

**UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS**

AND

**INTERNATIONAL CENTER FOR PROMOTION OF ENTERPRISES,
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MASTER'S DEGREE THESIS

**URBAN GOVERNANCE-AN ANALYSIS OF THE INSTITUTIONAL ARRANGEMENTS
FOR DELIVERY OF URBAN SERVICES IN SELECTED CAPITAL CITIES OF NORTH
EASTERN REGION IN INDIA**

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Author's STATEMENT

I, JOHN K. SELLATE hereby certify to be the author of this master's thesis that was written under mentorship of Prof. (Dr.) Nevenka Hrovatin, and in compliance with the Act of Author's and Related Rights-Para. 1, Article 21. I herewith agree this thesis to be published on the website pages of the Faculty of Economics.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ADC	Autonomous District Council
AMC	Agartala Municipal Council
CAA	Constitution Amendment Act
C&AG	Comptroller and Auditor General of India
CBO	Community Based Organisation
CFC	Central Finance Commission
DUA	Directorate of Urban Affairs
DUD	Directorate of Urban Development
ECLS	European Charter of Local Self-Government
EU	European Union
GDI	Gender Disparity Index
GDP	Gross Domestic Product
GOI	Government of India
GKPA	Greater Kohima Planning Area
GNP	Gross National Product
GSPA	Greater Shillong Planning Area
HDI	Human Development Index
IRA	Internal Revenue Allotment
KMC	Kohima Municipal Council
Lpcd	Litre per Capita per Day
MML	Model Municipal Law
MoDoner	Ministry of Development of North Eastern Region
MUDA	Meghalaya Urban Development Authority
NA	Not Available
NDP	Net Domestic Product
NE	North East
NER	North Eastern Region
NGO	Non-Governmental Organisation
NIPFP	National Institute of Public Finance and Policy
NPM	New Public Management
NSDP	Net State Domestic Product
OECD	Organization for Economic Cooperation and Development
O&M	Operation and Maintenance
PHED	Public Health Engineering Department
PO	People's Organisation
PWD	Public Works Department

SFC	State Finance Commission
SMB	Shillong Municipal Board
TR	Technical Report
UAD	Urban Affairs Department
UDD	Urban Development Department
UDHD	Urban Development and Housing Department
ULBs	Urban Local Bodies
UNDP	United Nations Development Programme
UNCHS	United Nations Human Settlements (Habitat)
UN ESCAP	United Nations Economics and Social Commission for Asia and the Pacific
URIF	Urban Reform Incentive Fund

CHAPTER - 1

INTRODUCTION

The North Eastern Region of India (NER), with a geographical area of 262,179 sq.km, comprises of eight states, namely, Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. The region has a total population of 39.04 million (2001 census) constituting about 4% of India's population. Assam is the largest unit covering about 70% of the region's population. Various tribal communities constitute almost 30% of the total population. It is a landlocked area having 4,500 km of international border with Bhutan and China in the North, Myanmar in the East and Bangladesh in the South and West. The region constitutes 8% of the total area of the country and is connected with the mainland India through a narrow 20 km 'chicken's neck' corridor across West Bengal. The area and population of the NE states are as given below:

Table 1: Area and population of North Eastern Region, 2001

State	Capital	Area (Sq.km)	% to total	Population, (in thousands)	% Share of North Eastern States
Arunachal Pradesh	Itanagar	83,743	31.9	1,091	2.79
Assam	Guwahati	78,438	29.9	26,638	68.24
Manipur	Imphal	22,327	8.5	2,388	6.12
Meghalaya	Shillong	22,429	8.6	2,306	5.91
Mizoram	Aizawl	21,081	8.0	891	2.28
Nagaland	Kohima	16,579	6.3	1,989	5.00
Sikkim	Gangtok	7,096	2.7	540	1.38
Tripura	Agartala	10,486	4.0	3,191	8.17
Total-NER		262,179		39,041	100.00
India		3,166,414		1,025,251	

Source: Census of India, 2001.

The region has experienced relatively slower economic growth compared to the rest of the country. The partition of the country created problems of logistics and isolation. The NE (North East) states joined the planned development process later than many other states. Recognizing the need to accelerate the pace of socio-economic development, the government of India has taken several initiatives including treating the NE states as special category states in which 90% of their plan allocations are given as grants and 10% as loan from central government, and establishing mechanism for developmental resource flow to NER through four channels. These are (i) state plan through Five Year and Annual Plan; (ii) North Eastern Council for projects of regional significance; (iii) Non-Lapsable Central Pool of Resources, project specific funding through the ministry of Development of North Eastern Region (MoDoner); and (iv) central/centrally sponsored schemes through central Ministries and Departments.

The Net State Domestic Product (NSDP) of NER at 1993-94 prices from 1996-97 to 2000-01 performed better, recording an average growth of 6% as compared to 5% average Indian growth of Net Domestic Product (NDP). NER (excluding Mizoram) on an average contributed about 3% to Indian Net Domestic Product during 1996-97 to 2000-01. The per capita income in NER on an average is Rs. 12,918 (as per NSDP) as compared to the national average of Rs. 17,823 at current

prices 2001-02. Nearly 32% of population of the region is below poverty line, which is higher than the national average of 26% with the exception of Mizoram, which has 19%. Most of the states have relatively high literacy rates compared to national literacy rate of 65%: Arunachal Pradesh (55%), Assam (64%), Manipur (69%), Meghalaya (63%), Mizoram (88%), Nagaland (67%), Sikkim (70%) and Tripura (74%). The index for economic and infrastructure indicates that the region is not very far behind the national average (Table 2). More developed states like Kerala has the index at 178.68, Punjab at 187.57 and Goa at 200.57.

Table 2: Index for economic and social infrastructure, 1999

Sl.No	States	Index
1.	Arunachal Pradesh	69.71
2.	Assam	77.72
3.	Manipur	75.39
4.	Meghalaya	75.49
5.	Mizoram	82.13
6.	Nagaland	76.14
7.	Sikkim	108.99
8.	Tripura	74.87
	India	100

Source: Eleventh Finance Commission Report, 2001, Annexure VI.5, Ministry of Finance.

Out of about 26.21 million hectares of the total geographical area of NER, 21.75 million hectares (83%) is under various types of land use. About 60% of the land area is under forest cover in NER. About 18% of forest area is affected by shifting cultivation. Over 65% of the population is dependent on agricultural and 20% of the total land area of the region is under agriculture. The share of agriculture in gross domestic product (GDP) of the region is around 29% in 2000-01 as against 25% for the country. Industries are not a major economic base for the capital cities of NE states. The road length per 100 sq. km was 61.35 km, which was less than the national average of 74.93 km during 1997. More than 50% of the population of the capital cities is engaged in government or private services. The value of Human Development Index (HDI) of the country as a whole was calculated as 0.381 in 1991. HDI is a composite of variables capturing attainments of human development in economic, educational and health. The status of HDI and Gender Disparity Index (GDI) in respect of NE states in 1991 is given below:

Table 3: Human Development Index (HDI) and Gender Disparity Index (GDI), 1991

States	HDI		GDI	
	Value	Rank	Value	Rank
Arunachal Pradesh	0.328	29	0.776	18
Assam	0.348	26	0.575	30
Manipur	0.536	9	0.815	3
Meghalaya	0.365	24	0.807	12
Mizoram	0.548	7	0.770	6
Nagaland	0.486	11	0.729	21
Sikkim	0.425	18	0.647	20
Tripura	0.389	22	0.531	29
India	0.381		0.676	

Source: National Human Development Report 2001, Planning Commission, 2002, p. 141.

1.1 Description of the problem

A profile of urbanization in capital cities of North Eastern Region

The North Eastern Region has a population of 39 million. Of the region's 39 million population, an average of 5.9 million i.e. 15% people live in 239 urban centers.¹ Out of these 239, 110 urban centers are in Assam. There is a large gap between the first and the second largest city in terms of urban centers and population sizes. The second and third largest urban areas are in Manipur and Tripura with 33 and 23 urban centers respectively. The region at an aggregate level ranks low on the scale of urbanization with only 15% in comparison with all India figure of 28% urban population (as per 2001 Census). The state of Mizoram, the smallest state in terms of size, is the fifth most urbanized state in India with 49% of its population residing in urban areas followed by Manipur (23%), Arunachal Pradesh (20%), Meghalaya (19%), Tripura (17%) and Nagaland (18%), having urbanization level above the NER states average. Assam with 70% of the region's population has only about 13% of its population in the urban areas and Sikkim has the lowest level of urbanization with only 11% of urban population.

Urban population projections for the NER show a rapid growth of urbanization. The overall level of urbanization the region is likely to achieve in 2016 is 24% as against the projected national average of 34%.² The level of urbanization in Mizoram is likely to be 99% in 2016. Two states where more than 50% of population will be in the urban areas are Manipur (62%) and Arunachal Pradesh (51%). The other states like Nagaland would reach 44%, Tripura 26%, Meghalaya 25%, and Sikkim 19%. In the case of Assam, it would be only 14% level of urbanization. The important aspect of urban growth in the NER is the dominance of the capital cities. The state capital cities are the largest urban centers. These centers have experienced a faster urban growth primarily due to migration from infrastructure deficient rural areas. Most of the capital cities (within the Municipal limit alone) account for over 30% of the state urban population. Considering the population size within the municipal limit, Guwahati is the largest city among the capital cities, while Gangtok is the smallest. Over 53% of the state urban population resides in Aizawl, which is the highest amongst the capital cities, 15% in Itanagar, 24% in Guwahati, 48% in Gangtok and 30% in Shillong. However, if total population within the Master Plan Area (inside the city limit and outside the municipal limits) is considered, the dominance of the capital cities is even higher as shown below:

Table 4: Population of capital cities in North Eastern Region, 2001

Sl.No	States/Capital cities	No. of urban Centres	Within Municipal Limit	Outside Municipal Limits	Total capital city population	% capital city's population to total state urban
1.	Arunachal Pradesh (Itanagar)	17	34,970	26,987	61,957	27.8
2.	Assam (Guwahati)	110	808,021	6,554	814,575	24.5

¹ 239 urban centers in NER are based on the classification of Census of India (2001) according to population sizes (see para 2.1 for details).

² Registrar General of India, in Population Projections for India and States (1996-2016); Census of India, 1991.

Table 4: Population of capital cities in North Eastern Region, 2001 (Continuation)

3.	Manipur (Imphal)	33	223,691	198,823	422,514	83.6
4.	Meghalaya (Shillong)	16	132,876	156,693	289,569	65.9
5.	Mizoram (Aizawl)	22	229,714	N.A	229,714	53.3
6.	Nagaland (Kohima)	9	78,584	38,253	116,837	33.1
7.	Sikkim (Gangtok)	9	29,162	76,838	106,000	176.1
8.	Tripura (Agartala)	23	189,327	190,566	379,893	70.0
	Total -NE	239	1,726,345	305,657	2,421,059	41.1

Source: Census of India, 2001, Rural-Urban Distribution of Population.

Note: N.A: Not Available.

The process of urbanization had a late start in North East India but gained momentum since 1971 and the rate of growth of population has been rapid. The last two decades saw an almost two fold increase in the urban population of the region from a mere 2.9 million in 1981 to 5.9 million in 2001 recording annual compound growth rate of 4% and 3% during the eighties and the nineties respectively. Guwahati would continue to be the largest city in NER followed by Imphal, Tripura and Shillong. Despite the constraints imposed by the physical environment and the socio-economic structure, the NER of late is experiencing large proliferation in the number of towns and increase in the proportion of people living in urban areas (Singh, 1999).

As a result of rapid increase in population, spilling of population outside city limits has taken place. Datta, Neog and Mazhari (1999) highlight the fact that towns in North East India are overgrown villages, trading centers with some rural development administrative office outfits, which become urban settlements. These outgrowth areas are generally devoid of basic urban services and are administered through rural growth mechanisms. There are increasing urban problems of over crowding and growth of slums, scarcity of water supply, inadequacies of public health and sanitation system (Ganguly, 1995). With the rapid growth of urbanization in the capital cities of North Eastern Region, the existing urban infrastructure for service delivery is increasingly insufficient, even for provision of core urban public services such as water supply, sanitation and sewerage, urban roads and solid waste management. This is the general condition prevalent in urban areas in India as Ministry of Urban Development observes,³“the urban centers provide over 60% of GDP, yet they suffer from service deficiencies in civic services and infrastructure in terms of safe drinking water, sewerage and drainage, solid and liquid waste management, roads, street lighting, etc. The financial position of the urban local bodies is far too inadequate vis-à-vis the requirement of resources to fund them.” The major constraints in the provision of infrastructure facilities for service delivery in NER are the underdeveloped urban governance system and poor fiscal health of municipal governments. Thus, existence of an efficient modern municipal government is the key issue for effective urban governance in the NER.

³ Eleventh Finance Commission 2000-2005, June 2000, p. 72.

Urban governance and institutional arrangements in the NER

Of the eight states in NER, Municipal Acts are in existence in six states: Assam, Tripura, Meghalaya, Nagaland, Sikkim and Manipur. Other two states, namely, Arunachal Pradesh and Mizoram do not even have municipal legislations. Only two capital cities of Tripura and Manipur have elected municipal governments in position. The pace of change from direct governmental management of capital towns' civic services and amenities to democratically elected modern municipal administration is very slow. Though most NE states have accepted in principle urban local self government and devolution of resources from state to local governments, but the urban governance through elected representatives is still behind compared to more developed states in India. The situation and perception of the people is now changing particularly due to the rapid growth of urban centers and urban population and the realization of the complexities of managing large urban agglomerations.

In the absence of elected bodies and their limited capacities wherever they exist, civic services, management of public amenities and facilities, and development works are looked after by the state departments. This has led to fragmentation of responsibilities and functions. Observing that these issues are effecting urban governance in India, the Economic Survey (2003-04, p. 196) states "in terms of institutional structures, municipal functions are fragmented between different corporations, agencies, and local government bodies across state and local level with conflicting lines of accountability. Existing agencies for municipal service delivery are structured along line-function systems with limited accountability, limited incentive for innovation in delivery of services, and limited use of private sector capacity to manage and finance services. There is limited interface and accountability between political and administrative systems and communities. In particular, poor communities have a limited voice over city policies."

The local institutions of urban governance in NER are weak due to many factors including a weak executive system and poor fiscal health. Most of the urban local bodies do not possess institutional capability to plan, finance, implement and monitor the delivery of municipal services and to discharge their assigned functions. Planning Commission of India⁴ observes that the provision of basic amenities will continue to be among the core activities of the Urban Local Bodies (ULBs) in India. The efficient performance of these responsibilities require proper institutional structure, unambiguous decentralization of power, adequacy of resources, support of the state government and their entities, and a concerted effort to build up capabilities in the various sections of the ULB machinery. In order to meet the challenges of rapid urbanization and local environmental degradation in NER, modern and good urban governance is the need of the day. Good urban governance can be operationalised through empowered and autonomous local self-governments, democratically constituted decision-making bodies- the municipalities. Good urban governance is an inclusive process directed at achieving the quality of life sought by residents of cities based upon efficiency, transparency and accountability, and participatory, a system which is responsive and consensus oriented in the delivery of public services.

⁴ Tenth Five Year Plan Document (2002-2007), Planning Commission. New Delhi, p. 633.

As a corollary, the municipalities should be constituted or strengthened through decentralization of the decision-making process so that they function as active provider of sustainable urban service delivery and creator of urban infrastructure in NER. Such institutional arrangement will have an inbuilt feedback mechanism for the voice of the citizens and other stakeholders to allow dynamism in the system for self-improvement on a sustained basis. If the urban cities and towns are managed efficiently by the municipal governments, the basic urban services can be accessible to all sections of society and the cities can be true engines of growth for the social, cultural and economic advancement of the NE states. In the process of change, mere augmentation of resources and enhancement of capacity of the municipalities would not be enough to make urban governance system self-sustaining in the long run. The tenets of good urban governance such as subsidiarity, sustainability, equity, efficiency, transparency and accountability, civic engagement and citizenship should be the ultimate goal of every municipality.

1.2 Purpose of the thesis

The purpose of the thesis is to suggest way forward for transforming municipalities of capital cities of NE states from a situation of indifferent service provider to active provider of sustainable urban service delivery and creator of urban infrastructure in future. Attempt will be made to illustrate areas for reforms to enable these ULBs to move forward and better integrate with the over all urban sector strategy of the government of India. The thesis will also highlight the features of good local (urban) governance and the experiences of urban local bodies in India and other countries. Finally, the thesis will contain recommendations which will, if adopted, go a long way in shaping the municipal government as institutions of local self-government in NER.

1.3 Goal of the thesis

With rapid pace of urbanization in the NE, the concept of good urban governance is the need of the day for realizing sustainability in cities and achieving the quality of life sought by the citizens of the cities. The goal of the thesis is to analyze the institutional arrangements of urban governance in NER and other states in India with detailed study of the system in selected capital cities of NE states and to suggest areas for reforms to make ULB a more autonomous and efficient institution of self-government with citizen participation to provide quality urban service delivery. It will make an attempt to identify the institutional weaknesses and way forward towards evolving good urban local government for delivery of urban services. This would also enable the ULBs to be more vibrant, responsive and acceptable institutions and one, which assumes ownership and responsibility in urban governance. The ultimate aim of urban local self-government is to achieve the societal well-being through good urban governance by making public services available to all citizens.

1.4 Methodology of the thesis

A detailed analysis of the institutional arrangements of municipalities of the selected capital cities will be attempted by reviewing literatures on urban governance in NER and India in general. The thesis will set out to give a critical review of the literature on urban local government and try to identify the features of good local (urban) governance based also on

benchmarking—best practices in the world and in India. I will also conduct interviews and hold consultation with officials associated with urban management in India. I would study government's policies and initiatives on urban governance in India. Review of municipal institutions would also be attempted which may provide better perspective on the issues of urban governance in India.

1.5 Scheme of main chapters

The thesis has been divided into seven chapters. The first chapter gives introduction containing brief overview of the northeastern region as a whole and its socio-economic status. It contains the description of the problem, the purpose and goal of the thesis including the methodology. Chapter two describes the urbanization scenario in India and in NER. It contains definition and concepts of urbanization in India and the trends of urbanization in the capital cities of NE states. It elaborates the level of basic amenities, problem of civic services and investment needs for core urban infrastructure in capital cities in NER. Chapter three introduces the concept of urban local governance, definition of good governance and tenets of good urban governance. It also covers the concept of local self-government, the role and rationale of local government and its finances. Chapter four contains discussion on the concepts, issues, and institutional arrangements in local government in public service delivery in the context of the concept of exit and voice, changing role of local government and participatory governance. It analyses decentralization dimensions, and presents a model of governance mechanism for accountability, transparency and delivery of quality services and citizen participation. Chapter five discusses the principles of local self-government and the status of local self-governments in Hungary, Slovenia, Czech Republic, the UK, the Philippines and Korea. The chapter describes local governance practices, widening scope of local government towards 'good local governance' and good practices of urban governance in different countries. Chapter six gives an analysis of institutional arrangements for urban governance in NER and other states within the constitutional and administrative framework in India. It contains analysis of municipal functions, finances, and a comparative analysis of local governments in different third world countries with suggestive model of local government, including case studies of urban governance system in selected capital cities of northeastern states. Chapter seven gives findings, conclusions and recommendations.

CHAPTER - 2

URBANISATION SCENARIO IN INDIA'S NORTH EAST

2.1 Definition and concepts

Urbanization is the process by which an increasing proportion of the country's population starts residing in urban areas. The census definition of urban areas is: (i) all places with municipal corporation, municipal cantonment board or notified area committee, etc., are 'statutory towns'; and (ii) all places where there is no local administration that fulfill all the following three conditions: (a) a minimum population of more than 5,000; (b) at least 75% of the male working population is engaged in non agricultural activities; and (c) density of population is more than 400 persons per sq. km. These are known as non-statutory and 'census town'. Thus, urban in India covers a widely distributed collection of cities, towns, urbanized villages (Singh, 2006, p. 2-3). Further, the urban centers in India are classified into six categories based on population sizes as: Class I-100,000 and above (cities); Class II-50,000-99,999 (large towns); Class III-20,000-49,999 (medium towns); Class IV-10,000-19,999; Class V-5,000-9,999; and Class VI-less than 5,000 (small towns).⁵

2.2 Trends of urbanization

According to the Census 2001, only about 28% of the population in India lives in urban areas. Even with such a low level of urbanization, with its total urban population of 285 million growing at about 3% annually, India is one of the fastest urbanizing countries in the world. While the proportion of urban population in developed countries was a high of 75%, and in less developed countries, it was 40% in 2000. The level of urbanization in Asia was 38%, in which China recorded 36% and Indonesia 41% level. As per recent projection, by 2021, the urban population in India will nearly double to reach about 550 million, constituting 41% of the total population. The NER with its 39 million people accommodates about 4% of the country's population. Of 39 million population, 5.9 million (15%) people live in 239 urban centers. The percentage of urban population for India and the eight northeastern states since 1951 is as below:

Table 5: Levels of urbanization in the North Eastern Region (%), 1951-2001

States	1951	1961	1971	1981	1991	2001
Arunachal Pradesh	N.A	0.0	3.7	6.6	12.8	20.4
Assam	4.3	7.2	8.8	9.98	11.1	12.7
Manipur	0.5	8.7	13.2	26.4	27.5	23.9
Meghalaya	9.7	15.3	14.6	18.1	18.6	19.6
Mizoram	3.5	5.4	11.4	24.7	46.1	49.5
Nagaland	1.9	5.2	10.0	15.5	17.2	17.7
Sikkim	2.0	4.2	9.4	16.2	9.1	11.1
Tripura	6.7	9.0	10.4	11.0	15.3	17.0
NER	4.4	7.6	9.4	11.8	13.8	15.5
India	17.3	18.0	19.9	23.3	25.7	27.8

Source: Compiled from Census, 2001 in Report of North Eastern Region urban sector profile project, MoDoner and ADB, New Delhi, 2003, p. 4-1. Note: N.A: Not Available.

⁵ Census of India 2001, 1991.

There has been a steady growth in urbanization. The urban growth for all India was from 17% in 1951 to 28% in 2001. Arunachal Pradesh reported 4% in 1971 (no urban area prior to that) to a near double in each decade to 20% in 2001. Assam over the years has shown a steady growth from 4% in 1951 to 13% in 2001. Manipur grew from 0.5% in 1951 to 24% in 2001. Meghalaya registered a growth from 10% in 1951 to 20% in 2001. Mizoram witnessed high growth from a mere 4% in 1951 to 50% in 2001. Nagaland was 2% urban in 1951, which rose to 18% in 2001. Tripura was with 7% in 1951 and reached 17% in 2001. In absolute terms urban population in each NE state was 0.5 million or less except in the case of Assam, which had 3.3 million in 2001.

In term of the number of towns, the urban growth has been significant. From just about 81 towns in 1981, about 158 towns were added in 2001. There are nine Class I towns with a population of more than 100,000 in NER. The capital cities of the NE states dominate in term of concentration of urban population. Itanagar constitutes 27% of the total state urban population, 25% in Guwahati, 84% in Imphal, 66% in Shillong, 53% in Aizawl, 33% in Kohima, 100% in Gangtok and 70% in Tripura. In almost all the capital cities, urban growth has spilled beyond the areas of municipal limits, which are devoid of basic urban services. The urban centers recording a high annual growth rate of population include Aizawl (4%), Kohima (4%), Itanagar (8%) and Guwahati (3%) against all India figures of 3%.

2.3 Future urbanization scenario

The level of urbanization in NER will go up from urban population of 5.9 million to 54.1 million in 2016. The projected level of urbanization in 2016 for NER is 24% as against national average of 34%. Against this projected NE states average, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura will stand above the states average, where as Assam and Sikkim will be below the states average. The dominance of the capital cities in urbanization level would grow higher in future. Table 6 presents the projected urban population in NER states by 2016.

Table 6: Projected urban population in the North Eastern Region, 2016

States	2001		2011		2016	
	Urban Population (million)	% Urban	Urban Population (million)	% Urban	Urban Population (million)	% Urban
Arunachal Pradesh	0.2	20.4	0.6	40.2	0.8	51.9
Assam	3.3	12.7	4.2	13.6	46.7	14.3
Manipur	0.5	23.9	1.7	52.6	2.1	62.0
Meghalaya	0.4	19.6	0.7	22.7	0.8	24.7
Mizoram	0.4	49.5	1.1	90.3	1.3	99.8
Nagaland	0.4	17.7	0.8	36.3	1.0	44.1
Sikkim	0.1	11.1	0.1	15.8	0.1	18.7
Tripura	0.5	17.0	1.1	22.8	1.3	26.0
NER	5.9	15.4	10.3	21.7	54.1	24.1
India	1,027	27.8	1,184.4	32.1	1,269.7	33.8

Source: Census of India, 1991.

2.4 Urban service delivery situation

The provision of infrastructure facilities required to support large concentration of population is lagging far behind the pace of urbanization in India. All cities have severe shortage of water supply, sewerage, basic health services and education, housing and transportation. As per the Census 2001, nearly 39% of urban households were without access to potable water within their premises. Approximately 26% of the urban households have no access to sanitation facilities within their premises. Sewerage system exists in few cities and in such cities only a part of the sewerage is collected and even less of that is treated. As a result, discharge of waste leads to pollution, environmental degradation and health risk. Most of the cities are exposed to air and water pollution, and problems posed by inadequate solid and liquid waste management (Singh, 2006, p. 12).

The urban service delivery situation in NER is not satisfactory even in terms of basic urban services, which every city is entitled to a minimum service level (MoDoner and ADB, 2003, p. 8-20). The per capita water supply in most of the capital cities is generally lower than the prescribed norms. In Guwahati, Aizawl and Kohima, the level of supply is not even half of the prescribed norm (135 lpcd). The supply hours range between 90 minutes to 5 hours. The population coverage according to state/city authorities is: 48% in Agartala, 100% in case of Aizawl, 80% in Gangtok, 34% in Guwahati, 80% in Imphal, 88% in Itanagar, 50% in Kohima and 69% in Shillong. Access to water supply in NER capital cities as a whole is highly inadequate. Further, compared to 50% of urban India having all the three facilities of electricity, drinking water and toilet and 5% of the urban area having none, Arunachal Pradesh, Meghalaya and Tripura are better off compared to all India average in the case of availability of amenities (averaging 62% having facilities and 3% having none) whereas Assam, Manipur, Mizoram and Nagaland are worse off (averaging 32% having facilities and 7% having none).

The provision of urban infrastructure in each capital city of NER is inadequate and does not meet the needs and aspirations of the people. Poor condition of existing urban infrastructure may be attributed mainly to: (i) a general lack of concern amongst service delivery agencies with operation and maintenance; (ii) lack of sustainable forward plans for infrastructure system development; (iii) a tendency amongst policy makers to favor provision of services through government departments rather than through decentralized provision of services; (iv) lack of feedback between service users and providers; and (v) under developed governance system and lack of financial resources with ULBs. The estimated investment requirements for infrastructure development in core urban services for each capital city of NE states are given below:

Table 7: Infrastructure investment requirements estimated based on norms

(In million Rupees)

Sector	Agartala	Aizawl	Gangtok	Guwahati	Imphal	Itanagar	Kohima	Shillong
Water Supply	177	788	135	2,580	147	96	651	961
Sewerage and Sanitation	614	176	353	2,732	419	77	120	701
Solid waste Management	122	70	31	109	130	44	22	268
Roads	749	84	121	573	737	111	377	484

Table 7: Infrastructure investment requirements estimated based on norms (Continuation)

(In million Rupees)

Storm Water Drains	379	21	15	3,592	548	15	55	69
Street lighting	56	61	6	127	31	12	22	12
Total cost	2,097	1,200	661	9,713	2,011	354	1,246	2,495

Source: Report of North Eastern Region urban sector profile project, MoDoner and ADB, 2003, New Delhi, p. 8-16.

The above figures are indicative of the widening gap between the availability and demand for basic urban infrastructure and services. The estimates indicate the need for investment in urban infrastructure to provide minimum service standards to the local citizens and the inadequacy of urban services even in the capital cities in NER. According to the National Institute of Urban Affairs estimates, urban India currently contributes about 60% of GDP. The economic growth of the country is, thus, highly dependent on the strength of urban areas and their ability to attract investments, increased productivity and continue to provide the focus for service sector activity. The cities need to be supported with improved planning, infrastructure, governance and management to accommodate growth (Singh, 2006, p. 8). Thus, the urban scenarios in the capital cities of NE states warrant intervention of the central and state governments to strengthen urban governance system. In the face of mounting infrastructure needs, financial resources and demand for urban services, the present institutional arrangement for provision of urban services will not be sustainable. The need of the hour is to have urban local self-government endowed with decision making power and devolved fiscal and financial powers to be the main actor in management of cities in partnership with various stakeholders, private sectors, third sectors and citizens for the well-being of the whole city society.

CHAPTER - 3

TRENDS IN URBAN LOCAL GOVERNANCE

The thesis is about urban local governance in NER and other states in India with a study of municipal governments in selected capital cities of northeastern states. It will attempt to highlight the institutional arrangements of urban local self-governments for the discharge of basic responsibilities of public services. In India, the concept of urban governance is inextricably linked with the constitutional and legislative provisions under which the ULBs are to function as 'institutions of self-government.' These bodies are called Municipal Councils in cities of medium sized population, and in areas with large population they are known as Municipal Corporations. The municipalities are units of local self-governance entrusted with large responsibilities for provision of public services. India being a federal state, the statutory rights and duties of municipalities depend on the central and state government legislations. The constitution of India (74th Amendment, 1992) had included a constitutional provision for regulation of municipal laws in which state governments are required to carry out legislative amendments in their municipal laws in conformity to the constitutional provisions on the local self-government. The concept of urban local self-government has evolved over the years and is now a universally accepted system of urban governance.

Associated with the concept of local self-government which has gained currency is local governance. The emergence of governance as a key concept in the public domain is relatively recent, and the two earliest manifestations of this interest are 'corporate governance' movement of the late 1980s and 'local governance' literature evolved from the early 1980s. The corporate governance concern has evolved largely due to conflict of interests in the governance-management relationship. Such conflict takes place when owners give too much autonomy and authority to managers they tend to act following their own interest instead of the owners. At the same time, this is to the advantage of owners because the manager's knowledge and experience can be fully utilised. If the owners give little authority to managers, they cannot utilise their knowledge and skills (Rozman, 1998, p. 31). The movement of local governance⁶ was born largely out of looming realisation that the role of 'government' in driving change in urban regeneration in many parts of the USA and Europe was decreasing and that policy networks and civil society were becoming increasingly important (Bovaird, 2005, p. 217-219).

3.1 The concept of urban governance

The concept of governance is open to many interpretations and no common acceptance of definition exists both in theory and practice. Various institutions have developed their own definition of governance. UNDP (1997, p. 2-3) has defined governance as the exercise of political, economic and administrative authority in the management of a country's affairs at all levels. It comprises the mechanisms, processes and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate

⁶ It is defined as the set of formal and informal rules, structures and processes which determine the ways in which individuals and organizations can exercise power over the decisions (by other stakeholders) which affect their welfare at local levels (Bovaird and Löffler, 2002, p. 16).

their differences. Under this definition, governance encompasses not just the state, but the private sector and civil society as well. The role of the state is viewed as that of creating a stable political and legal environment conducive to development, while civil society institutions are viewed as a means of facilitating political and social interactions and mobilising groups to participate in economic, social and political activities. According to the World Bank (1994), governance is the exercise of political power to manage a nation's social and economic resources. Governance is also a use of political authority and exercise of control in society in relation to the management of its resources for social and economic development. Under this definition, the role of public authorities is creating the framework for the activities of economic agents and in making decisions about the distribution of benefits, as well as the nature of the relationship between government and the governed (OECD, 1993). Institute On Governance⁷ (2003) defines governance as 'the interactions among structures, processes and traditions that determine how power and responsibilities are exercised, how decisions are taken, and how citizens or other stakeholders have their say.' Governance is not the sole concern of government, but of all those involved in decision-making which includes the influence, needs, contributions and responsibility of civil society or the private sector. Thus, governance not only encompasses but also transcends the collective meaning of related concepts like the state, government, regime, etc. Governance may also be seen as the organisation of local public life by a range of community level bodies led by the elected local authority (Batty and Hilton, 2003, p. 161-172).

Finally, governance in urban areas may be described in the words of UN-Habitat (2002) as the sum of the many ways individuals and institutions, public and private, plan and manage the common affairs of the city. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action taken. It includes formal institutions as well as informal arrangements and the social capital of citizens. Thus, as a concept urban governance goes beyond government. It includes the mechanism, institutional structures and processes through which decisions affecting the welfare of the citizen and stakeholders are taken. For the purpose of the thesis, the institutional arrangements of urban local governance concern with the local self-government in urban areas.

3.2 Definition of good governance

The concept of good governance is fast gaining currency in various literatures. The concept of good governance is defined variously by different people, organizations, governments and city authorities according to their own experience and interests. There is no uniform definition of good governance. It is generally described in terms of principles and norms, which characterize 'good governance.' These principles are applicable and relevant for all levels of government whether it is national, regional or local. Canadian International Development Agency⁸ (1997) defines good governance as an exercise of power by various levels of government that is effective, honest, equitable, transparent and accountable. Good governance ensures that political,

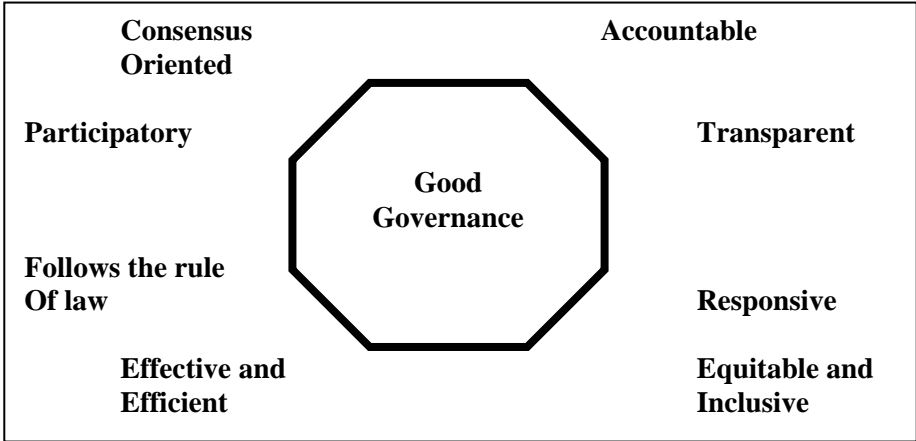
⁷ Institute On Governance, Ottawa, Ontario Canada: Governance principles for protected areas in the 21st century. (www.iog.ca), 24.6.2003.

⁸ Canadian International Development Agency: Redefining the concept of governance, July 1997, 200 Promenade du Portage, Gatineau, Quebec, pages 15. (www.acdi-cida.gc.ca).

social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources (UNDP, 1997).

Further, researchers at the World Bank Institute have distinguished six main dimensions of good governance: voice and accountability, which includes civil liberties and political stability; government effectiveness, which includes the quality of policy making and public service delivery; the lack of regulatory burden; the rule of law, which includes protection of property rights; independence of the judiciary; and control of corruption (Santiso, 2001). UN ESCAP has identified eight major characteristics of good governance. They are participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and the rule of law. It is also responsive to the present and future needs of society. The graphical model of good governance is given below (Figure 1):

Figure 1: Characteristics of good governance



Source: [http:// www.unescap.org/huset/gg/governance.htm](http://www.unescap.org/huset/gg/governance.htm)

3.3 Key tenets of good urban governance

The above characteristics of good governance may generally relate to any governance at different levels and areas. These characteristics are normative and idealistic in nature. Very few governments or societies in the world would have come close to achieving all norms of good governance. Analyzing what are the levels at which local governments are in vis-à-vis good governance will not be easy or intended in this thesis. However, they provide useful analysis frame for considering the competences of the local governments in urban management. It would point way forward and reform areas for better urban governance.

The principles of good governance relating particularly to urban governance are relevant for our discussion. UN-Habitat (2002) has identified, based on its experience, prescriptive norms (desired standards of practice of urban governance) of good urban governance. These norms may not have universal acceptance yet, but they constitute the underlying principles of local self-government in many countries. European Charter of Local Self-Government (ECLS) of the Council of Europe is one such example. There is a move towards ‘World Charter of Local Self Government’ in the UN-Habitat. UN-Habitat argues that good urban governance is characterized

by sustainability, subsidiarity, equity, efficiency, transparency and accountability, civic engagement and citizenship, and security, and that these norms are interdependent and mutually reinforcing as detailed below:

- (i) Sustainability in all dimensions of urban development: Cities must balance the social, economic and environmental needs of present and future generations with a clear commitment to urban poverty reduction. Leaders of all sections of urban society must have a long-term, strategic vision of sustainable human development and the ability to reconcile divergent interests for the common good.
- (ii) Decentralization of responsibilities and resources based on the principles of subsidiarity and accountability: Responsibility for service provision should be allocated on the basis of the principle of subsidiarity, i.e., at the closest appropriate level consistent with efficient and cost-effective delivery of services. Decentralization and local democracy should improve the responsiveness of policies and initiatives to the priorities and needs of citizens. Cities should be empowered with sufficient resources and autonomy to meet their responsibilities.
- (iii) Equity of access to decision-making processes and the basic necessities of urban life: The sharing of power leads to equity in the access to and use of resources. Women and men must participate as equals in all urban decision-making, priority-setting and resource allocation processes. Inclusive cities provide everyone with equitable access to basic services.
- (iv) Efficiency in the delivery of public services and in promoting local economic development: Cities must be financially sound and cost-effective in their management of revenue sources and expenditures, the administration and delivery of services. Private sector and communities should be enabled to contribute formally or informally to the urban economy.
- (v) Transparency and Accountability of decision-makers and all stakeholders: The accountability of local authorities to their citizens is a fundamental tenet of good governance. Transparency and accountability are essential to stakeholder understanding of local government and to who is benefiting from decisions and actions. Access to information is fundamental to this understanding and to good governance. Laws and public policies should be applied in a transparent and predictable manner. Elected and appointed officials need to set an example of high standards of professional and personal integrity. Citizen participation is a key element in promoting transparency and accountability.
- (vi) Civic Engagement and Citizenship: People are the principal wealth of cities; they are both the object and the means of sustainable human development. Civic engagement implies that living together is not a passive exercise: in cities, people must actively contribute to the common good. Citizens, especially women, must be empowered to participate effectively in decision-making processes.

- (vii) Security of individuals and their living environment: Every individual has the inalienable right to life, liberty and the security of person. Cities must strive to avoid human conflicts and natural disasters by involving all stakeholders in crime and conflict prevention and disaster preparedness. Cities should also work with social mediation and conflict reduction agencies and encourage the cooperation between enforcement agencies and other social service providers.

Good urban governance is a developing concept. The characteristics of good urban governance are based upon lessons of experience or practices and realities of different cities around the world. It is, however, important that these norms can be operationalised at the local level to improve the quality of urban governance. The legal and institutional framework at the local level should have inclusive decision-making mechanism to operationalise these norms to result in positive outcomes. It is the experiences of many cities that it is neither money nor technology, or even expertise but good urban governance that is important for long-term development of cities. Most of world population will soon live in towns and cities, and urbanization is advancing irreversibly. Cities are now recognized as potential engines of social and economic development, creating livelihoods and generating ideas for innovative civic cultures. Thus, the important objective of the national governments must be to ensure building the capacity of local governments to practice good urban governance for city social well being.

3.4 Definition of local government

Alongside good urban governance, other keywords such as decentralization or local autonomy have received currency. Simply put, decentralization signifies divestment and devolution of certain responsibilities and political decision-making from one authority to another. In the urban context, it is referring to establishment of local representative government endowed with administrative and financial powers to deliver mandated services to its citizens. Local representative government may be known hereafter as 'local self-government.' In various literature, local governments are interchangeably referred to as 'local authorities,' 'councils' and 'municipalities.' The concept of local government varies from country to country in terms of its characteristics relating mainly to decentralization of decision-making process and the powers of local taxation. In European Charter of Local Self-Government (Article 3), 'local self-government' denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population. According to M. Cole and G. Boyne (1995), local government is the democratically-elected bodies whose jurisdiction is of a local (rather than regional or national) scale, backed by power to levy local taxes by which to exercise genuine discretion over service provision. However, the general conception of local government is one of a locally elected democratic statutory organisation below the level of the state, province or region, providing public sector services to the populace within the areas of its jurisdiction (Bailey, 1999, p. 2-3). Thus, local self-governments in urban areas may be taken to mean democratically elected local authorities, municipal councils or municipal corporations depending upon a common usage in a particular country, which have the power of taxation and the primary responsibilities of public service delivery under the constitution or domestic legislation.

3.5 Role of local government

The local government may perform many important roles in a democratic set up as follows (Bailey, 1999): (i) Pluralism- the existence of local government prevents over concentration of political power and avoids a tendency towards centralized autocracy; (ii) Participation- the existence of local governments encourages the active involvement of citizens in democratic self-governance; and (iii) Public Choice- local governments provide services tailored to the varying needs of different localities. Local needs and preferences should be locally defined. Local government enables better match of policies with local conditions and preferences.

3.6 Rationale for local government

Apart from the above arguments for local government, why should local government provide public services and incur local public spending? The market should be able to supply the services at the most competitive prices. The role of the local government may be limited where the market can supply goods and services effectively. However, for supply of goods and services which private sector cannot supply due to free rider problems, the role of the local government need to be strengthened to ensure availability of those public services. Viewed from this perspective, there are at least four areas in which public intervention is required in order to avoid a 'local market failure' (Swianiewicz, 2003, p. 2-4):

- (i) Provision of pure public goods. Such goods may be defined by two characteristics. The consumption of pure public goods is non-rival, the consumption by an individual is not in competition with consumption by someone else. Secondly, the consumption of such goods is non-excludable; it is not possible to exclude someone from consumption though one may not pay for the services availed. Street lighting is often cited as an example. In this case, the market is not capable of regulating the provision of public goods.
- (ii) Existence of natural monopolies. This can be defined as sectors in which a single provider can produce at a lower unit cost than two or more providers could. Market regulation is not efficient and public intervention is required. Typical examples of local services involving natural monopolies are water provision, sewage collection and treatment, central heating and gas supply.
- (iii) Existence of externalities which can be of positive or negative effects and affecting actors who have not been directly involved in the transactions. The usual example for this is environment pollution. In such case, public intervention and the provision of some services by local government will be more effective, which will allow for internalization of externalities.
- (iv) Provision of merit goods legitimizes public financing and intervention. In this case, an individual undervalues the benefits the services can offer. For example, if society places importance on educating all children, then the decision on whether or not to send children to school becomes a social, not an individual decision. Consumption of these services can be stimulated by public provision, subsidies, etc., even if they are not public goods by their

nature. However, the local government should exercise discretion in deciding how these services can be more efficiently provided through the public or private sector or even non-governmental organizations (NGOs).

3.7 Local government finances

Local government finances would typically involve fiscal and financial decentralization, devolution of responsibility for the financing and managing of certain public services to the lowest level of government. This is usually a democratically elected government, capable of providing the services efficiently and effectively than higher levels of government. Transfer of responsibility for the management and provision of public services to local government would entail re-arrangement of the balance of power between the state and local government. Real decentralization would be achieved when control over the resources necessary to deliver or pay for services is also devolved to local governments. Experience shows that national governments have often delegated important social functions to local governments without sufficient resources to actually perform them. Local governments are made to depend on the higher levels of government for support of such functions.

The following are some principles of local government financing for public service delivery (Peteri, 2005): (i) Local governments should finance as much of their responsibilities as possible through local own-source revenue (taxes and user charges) the rates, bases, and administration which are truly under their control; (ii) Transfer system should be clear, transparent and predictable meaning that it should be based as much as possible on formulae, and should not change radically from year to year, and not be subject to political bargaining; and (iii) Transfer systems should overcome vertical and horizontal imbalances.⁹ For vertically balanced inter-governmental finance systems should provide sufficient funding for functions assigned to local governments. Every mandate at local level is funded, and local governments with differing competencies should be eligible for differing levels of grants. Horizontal imbalances in the local government system should also be corrected by means of various forms of inter-governmental transfers. The main potential advantages of fiscal decentralization are stated to be improved local efficiency, greater local policy discretion, enabling local innovation, more targeted use of local resources, and enhancing local democracy and accountability. The potential disadvantages, on the other hand, include: (i) different sources of funding at the local level can increase complexity and loss of transparency; (ii) equity costs; (iii) difficulties in achieving central government policy goals; and (iv) potential for economic distortions caused by variation in taxes and rates across jurisdictions.

⁹ Categorical grants are used to correct vertical and horizontal imbalances. General or block grants gives higher local autonomy in spending and are used to decrease vertical imbalances. Equalization grants are used to reduce differences in the cost of services and in revenue capacity and horizontal imbalances.

CHAPTER - 4

DIFFERENT DIMENSIONS OF LOCAL GOVERNMENT FOR PUBLIC SERVICE DELIVERY

Before discussing the structure of urban local self-governments in different countries, it seems appropriate to describe some of the concepts, issues, principles, and trends in institutional arrangements associated with local governance and public service delivery. These concepts and ideas influence the way local (urban) governance are operationalised and directed towards achieving more effective service delivery to citizens. Understanding of these issues is important to have wider perspectives on the structure of local self-government.

4.1 The concept of exit and voice

The concept of exit and voice (crystallized by Hirschman) is widely used to show the articulation and implementation of choices in regard to provision of goods and services.¹⁰ Exit is linked to choice via competition which allows choice from among alternative suppliers; voice is used where competition is absent or inappropriate as a vehicle of choice. Voice is expressed to service managers or political representatives through individual or collective petition. Voice can be expressed through administrative mechanisms of voting system, complaints redressal, customer feedback system, etc. (Bailey, 1999, p. 40-41).

According to Burns et al. (1994), many public services cannot be individualized as they relate to groups of consumers and citizens or society at large. Such collective interest can only be protected through appropriate forms of political accountability. It is about democratization of local government service provision via voice. It may be argued that the exit model would be applicable where market is well developed and the consumers can make choices of different alternatives. In public services involving heavy investment such as roads, water supply and electricity supply, where private capital investment is usually low, exit option may be limited. In such situation, the appropriate alternative is to strengthen the voice option via democratic process wherein dissatisfied citizens can obtain a response through political activities. Thus, the strategy should be to develop a wide range of new voice mechanism to empower the local citizens to secure public services as per needs and preferences.

Choup (2003, p. 27) shows different characteristics of the transition to democracy (Table 8) wherein citizens have access to public service delivery. According to this hypothesis, as the system becomes more democratic, local concerns are handled by local government and voter preferences are represented. The citizens can confidently approach unbiased and reliable bureaucratic mechanism for services provided. This provides useful information how democratic decentralization can improve service provision for the local citizens through more voice option.

¹⁰ Exit refers to the ability to consumers to choose among alternatives suppliers of a given product and therefore depends on a market mechanism. The service user who is dissatisfied with the quality of service being provided by the current supplier can opt for another instead, therefore exiting the first. Voice refers to the expression by consumers of their preferences for quantity and quality of output in an attempt to change, rather than escape from an unsatisfactory service (Bailey, 1999, p. 41).

Table 8: Characteristics of the transition to democracy

	Less Democratic	In Transition	More Democratic
Centralization of political power	Executive branch holds all decision-making and budgeting power	Uncertain jurisdictional boundaries between municipal and central governments	Local concerns handled by local governments, national concerns handled by national government
Leadership	Centralized personalized, based on parties and patron-client ties	Personalistic leaders holding bureaucratic posts	Decentralized, objective representation based on constituency voter preferences
Institutions promoting good governance	None	Uncertain budget and mandate	Permanent and financially autonomous
Ways in which citizens obtain services from state	Citizens must use personal contacts, with inconsistent results	Citizens attempt both arbitrary personal contacts and biased institutional mechanisms	Citizens can confidently use unbiased and reliable bureaucratic mechanism

Source: Choup, 2003, p. 27.

Bailey (1999, p. 266) gives different dimension to these issues. He argues that though democratic choices can be facilitated by political representation, however, much dependence on the representative form of democracy has led to increasing centralization of both political and bureaucratic power within the state. Deficiency in demand articulation from citizens and lack of competition in services may allow both local politicians and bureaucrats to act in their own interests. Thus, simple forms of representative governments are becoming increasingly inadequate in representing diverse needs and aspirations of citizens from different socio-economic conditions. In order to enhance public interest in service provision, the politico-economic environment should provide increased scope for exit and strengthen voice through competition and increased public participation in local decision-making.

4.2 Trends in institutional arrangements

The trends in institutional arrangement for service provision in the western countries are that the borderline between the local government and private or the third sector is less and less clear. There emerged a mix of public, semi-public, private-commercial as well as private-non-profit organizations delivering public services to the citizens. Multiple solutions imply fragmentation of public sector decisions, reduction of politico-bureaucratic control and responsibility, and a restatement of the rights and responsibilities of the individual, family and community. Monolithic public sector solutions are increasingly taken as inappropriate and unfavorable to promoting choice. This is in line with public choice approach, which advocates a cut of state, a rolling back to the core competencies of state to allow citizens to make their choices rather than to be supervised in a paternalistic way. The growing tendency is to shift from the vertically integrated hierarchy of local government to a form of contractual relationships and network governance. Centralized power structures in local governments are increasingly giving way to negotiation and partnership and are being transformed into functional representation of different interest groups and stakeholders.

4.3 Changing role of local government

There is an increased concentration on core functions of strategic policy-making on the part of local government by encouraging private and voluntary sectors to make greater contribution in the delivery of public services. The right and responsibility of the individuals and family are strengthening. Local government's role in providing the welfare state and the dominance of public paternalism is reducing. The assumption that the state knows better than the individual in all aspects of social welfare and service provision is giving way. However, this is not to say that the crucial role of local governments has reduced, only that the traditional form of direct provision of services as per standards determined by a framework of collective choice may no longer be tenable. Instead, the role of the state is to facilitate individual choice, enabling service provision by means of a multiple agencies. Hence, the framework of service provision has become more diverse, less monolithic and less standardized. There is empowerment of citizens to participate in public decision-making as well as in the delivery of public services. The institution of local government is no longer presumed to be a sole promoter of local democratic accountability. The idea of local democracy is changing from simple political representation to citizen participation in decision-making.

4.4 Participatory local governance

The concept of participatory governance is gaining ground in the field of urban governance. It is an approach to urban management, which embraces effective interactive planning and decision-making processes to co-ordinate distinctive efforts of the local government, civil society, and the private sector towards sustainable urban development. It has been argued that participatory governance may: (i) strengthen financial stability due to outflow from expanded tax bases and rising living standards; (ii) enhance stability and confidence in the municipal government as the legitimacy of the municipality grows through joint decision-making mechanisms and greater transparency; (iii) stimulate greater efficiency and innovation as departments are compelled to become more responsive to citizen needs and seek solutions in partnership with communities and the private sector; and (iv) encourage a vibrant and active citizenry that engages with decision-making forums and processes through collective and individual means, irrespective of their gender, ethnicity or wealth. Participatory governance is one of the good governance practices and many local governments are moving increasingly towards this type of governance (Pieterse, 2000).

4.5 Institutional dimension of local government

The approach of local governments in the provision of services is not only influenced by the environment within which they operate, but also depends on the institutional model upon which they are based. The efficient delivery of services cannot be achieved and sustained with mere superficial changes in the organizational setup of the local government. The entire institutional framework of the local government should be directed towards providing efficient and effective public services as per choice of citizens. Two models of local government mentioned by Pieterse (2000, p. 25) may be illustrated to understand the institutional arrangements and their approaches towards service delivery. First is the traditional model of local government wherein primary

service are delivered on behalf of higher tiers of government based on traditional hierarchical organisational structure, with decision-making power concentrated amongst a small group of senior administrators, with weak links to the elected representatives. The source of power was specialized services based on codes and manuals amongst engineers, planners and accountants, who interpreted the letter of the law to ensure that local government did not act outside of legal parameters. Under this traditional model, citizens are left with large, cumbersome, inefficient and, most importantly, unresponsive municipal administration. Usually, these institutions are more driven by their own internal incentives and not the needs and interests of citizens and other external stakeholders. Municipalities with such institutional design are often characterised by inefficiency, slow response time, un-coordinated municipal investments, poor information flow between different parts, and lack of capacity to deal with complex inter-related urban problems.

The second one is strategic developmental model of municipal management. Under this model, there are four axes of political engagement and civic leadership: (i) downwards, with civil society, in particular with poor neighborhoods and households to ensure that residents are encouraged to mobilise themselves to contribute to the city's activities and interests; (ii) horizontally, with organised civil society such as community-based organisations, resident's associations, professional bodies, and NGOs coming in behind a common strategy and purpose for the city; (iii) horizontally again, with the private sector, both formal and informal, to ensure that their needs are addressed and their initiatives are complementary with a city-wide development strategy; and (iv) upwards to central and state governments, representing and giving voice to the needs and views of the locality and its stakeholders to higher tiers of decision-making and vice versa when appropriate. The management system is based on strategic mode of operation with greater decision-making and authority devolved to frontline staff that interacts directly with citizens and stakeholder groups. There is a host of accountability and transparency mechanisms to link everyday operations to the broader process of building a democratic and accountable culture.

4.6 Decentralization

Principles of local self-government are closely linked with the issue of decentralization and local autonomy. Decentralization processes are usually related to the notions of subsidiarity, shared fiscal responsibility, tax revenue distribution at sub-national levels and local capacity for revenue generation and administration. It implies a need for improved capacity at the local level so that central and local units of government work in a complementary manner. What is relevant, therefore, is not the formal existence of decentralized structures but rather the degree of political decentralization and to what extent resources and functional authority have been transferred to the local level, and to what extent has decentralization led to democratization at the local level.

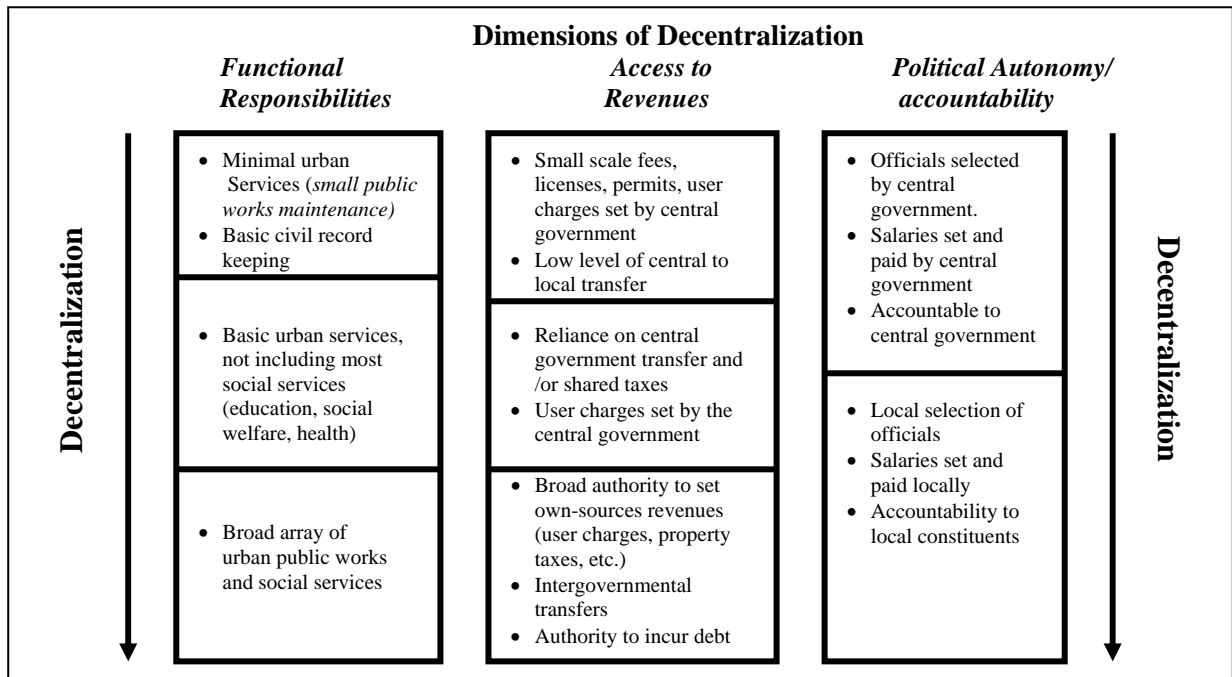
It is widely believed that wherever sufficient resources are transferred, functional responsibilities are specified, and accountability mechanisms are established at the local level, decentralization may result in economic and social benefits to the citizens. Such transfer of responsibilities would enhance accountability, problem solving, and citizen participation. Local public sector managers

are more likely to be held accountable to the residents they serve, and the quality and quantity of services they provide can be more easily linked than those provided by state/central managers. Local governments are better positioned to work with local NGOs and civil society organisations in identifying problems and defining solutions. Finally, citizens can have more access to public decision making at the local level. On the economic benefits side, decentralization can result in better allocation of public sector resources and better mobilization of resources to finance public sector activities. In a highly centralized system, there is a lack of reliable information about the costs and quality of services, and about the overall performance of public sector institutions. The allocation of resources to public sector services is likely to be more efficient under a decentralized regime because local institutions are more likely to be aware of citizen preferences and needs. Resource mobilization by local governments has a comparative advantage over central governments. First, local governments can collect more revenues that are 'local' in origin, such as business and property taxes. According to Johnson and Minis (1996), collection efficiencies are generally higher for taxes that are largely managed locally than those taxes managed by the central government revenue collection services. Secondly, more resources can be mobilized if the collection of taxes and charges are perceived as necessary for providing service benefits by local governments. There is a greater willingness to be taxed and to pay service fees that are demanded by citizens. On the other hand, centralization prevents local control over resources and decision-making. Citizen participation and local representative roles in decision-making are minimized. In this case, the solution to local problems lies in the hands of officials geographically and personally detached from the problems (Choup, 2003, p. 30).

4.7 Dimensions of decentralization

The basic issues relating to different dimensions of decentralization may be seen in terms of functional responsibility, access to resources, and political autonomy and accountability (Figure 2). The degree of decentralization of decision-making process can be viewed in terms of the level of local autonomy in functional responsibilities, access to resources and political accountability. Hence, functional responsibilities should be specified amongst various levels of government. The responsibilities of local government conventionally include provision of basic services such as street sweeping, solid waste management, sanitations, development planning and provision of wide array of physical infrastructure and social services. Access of local government to resources should be appropriate to the functional responsibilities assigned. Increased volume of resources available for local allocation would stimulate public participation in service and investment decisions. Political accountability of local governments should be ensured by appropriate regulation of local governments by central/state governments. Responsibility/accountability of local elected and administrative officials to their constituents would achieve local government self-regulation and self-sustaining.

Figure 2: Dimensions of decentralization

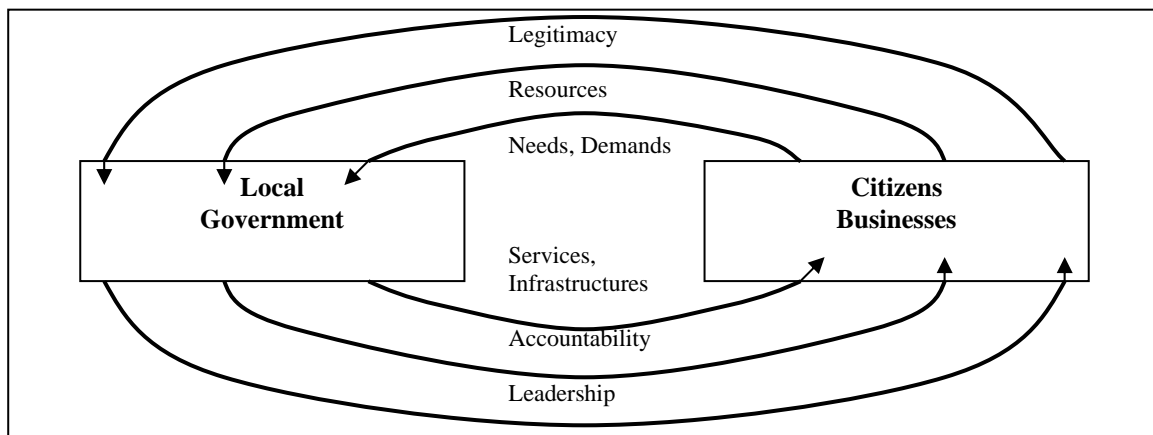


Source: Johnson and Minis, Jr. 1996.

4.8 Accountability and transparency

Accountability measures include an electoral process, making staff accountable to the local government, a legislated mechanisms that ensure citizen participation in decision-making, and information flow that permits monitoring and performance measurement. Citizen participation and interaction can be carried out through formal or informal structures and processes (Figure 3). Under this framework, opportunities must be provided to citizens to express their expectation for the types and quality of services. Effectiveness of the service delivery would depend on how well elected officials and staff provide services that respond to local needs. Through transparent decision-making, local government can demonstrates how it is accountable to citizens in the use of public resources and in the provision of services (Johnson and Minis, 1996).

Figure 3: Building good governance



Source: Johnson and Minis, Jr. 1996.

4.9 Delivery and quality of services

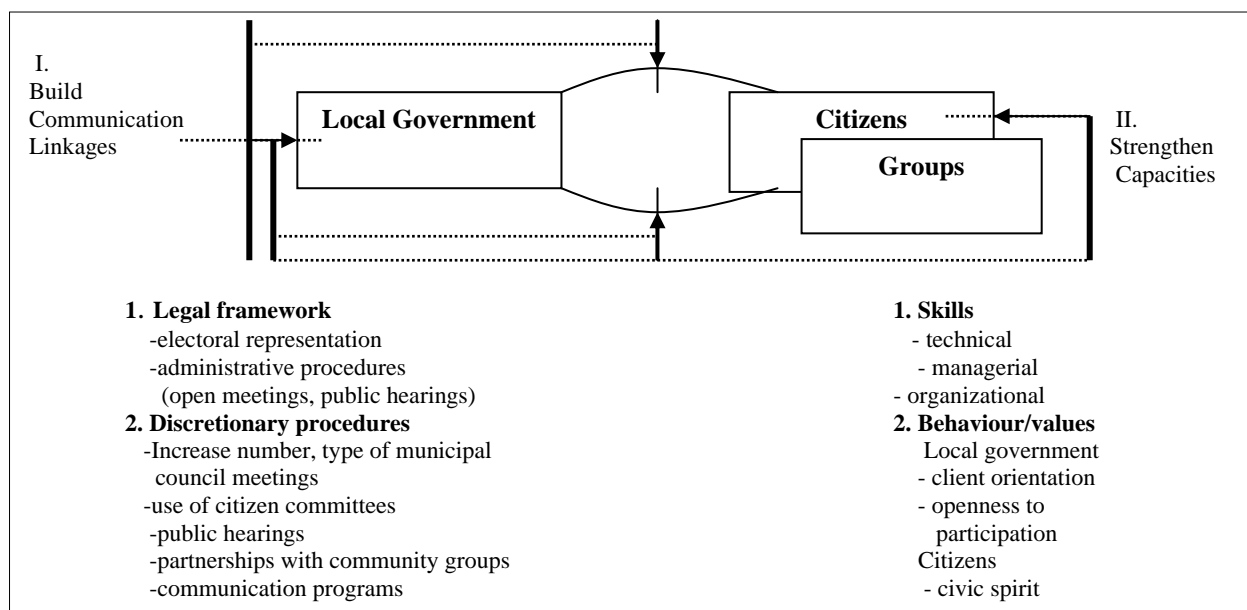
With a move towards network governance, the management and delivery of services are no longer the preserve of professional and managerial staff in public agencies both because some of these processes are now typically outsourced to private companies or NGOs and the role of the users is now redefined. Quoting Percy Stephen (1984, p. 431-46), Bovaird argues that in many cases, users (their family, friends, neighbors, etc.) play much more important role in shaping the outcome of public services than the specific service professionals with whom the user interface. Policy-making and service delivery in public domain are no longer seen as simple ‘top down’ process. It has now acquired a different dimension in that they are the negotiated outcome of many interacting policy system where users and other citizens play key roles in the definition of services (Bovaird, 2005). The service providers and the users are mutually inter-dependent in both decision-making and in service design and delivery for the over all well-being of the community.

Delivery of quality services is dependent upon the ways in which consumers, users and citizens can express their needs and influence the ways in which they are met. Evidence shows that user involvement is limited and is more reactive than proactive. Though quality of services can be improved by taking into account of the wishes of users, a strategic vision of how each service should be developed would be needed. Increased use of customer satisfaction surveys is not necessarily a proper substitute for collective representation and public discussion about the nature of public services. All stakeholders should be able to influence plans for services directly, involve in monitoring and evaluation, and suggest ways of improving them (Bailey, 1999, p. 324).

4.10 Strengthening citizen participation

Strengthening linkages between government and citizens/civil society is the key leverage point for increasing citizen access and influence. According to Johnson and Minis (1996), two principal strategies would build linkages (Figure 4). Open elections are a fundamental linkage that provides citizens the ability to influence decisions. Other linkages exist as a result of legislation requiring the local government to gather information from citizens about their needs and opinions, to grant citizens access to council deliberations, or inform citizens of a pending government decision. Beyond measures prescribed by legislation, local governments may also take a wide variety of discretionary actions to promote participatory government such as publishing budgetary information, consultative budget preparation process, standing adhoc citizen advisory committees, and local neighborhood councils as partners in service planning and delivery.

Figure 4: Strategies for strengthening participation



Source: Johnson and Minis, Jr. 1996.

Further, the role of a democratically organized civic society¹¹ is important for conditioning the level of governance at the local level. Civil society can articulate demands and ideas on behalf of the population at large at a higher political arena. It is realized that election system is not a sufficient mechanism to secure the effective civic participation in policy-decision at the local level. Effective activities of governments depend on the responsibility shared between governments and civil societies. Well-organized and politically active societies can possess the abilities of securing responsible governments. A weak civic society will experience difficulty in expressing social preferences and demands and cannot influence governmental activities. Lack of abilities for efficient activities on the part of local government will also reduce the qualitative level of governance regardless of the level of organization of a civic society. The voice of the citizens can be strengthened in local government in the following ways (Burns, et al. 1994, p. 34-35):

- (i) Improving representative democracy with voter registration drive, open government, citizen's rights to meetings, and better support to councilors.
- (ii) Extending representative democracy with area committee of councilors based on wards or group of wards within which ward councilors can decide on local issues.
- (iii) Infusing representative with participatory democracy by co-opting community representatives on to council committee and disadvantaged groups.
- (iv) Extending participatory democracy by funding non-statutory groups, community development, user-group participation and encouraging grass-roots movement.

¹¹ Civil society can include manifold social movements (women's groups, neighbourhood associations, religious groupings, and intellectual organization and civic associations from all social strata such as trade unions, entrepreneurial groups, journalists or lawyers (Choup, 2003, p. 30, quoted from Linz and Stepan's 1996).

CHAPTER - 5

LOCAL GOVERNMENT IN DIFFERENT COUNTRIES

5.1 Principles of local self-government

The principles of local self-government can clearly be seen in the European Charter of Local Self-Government, which came into force on 1st September 1988. Each member state of the Council of Europe is required to bring legislation in line with the European Charter. The Charter recognizes the role of the local government in upholding democratic principles and lays emphasis on the citizen's rights to participate in decision-making process. The Charter also lays down principles that will safeguard and reinforce the institution of local self-government, which is responsive to the citizens and the local needs. It aims to achieve this by decentralization of political power and responsibilities in the provision of public service delivery. Some details of articles for the local self-government as contained in the ECLS are given below:

Article 2 Constitutional and legal foundation for local self-government- The principle of local self-government shall be recognised in domestic legislation, and where practicable in the constitution.

Article 3 Concept of local self-government- Local self-government denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population. This right shall be exercised by councils or assemblies composed of members freely elected by secret ballot on the basis of direct, equal, universal suffrage, and which may possess executive organs responsible to them. This provision shall in no way affect recourse to assemblies of citizens, referendums or any other form of direct citizen participation where it is permitted by statute.

Article 4 Scope of local self-government- The basic powers and responsibilities of local authorities shall be prescribed by the constitution or by statute. However, this provision shall not prevent the attribution to local authorities of powers and responsibilities for specific purposes in accordance with the law. Local authorities shall, within the limits of the law, have full discretion to exercise their initiative with regard to any matter which is not excluded from their competence nor assigned to any other authority. Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy. Powers given to local authorities shall normally be full and exclusive. They may not be undermined or limited by another, central or regional, authority except as provided for by the law.

Article 5 Protection of local authority boundaries- Changes in local authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by statute.

Article 6 Appropriate administrative structures and resources for the tasks of local authorities- Without prejudice to more general statutory provisions, local authorities shall be able to determine their own internal administrative structures in order to adapt them to local needs and ensure effective management. The conditions of service of local government employees shall be such as to permit the recruitment of high quality staff on the basis of merit and competence.

Article 7 Conditions under which responsibilities at local level are exercised- The conditions of office of local elected representatives shall provide for free exercise of their functions. They shall allow for appropriate financial compensation for expenses incurred in the exercise of the office in question as well as, where appropriate, compensation for loss of earnings or remuneration for work done and corresponding social welfare protection.

Article 8 Administrative supervision of local authorities' activities- Any administrative supervision of local authorities may only be exercised according to such procedures and in such cases as are provided for by the constitution or by statute. Any administrative supervision of the activities of the local authorities shall normally aim only at ensuring compliance with the law and with constitutional principles. Administrative supervision may however be exercised with regard to expediency by higher level authorities in respect of tasks the execution of which is delegated to local authorities. Administrative supervision of local authorities shall be exercised in such a way as to ensure that the intervention of the controlling authority is kept in proportion to the importance of the interests which it is intended to protect.

Article 9 Financial resources of local authorities- Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers. Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law. Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate. The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks. The protection of financially weaker local authorities calls for the institution of financial equalisation procedures or equivalent measures which are designed to correct the effects of the unequal distribution of potential sources of finance and of the financial burden they must support. Such procedures or measures shall not diminish the discretion local authorities may exercise within their own sphere of responsibility. As far as possible, grants to local authorities shall not be earmarked for the financing of specific projects. For the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law.

Article 10 Local authorities' right to associate- Local authorities shall be entitled, in exercising their powers, to cooperate and, within the framework of the law, to form consortia with other local authorities in order to carry out tasks of common interest. Local authorities shall be

entitled, under such conditions as may be provided for by the law, to cooperate with their counterparts in other States.

Article 11 Legal protection of local self-government- Local authorities shall have the right of recourse to a judicial remedy in order to secure free exercise of their powers and respect for such principles of local self-government as are enshrined in the constitution or domestic legislation.

5.2 Economic principles of local government

Apart from the principles laid down by the Council of Europe, we may highlight some of the economic principles of local government put forth by authors. These principles are of general nature, and its applicability on the ground would depend on the level of politico-economic development of the area, and operation of the principles of local self-government within the institutional framework of the local municipal government. It is important to understand the economic principles for local government to achieve higher efficiency in management of local government. Some of the economic principles according to Bailey (1999) are as under:

- (i) Local government should restrict its provision of services to those cases where local market failure is high and the risk of government failure is low.
- (ii) Local government should be as small as possible without forging the potential efficiency gains of economies of scale.
- (iii) Charges should be the primary means of financing local government services because most are not pure public goods.
- (iv) Inter-governmental grants-in-aid should generally be restricted to services where unavoidable spillover effects are so great that significant allocative inefficiency would occur.
- (v) Centrally-financed equalization grants should be no greater than those levels required to secure the required degree of equalization.
- (vi) Scope for exit should be facilitated by maximizing the scope for inter-municipal competition and by the decentralization of service provision to alternative providers.
- (vii) Where exit is restricted by natural local monopolies, voice should be strengthened by political decentralization within local government.
- (viii) Central government control should be limited to centrally-provided finances as long as locally-determined financing mechanism accurately relate voting decisions to willingness and liability to pay local taxes and user-charges.
- (ix) Local government should have considerable discretion to set their own levels of local taxes and user-charges.

5.3 Local government in selected countries

For analysis of local government system, transitional European countries (Horvath, 2000) such as Hungary, Slovenia and Czech Republic (who have joined EU on 1st May 2004), the UK, the Philippines and Korea have been considered. The transitional European states were former socialist countries of ex-soviet block and whose level of economic development and socialistic political orientation would be comparable with that of the condition in India. The local governance system in

the UK and the local governments in the developing economies of two Asian countries i.e., Philippines and Korea would provide wider perspective of the trends in urban local governance in other countries.

5.3.1 Local government in Hungary

Hungary has a unitary system of government and a legal framework of a two-tier system of government. A new system of local democracy was established based upon the principles of the European Charter of Local Self-government of the Council of Europe, 1990. The structure of local self-government is based on the principles of decentralization and autonomy. Local governments in Hungary exist at two levels: the municipality and the county. Municipalities are the basic units (first level) of the local government including villages and cities. The middle tier consists of 19 counties with reduced responsibilities. There are no hierarchical relations between these two levels of local government. County local governments are neither superior organs to municipalities nor do they have supervisory authority over them.

The Constitution and the Act on Local Governments recognize the rights of local communities to self-government in managing local affairs. The number of local units increased to 3,154 in 1999 and now the local governments in Hungary have an average of 3,482 inhabitants. The rights and duties of local authorities are determined by parliamentary acts and are afforded legal protection by the court. Thus, Hungary established a system where local governments are no longer agents of central government. As on 1st August 2000, a total of 3,177 municipalities were operating. In the case of more than half of the total of almost 3,200 municipal governments, the population was below 1,000, while in almost 300 municipalities the population was below 200.

(1) Local government election: The most important organs of local government are the body of representatives and the mayor, both of which are elected by voters of the community. Suffrage is universal and equal, and voting is direct by secret ballot. Hungarian citizens who are permanent residents of a particular municipality have the right to vote in local election and to be elected as local representative or mayor. Since 1994, the mayors of all local governments are elected directly by the voters.

(2) Citizen participation: The Act on Local Government provides three main forms of direct democracy: local referendum, local public initiative and public hearing. The representative body of the local government calls local referendums and can be initiated by at least one-quarter of the local representatives, a committee of the representative body, the executive body of a local civil organization or by ten to twenty-five percent of voters. Local referendums can be held on various issues except on matter of local government budget, local taxes and rates, organizational, personal and operational matters or the declaration of dissolution of the representative body. The outcome of referendum becomes mandatory if more than 50% voters take part and the decision is supported by more than 50% votes. Popular initiatives serve to bring local matters before the body of representatives that fall within its competence. If between five and ten percent voters initiate a matter, the representative body is obligated to hold a debate on the popular initiative. The final form of direct democracy is public hearing, which must be held at least once annually by the body of representatives.

(3) Constitutional provision: Parliament regulates the legal status, exclusive functions and powers, mandatory functions and financial resources of the local government including the procedures of elections, the rights and obligations of local governments. Based on proposal by the government and the opinion of the Constitutional Court, parliament may dissolve local representative bodies for unconstitutional activities. If parliament resolves to dissolve the representative body of a local government, it simultaneously must set the date of elections within sixty days of the decision. The Constitutional Court protects the rights of self-government, oversees the legality of local authority activities and exercises constitutional control over local government decrees.

(4) Local service delivery: Municipal governments have broad responsibilities in service provision. Obligatory functions and powers of local governments are determined by parliament, which simultaneously must ensure the financial means necessary for the fulfillment of such tasks. Mandatory tasks prescribed by the act include the provision of drinking water, general education, basic health and welfare services, public lighting, local public roads and public cemeteries and the protection of the rights of ethnic and national minorities. In performing the tasks determined by the act, municipal governments autonomously make decisions on the requirement of the population, allocation of the financial means available, etc. The tasks specified by the act include: municipal development; protection of the natural environment; management of housing; water management and supply; sewage systems; maintenance of public cemeteries; maintenance of local public roads and public areas; local public transportation; public sanitary works and waste management facilities; local fire protection; public security; energy supply services; provision of incentives for employment; administration of educational institutions; health and welfare services; maintenance of community areas; support for educational, scientific, artistic and sports activities; and protection of the rights of minorities.

(5) Forms of service delivery: The local governments perform their tasks through their own budgetary organs, private organizations and contractual relations. Majority of tasks is financed from the municipal budget. Since 31st December 1993, local governments are authorized to establish business associations or cooperatives for service delivery of property management, park maintenance, public cemetery maintenance and public sanitation. Through contractual relationships with private companies or entrepreneurs or a state company services such as water and gas networks and public transportation can be delivered. Other form of contracted service delivery is based on concession allowing local governments to use their assets to raise revenue through the use of property which includes operation of local roads, water supply, sewage, electricity, gas, central heating, telecommunications, etc. Service delivery is also performed through associations or by another municipality: water management and in landfill operations. The local authority also charge private sector with tasks by contracting out, creating choice between private and public services. Many foundations, churches, civil association and other non-profit organizations are also engaged in local service delivery.

(6) Decision-making process: The basic rights and powers of local government are exercised by the body of representatives, which may delegate authority to the mayor, its committees, city district bodies of representatives and bodies of local minority self-government. The mayor is the

political and administrative head of the local government and is responsible for local policy implementation. The mayor has dual administrative functions of local and state administrative tasks. The mayor represents the body of representatives. The chief executive is a public administration professional, while the mayor represents its political side. The chief executive is appointed, not elected, by the body of representatives on the basis of open competition. The mayor directs the general strategy of the office, while the chief executive is responsible for its day-to-day activities and exercises employer's rights over civil servants employed by the office.

(7) Public participation in decision-making: The Act on Local Governments determines that the body of representatives must establish the rules of public fora, the goal of which is to determine public opinion and invite public involvement in the preparation of important decisions. Such venues include community policy fora, city policy fora, city district conferences, village meetings, etc. Citizens may also participate in local decision-making through membership on committees of the representative body.

(8) Local finances and expenditure: Sources of revenues for the local government budget consist of four main elements: Own source revenue, shared tax revenue, grants and borrowing. Local governments independently manage their budgetary revenues and expenditures. The local government budget is subordinate to state budget management in that the state regulates the legality and appropriateness of state fund use, but the local government budgeting process is strictly independent from the state. In a large number of municipalities, the number of inhabitants and financial resources are not sufficient for the efficient and economical performance of the services required by the population. The local spending is 13% of GDP in 2001 and 24% against general public expenditure. Public utilities, culture and sports are offered mainly by commercial or off budget entities. The largest expenditure category is education, which accounts for 28% of total local expenditure in 2001, followed by public health (16%) and general public service (16%) and housing 15% (Gábor Balás, et al. 2004).

(9) Own source revenue: There are two basic types of own-source local government revenue. Own-source fiscal revenue comes from taxes controlled by local governments, which includes (i) the business tax; (ii) the communal tax; (iii) the urban land tax; (iv) the property tax on buildings; and (v) the tourism tax. The non-fiscal revenues include user charges, fees, profits, dividends, interests and leasing fees deriving from local government activities and enterprises and yields of local government property. Local governments have the autonomy to set their own user fees and charges for public services in water, sewage, housing, district heating and garbage collection. However, they have no discretion over setting fees in education, social and health services. The share of local taxes in the local government budgets was around 13% in 2001 and 16% in shared tax from the state. The most important local tax is a business tax (accounting for 85% of local tax revenues). Own-source revenue as a percentage of total revenue of local government in 2000-01 was 32% (Peteri, 2005).

(10) Shared tax revenue: Shared revenues come from personal income tax, and motor vehicle tax. The percentage share and rate of sharing of income tax is reviewed annually. Share of

income tax constitutes more than 50% of total local tax revenue in 2001. Forty percent of the income tax is allocated to local governments.

(11) Grants: Grants are single major sources of revenue for the local government constituting 44% of their total revenue. For the performance of their mandatory responsibilities, local governments are automatically entitled to normative contributions from the central budget. Spending in case of normative grants, local government decides at its own discretion, how much it spends on what tasks. Normative budgetary grants are determined by the state proportionate to the population in a settlement and to funding provided by other institutions as well as by other indices. The second group of normative grants from the central budget can be spent only on specific goals. These include targeted grants for capital investments to be used exclusively for achieving social objectives in: (i) water management; (ii) reconstruction of educational facilities; (iii) health services; and (iv) waste management systems. Local government itself is required to contribute a certain proportion of financial resources to the project.

(12) Borrowing: Pursuant to the act on local governments, a local government can borrow credit. Moreover, they have to adhere to the general financial institution regulations of banks. There is no superior external control on the borrowing. No approval need be sought to borrow credit or issue bonds. The borrowing of foreign credit does not come under any separate rule. Local governments may borrow credit from any financial institutions in accordance with market conditions. In general, an invitation to tender precedes borrowing, and the bank making the most favourable offer is selected. There is no central restriction on the duration of the credit.

5.3.2 Local government in Slovenia

Slovenia is a unitary republic formed out of the erstwhile Yugoslavia having a population of 2.0 million and geographical areas of about 20,000 sq.km. The Constitution of the Republic of Slovenia guarantees right to self-government to its citizens with local government autonomy. The Law on Local Self-government enacted in 1993 defines the operations, rights and authority of local self-governments and their relationship to the state. The constitution defines self-government on both municipal and regional levels, but only a single level system of local self-government is operative. The competences of the local self-governments are defined through legislation in conformity to the European Charter of Local Self-Government ratified in 1997. Municipalities are the basic socio-economic, political and administrative units responsible for the development of local economy and social services. As per law, a municipality should have at least 5,000 inhabitants for funding. However, as on June 2003 about 95 municipalities did not fulfill this criterion. There were 193 municipalities in 2003; in six municipalities, the population was below 1,000; in 45 municipalities, the population was between 5,000 and 10,000; and in two municipalities, the population was more than 100,000.

(1) Local government election: The council is the representative body of the municipality, which makes the fundamental decisions. The council members and the mayor are directly elected by inhabitants every four year. The municipal council may be comprised of between seven and forty-five members proportionate to the number of inhabitants in the municipality who are

elected by citizens. All inhabitants of a local community of legal age who are citizens of Slovenia have the right to vote. Members of municipal councils are elected according to the majority or proportional system depending on the number of members of the municipal council.

(2) Citizen participation: The Constitution of the Republic of Slovenia and the Law on Local Self-government provides citizen participation in decision-making on local public affairs, including citizens' assemblies, local referendums and people's initiatives. A citizens' assembly may be called by the mayor, by the municipal council or by five percent of the voters in a municipality. Citizens can discuss individual matters in the competence of the municipality and make proposals or pass decisions at these assemblies. The National Assembly may call referenda to establish a municipality and define or alter its territory, change the name or seat of a municipality. The municipal council may, following a request by voters, call an advisory referendum on an issue of special importance or on acts concerning the municipality's affairs, excepting the budget, municipal taxes and other duties. The outcome of a referendum is binding for all municipal bodies until the expiry of their mandates. A decision is adopted by referendum if supported by a majority of those who voted. The issuance or cancellation of a general act within the competence of the municipal council or other municipal bodies may be enacted through people's initiatives by no less than five percent of a municipality's voters.

(3) Constitutional provision: The autonomy of the local self-government is protected under the Constitution and the Constitutional Court oversees that each local community is administered in accordance with the Constitution and law, and resolve any disputes between the state and the municipal authorities. Advisory committees are formed in order to ensure cooperation and coordination between municipal bodies and state administrative units. In case the municipal body did not perform duties assigned by the state, a decree may be issued ordering the implementation of specific measures or the ministry may advise the government to initiate procedures to withdraw duties assigned to the municipality. In such cases, the municipality may appeal the allegations in court. The municipality may also submit a request to the Constitutional Court to consider the constitutional and legal character of decisions and regulations issued by a state body if such legislation restricts its autonomy as defined by the constitution and law. The National Assembly has the power to dissolve a municipal council in the event that it passes unconstitutional or illegal acts, fails to execute the rulings of competent courts, does not fulfill its legal duties or otherwise violates the laws. The municipal council may also be dismissed if the council fails to achieve a quorum after being called at least three times in a six-month period, or if the municipal council fails to enact a budget for two consecutive years.

(4) Local service delivery: The Law on Local Self-government determines the responsibilities that are performed independently by the municipality. Such duties are defined in each municipality's statutes. Municipalities are responsible for three sets of tasks: their own local public affairs, local public matters defined by central government through national laws, and tasks transferred to them from state. This is subject to the consent of the local government and provision of the financial means necessary for performing such duties. Municipalities that are unable to meet all required expenditures in performing their duties due to poor economic development are eligible for additional financial assistance from the state. Exclusive functions of

municipalities include preschool, fire and civil protection, kindergarten, nursery, family welfare, environment, refuse collection and disposal, cemeteries and crematoria, town planning, local economic development, district heating and water supply. Shared functions with central government include primary and adult education, social housing, social security, primary health care, theatres, museums, libraries, parks and public spaces, sport facilities, sewage, environment protection, consumer protection, roads, transport, urban road transport, ports, housing, spatial planning and regional planning.

(5) Forms of service delivery: The local government directly provides some of the services, while others are provided by specialized public organisations, non-profit and private organizations. Some social programs and services are provided directly by local communities; others are provided indirectly through public institutes or private individuals. Together with public, private community services, voluntary organizations, and local communities occupy an increasingly important position in the provision of services.

(6) Decision-making process: The municipal council is the highest decision-making body on all matters concerning the rights and duties of the municipality. The council passes general acts, approves the municipal budget and supervises the performance of the mayor and the municipal administration to ensure implementation of council decisions. Municipality consists of the council, the mayor, the supervisory board and the elections commission. The mayor is the legal representative of the municipality. The mayor determines the structure of the municipal administration appoints and employs municipal administrative staff and heads the municipal office. There is a strict separation of councils and mayors and none can recall the others. Municipal council appoints deputy mayor and the secretary upon nomination by the mayor. The secretary is responsible for professional guidance of municipal administration, and also heads the municipal administration. The supervisory board regulates the management of municipal assets, ensures efficiency of budgetary expenditures and monitors financial operations. The council appoints the municipal elections commission, which is responsible for ensuring the legality of municipal council elections, approving candidates, establishing polling stations, appointing elections boards, assessing election results, etc.

(7) Public participation in decision-making: The Law on Local Self-government and the Law on Commercial Public Services guarantee citizen influence on the management of local public services. Municipalities are required to establish a consumer protection council as a mandatory body. This is a committee of citizens who participate in the decision-making process of the municipal council when it considers matters pertaining to commercial (municipal services, road maintenance, gas pipelines, public transport, etc.) and social (schools, kindergartens, homes for the elderly, etc.) public services. The Law on Commercial Public Services stipulates that councils can submit comments and proposals on the performance of public services to the competent authorities of the Republic of Slovenia and measures need to be taken on such proposals and comments. The Law regulates the protection of the rights of individual consumers. An assembly of a municipality's citizens can be called by mayor, municipal council or at the request of a minimum five percent of eligible voters.

(8) Local finances and expenditure: Slovenia has a relatively low degree of financial decentralization as local government finances are highly centralized. The law regulates the local budget, types of taxes that local authorities may collect, reserve, local government borrowing, financial equalization and financial transfers. Local authorities are not entitled to introduce any new taxes, and rates are determined by the central government with the exception of property tax. Local government spending accounted for around 13% of the total general government expenditure and around 5% of the GDP in 2001 (Oplotnik, 2003). The local resources sometimes are just not sufficient for the level of services demanded by local inhabitants. Small local communities are often stricken by a low tax base and poor tax administration. The majority of local expenditures are determined by the central government. The average amount of total local expenditures was 522 € per capita, expenditure on education accounts for 25%, economic activities 23%, housing 12% and 15% on administration during 2001. Smaller units are confronted with higher expenditures for administration (even more than 50% of total budget), while larger urban municipalities had higher expenditures for housing (up to 80% more than smaller ones), communal activities (up to 25%), and culture and sports (up to 40-80%). Municipalities are also entitled to state co-financing of municipal investments (elementary schools, kindergartens, road construction, and infrastructure for public utilities). The state share of co-financing depends upon the economic standing of a municipality, so that municipalities with smaller revenue receive greater share of funds for investments. The level of investment activities in municipalities was around 37% of total local revenues in 2001.

(9) Own source revenue: During 2002, around 34% of total local government revenue is collected through own source revenue. Within own revenues, around 45% pertains to own tax revenues and 55% pertains to own non-tax and capital revenues. Own non-tax and capital revenues include capital revenues, participation on profits and income from property, rental incomes and incomes from concessions and business premises and self-contributions. Own tax revenue includes compensation tax for the use of building land (predecessor of unmovable property), concession fee, taxes on disposal sale and licenses, local tourist tax, communal taxes, forest road maintenance tax accounting for around 15-16% of total local government revenues or around 25-26% of total tax revenues. All local governments do not use property tax and is very low accounting for only three percent in 2002 due to many exemptions and the taxpayers are individuals and not companies.

(10) Shared tax revenue: The most important source of local government budget (around 42% of total local revenues) in Slovenia pertain to shared tax (personal income tax), and totally own property tax on unmovable property (around 9% of total). Further, share of income tax in the shared tax revenue was 70% during 2003. Income tax is shared between the central government and local municipalities in the ratio of 65:35. Shared tax revenue includes assigned revenue (4%) and income tax (42%) both constitute 46%. Assigned revenue includes real estate transactions tax on movable property, tax on heritage and gifts, administrative fees and special tax on use of gambling machines. The proceeds of income tax received by municipalities in 2001 formed 37% of the total income tax recovered by central government during that year.

(11) Grants: In 2002, around 20% of total local government resources are received through vertical reallocation of funds through general grants in the form of financial equalization funds or through special grants from the national government budget or other institutions for investment expenditures or any other current expenditure. Grants are managed and allocated monthly by central government based on projections of guaranteed spending and future projections of relevant expenditures and local proper revenues.¹² Local government receives financial equalization if its proper revenues are not sufficient to cover assessed relevant expenditures. Additional funds are guaranteed to those local governments whose actual revenues are lower than originally assessed. In the period from 1998 to 2001, general grants accounted for between 65% and 75% of total transfers to low-level government, while special grants accounted for between 25% and 35%. The formula of appropriate expenditure is determined in the Law on the Financing of Municipalities Act, which should assure municipality to carry out constitutional and legal functions. Special grants also may be allocated by individual ministries on the basis of a local authority's application for financial support for specific projects.

(12) Borrowing: The Law on Financing of Local Government provides that municipalities can borrow from any national credit institution by informing the Ministry of Finance of such loans, but state authorization is not required. Borrowing from abroad should only be in pursuant to the law. Municipalities may only borrow if the total level of existing indebtedness and the anticipated new indebtedness does not exceed 10% of the revenues generated by them while the total payment of principal and interest in an individual year of payment may not exceed five percent of revenues generated. Municipalities are entitled to raise loans for co-financing of their programs and projects for regional development, agriculture, small business, and for other developmental tasks. They also have the right to issue local bonds according to the Law on Financing of Local Government. But there is no law regulating such activities at present, and thus this method remains unused.

5.3.3 Local government in Czech Republic

A modern system of local government developed in the Czech Republic since 1990. Czech Republic is a parliamentary democracy having a population of 10.3 million out of which 75% live in urban areas. The constitution of the Czech Republic adopted in 1992 recognizes municipality as the principal local government unit comprised of territorial communities of citizens with the right to self-government. The constitution also guarantees the independent administration of the municipality by its elected assembly and council. The citizens' right to control self-government authority as executed by the mayor and councilors is considered to be a firm guarantee of democratic management.

Czech Republic had two tiers of government: central government and local government at municipal level. From 2001, new regional government called 'Superior Territorial Self-Governed Units' become effective. In spite of being named as superior or higher levels of local

¹² Proper revenues comprise all tax and non-tax revenues, excluding those from managing local property. They are calculated according to rates established by the state or by local government. The actual amount is then determined by agreement among the Ministry of Finance, the Tax Office and each municipality.

government, regions and municipalities are treated as separate independent bodies. The autonomy of local government is assured by the constitution and the act on municipalities. Thus, local communities of citizens have the right to freely control local affairs. In executing their self-government responsibilities, municipalities are bound by law and by the interest of their inhabitants. The local governments cover more than 6,239 municipalities 1999, and 90% of municipalities have less than 2,000 citizens. More than half of the inhabitants live in big cities of over 10,000 citizens. The structure of municipalities is, therefore, fragmented into small municipalities of 100 inhabitants. These small municipalities are unable to perform true self-government functions, as they do not have sufficient material resources and the necessary number of qualified elected representatives and civil servants.

(1) Local government election: The municipal council is the highest authority of local government and its members are elected directly by citizens by proportional electoral system. The term of a municipal council is four years. Every citizen of the Czech Republic over eighteen years of age has the right to vote and to run for municipal office. The number of councilors in each municipality can be between five and fifty-five proportionate to the population of the municipality. The mayor is elected by and responsible to the council, chairs the municipal board, heads the municipal office and is chief of the municipal police. In small municipalities where a board is not elected, the mayor performs the duties of the board.

(2) Citizen participation: Local referendum is the only device of direct democracy in the municipal level, which may decide issues in the sole competence of the municipality. Referendum cannot decide however on municipal budget, fees, election and dismissal of the mayor and the division of a municipality into unit smaller than three hundred inhabitants. A citizen may propose a referendum with the support of a petition signed by a predetermined number of individuals. The referendum decision is valid if at least one-fourth of the electorate participates.

(3) Constitutional provision: Municipal authorities carry out some state functions on the basis of 'transferred competence' under the supervision of the state district administration. In execution of such transferred competences, the municipalities are bound both by law and central government decisions and guidelines. The municipality is required to forward all decisions made by its elected bodies to the district office, which is responsible for ensuring adherence to existing legislation of all legal decisions made in the territory of the district. The district office suspends inappropriate or illegal municipal legislation. Decisions of municipal authorities may be subject to revision on the basis of an appeal by the court, which may be contested by complaint to the Constitutional Court of the Czech Republic. The head of the district office is also responsible for initiating proposals to parliament to disband a municipal council that does not meet within a period of six months. The constitutional court guarantees the right to self-governance.

(4) Local service delivery: Services provided by municipalities are 'mandatory' or 'optional,' and mandatory services being prescribed in the Municipalities Act. Services are divided as 'public services,' financed mainly on the principle of public need, and 'technical services,' financed through user fees. The most common mandatory services include the maintenance of

local streets and roads, educational services, care for the elderly and the disabled, health services, public safety through municipal police, and fire brigades. The technical services include waste management, water supply, public transport and maintenance of public parks. The municipalities also discharge delegated responsibilities: keeping birth and death, and marriage registers, building law, and physical planning law. These also include legal requirement on environmental protection, local transport, statistics, water standards, sanitation, etc. Municipal expenditure for the delegated responsibilities is partly met from state budget grants.

(5) Forms of service delivery: Public services are provided by municipal enterprises (budgetary institutions) financed from the municipal budget. These enterprises are active mainly in public transport and in the maintenance of streets and public parks. Public services are provided in cooperation with private entrepreneurs. Small and medium-sized enterprises are the principal partners in service delivery. Such relationships are contractual and are based on the results of public competition. The public-private partnership on delivery of services include waste management, water supply, waste disposal, street cleaning, lighting systems, utilization of natural resources, communal housing and maintenance of the municipal infrastructure.

(6) Decision-making process: The municipal council is a representative body with a decision-making authority. The council exercises its authority through council meetings and such sessions are open to the public. There is a municipal board, an executive body responsible to the council represented by mayor, deputy mayor(s) and other members who are elected by the council from among its members. Municipal board meetings are closed to the public, but the minutes of its meetings are public documents. The municipal board establishes committees, which may include any citizen of the municipality. The municipal office is the executive and administrative body headed by the mayor. It implements independent competencies assigned by the municipal board and council as well as delegated functions of the state administration. The mayor is both political and administrative head of the local authority. The chief administrative officer appointed by the municipal board upon approval of the district office chief is responsible to the municipal board and the mayor for duties of independent competences and duties of transferred competence respectively.

(7) Public participation in decision-making: Public participation in decision making is ensured through committee membership, attendance at regular council meetings and consultations with the mayor or councilors. Personal initiatives such as petitions, use of the local media, filing complaints or objections to the municipal office can be used. Citizens are authorized to take an active part in the management of municipal affairs through open meetings called regularly by the council and by involvement in non-governmental organizations. Citizens are allowed to raise questions and objections concerning the preparation of municipal budgets.

(8) Local finances and expenditure: Czech Republic has a relatively low degree of fiscal decentralisation. Many taxes are imposed by central government and the right of local government finances to affect the rate of real estate tax is limited. Local government spending as a percent of total general government expenditure was around 21% and around 9% of the GDP in 2001 (Peteri, 2005). By means of an ordinance, municipalities can alter the basic tax rate for

some buildings and land. However, this tax represents approximately 3% of total revenues. Local charges, which can also be influenced by local governments, constitute a very small proportion of local revenues. The main structures of municipalities' revenues are tax and fee revenues (53% of total revenue), subsidies (18%) and non-tax revenues (15%) (Ježek, 2004). In the Czech Republic, the most important municipal policy sectors are: (i) education; (ii) housing and community amenities; (iii) transportation and communications; and (iv) general public services. Expenditure on education accounts for 24%, housing 21%, transport 16% and 12% on general public services during 2001 (Dexia, 2003). The level of investment activities in municipalities was around 33% of total municipal expenditure in 2001.

(9) Own source revenue: Czech Republic's own source revenue, as a percentage of total revenue in 2000-01 was 17%. Less than three percent of total municipal tax revenue was actually own taxes of local government. The yield of the property tax was low. Municipalities are only free to set the rates of tax on buildings and urban plots. The central government assesses and collects both taxes on land and buildings and transfers the revenues to municipalities according to the location of the real property. Municipalities may impose taxes on goods and services covered by the central government legislation: fees on entry tickets, recreational units, resort and recreation fees on visitors, motor vehicle entry fees, fees on operated gambling machines, tax on the use of public space, etc. Municipalities may participate in the administration and collection of fees on standard waste collection and treatment but both the rate and base of the fees are set by central government legislation.

(10) Shared tax revenue: All taxes in the Czech Republic are decided by the central government, fixed in legislation, which collects and administers all taxes. The municipal share of personal income tax is 30%, the state share is 40% and remaining 30% is for district offices. Local government has only very limited tax authority. Local governments receive about 41% of shared tax proceeds in 2001. The share of tax revenue of the municipalities would generally include: 21% of total VAT revenues; 21% of total corporate income tax revenue (excluding tax on own municipal business income); 21% of total revenue from personal income tax withheld on wages, salaries, interest and dividends paid to individuals; 14% of total revenue from personal income tax on other sources of income (mainly income from incorporated businesses); and 30% of personal income tax on other sources of income paid by persons with a permanent home in the relevant municipality (OECD, 2001).

(11) Grants: The major part of grants to local governments is operating grants, which constitute almost 60%. The obligatory grants (mainly operating ones) are calculated each year. Capital grants to local government are provided according the approved central government budget. The objective behind the design of the grant system is to provide central government assistance for certain local government activities. Education, social care, delegated state administration functions, environmental protection and cultural activities are covered under grants support. All grants transferred to local governments are specific. The precise use of these grants is defined by central government. If these grants are not spent in the given year or for the given purpose they must be returned. There is no equalisation grant. Some capital grants are conditional for financial participation of municipality, a certain share of the total costs. The municipal share is not fixed at

the same level for all capital grants. Grants to local governments are distributed also from extra-budgetary funds.

(12) Borrowing: In Czech Republic, as per legislation, central government is not responsible for local debt. The local governments may borrow any amount from any institution (even abroad), for any reason, at any terms of interest rate, maturity, etc. Only issue of municipal bond requires approval from the Commission for Securities. Any local loan is considered to be a 'private' business between the municipality and the lender. There are no nation-wide criteria for evaluating the financial capacity for loans and there is no process of permission for debt. Typical sources of deficit financing for municipalities are: (i) commercial bank credits; (ii) municipal bonds; and (iii) other sources such as soft loans provided by the State Environmental Fund, reimbursable financial assistance from the central budget, and loans from multilateral or bilateral institutions. Local governments can also take credits from finance companies and issue their own municipal bonds.

5.3.4 Local government in the UK

Unlike in many European unitary states where local governments are based upon constitution, which guarantees the principles of local self-government, the local government in the UK is constitutionally subordinate to central government. The relationship between central and local government in the UK is determined by legislation, conventions and voluntary co-operation. The central government retains control through legal and economic instrument and provides local government with limited autonomy. Thus, the UK system is highly centralized, as the national parliament is the single source of constitutional power and legislative authority.

Local government in the UK has undergone considerable fluctuation in its role, structure and organization. In the past, local government used to provide a range of services, but now the local government is increasingly seen as a regulator rather than the main provider of services. Local government in the UK is about securing a strategy for the local community, delivering the right outcomes by managing and using its assets effectively, working with central government as well as with the community in its area. A wide range of services are delivered either directly through its employees, indirectly by employing others or by facilitating delivery by other bodies. Local government management is under the direction and control of central government policy making. The tradition of community-based decision-making has given way to a juridical and legal emphasis on targets, their measurement and efficiency. Further, central government determines to a large extent the overall budget for each local authority and it exerts influence over how funding is allocated between services. There is high level of equalization as large proportion of local government spending is financed through grants from central government, and much less use is made of local and regional taxation.

(1) Structure and size of local government: Local government in the UK is structured in two different ways. In Scotland, Wales and parts of England there are Unitary, Metropolitan and London Borough Councils, which are a single tier, all-purpose council responsible for all local authority functions. The remainder of the UK has a two-tier system in which two separate

councils divide responsibility: District and County Councils. Thus, all together, there are 446 Councils in the UK of which 36 are in Scotland and 22 are in Wales. Of single-tier, there are 36 Metropolitan Councils, 33 London Councils and 47 Unitary Shire Councils. At the two-tier level, there are 34 County Councils and 238 District Councils. There are some 20,000 elected councilors serving in 389 local authorities. There were 89 single purpose authorities (for specific services) that do not have directly elected councilors.

Table 9: Size of local governments in the UK, 2005

	Land area (million hectares)	Population mid-2004 (million)	Number of elected authorities	Number of councilors mid-2004	Number of single purpose authorities
Shire areas	12.2	31.7	319	15,202	64
Metropolitan areas	0.7	11.0	36	2,450	20
London	0.2	7.4	34	1,984	5
England	13.1	50.1	389	19,636	89

Source: Office of Deputy Prime Minister, *Local Government Finance Statistics England No.15:2005*.

(2) Decision-making process and citizen participation: In the UK, most of decisions and functions used to be exercised by committees or subcommittees of the council. The leaders of the council typically chair several important committees, but had no special authority. However, Local Government Act passed in 2000 provided for an executive-based system, either with the council leader and a cabinet (Cabinet-style Council) acting as an executive authority, or with a directly-elected mayor, except that the smaller district councils (population of less than 80,000) were free to adopt a modified committee system. Under the cabinet-style council, each member of the cabinet holds a separate portfolio, such as culture, economic development, education, etc. The leader and cabinet are responsible for policies, plans and strategies, and recommend them to the overall council. Ordinary Committees take decisions within the policies approved by the council. Several districts and counties in the UK now have directly elected mayors with real powers and a cabinet to assist them, as opposed to the previous committee-based system wherein functions were exercised by committees of the council.

The term of office for a councilor is usually four years. Councils may be elected wholly every four years, or ‘by thirds’ where a third of the councilors get elected each year. Councilors represent geographical wards and serve for four years before requiring re-election. A ward may be represented by one, two or three councilors. Councilors cannot do the work of the council themselves, and so are responsible mainly for appointment and oversight of officers, who are delegated to perform most tasks. Local authorities have to appoint a ‘Chief Executive Officer’, with overall responsibility for council employees and supervising government operations and implementing the policies adopted by the council. The manager serves the council, usually with a contract that specifies duties and responsibilities.

The UK does not have a written constitution and the government is based on a collection of laws and traditions. Unlike some other countries, the UK does not have a right to peoples participation guaranteed at a constitutional level. However, since the late 1960s there has been a move

towards consultative forms of participation. The late 1990s have seen legislation explicitly geared to the institutionalisation of participation at a local level, although the nature of this participation and the extent to which this actually gives citizens a degree of control over the outcome of local authority decision-making processes is so distinct. A move towards greater participation at local level is driven by a recognition on the part of the government that in order to deliver services successfully, user-input is essential which is predominantly a consultative approach to participation. Under Local Government Act 1972, non-binding local referenda on any issue can be called by small groups of voters. Six local voters may call a meeting, and if ten voters or a third of the meeting (whichever is smaller) agree, the council must carry out a referendum in 14-25 days. The referendum is merely advisory, but if there is a substantial majority and the results well publicised it may be influential.

(3) Local Service delivery: In the UK, county councils generally have responsibility for strategic planning, highways, traffic, social services, education, libraries, fire, refuse disposal and consumer protection. District Councils run local planning, housing, environmental health, markets and fairs, refuse collection, cemeteries, crematoria, leisure services and parks, tourism and electoral registration. London/Metropolitan/Unitary Councils are all single-tier authorities and run all services in their area. They also have joint authorities to run wider services in their conurbation such as fire and civil defence. The distribution of major services amongst local governments is given in Table 10.

Table 10: Major services delivered by local governments in the UK

	Metropolitan areas		Shire areas			London area		
	Single purpose authorities	District Councils	County Council /Unitaries	District Council /Unitaries	Single purpose Authorities	City of London	London Borough	GLA
Education		✓	✓			✓	✓	
Highways		✓	✓			✓	✓	✓
Transport Planning		✓	✓			✓	✓	✓
Passenger transport	✓		✓					✓
Social services		✓	✓			✓	✓	
Housing		✓		✓		✓	✓	
Libraries		✓	✓			✓	✓	
Leisure, recreation		✓		✓		✓	✓	
Environmental health		✓		✓		✓	✓	
Waste collection		✓		✓		✓	✓	
Waste disposal	✓	✓	✓			✓	✓	
Planning application		✓		✓		✓	✓	
Strategic planning		✓	✓			✓	✓	✓
Police	✓				✓	✓		✓
Fire	✓		✓		✓			✓
Local Taxation		✓		✓		✓	✓	

Source: Office of the Deputy Prime Minister, *Local Government Finance Statistics England No.15:2005*.

(4) Local government finances and expenditure: The main sources of income for local government in England in 2003-04 are: council tax (16% of total revenue), redistributed business rates (13%), revenue government grants (20%), other grants (29%), charges for services (11%), and 11% on others borrowing and investments. Capital expenditure can be funded from central

government transfers and by borrowing. The central financial transfers to local governments account for more than 60% of local revenue. The local governments account for about 25% of total public sector expenditure in 2001 (Loughlin, et al. 2005). The local spending as a percentage of GDP was about 10% in 2000 (Swianiewicz, 2003). The local governments use public-private partnership as a way of providing financial support for local authority projects.

Council tax is the main source of locally raised income for local authorities used for meeting the revenue shortfall. Income from business rates is set nationally, paid into a central pool, and is then redistributed to local authorities on the basis of population on a per head basis, the payments being regarded as a type of government grant. Formula grant which includes revenue support grant, redistributed business rates and other grants is the largest revenue grant given to local governments for any service. Specific grants are distributed by individual government departments. Sales, fees and charges are the amounts received by local government from providing services. The main services delivered by local government in 2003-2004 are primary and secondary education (31% of total local expenditure) and social services (16%), housing (14%), cultural, environmental and planning (11%), police (9%) and transport (8%).¹³

5.3.5 Local government in the Philippines

The Philippines is a republic with a unitary presidential system.¹⁴ The Local Government Code 1991 provides for structures of local government, their functions and powers, including taxation and intergovernmental relations. There are various categories of local authorities in Philippines, namely, 1 Metropolitan Government, 1 Autonomous Regional Government, 1 Special Administrative Region, 79 Provinces, 115 Cities, 1,420 Municipalities, 43,000 Barangays (neighborhood). In municipalities, the position of mayor, the vice-mayor as well as the members of the municipal legislative council are mandatory structures. Local councils generally formulate laws and other regulatory measures. All levels of local government including the municipalities exercise such general functions and powers relating to efficient service delivery, management of the environment, economic development, and poverty alleviation. The parastatal bodies and local governments work closely in the implementation of plans for investment and development programs within the areas of local governments.

(1) Local finances and expenditure: Local governments in Philippines have their shares in the national internal revenue taxes, representing 40% of the total internal revenue collections. Internal Revenue Allotment (IRA) is distributed to local governments as: Provinces (23%), Cities (23%), Municipalities (34%) and Barangays (20%). The Local Government Code provides for equitable share to local governments in the proceeds derived from the utilization and development of national wealth within their respective areas. The sources of revenues of the local governments mainly include shares of local governments in the proceeds of national taxes, real property taxation, credit financing, local budgets, property and supply management. In 2002, the IRA accounts for 68.28% of total local revenue, 12% in local taxes, 8% in property tax and non-tax revenue accounts for 10%. The formula of IRA is based on areas, population, etc., and is

¹³ Office of the Deputy Prime Minister, *Local Government Finance Statistics England No.15:2005*.

¹⁴ Country Reports on Local Government Systems: Philippines, UNESCAP, 12.12.2003. (URL:<http://www.unescap.org/huset/lgstudy/newcountrypaper/philippines/philippines.pdf>).

devoid of any performance indicator. This threatens the idea of equity in devolution, fiscal performance and efficiency in service delivery. The local government expenditure includes general services (47% of total expenditure), economic services (21%), social services (21%) and others (11%) during 2002. Local governments are authorized to issue bonds, debentures, securities to finance development and livelihood projects. However, the power given to local governments for issuance of bonds and other long-term securities is subject to the rules and regulations of the central bank. Loans from foreign sources require a sovereign guaranty.

(2) Local autonomy and co-operative structure: Local governments in Philippines are fully autonomous with the central government exercising only general supervision. However, this general supervision is only applicable at the provincial and highly urbanized city levels. Lower class local governments, such as component cities, municipalities and barangays are being supervised both by the provinces and highly urbanized cities. Municipal laws or those of component cities are subject to review by the provincial legislative council. Territorial jurisdictions among local governments are usually defined by law. Local authorities by tradition follow the national framework of development. Local government functions autonomously. Only in cases where development efforts affect national security and other environmental consideration, should higher levels of government review the local government's priorities. The law defines how a local government can be created, and how it can be abolished, merged or upgraded to a higher category of city, municipality or province. The national government cannot abolish a local government. Only an Act of Congress can dissolve cities, municipalities and provinces and any decision thereof will finally be decided by residents of local government concerned in a plebiscite or referendum. The constitution encourages inter-local cooperation to the benefit of all concerned to cover local authorities beyond traditional political jurisdictions.

(3) Citizen participation: The constitution has a separate provision on the roles and rights of People's Organization (POs) in public affairs and in local governance. It states that the state shall respect the role of independent POs to enable the people to pursue and protect, within the democratic framework, their legitimate and collective interests and aspirations through peaceful and lawful means. Constitution and the Local Government Code have provisions for public-private partnerships at the local level. Civil societies are represented in various local development councils. Local councils in all levels are represented by various NGOs and POs such as farmer cooperatives and fishermen's associations. Several sectors of society like youth, women, farmers and other special groups have voices in the process of public decision-making. These groups should represent 25% of the total membership of the councils.

5.3.6 Local government in Korea

Korea has a unitary, democratic republic form of government.¹⁵ The Korean population was around 48 million in 2002. Urbanization in Korea has been rising constantly at the rate of 88% in 2002. The country had a record of an average annual gross national product (GNP) growth rate of 8% for more than 30 years and at a rate of 6% in 2002. The Local Autonomy Act, 1988

¹⁵ Country Reports on Local Government Systems: Korea, UNESCAPE, 12.12.2003. (URL:<http://www.unescap.org/huset/lgstudy/newcountrypaper/ROK/ROK.pdf>).

heralded a revival of local autonomy in Korea. The local governments consist of 248 separate units. They are broadly divided into two categories: the general and special local governments. General local governments consist of two tiers: the upper-level local governments (metropolitan cities and provinces) and lower-level local governments (cities, counties, and districts). The special local governments comprise both local associations and local public enterprise associations. There are at present 16 upper-level and 232 lower-level governments.

(1) Structure of Local government: In the upper-level local governments, there is a province, which can be regarded as one of intermediate units of administration between the central government and lower-level local governments. Each province consists of cities or urban areas and counties. Next are the metropolitan cities. Seoul Metropolitan City, the country's largest city, is the only local government under the direct jurisdiction of the Prime Minister. Currently, there are six metropolitan cities in Korea. Each metropolis has districts and counties that function as lower-level local governments. At the lower level local governments-municipalities-there are cities, counties and districts. A city has an urban government as a basic unit in local autonomy, which handles primary affairs directly related to the livelihood of its residents. The establishment of a city generally requires a population of more than 50,000 and the fulfillment of standards of per capita local tax, population density, and growth rate. At present, there are 74 cities. Lastly, there is county which is a unit of the lower-level government in rural areas.

Local governments have a governing structure based on mayor-council system. Chief executives of both upper and lower level local governments are elected by direct popular vote for a four-year term. Lower-level council members are also elected by direct popular vote for a four-year term. For upper-level council members, nine out of ten are elected by the popular vote and the remaining one through a proportional representation system. The executive body and the council are endowed with proper legal authorities for exercising check and balance on each other. The local council has the authority to represent citizens' interests and to oversee local administration. The power of the local council can be categorized as: power to enact ordinance, manage local finance, control local administration, accept and process petitions, establish other public organizations. The chief executive is the representative of the local government and directs administrative affairs.

(2) Responsibilities of the local government: Local governments have the duty to actively operate various projects or affairs that would enhance the citizens' well being. In formulating projects, local governments work independently of the regulation of the central government. The local authorities are responsible for: (i) affairs concerning the jurisdiction, organization and administrative management of local governments; (ii) promotion of welfare of citizens; (iii) promotion of industries, agriculture, forestry, trade and industry, etc.; (iv) local developments, and management environmental facilities for citizens; (v) promotion of education, athletics, culture and art; and (vi) local civil defense and fire fighting. The local government also performs delegated affairs, which are assigned through specific laws for both national and regional interests.

(3) Local autonomy: In principle, the central government must refrain from direct intervention of local autonomous affairs. Accordingly, the central government monitors local matters through indirect or passive means of supervision of the budget. However, interestingly, the Local Autonomy Act, 1988 states “despite the functions specified in this law, the central government may exercise its own power and control over any function, if other laws define them as the functions of the central government.” Thus, this provision weakens the power and autonomy of local governments. There has been reluctance to decentralize administrative functions and to strengthen the autonomy of local governments. As a result, the functions of local governments are still limited to a great extent. The power of the elected head of a local government seems to outweigh that of the local council, creating the problem of imbalance between these two branches. In addition, the central government has strong fiscal control mechanisms through the distribution of categorical grants and shared taxes including revenue sharing.

(4) The size and structure of local finance: The ratio of local revenue to GDP was 17% during 2001. The ratio of local revenue to total government revenue was 41%. The composition of local finance in 2001 was: tax revenues (28%) of total revenue; non-tax revenue (38%); and three types of grants from the central government and local borrowing with 30% and 3% respectively. Local borrowings take the form of either an issuance of local bonds or a loan taken directly from the public or private sectors. However, local governments are unable to issue local bonds without the permission of the central government.

(5) Citizen participation: There are various ways in which citizen can participate in local governments in Korea. Unofficial participation is mostly achieved by resident movements, which can influence a decision on issues of local interest. Formal participation includes inquiry commissions, committees, conversation with residents, and negotiation with resident movement groups. Citizens may also participate in local administration through institutional means such as citizen petitions, referendums, resident requests for audits and investigations and participation in committees. The local government can refer certain serious matters to a referendum vote. Some local governments through ordinances recognize the citizens’ right to request for a special audit and investigation of local administration. Local governments also maintain variety of committees in which public or special interest groups can participate.

5.4 Comparative analysis of local governments in different countries

A comparative analysis of different local self-governments in selected European and Asian countries reveals that no countries follow the same structure of local governance system. The concept of local self-government is a well-established system of governance in the countries studied. The European Charter of Local Self-Government formulated by the Council of Europe recognizes local democratic governance on the principle of subsidiarity where government powers are exercised at the lowest level of government possible. The Charter has defined the principles of local self-government in terms of its formation, structure, methods of operation and functional jurisdiction, which have become widely used principles of local self-government in many countries around the world.

In countries like Hungary, Slovenia, Czech Republic, the constitution recognizes and guarantees the right of citizens to local self-government in accordance with the spirit of ECLS. Most significantly, the rights and duties of local governments are determined by parliamentary acts and the constitutional court oversees the legality of activities. The powers to dissolve the local government vest in the parliament. In the UK, there is no written constitution and thus the local self-government is constitutionally subordinated to central government. In Korea and Philippines, the local self-governments are governed by laws. In federal India, local government is now the state subject and constituted under state laws, the role of central government being limited to providing constitutional provision for local bodies of urban and rural areas.

In terms of competences, the local governments, in central European countries studied, have power of general competence to undertake any activities, which are of local public interest. They have exclusive autonomy within their competences and are no longer agents of central governments. For obligatory or delegated functions, the local governments are entitled to financial means necessary for fulfillment of the tasks. In the UK, local governments can undertake only activities which are statutorily authorized by the central government and these functions are largely funded by central grants. The local management is under the direction and control of central government policy. In the Philippines, the local power is more autonomous and decentralized down to the village level. In Korea, the central governments seem to have overriding power over the local authorities with central government policies. In India, the municipalities have very limited autonomy in deciding executive and management of personnel with concurrent and minor functions delegated by states.

The power of local governments is exercised by directly elected body of representatives and headed by a directly elected mayor who is both the political and executive head in case of Hungary and Slovenia. In Czech Republic, municipal board exercise executive powers headed by indirectly elected mayor who is both the political and administrative head. In the UK, a directly elected mayor with real powers with a cabinet-style council governs the local government with an appointed Chief Executive Officer accountable to the council. In India, the local government has an elected council and the executive is decided by the state. In the Philippines and Korea, the municipal councils and the mayors are elected by the people for a period of three and four years respectively.

In the three central European countries, there is legal provision for direct democracy for decision making on important local issues through local referendum, public initiative and public hearings. Citizens may also participate in local decision-making through different forum, committee membership, and open council meetings. The UK does not have provision for peoples' participation in the constitution. However, the local government has moved towards consultative forms of participation. There is a provision in the local government act for advisory referendum on any issue, which can be called by small groups of voters. In the Philippines, the roles and rights of peoples' organizations in public affairs are provided in the law. Local councils in all levels are represented by various NGOs and POs. In Korea, citizen may participate through citizen petition, referendum, committees, public hearings and social hearings. In India, citizen participation is through the ward committees with representation by nominees.

Fiscal and financial decentralization is an important aspect of local governance system. Local government finances are highly centralized in all countries studied. The central government determines almost all local revenues and sets the rate of taxes in respect of central European countries studied. On the other hand, European countries, which show high fiscal autonomy are Belgium, Denmark, Finland and Sweden where local governments are free to set even local income tax rates. Local governments in Germany, Ireland and Luxemburg can freely set local business tax rates. In respect of property tax, local governments in Germany, Ireland, Belgium and the UK are free to set their own rate. In terms of own financial resources, the share of local governments to the total local revenue in Hungary was 32%, Slovenia 34%, Czech Republic 17%, the UK 40%, Philippines 32 %, Korea 41% and India 83%. The non-tax revenue which includes user charges and fees, capital receipts, etc., constitute 55% of local revenues in Slovenia (2002), 15% in Czech Republic (2001), 11% in the UK (2003-04), 10% in Philippines (2002), 38% in Korea (2001) and 26% in India (1997-98). Further, in USA, Australia, Canada and central European countries, user charges and fees play an important role in financing the operating activities. In Canada, user fees contributed 20%, in USA 21%, Australia 25% (Steytler, 2002) and in Europe 19%. Specific purpose grants and equalization grants are major instrument employed by these countries to take care of revenue gaps and vertical and horizontal imbalances.

Local expenditure as a percentage of total public expenditure in the UK was 25%, 24% in Hungary, 13% in Slovenia and 21% in Czech Republic during 2001; and about 4% in India during 1997-98 (Chaubey, 2005, p. 106). The local spending as a percentage of GDP during 2001 was 13% in Hungary, 5% in Slovenia, 9% in Czech Republic, 10% in the UK (2000), and about 1% in India (1997-98). The local government expenditure including counties vis-à-vis total government expenditure in a highly devolved system of governments are in Australia (50%), Canada (60%), USA (48%), and Germany (35%) in respect of federal states, and in Denmark (56%), Sweden (37%) and Norway (38%) for unitary countries during 2001 (Loughlin, et al. p. 14-16).

5.5 Good practices in urban local governance

The past two decades have witnessed a wave of changes in the public sector across many countries. Changes since 1980 were considered particularly significant due to profound reforms in public management, assuming worldwide character. Most significant changes predominantly in the western countries were privatization or denationalization of many parts of the public sector which had a commercial role; the introduction of new forms of management practice into public service delivery; and deregulation of many activities which had previously been the subject of state intervention and regulation. Privatization, the opening up of market and the expansion of contracting state, is now a worldwide phenomenon. At the local level, the period also saw a major set of initiatives to reform and modernize local government especially towards improvement of local service delivery. Understanding of the pattern of changes and initiatives for improvement of public service delivery undertaken by various local governments is of significance for public sector reforms. The reforms brought in a number of innovations in governance and in public services. These changes were aimed at achieving widespread improvement in governance and efficient performance in service provision to increase public

value. Such innovations include new political arrangement in local government, and new form of organization arrangement for the planning and delivery of services.

5.5.1 Trends in local governance practices

There have been innovations in public services and user participation in service design and service delivery mechanism. Local government reform is now moving beyond the emphasis of improvement of local services delivery. International experience in local governance indicates a number of new themes and trends as follows (Bovaird and Loffler, 2002):

- (i) New Public Management (NPM) approaches to local government management and planning based on 'control' and 'accountability' is now giving way to 'governance' approaches based on 'learning' and 'partnership.'
- (ii) Increasing public consultation, public involvement, user involvement and citizen engagement in the affairs of the local authority, including its budgetary arrangements.
- (iii) Growing use of the already widespread practice of surveys and other methods to provide user and citizen feedback in relation to service and financial planning.
- (iv) Growing interest towards outcome budgeting and not just output budgeting.

We may briefly mention the trend of innovation and improvement in the conception of governance and public management. This would be important for understanding the need for widening the scope of local governance for efficient and effective service delivery to citizen. Providing affordable, comprehensive, and good quality urban public services to increasing numbers of residents is a major challenge faced by most local governments in urban areas. Most often, cities do not have the commensurate resources to deliver these services, which used to be the responsibility of central governments. Cities also face the problems of squalor, congested traffic, deteriorating infrastructure facilities, disillusioned communities, and often, political unrest. All these challenges perhaps drive local government (municipalities) to reinvent their systems and processes. We notice change strategies that have proven successful in the private sector are increasingly picked up by the public sector. Two change strategies that have been successfully used in the private sector and by many local governments in the USA, Australia, and other OECD countries are benchmarking and continuous improvement by exploiting good practices for performance improvement both at the institutional and functional levels, product services, processes, and performance of management. Although local governments (municipalities) do not have the concern of competition, there is an electorate and politicians who have an expectation of quality service while maintaining a reasonable tax rate. It is increasingly realized that increasing taxes is not a viable option for the long run. Increased grants from upper levels of government to municipalities are not a likely event in the foreseeable future. Benchmarking has become an invaluable tool for municipalities to enable them to do more with less when they incorporate best practices throughout their municipality.

According to Harley (2005), traditional public administration approach (from post-war period to early 1980s) was largely based on legislative, bureaucratic and rule based in public service provision (Table 11). The professionals define needs and problems, and provide standardized

services for the population. The role of policy makers is that of creating legislation and then support for the whole scale changes, the details of implementation being left to the officials. The public managers as part of bureaucracy act as clerk (impassive officials implementing political will) or martyrs (holding private views about the wisdom or necessity of action but continuing to implement political decisions without comment). Under this, users of services are as client with little say about the services.

However, under NPM the stress was on private style of management practice, the purchaser-provider splits, greater emphasis on output controls and customer focus. The policy makers remain as ‘commander’ but due to managerial focus, the role of other politicians reduces to ‘commissioner’ of service or ‘announcer’ of change. The public managers are transmuted as efficiency maximizers, seeking innovation to improve the quasi-market and the quality of service delivery. The publics take on the customer role and have a voice as users in service scope and its content. Finally, under network governance¹⁶ the role of the state is increasingly to steer action within complex social system rather than to control solely through hierarchy or market mechanism. The policy makers are translating new ideas into new forms of actions, they continue to innovate through large-scale legislation and support innovation through enabling legislation, orchestrating the interest of different stakeholders. The role of public manager is to nurture innovations and search for new public value with their initiative and imagination. The publics have assumed the role of co-producers of service and innovation.

Table 11: Innovation and improvement in conceptions of governance and public management

	‘Traditional’ Public administration	‘New’ Public Management	Network governance
Innovation	Some large scale, national and universal innovations	Innovations in organizational form more than content	Innovation at both central and local levels
Improvement	Large step change improvement initially but less capacity for continuous improvement	Improvement in managerial processes and systems. Customers focus produces quality improvements in some services	Aiming for both transformational and continuous improvement in front-line services
Role of policy makers	Commanders	Announcers/Commissioners	Leaders and interpreters
Role of public managers	Clerks and martyrs	Efficiency and market maximizers	Explorers
Role of the population	Client	Customers	Co-producers

Source: Hartley, 2005, p. 37.

5.5.2 Widening scope of local government

From a wider governance perspective, an excellent local authority needs to be more than an excellent service provider. It must be excellent in the way in which it discharges its political and social responsibilities in the community as well. Good local management implies high

¹⁶ Accordingly to Rhodes (1997, p. 15) it is self-organizing, inter-organisational network characterized by interdependence, resource exchange, rules of the game and significant autonomy from state (Bovaird, 2005, p. 219).

performance not only in managing local services so that they satisfy customers and taxpayers but also in enabling local communities to solve their own problems and to create better future for their stakeholders (Bovaird and Loffler, 2002, p. 9). Further, good practices in urban local governance can be seen against different yardsticks such as efficient delivery of services, transparency and accountability, sound financial management and citizen participation, etc. No local governments can achieve excellence in these areas without the appropriate institutional arrangement, which is suitable, inclusive with strong mandate from the people and full support from the state government. Without such empowerment backed by legislation, the ability of the local government would be severely restricted. Local government needs to have a new orientation towards urban governance in organizational and functional process, in the exercise of powers, management of resources, and measurement of performance. Hence, the local government should widen its scope to adopt features of good local governance. Some features of good local (urban) governance that local governments should increasingly consider according to Bovaird and Loffler (2002) are given in Table 12:

Table 12: Widening the scope of local government towards ‘good local governance’

Local government needs to consider not only...	... but increasingly
Organisation leadership	Leadership of networks
Developing organizations.	Developing communities.
Ensuring policy coherence across organisational departments and services.	Ensuring policy coherence across organizational and sectoral borders and levels of government as well as over time (sustainable development).
Creating a set of values and a sense of direction, which leaves room for individual autonomy and creativity for mid-level managers and employees.	Managing expectations of citizens, companies and other stakeholders so that they become more deeply committed to democratic processes and more engaged in policy-making and services management.
Policy and strategy	‘Politicking’: balancing strategic interests
Focus on the needs of customers.	Activating civil society (through information, consultation and participation) in local policies and management.
Separation of politics and administration.	Public management as a process of interaction between elected officials, politically appointed officials, adhoc advisors, career civil servants and external stakeholders.
Annual plans, concentrating on current expenditure.	Long-term plans, incorporating community plans, capital budget plans and asset management.
People management	Management of the labour market
Increasing labour productivity through downsizing.	Improving staff contributions to all the goals of the firm.
Getting staff to focus on quality of services.	Getting staff to focus on quality of life, in terms of quality of service outcomes for users and other stakeholders and also quality of working life for fellow staff.
Motivation through more objective evaluation systems and more flexible pay systems.	Motivation by allowing staff to contribute a wider range of their skills and aptitudes to the work of the organization.
Recruiting and retaining qualified staff through competitive hiring processes to minimize the wage bill.	Recruiting and training staff who are most likely to deliver effective services and to help stakeholders to help themselves.
Recruiting, retaining and promoting staff purely on their ability to meet narrow and mechanistic job specifications.	Recruiting, training and promoting appropriate staff in ways which increase the diversity of the public services in terms of gender, ethnicity, age and disabilities.

Table 12: Widening the scope of local government towards ‘good local governance’ (Concluded)

Making better use of staff resources within the organization.	Making better use of staff resources by increasing mobility within the public sector and also between other sectors and other areas.
Resource management	Resource and Knowledge management
Budget formulation as a top-down exercise (with fixed ceilings on total expenditure).	Preparation of local budgets with active participation of city councilors and community representatives.
Measurement of unit costs for performance improvement and performance monitoring.	Measurement of the money and time costs of the organization’s activities, as experienced by both the organization and its stakeholders.
Transparent financial reporting.	‘Fiscal transparency’ to communicate with external stakeholders (business, citizens, media, etc.) on the value-for-money of activities.
Improving technical efficiency.	Improving social efficiency, including equitable distribution of budgets and services.
Making Information and Communication Technologies (ICT) available to all staff for efficiency-enhancement purposes.	Making ICT available to all stakeholders to improve quality of life.
Helping staff to improve knowledge base through training, to increase efficiency and effectiveness in the job.	Generating and sustaining new knowledge through knowledge management, both for staff and for other stakeholders interacting with the organization.
Processes	Internal and external relationships
Internal improvement processes (Business Process Reengineering).	Managing processes beyond organizational borders, including inter-governmental relations and constraints.
Competing for tendered tasks.	Managing multiple contracts and suppliers relationship; building and maintaining accountable partnerships, with users, communities and other organizations where appropriate (co-production of services with users, communities and other stakeholders’).
Measurement of objective and subjective results	Measurement of multi-dimensional performance
Reporting systems based on needs of public managers and government oversight bodies.	Publishing of performance information based on the needs of stakeholders in the community (social, ethical and environmental reporting).
Benchmarking results, internal processes or organizational performance against other local authorities	Involving stakeholders groups in the definition of governance standards and measurement of performance.
Use of performance information for control purpose.	Use of performance information for encouraging innovation and learning at multiple levels (individual, organizational, networks).
Functioning of the local authority	Developing good local governance
Serving the community by producing policies, services and information (‘Service provider’).	Enabling the community to plan and manage its own affairs (‘community developer’).
Improving the internal efficiency of local authorities.	Improving the external effectiveness of local authorities.
Increasing user satisfaction of local services.	Building public trust in local government through transparent processes and accountability and through democratic dialogue.

Source: Bovaird and Loffler, 2002, p. 21-23.

5.5.3 Good practices in urban governance in different countries

Selected good practices that have been recognized and documented in recent literature on urban governance in different countries have been highlighted in the following section.¹⁷

(1) Public participation (Indonesia): Public hearings and public consultations, initially used in the annual development planning process, have also been used for spatial planning and other planning processes. The old annual development planning process has evolved into a real participatory planning process with ample opportunities for the people to participate. Through public hearings, the socio-economic constraints in the community are identified and the community is encouraged to take actions to overcome these constraints by themselves. Further, in public hearings, the people's satisfaction with regard to public service delivery is assessed and the priorities for improvements identified. Public participation provided citizens an active role in local governance, increased their sense of responsibility as citizens, encouraged local government to improve service delivery, and regained the trust of citizens in their local government. Participation in annual development planning and subsequently in spatial planning and other planning processes has become a right of the public and subsequently regulated through local ordinances.

(2) Participatory Urban Planning for Improved Local Governance, Province of Guimaras (the Philippines): In 1994, the Provincial Government of Guimaras in partnership with the Canadian Urban Institute launched a community-based and multi-stakeholder development planning process involving all three levels of local governments numbering 102 local units. The program focused on developing the capacities of local government units to promote sustainable development practices and community involvement in planning and decision-making. The efforts support the Philippine Government's thrust towards decentralisation of power to local authorities and empowerment of local communities required under the country's Local Government Code, 1991. The project engaged more than 5,000 stakeholders from national government agencies, local authorities, private sector and civil society in a community-based planning and decision-making process. The program resulted in the completion of strategic plans in all three levels of local government: provincial, 5 municipalities and 96 barangays (which are the officially recognised village-based level of government in the Philippines). The strategic plans initiated in 1996 are providing directions for the local governments for mobilising human and financial resources for the various priorities, economic, environmental and social development thrusts for the province.

(3) Active citizen involvement in visionary planning in Ingolstadt (Germany): The city of Ingolstadt implemented a long-term city development planning process. The main objective was to raise both the level and quality of citizens' participation in the planning process. The traditional involvement of citizens in planning was limited to comments and suggestions on fully developed plans proposed by the administration and city council. The new approach involves

¹⁷ Sources: http://www.undp.or.id/programme/governance/intro_glg.pdf.
http://www.demosproject.org/webpages/demos_international_good_practice_report.pdf.
<http://www.unhabitat.org/practice>.

citizens at an early stage of goal definition and priority setting for local development. It is based on solid expert planning and citizen participation from the earliest planning stages onwards. The intention was to turn citizen participation in planning into a permanent dialogue between city administration and citizens. The development issues/ideas are discussed in dialogue with citizens and then synthesized by the administration and forwarded to the city council for formal ratification as city development plan.

(4) Participatory governance through ward planning (Africa): Mangaung Local Municipality, Bloemfontein, South Africa introduced an innovative system of participatory governance through planning at ward level with community participation. Approximately 10,000 members of the public were involved over a period of five months. Councillors, governments department and wide variety of stakeholders were involved in the process. Most importantly, ordinary citizen, ranging from women, the youth, business people, employed, unemployed, disabled and senior citizen were consulted. Through the ward plan, the local municipality came out with local economic plan aiming at promoting livelihoods of the poor, involving citizen in sustainable, income generating activities.

(5) Public-private partnership (India): Alandur Municipality, Tamilnadu, pioneered in implementing underground sewerage project through a significant private sector company's participation through BOT (Build-Operate Transfer) model. The project involved substantial participation of people households in the project implementation and roles of various stakeholders were explicitly defined to maximize on the available resources and elicit the best deliverables for each organization.

(6) Transparency and right to information (Indonesia): Public hearings and public consultations were the first step in the development of transparency in local governance which resulted in a strong desire for more openness and information in local government. Local governments have developed the practice to ask the citizens their opinions not only through these public hearings and public consultations but also through polls, either directly or through local newspapers. Local governments have developed the practice to publish its decisions in newspapers and on publication boards. Opinion sharing has further improved through periodic interactive radiotalk shows during which citizens have opportunity to talk directly with local government officials and legislators. Local government's awareness of the importance of informing citizens adequately has resulted in the establishment of information shops at the neighborhood level. The new practice of requesting and providing information and higher levels of openness in local government has been institutionalized through the issuance of local ordinances.

(7) Urban governance in environmental and public health: Surat's experience (India): Prior to May 1995, basic municipal services in Surat such as street cleaning, collection of solid waste, water supply and sewerage services, drains, street lights, parks and gardens, roads and schools covered about 45% of the city residents. In May 1995, Surat Municipal took measures to decentralise all administrative and financial powers to ten commissioners. The resulting decentralisation and empowerment of work units broke the departmental barriers and lifted the

morale of the staff. A micro-planning exercise based on extensive field input was carried out to lay down equitable norms for effective and efficient provision of services to the citizens with best use of the available resources. Further, the council entered into partnerships with the private sector, which provided street litterbins in exchange of advertising rights. The citizens were involved in the decision making process through a grievance redressal system and feedback mechanism. The internal revenue collection increased due to efficient tax recovery, transparency in tax assessments and plugging of loopholes in tax administration. Provision of basic services increased to over 95% of the residents, while capital expenditure also increased by about 450%. Within a period of 18 months, Surat had become the second cleanest city of India.

(8) Networking for regeneration in the village (Belgium): A municipality of Maasmechelen, Belgium, established in May 2000 a ‘network method’ as a framework for urban renewal. The network method focuses upon three main actors within the dynamic of urban renewal— inhabitants of the community (users), administrators (service providers), and politicians (policy makers). The purpose is to encourage better and more innovative communication amongst these actors at the neighborhood level. It involved a group of 15 community-linked individuals with different backgrounds but with a common aim to promote change within the community. Having identified several issues to be addressed, the group meets once each month to put forward proposals for creative projects. The network method was based on the assumption that political regeneration can only be achieved after more effective communication has been established between neighbourhood users and service providers. The main reason for the success of the project was attributed to the fact that many of the ideas for new initiatives were generated by the local inhabitants, who are now being accepted into the dynamic of change.

(9) Stakeholders’ involvement in decision-making (Indonesia): A process of stakeholders involvement in decision-making began with the identification of the actual stakeholders in a city. A vision and mission for the city was developed with the local stakeholders in order to cope with the local issues and to respond to the development challenges. Such groups of stakeholders subsequently developed the practice of conducting public hearings or opinion polls on all the issues or development options. This has gradually evolved into a ‘city forum’ where issues are deliberated with those citizens who are directly affected. This paved the way for the emergence of several issue-related citizen forums to address specific issues on education, environment, problems related to sidewalk traders, traffic jams, etc.

5.6 Conclusions

Most of local municipal governments continue to be constrained by local government policy, legislative provision and frameworks of their central governments, which limit their autonomy and consequently, their power to proactively manage the challenges of providing public services. In a number of countries, decentralisation initiatives are pursued half-heartedly, resulting in weak policies and usually very little fiscal autonomy for local government. Some national governments move towards more administrative deconcentration, i.e., central government devolving offices, staff and certain functions to decentralised offices without genuine devolution of political power and financial resources or taxation powers. In such cases, central/state

governments retain its authority but pursue more efficient administrative arrangements. What is relevant for effective local governance is democratic decentralization in three basic areas of administrative, fiscal and the political system, and local governance.

The local municipal governments need to become key actors in urban governance. They have to play a proactive role for providing or creating environment appropriate for efficient provision of public services depending upon the level of socio-economic development of the areas. Representative local municipal governments have the mandate to provide services based on preferences and choice of citizens which other parastatals or the traditional bureaucratic government departments are deprived of such mandate. Local government need to champion the voice of citizens and enlarge an institutional framework wherein citizens become co-producers and play active role in design of service provision. The service providers and the served will have common interests and stake in a decentralized and participatory governance ensuring dynamism. The growth in citizen expectation and increasing role of civil society in providing solutions indicate the need for municipalities to become much more responsive to local service needs and work collaboratively to address these issues. This will be possible if there is democratic, responsive and representative municipal local government governed by the tenets of good governance. Thus, the art of municipal governance will increasingly revolve around the capacity to work in partnerships and through multiple networks for mutual benefit of the community as a whole. In a more network society, the municipality should draw on the resources, experience and capacity of various actors to complement the capacity of the municipality as complex and diverse needs of citizens would require multi-solutions.

The usual policy prescriptions around urban local governance have been in favor of minimal state intervention and its increasing regulatory and enabling role in service provision. As has been pointed out, the local governments need to maintain a balance between providing services directly and regulating provision of services by private sectors for the collective good of the whole society specially when there is market failure and externalities. A fundamental prerequisite for effective governance to meet the challenge of public service delivery is a strong, autonomous and purposeful local government, which will work in partnership with democratic civil society and a robust private sector. The ultimate ownership and responsibility for ensuing equitable allocation and distribution of resources and services for public goods would rest with the municipalities, which is accountable to the beneficiary citizens. Thus, municipal governments should be able to forge a vision and strategy for their localities, which encompass the diverse interests and perspectives of all stakeholders. The sustainability of policy and solutions depends on the vibrant feedback mechanism derived from users-citizen propelling the system to improve itself constantly. The local government should widen the institutional arrangement to be able to effectively adopt the features of good local governance in all its structures and processes.

In order for the local governments to efficiently and effectively provide public services, it is necessary that they have adequate resources and the elected councilors possess the powers to make the bureaucratic system accountable to them, and that councilors can be made accountable to citizens. This would involve the transfer of resources (taxation and allocation powers) and decision-making power over issues that affect the local citizenry preferably based on legislation.

The local governments should have institutional framework where administrative officials are accountable to the elected officials to carry out their political mandates and the political officials are transparent in their decision-making and accountable to the citizenry for their actions. Such a framework should encourage active involvement of citizens in the planning, decision-making and implementation of municipal programs to the extent that it does not erode the democratic authority of elected representatives. The system should also provide an opportunity for local government to act collectively to influence higher-level decision-making processes to facilitate inter-government dialogue and participation. Finally, alongside clearly laid down competences, the local governments should have sufficient resources at their disposal to be effective in delivering services to citizens. Thus, fiscal and financial decentralization is a prerequisite for municipalities to function as institutions of self-government. The local government would not succeed unless supported by a comprehensive capacity-building programme to equip administrative and elected officials covering a wide range of inputs to build institutional readiness and the required skills to operate effectively. Cities, which are governed by empowered, dynamic and democratic local governments, will truly become an engine of growth and contribute to the well-being of society they are mandated to serve.

CHAPTER - 6

URBAN GOVERNANCE AND INSTITUTIONAL ARRANGEMENT

Effective urban local governance depends largely on the existence of appropriate institutional arrangements. The urban local government should be legally empowered and administered by democratically elected representatives accountable to the citizens entrusted with clear competences supported by devolved fiscal and financial powers. The local government should enjoy functional autonomy for delivery of urban services. The urban local government should adopt good practices in urban governance (Section 3.3) and widen its scope towards good local governance (Section 5.5.2). We shall study the institutional arrangements for urban local governance as existed in NER and other states in India from the existing constitutional, legal and administrative framework. The cases of selected capital cities will also be studied to assess the general condition of urban governance system in NER. An attempt will be made to identify various issues and deficiencies in municipal government and indicate areas for improvement. The study will be carried out from international perspective, keeping in view best practices of urban governance in different countries. A comparative analysis of the experiences and practices of local self-governments in other countries and the Indian situation will be attempted to identify some common trends, which seem essential for strengthening the institutional arrangements for local government in India as a whole. Countries included in the studies are Hungary, Slovenia, Czech Republic, UK, Philippines and Korea.

6.1 Constitutional and legal provision of urban local self-governments

The concept of urban governance through modern elected municipal government in India is based on the constitution. The enactment of 74th Constitution Amendment Act 1992 (CAA) ushered in a new era of local self-government in India. The Act provides for institutional, legal and administrative framework for municipalities. The Act visualizes municipalities to function as institutions of self-government. It was a culmination of long aspirations to restore local self-government in urban areas. Prior to enactment of 74th CAA in 1992, no specific mention of municipalities was made in the constitution. Local government was wholly assigned to state governments. Municipalities were frequently suspended and superseded by state governments in the absence of constitutional protection and no elections were held for many years in many states. Over the years, the very basis of local self-government eroded and the municipalities became weak, unable to perform their basic duties. The statement of objects and reasons appended to CAA 1992 states “in many states local bodies have become weak and ineffective on account of a variety of reasons, including the failure to hold regular elections, 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.” The functional domain of urban local government was further reduced by parastatal agencies established by states for water supply and sewerage services, etc. The local governments were marked by weak executive system and poor fiscal health. Their financial bases were eroded due to abolition of many buoyant sources of revenue like octroi tax, entertainment tax, professional tax, etc., by state governments. This forced them to depend on financial transfers from state

governments. The adhoc manner by which finances were transferred from state to the local governments was not sufficient to build an adequate resource base for local governments (Mehta, 1999, p. 174). Under these circumstances, the 74th CAA 1992 was adopted with the primary objective of empowering the municipal governments as institutions of self-government for delivery of public services. Thus, the concept of urban governance in India is inextricably linked with CAA 1992. Our study of urban governance is also based in this context.

6.2 Institutional arrangements and the concept of local self-government under the constitution of India

The 74th Constitutional Amendment Act 1992 prescribes various institutions for the formation and operation of urban local governments in the states. The institutional arrangements for local governance are: (i) State Election Commission (Article 243ZA)- to supervise, direct and control the preparation of electoral rolls and conduct all elections to the local bodies; (ii) Municipalities (Article 243Q)- Municipal Corporations (for larger urban areas), Municipalities (smaller urban areas), and Nagar Panchayats (areas in transition from rural to urban) are to function as 'institutions of self-government', and prepare plans for socio-economic development; (iii) State Finance Commission (Article 243Y)- to review the financial position of urban local bodies and make recommendations regarding the principles of devolution of resources from states to local bodies and to suggest measures needed to improve their finances; (iv) Wards Committees and other Committees (Article 243S)- to take municipal government closer to the people to carry out the responsibilities conferred upon them and take power to the people; and (v) Metropolitan Planning Committees and District Planning Committees (Article 243ZD)- for the preparation and consolidation of development plans. Resulting from CAA, the number of ULBs in all the states has reached 3,717 by 2002 in which there are 110 municipal corporations, 1,434 municipalities and 2,173 nagar panchayats as shown below:

Table 13: Urban local bodies in India, 2000

State	Municipal Corporation	Municipal Council	Nagar Panchayat	Total	Population (in crore)*
Andhra Pradesh	7	110	N.A	117	2.05
Arunachal Pradesh	ULBs do not exist				0.02
Assam	1	28	54	83	0.34
Bihar	5	50	72	127	0.87
Chhattisgarh	6	20	49	75	0.42
Goa	N.A	13	N.A	13	0.07
Gujarat	7	142	N.A	149	1.89
Haryana	1	21	46	68	0.61
Himachal Pradesh	1	20	28	49	0.06
Jammu & Kashmir	N.A	2	67	69	0.25
Jharkhand	1	20	22	43	0.60
Karnataka	6	41	175	222	1.79
Kerala	5	53	N.A	58	0.83
Madhya Pradesh	12	83	234	329	1.61
Maharashtra	16	228	N.A	244	4.10
Orissa	2	33	68	103	0.55
Punjab	4	98	32	134	0.82
Rajasthan	3	11	169	183	1.32

Table 13: Urban local bodies in India, 2000 (Continuation)

Tamil Nadu	6	102	611	719	2.72
Uttar Pradesh	11	195	417	623	3.45
West Bengal	6	112	4	122	2.25
Manipur	N.A	9	19	28	0.06
Meghalaya	N.A	6	N.A	6	0.05
Mizoram	N.A	2	4	6	0.04
Nagaland	9	3	59	71	0.04
Sikkim	ULBs do not exist				0.01
Tripura	N.A	1	12	13	0.05
Uttaranchal	1	31	31	63	0.22
Total	110	1,434	2,173	3,717	27.08

Source: Alok, 2004, p. 28-41. Note: (*) one crore is equal to 10 millions; N.A: Not Available.

The 74th CAA aims at bringing local democracy through municipal governments. The mandate is for democratization and decentralization of political authority to municipalities to make them more representative, self-regulating and service oriented in urban governance. However, the primary task of empowerment and operation of local government by devolution of decision-making process is kept under the purview of state governments. Thus, state governments are responsible for creating legal framework to establish the institutions through municipal laws and to empower them to function effectively. However, state governments are found to be reluctant to decentralize decision-making power to urban local governments. The transition to local democratic governance in India is not smooth but marked by conflicting of interests at the local level. The concept of local self-government through modern municipal government is yet to take its roots in Indian polity.

If we see ECLS, local self-government is firmly recognized as one of the main foundations for democratic governance at the local level where citizens participate in decision-making process. In countries within European Union that ratified ECLS, political powers are decentralized on the principle of subsidiarity where government powers are exercised at the lowest level of government possible. The local self-government is now a well-established system of local governance with constitutional guarantee, constituting the first level of government. In India, the CAA does not define the concept of 'local self-government' and the principles for governing local self-government are not enshrined in the constitution or in local legislation, a prerequisite under ECLS. The level of municipality in Indian federal structure as 'third tier' of government is also not specified in the constitution. The CAA prescribes broad responsibilities in the 12th Schedule and the financing mechanism for local governments, but the assignment of functions, and devolution of fiscal and financial power depends on the states and local municipal laws. Many states do not even have municipal laws nor conduct elections for different reasons in NER. As in November 2003, only two capital cities of Agartala and Imphal had elected municipal governments in position. Though four capital cities of Guwahati, Shillong, Kohima and Gangtok had municipal legislations, but democratically elected urban local governments had not been constituted mainly due to problem in holding election. The remaining two cities, namely, Aizawl and Itanagar have not adopted CAA provisions and have no municipal legislations. Thus, constitutional guarantee for the basic right of local communities to local self-government is missing. This indicates that the concept of local self-government in urban areas under CAA is

not born out of the principle of subsidiarity. Since municipality is a state subject under the Indian constitution, the state governments decide the nature of local government, the degree of decentralization, the extent of resource transfers and functional autonomy and the level of democratic governance at the local level. In NER, local governments are viewed as another mechanism to implement policies decided by states.

The CAA 1992 visualizes the municipalities to be representative institutions, more service and developmental oriented, and no longer to be viewed as civic bodies responsible for the provision of only a few merit or public goods. The municipalities are to discharge important tasks of planning for economic and social development in urban areas, a major departure from their traditional roles. However, the role of local governments in planning for development of urban areas would be meaningful only when central planning commission of India views the urban local government as third tier of governance that has its own constitutional identity. So far, planning commission has concentrated on aspects related to the central and state in developmental planning. Local governments are deemed to be sub-ordinate part of the state governments and have no development plan of their own under centralized planning system of planning commission. There is, thus, no direct linkage between urban local governments and central planning commission for transfer of plan funds. This is in contrast to the constitutional status of local government and the principles of decentralization in which the urban local governments are devoid of its due share in the developmental process. Although urban centers contribute nearly 60% of the country's GDP, but the urban governments have not benefited from the economic activities that take place within their jurisdiction and, thus, remain peripheral to the Indian economy and planning process. A new approach is urgently needed to give the importance local governments deserve for developing the country's economy. Studies have now established with reasonable amount of certainty that increased decentralization follows a higher level of development. This implies that countries like India, which are on the cusp of breaking from being under developed, low income countries into middle-income countries, should pay greater attention to decentralization (Kumar, p. 12-13). To be true institutions of self-government, municipalities should be enabled to formulate its own development plan under the centralized planning to channelise inter-governmental transfers to empower cities with sufficient resources and political autonomy to fulfill their large responsibilities.

The Act provides for participation approach with directly elected representatives to perform planning, management and delivery of civic services, involving citizens in local affairs through democratic governance. However, the Act does not define the powers of the elected representatives. In most cases, elected representatives could not perform functions meaningfully in the municipal affairs due to lack of clearly defined powers, roles and responsibilities. The municipal government has now specific term of five years and if the state dissolves a municipality, election is to be held within six months. Evidences have shown, however, that the state election commissions (SECs) under CAA cannot ensure regular conduct of election for local governments. Though most of state governments have held election for ULBs, their regularity remains a problem due to many reasons. NE states like Arunachal Pradesh, Mizoram, Sikkim, other states, as Bihar and Pondicherry have not conducted the first round of elections, leading to non-constitution of municipal governments. Non-constitution of elected urban local

governments due to non-conduct of election or despite election (Guwahati and Shillong) is a serious constitutional or legal crisis, as these states have not implemented the mandatory requirements. No effective mechanism exists at present for the central government to prevail upon the state to comply with mandatory requirements under the CAA. While the voters' turnout in local elections in many states has been about 65 to 70%, demonstrates strong interest in local issues and local self-governance. Under the constitution, the governor of the concerned state is the appointing authority of state election commission, and the state legislatures make provisions by law the conditions of service and tenure of office. The SECs in Assam, Tripura and Imphal and Sikkim are not independent from state governments' control in all matters of election to municipal councils. Elections to municipal governments in Kohima and Shillong are conducted by state departments. In Slovenia, municipal government appoints municipal elections commission for conduct of regular elections. It is, therefore, essential that the machinery for organising the local elections is adequately strengthened and independent. It is recommended that the responsibility for conducting all elections in the state both for the state legislatures and urban local governments should be vested in the SEC with an enabling provision for regular conduct of election under the over all direction and control of Election Commission of India by constitutional amendment. This will enable an independent constitutional authority at the state level to attend to all matters relating to elections on a regular and continuous basis.

The CAA (Article 243X) aims to minimize the arbitrariness and adhocism in the state-municipal fiscal relation. It stipulates that state governments may by law: (i) authorise a municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits; (ii) assign to a municipality such taxes, duties, tolls and fees levied and collected by the state government for such purposes and subject to such conditions and limits; (iii) provide for making such grants-in-aid to the municipalities from the consolidated fund of the state; and (iv) provide for constitution of such funds for crediting all moneys received, respectively, by or on behalf of the municipalities and also for the withdrawal of such moneys there from. Accordingly, the state governments are required to constitute state finance commission (SFC) with the mandate to deal with broad areas of municipal finances such as: (i) distribution between the state and the municipalities of the net proceeds of the taxes, duties, tolls and levies liviable by the state, which may be divided between them and allocation between the municipalities; (ii) determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the municipalities; and (iii) the grants-in-aid to the municipalities from the consolidated fund of the state. Evidences have shown that the institutions of SFCs have not contributed much to augmenting the finances of municipal governments. Due to ineffective functioning of SFCs, deficient fiscal power and weak financial resources of ULBs, central finance commission (CFC)¹⁸ has now been mandated to recommend transfers to augment the consolidated fund of a state to supplement the resources of the municipalities, thereby, establishing a linkage between the finances of local bodies, state governments and central government.

¹⁸ Central Finance Commission is appointed under the constitution of India once in every five years to assess the financial needs of the state governments and to recommend a package of financial transfer from the central government.

Recognizing the weak constitutional foundation of urban local government within Indian federalism, the central government has also made a suggestion recently for transfer of 'Local Government' entry from the 'State List' to the 'Concurrent List' which will enable the central government to legislate on local bodies and thereby clean up the optional provision under the 74th CAA. Others have even suggested for creation of 'Local List' in the constitution to allow for distinct functional and tax domain for local government. The relevant suggestions made by Venkatachaliah Commission in 2002 (national commission constituted to review the working of the constitution) for the constitutional change concerning the urban local bodies are given below (Datta, 2005, p. 28-29):

- (i) The municipalities "should be categorically declared to be 'institutions of self-government' and exclusive functions assigned to them."
- (ii) The 12th schedule to the constitution, with powers of local taxation, are to be made compulsory.
- (iii) The concept of a distinct and separate domain for municipalities should be recognized.

6.3 Functions and assignment of responsibilities to municipal governments and need for role clarity in service delivery

The CAA (Article 243W) provides that the state laws should endow municipalities "with such powers and authority as may be necessary to enable them to function as institutions of self-government." The states are to make provisions for the devolution of powers and responsibilities upon municipalities with respect to the preparation of plans for economic development and social justice and the performance of functions and the implementation of schemes as may be entrusted to them including those listed in the 12th Schedule. The 12th Schedule contains an illustrative list of eighteen functions that may be entrusted to the municipalities. These functions are as follows: (1) urban planning including town planning; (2) regulation of land-use and construction of buildings; (3) planning for economic and social development; (4) roads and bridges; (5) water supply for domestic, industrial and commercial purposes; (6) public health sanitation conservancy and solid waste management; (7) fire services; (8) urban forestry, protection of the environment and promotion of ecological aspects; (9) safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded; (10) slum improvement and upgradation; (11) urban poverty alleviation; (12) provision of urban amenities and facilities such as parks, gardens, playgrounds; (13) promotion of cultural, educational and aesthetic aspects; (14) burials and burial grounds, cremations, cremation grounds and electric crematoriums; (15) cattle pounds, prevention of cruelty to animals; (16) vital statistics including registration of births and deaths; (17) public amenities including street lighting, parking lots, bus stops and public conveniences; and (18) regulation of slaughter houses and tanneries.

The assignment of functions to local governments is left to the state governments. Since assignment of functions are not mandatory in nature, it is not incumbent on the states to entrust the functions and responsibilities to the local bodies including those listed in the 12th Schedule. A comparison of the municipal legislations of different states reveals wide variation in the assignment of functions to urban local governments. Many functions not listed in the 12th Schedule are assigned to the states. In Manipur, municipal council is entrusted with 21

mandatory and 20 discretionary functions, which do not correspond exactly to 12th Schedule. In Tripura, municipal council is assigned with 19 mandatory functions, of which nine functions are as per 12th Schedule. In Assam, municipal corporation has to discharge 24 mandatory and 47 discretionary functions, of which five functions are as per 12th Schedule. In Kohima, 20 functions are entrusted with municipal council and divided into obligatory and additional functions corresponding broadly to 12th Schedule. Different perception also exists in the state governments regarding the assignment of municipal functions.

It is observed that the functions prescribed for municipalities under CAA are wide ranging and duplicate with many functions presently performed by state functionaries. Many municipal governments do not have the capacity and the resources to discharge these functions and, thus, they are either performed by state agencies or left undelivered in the process. As a result, municipal governments in many NE states and other states are assisted by parastatal agencies. Provision of water supply and sewerage/drainage in several states has been taken over by state governments, transferred to parastatal agencies, or is a shared responsibility. Thus, responsibilities are highly fragmented among parastatals, development agencies, state departments and municipal governments, delivering inefficient services without economies of scale. Experts view parastatals as mechanism, which the state governments use to undermine local bodies. Through multiplicity of parastatals, the states reduce the functional autonomy of the urban local bodies (Datta, 2005, p. 45). Further, state level agencies usually undertake land acquisition and development works, and take up remunerative projects such as markets and commercial complexes. The municipal governments in most cases have been left with regulatory and maintenance functions-licensing construction of buildings, garbage collection/disposal, street lighting, maintenance of inner city roads, registration of births and deaths, etc. This is usually attributed to organizational incapability of the municipalities to cope with the rising demand of services and poor capacity to mobilize financial resources in order to provide satisfactory level of services to their citizens. To improve the present situation, the only logical solution is to empower the municipal government to become key actor in urban governance, having the mandate to provide services based on preference and choice of citizens, while parastatals and other bodies are deprived of such mandate. Urban local governance is 'organisation of local public life by a range of community level bodies led by the elected local authority' (Batty and Hilton, 2003).

In assignment of functions, many states have come up with their own definition of 'obligatory' and 'discretionary' municipal functions and those functions 'as may be assigned' by the state governments. Recognizing the complexities, government committees and commissions have tried to simplify and identify the core functions for urban local governments. The Eleventh Finance Commission's lists of core functions for municipalities are: (i) primary education; (ii) primary health care; (iii) safe drinking water; (iv) street lighting; (v) sanitation, including drainage and scavenging; (vi) maintenance of cremation and burial ground; (vii) public conveniences; and (viii) other common property resources. In two transitional countries studied, municipal functions are divided into mandatory and optional functions, but municipalities in Slovenia have exclusive and shared functions. There should be clear separation of functions between the state government and local government to avoid overlaps and ensure role clarity.

Once responsibilities are separated clearly, the per capita expenditure norms for fulfillment of such responsibilities can be determined. Such objective assessment will be useful for finding out the ratio of per capita expenditure to be incurred by a state government and municipality, and amongst different municipalities. This will facilitate inter-governmental transfers to match assignment of responsibilities in accordance with the financing principle of funding every mandate of local self-government. An integrated mechanism may be devised amongst planning commission (plan funds), CFC (central transfers) and SFC (state transfers) for inter-governmental transfers to local governments to overcome vertical and horizontal imbalances. Thus, as a step in that direction, assignment of functions to municipal governments should be clearly defined in the constitution and not by rules and regulations. The assignment of functions for municipalities may be divided into essentially municipal functions and agency functions (Table 14). Agency functions should be fully funded by the higher levels of government.

Table 14: Suggested assignment of functions for Municipalities

Essentially municipal functions:
Urban planning including town planning (subject to broad 'outline' or 'structural' plan prepared by the District and Metropolitan Planning Committee/State Government)
Regulation of land-use and construction of buildings (subject to broad 'outline' or 'structural' plan prepared by the District and Metropolitan Planning Committees/State Government)
Planning for economic and social development(Preparation and implementation of socio-economic development plan)
Roads and bridges
Water supply domestic, Industrial and commercial purposes
Public health, sanitation, conservancy and solid waste management
Fire services
Urban forestry
Preventive Health Care
Provision of urban amenities and facilities such as parks, gardens, playgrounds
Burials and burial grounds, cremations, cremation ghats/grounds and electric crematoria
Cattle pounds, prevention of cruelty to animals
Vital statistics including registration of births and deaths
Street lighting
Parking lots, bus stops and public conveniences
Regulation of slaughter houses and tanneries
Slum improvement and up gradation
Agency functions:
Protection of the environment and promotion of ecological aspects
Safeguarding the interests of weaker sections of society, including the handicapped and the mentally retarded
Urban poverty alleviation
Promotion of cultural, education and aesthetic aspects
Primary Education
Primary Health Care

Source: Adapted from Mathur, 2006, p. 11-12, quoted from Mohanty (1995).

6.4 Recent initiatives of the Government of India in urban sector reforms

Recognizing weaknesses and deficiencies in the local governments, the government of India pursues reform measures through the state governments to promote good urban governance and

making urban local bodies as self-sustaining viable entities of local self-government. Of these measures, mention may be made of a reform linked assistance to the state governments through Urban Reforms Incentive Fund (URIF) which is for revising municipal accounting to accrual based double entry accounting system, levying of reasonable user charges, rationalization of property tax, introduction of e-governance, etc. A number of NE states, Manipur, Meghalaya, Nagaland and Tripura are signatories to these reform measures. Besides, a Model Municipal Law (MML) has been formulated for adoption by state governments to simplify municipal bylaws, enhance borrowing, and to allow private sector. MML aims to implement in totality the provisions of the 74th CAA for empowerment of ULBs by providing legislative framework for urban sector reforms. The relevant reform areas are: (i) a unified law for three levels of ULBs; (ii) executive power of a ULB to be exercised by the Empowered Standing Committee; (iii) indirect election of Mayor/Chairperson with five years term; (iv) constitution of wards and ward Committees; (v) classification of municipal functions into core municipal functions (water supply, drainage and sewerage, solid waste management, roads, etc.), functions assigned by government, and other functions; (vi) state government can dissolve an elected local body if it shows default in performance or abuse of powers, after giving due notice and review by a committee and election should take place within six months; (vii) implement recommendations of SFC by state governments; (viii) state governments to frame a Comprehensive Debt Limitation Policy, laying down the general principles of borrowings of loans by ULBs; and (ix) encourage private sector and non-government organizations (NGOs) to participate in construction, financing and delivery of services including billing and collection (Urban Finance, 2003). Further, Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched to create incentives and support for urban reforms both at the state and city levels and to develop appropriate enabling framework through memorandum of agreement with state governments. Grant assistance will be available for specific activities of medium-term city development plan, project proposals and urban sector reforms such as implementation of decentralization measures as per CAA 1992, legal and accounting reforms, e-governance, community participation, public disclosure of local spending decision, etc.

Many people feel that unless these reform measures have legal and regulatory mechanism, they will remain ineffective. The approach under these initiatives is persuasion through incentives and gradual transition, which lacks radical measures needed to constitutionally empower local governments. A new policy to secure constitutionally empowered local government based on democratic and participatory governance should be adopted if good urban governance is to be achieved. Procedural and process reforms to streamline municipal administration should be pursued with municipalities directly through legal and regulatory instruments with a set timeframe for each activity to become a reality in a near future.

6.5 Analysis of institutional arrangements of local governments for urban governance

The urban local governance system in India is still evolving. Local governments in many states remain weak, as the state governments are reluctant to decentralize powers. Empowerment of local government depends on decentralization. Urban management can improve when local government takes full charge of urban affairs. Major functions are still performed by government

departments and their agencies. The enactment of municipal laws has not ensured the transfer of functions to municipalities in NER and other states. The assignment and their satisfactory discharge of functions depend on the rules and regulations as specified by state governments. Although, many functions have been assigned to municipal governments, the exercise of these functions is uncertain and variable at the discretion of state governments. Many municipalities could not discharge their functions satisfactorily since the state governments have not transferred the requisite manpower and finances.

Local municipal governments need decision-making power and the resources to deliver responsibilities. Decentralization of decision-making and devolution of fiscal and financial powers is the basic principle on which local self-government is based, which is also a tenet of good governance. Decentralization, in this context, means local governments empowered with sufficient resources and autonomy to carry out their responsibilities. Some municipal governments in India perform well given the resources at their disposal and the power to act independently. Examples are Alandur municipality and Surat municipality (Section 5.5.3) where significant public services were undertaken by decentralizing decision-making power down to the lower functionaries with private sector participation. Under the decentralization dimensions illustrated by Johnson and Minis (1996), the level of decentralization to urban local government in NER and India is still at the bottom end (see Figure 3). Though local governments are entrusted with broad arrays of urban physical infrastructure and social services, most municipalities (all in case of NER) perform small public work maintenance, not including most social services such as education, social welfare, health, etc. Local governments are yet to play significant roles in urban governance though mandated under CAA with a substantial share of public affairs under their own responsibility.

As explained earlier, the principle of subsidiarity wherein local self-government is formalized and protected in a written constitution is still distant in India. The centralizing forces of the states in the affairs of local governments in NER and other states contrast sharply with the decentralizing trends in three transitional countries analyzed in earlier chapters. These countries have adopted the principle of subsidiarity and other countries have empowered local government system to ensure good governance and to promote efficient and effective services at economies of scale. This is evident from their level of local expenditure vis-à-vis total public expenditure. For example, in the UK, local expenditure constitute 25% of total public expenditure, 24% in Hungary, 13% in Slovenia, 21% in Czech Republic (2001), and about 4% in India (1997-98). Highly devolved local government expenditures are in Australia (50%), Canada (60%), USA (48%), and Germany (35%) in respect of federal states, and Denmark (56%), Sweden (37%) and Norway (38%) in respect of unitary countries (2001). Local expenditure is quite significant in these countries, indicating the level of decentralization and empowerment of local governments. Local governments have high share in the national economy and have competences on diverse responsibilities in these countries. Viewed from above, India needs a conceptual change in the political system beyond the present constitutional provision to recognize on firm footing the principle of subsidiarity instead of the present 'top down' approach. This is most crucial to achieving decentralization and to fulfilling the principle of providing local authorities with resources commensurate with the responsibilities mandated by constitution.

We may now analyze the legal-institutional aspects of municipal governance in India in more detail to understand the inherent weaknesses of the system. Datta (2006) mentions two options of constitutional status for local government. The first one is *coordinate status* implying a formal division of state powers covering local governments. Secondly, *independent status* where local government would have a right of existence, continues to be creatures of states, and provide for central legislative and fiscal intervention for their effective functioning. India opted for an independent status through 74th CAA with hierarchical relationship among the various units of government, and without a clear mandate for central intervention, except for expanding the mandate of the CFC to recommend central assistance to states for municipalities. In South Africa, the local government is based on the principle of cooperative federalism in which all levels of government stand parallel to each other. Brazil has opted for a mix of coordinate and independent local government. A comparative position of local governments in different developing countries on local governance system is given below to illustrate these points:

Table 15: Comparative position of local governments in the third world federations

Areas	Brazil	Nigeria	India	South Africa
Council Composition and the Executive	Elected council; directly elected Mayor is the executive	Elected council, tribal chiefs with advisory role; indirectly elected cabinet is the executive	Elected council, reserved seats/ posts for weaker sections and for women; executive decided by the states	Elected council; executive decided by the local bodies
Electoral Content	No provision for dissolution	No provision for dissolution	Limited period for dissolution for breakdown of administration	No provision for dissolution
Autonomy	Autonomy in deciding executive, levy and collect taxes, managing personnel	Autonomy in deciding executive, but not to levy and collect taxes, managing personnel	No autonomy in deciding executive, levy and collect taxes, managing personnel	Autonomy in deciding executive, levy and collect taxes, managing personnel
Local Functions	Exclusive, but minor functions under the constitution	Exclusive, but minor functions under the constitution	Concurrent and minor functions delegated by the states	Exclusive, and concurrent functions under the constitution
Local Taxes and Federal Revenue sharing	Constitutionally earmarked taxes and fixed share of federal and state tax revenue	Constitutionally earmarked taxes and fixed share of federal tax revenue	Delegated state taxes and state and central grants as recommended by their Finance Commissions	Fixed share of federal tax revenue as recommended by the national Fiscal and Finance Commission
Accountability	Electoral constituents	Both electoral constituents and states	State governments	Electoral constituents

Source: Datta, 2006, p. 27-28.

Let us first examine the organization of urban local governments. The municipality has two broad functionaries: the elected and the appointed. The elected persons constitute the legislative

wing, while the appointed constitute the executive. The authorities consist of (a) standing committee, (b) commissioner, and (c) ward committees. The standing committee comprises of elected representatives or the councilors having the powers of sanctioning of the budget, approving the commissioner's action on performance of various municipal functions- demarcation of streets, re-aligning of building, giving approval to contracts exceeding certain sum, granting sanction for disposal of property, writing off any sum due on account of any tax, etc. (Rao, 2004 a, p. 819-820).

In all established democracies, local government has a political executive and the local government itself decides its form. This is in contrast to the system in India where the executive functionary of municipal government is appointed by the state. The municipalities are driven by bureaucratic system rather than the elected councils of representatives. In transitional countries studied, the appointed executive is subordinated to the political executive who represents the elected representatives of municipality. The municipal council is a representative body with the highest decision-making authority. The mayors are elected directly in Hungary, Slovenia and Korea. The mayor is both the political and administrative heads in Hungary and Czech Republic. In the UK, most of the councils have directly elected mayor with cabinet-style council different from committee based-system. In India, majority of the mayors are indirectly elected by the councilors. The municipal governments in NE states have indirectly elected mayors/chairpersons. The terms of mayors vary, four to five years in most cases, one year or two and a half year in some cases. In Assam, the term of mayor is one year, and in Manipur, it is co-terminus with the council. The terms are not specified in the local laws and kept under the state discretion. Thus, there is no uniformity in the model of municipal government, the mode of election and term of office for mayors. The size of the municipalities is prescribed by law in most NE states, but in Manipur, the state determines the size. The central government has moved for indirect election of the mayor with five year terms and the executive powers of the ULBs to be exercised by empowered standing committee. From the above analysis, it is recommended that the local governments should have the right to appoint its own political executive who is accountable to the citizens and not to state governments. There should be uniform model of municipal government and a fixed tenure for mayor to have stable local governments. The power of local government should vest in the executive council headed by the mayor.

Under the present arrangement, the elected local governments in NE states and other states in India can be dissolved by states on ground of administrative break down or abuse of powers, which shall be placed before the state legislature. The government of India has advocated that state government can dissolve an elected local body if it shows default in performance or abuse of powers, after giving due notice and review by a committee. However, according to ECLS, any administrative supervision of the activities of the local authorities by higher authorities should normally aim only at ensuring compliance with the law and with constitutional principles. In Hungary, Slovenia and Czech Republic, rights and duties of local government are determined by parliamentary acts and the Constitutional Court oversees the legality of their activities. The local authorities in these countries can take recourse to judicial remedy to secure free exercise of their power. The powers to dissolve the local government on ground of unconstitutional activities vest with the parliament. In federal countries like Brazil, Nigeria and South Africa, there is no

provision for dissolution (Table 15). In Philippines, only an act of congress can dissolve municipalities and residents of local government concerned will finally decide any decision thereof in a plebiscite or referendum. The power to dissolve local governments may vest in the national parliament to safeguard the institution of local self-government. Dissolution of local governments may be in accordance with the constitution or laws, which enshrined the principles of local self-government. The court may oversee the legality of the activities of the local government and judicial opinion sought before dissolution.

As the local governments in India have no autonomy in deciding their own executive, their accountability is to the states and not to electoral constituents. In a decentralized democracy, citizens have the right to participate in the conduct of public affairs and the local government is responsive to the citizens, their local needs and preferences. The leadership is decentralized and there is objective representation based on constituency voter preferences (Choup, 2003). The local governments should be accountable to citizens who elected them. In federal countries like Brazil, Nigeria and South Africa, the local governments are accountable to the electorate constituents (Table 15). In three transitional countries studied, the local governments are accountable to the local citizens and their autonomy is assured by the constitution and municipal acts. The local communities of citizens have the right to freely control local affairs and local governments are bound by the interest of their inhabitants. In Philippines, the local citizens decide the creation and dissolution of local government in a referendum.

Further, the municipal governments in NER and other states are subordinated to the state governments in their functional decision-making. State exerts bureaucratic influence over municipal administration, expenditure and execution of services. At the state level, urban development department controls the local government with its own urban policy and programme. The condition is like in the UK where the central government determines to a large extent the over all budget for each local authority and exerts influence over how funding is allocated between services. However, ECLS prescribes that administrative supervision may be exercised with regard to expediency by higher-level authorities in respect of task delegated for execution. Administrative supervision over the local governments should be in proportionate to interests which is intended to be protected. Powers given to local authorities shall normally be full and exclusive. In NER, states decide the executive of municipality, appointed usually from state bureaucracy. Local functions are concurrent, minor functions being delegated by the states. The state controls the appointment and management of executive officers. Several states in India have introduced state cadres of municipal service, like Andhra, Rajasthan, Tamil Nadu and Utter Pradesh, but these have reduced municipal control over staff assigned by the state governments. In NER, a large number of personnel are drawn from state governments. The state appoints and controls the condition of service of executive officers and are transferable. No municipal governments have their own cadre service at their disposal. There is a gross lack of human capacities in municipality to discharge their duties. This is in contrast to the principle, which stipulates that local authorities shall be able to determine their own internal administrative structure in order to adapt them to local needs and ensure effective management and the condition of services should permit recruitment of high quality staff based on merit and competence. The local governments in the UK and the transitional countries are largely

autonomous in the management of their personnel and draw executives from the market on the line of the corporate world. From the above analysis, it is observed that in terms of political autonomy and accountability, decentralization to local governments in NE states and other states is extremely low. In the decentralization dimension (Johnson and Minis, 1996), local governments in India stand at the lowest scale as selection of their officials and their service conditions are largely set by state governments, and the municipality is accountable to the state government and not to electorates. According to this illustration, real decentralization of powers is achieved when the local government is accountable to the local constituents and select their own officials under their control (Figure 3).

The CAA provisions for elected representatives and ward committees visualize the local governments to be fully participatory, responsive, transparent and accountable institutions. Ward committees are the only formal institutional arrangement for peoples participation under CAA 1992. The purpose of these committees is to enable interaction between the people and their elected representatives, to secure proximity of municipal governments to the people in decision-making process, planning, management and delivery of responsibilities, and finally to ensure accountability to their electoral constituents. The ward committees represent at a smaller scale the powers of the standing committee in regards to execution of works in the wards. They are normally constituted by inclusion of all the councilors elected from the wards as well as nominees of either the mayors or the commissioners. The wards are represented in the council through their chairpersons. The ward committees are empowered to sanction estimates and plans for municipal works in their areas. They make recommendations on proposals regarding estimates of revenue and expenditure and render advice on any matter to the municipality. It is observed that several cities in India are without ward committees; even where they have been set up, they have not been delegated with adequate powers and responsibilities to discharge their functions effectively. The wards have total inadequacy of any support system from the municipalities. There are no ward committees in operation in the municipalities of Meghalaya and Nagaland and with very limited role and representation in Assam, Imphal and Tripura (states with municipalities in NER). Memberships of these ward committees are based on selection and nomination rather than election and are largely dominated by elected councilors. These ward committees have very few citizens and NGOs which further vitiated the representative character of these committees. The distressing feature of ward committees is that they are packed with members of the ruling party, thus, politicizing the grassroots institution, which is meant to promote peoples' participation in city governance (Ravindra, 2005, p. 530). However, where these committees are effective, the citizens are involved in the participation of municipal affairs in a non-partisan manner. Though involvement of community based organizations (CBOs) and NGOs and private sectors in some municipal affairs and service provision such as solid waste management, sewerage and sanitation, etc., is showing an increasing trend, but citizen participation in decision-making in the ward system is highly limited. Horizontal accountability mechanisms have not been in placed in municipal management in terms of budget formulation, major tax, expenditure and borrowing decisions and performance reporting. Thus, effective involvement of the citizen in plan preparation and implementation is missing. There are examples of community involvement in municipal budget formulation in a few cities like Bangalore and Hyderabad, but these examples are more of an exception than a general rule in

India (Datta, 2006, p. 25). Further, there is general resistance to pass on relevant information to the citizens by the municipal bureaucracy and sharing of information outside the municipal organizational hierarchy is perceived as a threat. There is no formal linkage in the wards and councils for regular citizen participation and involvement of civil society organizations in the municipal affairs as in other countries studied. Formal institutional mechanism for people participation such as referendums, public hearings, citizens' assemblies, and people initiatives are lacking in NER and in other states in India.

Participatory governance can achieve accountability, transparency, and quality of services at the local level. Citizen participation and interaction can be secured through formal and informal processes (Johnson and Minis, 1996). Under this framework, citizens place needs and demands, provide resources and give legitimacy to the local governments. In return, the local government provides services and infrastructures, accountability, and leadership to the citizens (Figure 3). It is increasingly realized that simple representative form of governance and election system is not a sufficient mechanism to ensure effective peoples' participation in policy decision at the local level. This is amply evident from the situation in NER and other states in India and that the institutional framework for elected councils and ward committees has not achieved peoples' participation in municipal governance as visualized by CAA 1992. Instead, the municipal governments in these cities maintain a monolithic-bureaucratic structure in managing the city affairs. They are paternalistic in their approach, encouraging patron-client ties. Reform initiatives of the central government is directed towards improving municipal administrations, but not for securing more voice mechanism apart from the existing ward committee system though exit option is still very limited in every municipality in India. Most municipalities are reluctant to engage citizens in the civic affairs, though this is an important norm of good urban governance. Unless citizens are empowered in decision-making and problem solving, the efficiency and effectiveness of service provided will not improve much from the present level. A true partnership between the local government and citizens is also needed to achieve quality of services. Authors (Johnson and Minis, 1996) have suggested strategies for strengthening citizen participation. These include formal linkages between local government and local citizens including civil society and other innovative measures, which are beyond legislative prescription. In this framework, apart from electoral representation (election), open meetings and public hearings are included. Under discretionary procedures, not a formal process, there should be an increasing number in the types of municipal meetings, citizen committees, and partnership with community groups. The local government should have client orientation and openness to citizen participation. The capacity of the citizens should be built up to increase civic spirits by funding non-statutory groups, community development, user-group participation and by encouraging grassroots movement (Burns et al. 1994).

In the three transitional countries analyzed, the law requires citizen to participate in decision-making in the local government by way of committee membership, attendance in council meetings, and open meetings for every inhabitant. Civil society organizations are also actively involved in debates on various civic issues. Citizen participation is also secured through direct democracy-local referendum, public initiatives and public hearings-in which the citizen groups can initiate debate on important decisions. In Philippines, civil societies are represented in

various development councils. Different groups like youths, women, farmers and other special groups have voices in decision-making process in the councils. Besides, we have examples of good practices of public participation in planning and decision making in Indonesia (Section 5.5.3), participatory community based urban planning in the Philippines which involve local authorities, national government agencies, private sectors and civil society, and active citizen involvement in visionary planning in Germany. We also have examples of network governance in Belgium, stakeholder involvement in decision-making in Indonesia, and public-private partnership in India. From these experiences, essential features of good urban governance emerge as under:

- (i) Increased sense of responsibility amongst the citizen in civic affairs and increased dialogue between citizen and city government.
- (ii) Identification of issues and solution with various local stakeholders and enhanced local government accountability and responsiveness.
- (iii) Development of broad strategic plan for socio-economic development of city and economic plan for local areas, which touch the lives of the poor, youth and women.
- (iv) Formulating of creative and innovative projects through network and partnership of users, service providers and policy makers.
- (v) Increased transparency, openness in administration, information flow and citizen feedback, and increased civic engagement. Enhanced efficiency and effectiveness of service delivery due to better picture of citizen' satisfaction with people participation in civic affairs.

From the above analysis, it is observed that the present constitutional and legal framework in India as a whole is deficient in many areas to promote good urban governance. Reforms to bring in legal provision are needed to make the local government not only representative but also participatory. The present level of decentralization of decision-making and citizen involvement in municipalities of NER and other states is not sufficient to ensure accountability and transparency. The citizen feedback mechanism would make municipal machinery more responsive to local needs and preferences and facilitate formulation of broad based strategic vision for sustainable development of the cities. The structure of local governments in NER and other states is based on representative democracy through elected councils. However, the municipal bureaucracy is monolithic, less responsive to citizen voices. A representative form of municipal government can result in increasing centralization of political and bureaucratic power (Bailey, 1999). Representative local government can only give an indirect voice to local citizens. Thus, the reform initiatives should be to institutionalize a wide range of new voice mechanism in the constitution or local laws to empower local citizens, and to migrate from traditional political representation to individual participation (direct democracy). In order to secure accountability, transparency and equity in the local government, the ward committees should be broadened to include citizens and civil society organizations and local businesses, etc. Direct democracy through local referendum, public initiative, public hearings as practiced in countries studied may be institutionalized to increase voice. Moreover, the practice of survey, citizen report card, social audit, and public interest litigation should be widely used. This will also increase efficiency and effectiveness in delivery of services. Constant interaction and partnership amongst citizens,

political representatives and various service providers will make the local governance system vibrant, dynamic, consensus and citizen oriented, and self-sustaining.

The process of empowering local government through constitutional and legal instruments, and enhancing financial resources should go side by side with structural change for improvement and efficient performance. Benchmarking performances and best practices should be used within the municipality to increase public value and to deliver more with fewer resources. Many countries in the West are moving towards good local governance practices. The local governments are moving increasingly towards continuous improvement in frontline services. They involve companies, citizens and stakeholders in policymaking and service management. They emphasize partnership with users, communities, service providers and other stakeholders for increasing transparency and accountability through democratic dialogue (Bovaird and Loffler, 2000). Broad acceptance and ownership of the concepts and tenets of good governance and the features of good local governance need to be garnered in the municipalities. There is a need for effective sharing and dissemination of information on good governance practices across all municipalities for internalization, building understanding and capacity at the local level. The institution for good (urban) governance may be set up to provide professional and institutional support to municipal governments on best practices of urban governance and to provide benchmarking of performance amongst municipalities.

The 74th CAA does not prescribe criteria for population size and areas for a municipality. The determination of such areas is left to the states taking into account some criteria like total population, density of population, non-agricultural employment, annual revenue generation, etc. A lot of variation exists amongst the states. In the capital cities of NER, the population in the master plan areas ranges between 61,957 and 814,575 (2001). A majority of NE states do not prescribe any criteria in the municipal laws except in Tripura where municipal corporation should have a population of 500,000 or more, municipal council 50,000-100,000, and nagar panchayat less than 50,000. The municipal area should not be less than 500 per sq.km of area. In order to create a local community, which is both competent and resourceful to discharge its duties effectively and efficiently, there should exist a critical mass of people. ECLS prescribes allocation of responsibility to another authority should weigh up the extent and nature of the task and requirement of efficiency and economy. The economic principle requires local government that should be as small as possible without forging the potential efficiency gains of economies of scale. In Slovenia, the law requires a municipality to have at least 5,000 inhabitants. In 95 municipalities, this criteria was not fulfilled. In 45 municipalities, the population was between 5,000 and 10,000, and two municipalities had above 100,000. In Hungary, the population in 300 municipalities was below 200 during 2000. In Czech Republic, 90% of municipalities have less than 2,000 citizens. In view of large variation, no clear trend exists in respect of the size and area for municipality. Broad criteria may be prescribed for various types of municipalities to determine optimal utilization of resources and to achieve economies of scale to match supply and demand of services. The organization capacity for each type of municipality may also be prescribed for providing basic standard of services. This will facilitate benchmarking of municipal performance for constant improvement.

The CAA does not prescribe any institutional arrangement for co-operation amongst urban local governments to carry out tasks of common interest. Such arrangement is required for maintaining equity and addressing developmental disparity in different local areas in NER and in other regions. A common strategy can be forged for socio-economic development of local areas. ECLS prescribes local authorities shall be entitled, in exercising their power, to cooperate and, within the framework of the law, to form consortia with other local authorities in order to carry out tasks of common interest. Local government should cooperate with their counterparts in other states. Municipal governments can cooperate through agreement for planning and execution of projects on sharing of cost and resources as appropriate. The three transitional countries including Philippines have special provision for cooperation arrangements amongst municipalities in their local laws.

The constitution and local municipal laws do not provide forms of service delivery. Under CAA, the local governments are supposed to perform many responsibilities. This opens up opportunities for private sector participation in provision of infrastructure and services. The recent initiatives taken by the central government endorse participation of private sector and NGOs in construction financing and delivery of services. However, the mechanism and the criteria for engaging private sector are left to the state and local governments. There is no uniform policy in municipal governments for deciding what services to be produced and provided directly by public institutions, services to be contracted out or to be delivered in partnership with private sector or the third sector. Whereas, in the transitional countries studied, public services are provided in cooperation with private entrepreneurs based on contractual relationship. Services of waste management, water supply, waste disposal, lighting and maintenance of municipal infrastructures are provided through public-private partnerships. Many services are also provided through municipal enterprises, specialized public organization/state companies and the third sector. A number of services are contracted out creating choices between private and public services. In the UK, local government is increasingly seen as a regulator rather than main provider of services facilitating delivery by other bodies.

Economic principle advocates that the scope for exit should be facilitated by maximizing the scope of inter-municipal competition and by decentralization of service provision to alternative providers (Bailey, 1999). Thus, provision of services by private sector is a step towards creating competition amongst service providers to increase the scope for exit. In India, many feel that the inability of municipalities to finance and manage the large volume of municipal tasks may favor privatization and public-private partnerships where possible. The local government should have a clear policy for privatization of municipal services. The primary objective for engaging private sector should be to increase efficiency and quality of service provision. Privatization may be favorable when (i) the consumers can be charged; (ii) there are no obstacles to private entry due to factors of investment, operation of parallel services offering competition, etc; (iii) private enterprise is sufficiently mature to offer genuine competition for supply; and (iv) urban government has the capacity to regulate the private sector, enforce contract fulfillment and substitute services when contractors fail completely (Mohanty, 2006). The local government should provide services where local market failure and externalities are high (Bailey, 1999). More details where local government must intervene to avoid market failure may be seen in

Section 3.6. Many municipalities in India have contracted out maintenance of streetlights, solid waste removal, transportation, construction of roads, cleaning of public toilets, maintenance of gardens, afforestation, etc. Public-private partnership is also used in delivery of water and sanitation services, sewerage treatment plants, etc. In NER as most major civic services are provided by government departments, the involvement of private sector is extremely limited. There have been initiatives in Agartala, Imphal, Gangtok, Kohima and Shillong to involve NGOs to assist civic authorities in door-to door collection of garbage, cleaning of drains, etc. Private parties are involved in solid waste management, sanitation, household water supply on contract basis. Experience with outsourcing of sanitation, street lighting operations and collection of advertisement fees in India suggest that it is more economical as well as beneficial to outsource certain municipal services rather than produce the same through municipal bureaucracy.

In view of the fragmentation of urban services amongst parastatals, government departments, traditional democratic institutions (Autonomous District Council (ADC), Dorbar Shnongs and Syiem in case of Shillong),¹⁹ and development agencies, municipal governments in many states are not equipped to play regulatory role. Urban local governments are yet to take full charge of urban affairs of their cities. Massive reform is necessary in this particular area. To benefit from private participation in municipal services, all urban services and responsibilities should be transferred to municipal governments not only in paper so that they become a single agency responsible for regulating service delivery by different agencies. The recent initiative to encourage private participation in municipal services will not have long-term positive impact unless this issue is effectively addressed. Urban governance in NER and other states in general is marked by fragmentation of functions, divided ownership and jurisdictional conflicts. Increase in functional responsibilities and authorities of municipal governments will enhance their credibility and acceptability as legitimate institutions of urban governance to take full ownership of urban affairs. The status of local municipal government needs to be elevated and recognized as third tier of the government system. Thus, building of appropriate institutions and organizational structures of municipal government to function independently of the state government is the prerequisite for securing empowered local government and for transition towards good urban governance. However, it is important for the municipal government to recognize the need for involving all stakeholders such as public institutions, parastatals, traditional institutions, local businesses, NGOs, and the third sector to be consensus oriented in local urban governance. The challenges of urban affairs require multiple solutions and agencies to meet diverse needs and preferences of citizens. Political powers of local governments in countries studied are increasingly taking the form of contractual and network relationships from the previous vertically integrated hierarchical system. They have become less monolithic, more participatory, and responsive to all stakeholders. The model of local government should be based on participatory governance by migrating from a traditional hierarchical organizational structure where decision-making power is concentrated on municipal bureaucracy with weak links to elected representatives, to strategic developmental model of municipal management (Section 4.5). Local government based on this model would maintain relationships horizontally with

¹⁹ Democratic institutions involved in civic affairs are: ADC (executive and legislative powers under 6th Schedule areas), Dorbar Shnongs (elected by male members, similar as ward commissioner for civic affairs) and Syiem, head of Khasi state (elected by electoral Dorbar and takes up schemes outside municipal area).

organized civil society, professional bodies, NGOs and resident's associations, etc., upwards with central and state government, and downwards with civil society, poor neighborhoods, households, etc. (Pieterse, 2000).

6.6 Analysis of institutional arrangements for inter-governmental transfers, accountability mechanism and municipal finances for provision of urban services

ECLS requires that local government should be entitled to, within the national economic policy, adequate financial resources of their own, of which they may dispose freely within the framework of their powers. However, in respect of municipal fiscal arrangement, local governments in India do not share in the revenue of the central government. Central revenue sharing in India is limited only to states and local governments are dependent on cash-strapped states for their revenue sharing. No local governments in the countries studied are financially independent with their own revenue source. Inter-governmental transfer is institutionalized in the constitution and domestic laws in keeping with the responsibilities, level of local own revenue source, equity needs, and autonomy of local governments. Thus, a new mechanism of central revenue sharing should be devised to give real political and financial autonomy to local governments to realize the spirit of local self-government as enshrined in CAA 1992. In Brazil and Nigeria, local governments have constitutionally earmarked taxes and fixed share of federal revenues. In South Africa, the central revenue is allocated by the Financial and Fiscal Commission. According to Datta (2005, p. 25), the central grants for local government should be adequate, but not excessive at the same time, leaving room for the additional state grants to local bodies with fiscal disabilities. The adequacy aspect of the grants should be considered within a triangular sharing of central revenues under the principles of cooperative federalism as practiced in South Africa. The so-called states' share in the central divisible revenue pool needs to be redefined for meeting the expenditure needs of autonomous local governments.

As per CAA requirement, the SFCs review the financial position of ULBs and make recommendation on the sharing and the assignment of various taxes, duties, tools, fees, etc., and grants-in-aid to be allocated from the consolidated fund of the state. As on 15th January 2003, nine states had not submitted their first SFC reports including Meghalaya, Mizoram and Nagaland. SFC lacks power, as there is no divisible pool of tax resources between the state and municipalities as exist between the state and central government for mandatory revenue sharing. Transfers remain a purely adhoc arrangement and unsystematic. Unlike CFC, SFC's recommendations are not mandatory and the reports are largely not implemented by the states. State governments citing resource constraints do not always implement even the accepted recommendations and this defeats the very purpose of constituting the SFCs. Thus, SFCs have not contributed much to improving local finances. Recognizing the deficiencies in financial transfers under SFCs, CFCs have started allocating share of grants to local governments for basic services through the consolidated fund of the states. The tenth and eleventh CFCs recommended adhoc grants of Rs. 10,000 million and Rs. 20,000 million respectively. The 12th CFC had allocated Rs. 50,000 million for improving the standard of civic services performed by urban local governments. Out of which Assam received Rs. 550 million, Manipur Rs. 90 million, Meghalaya Rs. 80 million, Nagaland Rs. 60 million and Tripura Rs. 80 million. This is an

important step towards augmenting resources of local governments with linkage to assigned functions. A deviation from the normal SFC framework, CFC's awards clearly recognize the need of resources for basic services by the urban local governments and the deficiencies in the existing transfer mechanism. The principle of local government financing requires that transfer system should be clear, transparent and predictable based as much as possible on formulae and should not be subject to political bargaining. Thus, the inter-governmental transfers from CFCs and SFCs should be integrated and linked to regular central revenue sharing based on formulae and assigned responsibilities by relevant constitutional amendment. Local government share in central (CFC) and state resources (SFC) should be prescribed for predictable transfers. Local governments are never sure of the timing and amount of funds they will receive from higher levels of government. Transfers via state government make fund flow even more unpredictable. As a result, no meaningful planning of schemes and expenditure can be done at the local level. Transfers depend on the willingness and the financial condition of state governments and the bargaining power of local authorities.

Another weakness in the transfer mechanism is that funds released by central government for local government through state governments take a long time to reach them. The 12th CFC observes, "finance commission grants sometimes take a long time to reach the local bodies even after the central government has released the grants to the states. Often, the state governments were found to use them for their ways and means comfort and show no sense of urgency in passing them on to the rightful recipients. This result in withholding of further releases by the centre and the local bodies suffer the consequences for no fault of theirs. We, therefore, strongly urge the state governments to desist from such practices, which defeat the very purpose of providing such grants to local bodies." This problem is more acute in NE states where the state governments are in severe financial stress. Funds for schemes/projects of basic services from central government are temporarily parked with the state governments to tide over their ways and means problem or divert them for other purposes even for meeting administrative expenditure. Thus, the devolution and transfer of funds to local governments should not be made in the routine manner, as they do not automatically result in creation of assets. Moreover, a number of central projects, which could be appropriately implemented by the local governments, cannot be availed of due to funding criteria requiring matching contribution from the recipients. As such, the local governments due to their financial constraints cannot benefit from many schemes initiated by the central government as state governments are not always in a position to contribute such requirement. In order to ensure fund flow from central government, the transfer mechanism should be changed to allow direct release of funds to the local urban governments. This should be possible if the local government acquires the status of being third tier of governance system and is legally entitled to the share of central resources. Transfers from the central government can be wholly accounted for in the local consolidated fund by local governments instead of routing through the state consolidated fund. From above analysis, a permanent institutional arrangement for direct flow of inter-governmental transfers and project based fundings to local governments is recommended. The accountability mechanism for local

funds can be established within the municipal council through the C&AG institution.²⁰ Presently, urban local government accounts and audit are not separated from that of the state; hence, accountability is vested in the state legislature. In order to maintain the autonomy of the local governments, Municipal Accounts Committee, independent of the executive may be constituted within the council to ensure accountability. It may be argued that institutional and fiscal autonomy at the local level would instill ownership, enhance accountability, and provide incentive for strengthening own source revenues for their long-term sustainability, which is the basis of good urban governance.

We may now see the position of municipal finances for service delivery of all India position to have a wider perspective. Most urban areas in the country have witnessed deterioration in the standard and quality of public life in recent years. In almost every urban centre, the availability of basic services has declined, and considerable populations have no access to many of the services and amenities. In 1995, approximately 15% of India's total urban population had no access to safe drinking water and approximately 50% had no access to basic sanitation. In collection and disposal of waste, the situation is worse. Apart from the low population coverage by garbage collection services, on an average, 30 to 40% of garbage is left on the city streets uncollected (Mathur, 2006, p. 2).

According to planning commission's estimates, the share of municipal expenditure in the total public sector expenditure declined from nearly 8% in 1960-61 to 5% in 1977-78, to 3% in 1986-87 and to 2% in 1991-92. Municipal governments do not have sufficient finances at their disposal even to meet basic services. ECLS stipulates that the local authorities' financial resources should be commensurate with the responsibilities entrusted by the constitution and the law. The municipal governments would require an additional investment in basic infrastructure and services of about Rs. 740,000 millions if the deficiencies in the existing level of services are to be eliminated and all sections of urban population are to be provided with basic urban services by 2020. In addition, approximately Rs. 180,000 million annually would be needed to operate and maintain these services at the barest minimum levels (Mathur, 2006, p. 3-4). The level of expenditure incurred on core services by many municipal governments is also far below the norms suggested by the Zakaria Committee²¹ way back in 1963 (Chaubey, 2005). Only a few municipalities met the expenditure norms established by the Zakaria Committee as per the data available for 1997-98 (Table 16). For the municipal governments to reach these recommended expenditure norms, their revenue receipts will have to increase significantly.

²⁰ Comptroller and Auditor General of India is the supreme audit institution of the country appointed under the Constitution of India.

²¹Core functions suggested by Zakaria commission include water supply, drainage/sewerage, roads and bridges, street lighting and electricity distribution.

Table 16: Normative and actual expenditure, 1997-98 (Rs. in crore)

State	Actual Expenditure		Zakaria Norms		Zakaria expenditure deficiency		% Deficiency to actual expenditure	
	Core	Total	Core	Total	Core	Total	Core	Total
Andhra Pradesh	202.9	715.8	703.7	961.4	500.8	245.6	246.8	34.3
Assam	20.2	73.6	83.1	113.5	62.9	39.9	311.4	54.2
Gujarat	369.3	950.9	644.7	880.8	275.4	-70.1	74.6	-7.4
Haryana	164.5	344.2	177.6	242.6	13.1	-101.6	8.0	-29.5
Himachal Pradesh	11.0	34.6	18.0	24.5	7.0	-10.1	63.6	-29.2
Jammu and Kashmir	12.0	75.1	69.3	94.7	57.3	19.6	477.5	26.1
Karnataka	151.8	445.8	664.0	907.2	512.2	461.4	337.4	103.5
Kerala	84.5	272.6	301.6	412.0	217.1	139.4	256.9	51.1
Madhya Pradesh	226.7	621.4	757.6	994.1	530.9	372.7	234.2	60.0
Maharashtra	2,223.5	4,978.3	1,584.1	2,164.2	-639.4	-2,814.1	-28.8	-56.5
Orissa	39.7	137.9	188.0	256.8	148.3	118.9	373.6	86.2
Punjab	52.6	359.4	227.4	310.6	174.8	-48.8	332.3	-13.6
Rajasthan	349.7	489.0	443.4	605.7	93.7	116.7	26.8	23.9
Tamil Nadu	521.0	1,251.9	1,077.3	1,471.8	556.3	219.9	106.8	17.6
Uttar Pradesh	134.3	605.9	1,096.2	1,497.6	961.9	891.7	716.2	147.2
West Bengal	98.0	381.1	680.7	930.0	582.7	548.9	594.6	144.0
Goa	3.66	17.1	25.5	34.9	21.8	17.8	595.6	104.1
Manipur	0.2	2.8	14.8	20.2	14.6	17.4	7,300.0	621.4
Meghalaya	1.2	7.0	11.1	15.1	9.9	8.1	825.0	115.7
Nagaland	N.A	N.A	8.1	11.1	N.A	N.A	N.A	N.A
Tripura	2.5	10.6	13.5	18.5	11.0	7.9	440.0	74.5
Bihar	N.A	66.0	403.2	560.9	N.A	494.9	N.A	749.9

Source: Chaubey, 2005, p. 119-120. Note: N.A: Not Available; Minus figures are expenditure over and above the prescribed norms.

Thus, there is a wide gap between the financial resources available with the municipalities and estimated requirement for meeting the basic services. This position indicates deprivation of core urban services such as water supply, sanitation, primary health, street lighting, primary education, etc., and a marked deterioration in the standard and quality of life of urban population. On an average, the funds expended by local bodies in India was about 4% of total public expenditure (1997-98), which is much smaller than the international levels of spending of about 25% of total public expenditure in the UK, 24% in Hungary, 13% in Slovenia, and 21% in Czech Republic in 2001. Thus, the share of local government expenditure to the total government expenditure needs to be increased substantially to increase the level of services provided.

The principle of local government financing requires that local government should finance as much of their responsibilities as possible through own-source revenue (taxes and user charges), the rates, bases and administration, which are truly under their control. A majority of municipalities in India are not able to raise adequate resources from their own sources to meet increasing expenditure on services. Municipal bodies raised approximately only Rs. 39,000 million from their own sources during the year 1991-92, which constitutes a mere 5% of revenue raised by the central government and 8% raised by state governments. This is estimated to be only 0.6% of the country's GDP. During 2000-01, the revenue share of municipalities in the combined revenue of three tier of government was only 3%, as against 35% of state government

and 62% of central government (Mathur, 2005, p. 194) indicating fiscal centralization in India. We may further examine the position of municipal finances from various sources as given in table below:

Table 17: Sources of Municipal revenues, 1997-98

States	Total Revenue (Rs. Crores)	Own sources (%)			Transfers (External Sources) (%)			
		Tax	Non-tax	Both	Shared Taxes	Grants	Others	All
Andhra Pradesh	13,800.1	36.3	14.8	51.1	33.6	13.0	2.3	48.9
Assam	4,721.4	23.2	35.8	59.0	N.A	23.4	17.6	41.0
Bihar	10,313.3	36.9	15.9	52.8	3.0	40.3	3.9	47.2
Gujarat	10,921.0	79.8	7.7	87.5	0.2	11.0	1.3	12.5
Haryana	5,716.8	42.8	37.7	80.5	13.4	4.0	2.1	19.5
Karnataka	11,417.3	18.1	25.1	43.2	5.7	43.6	7.5	56.8
Kerala	7,629.6	44.7	25.6	70.3	20.7	4.7	4.3	29.7
Madhya Pradesh	11,472.8	22.6	24.7	47.3	11.9	39.9	0.9	52.7
Maharashtra	21,721.1	65.4	30.0	95.4	0.5	3.9	0.2	4.6
Orissa	5,046.7	46.9	20.2	67.1	0.9	28.6	3.4	32.9
Punjab	7,074.2	69.6	19.4	89.0	6.5	3.8	1.0	11.0
Rajasthan	8,713.8	62.9	26.9	89.8	0.2	9.3	0.7	10.2
Tamil Nadu	13,418.4	21.2	23.1	44.3	22.0	29.5	4.2	55.7
Uttar Pradesh	17,478.1	13.5	5.9	19.4	0.4	79.1	1.1	80.6
West Bengal	9,764.41	36.5	22.8	59.3	5.1	30.5	5.1	40.7
Himachal Pradesh	2,117.6	15.3	10.6	25.9	N.A	72.0	2.1	74.1
Manipur	906.9	90.4	7.9	98.3	0.2	0.1	1.4	1.7
Meghalaya	947.5	37.7	8.6	46.3	N.A	40.1	13.6	53.7
Tripura	1,130.3	27.3	15.6	42.9	N.A	33.7	23.4	57.1
All	163,413.49	56.4	26.4	82.8	4.0	12.0	1.2	17.2

Source: Mathur, 2006, p.15 quoted from NIPFP (2000). Note: N.A: Not Available.

Municipal own source revenue, tax and non-tax sources, constitute about 83% and fiscal transfers from the states to the local government was 17% during 1997-98. The overall position of own source revenue of local governments in India appears to be more favorable in comparison to other countries analysed in Section 5.3 viz., Hungary (32%), Slovenia (34%), Czech Republic (17%), the UK (40%), Philippines (32%) and Korea (41%).²² However, the own revenue of urban local bodies in India formed only 0.5% of GDP in 1997-98 which indicated an extremely low level of income and expenditure base of urban local governments. During 1997-98, all NE states and other states could not even meet the Zakaria norms for basic services set in 1963 (Table 16), indicating that municipal services are operated at sub-standard scale in most municipalities. Thus, own source revenues are highly inadequate to fund the activities of municipal governments which are good enough to meet only a part of their operation and maintenance (O&M) requirements and, therefore, they are dependent on higher levels of government to finance their activities (Alok, 2004, p. 28-41). Municipal governments spent 54%

²² The figures pertain to 2000-01 in respect of Hungary, Czech Republic and Korea; 2002 for Slovenia and Philippines; and 2003-04 for the UK.

on establishments (salaries and wages) as a percentage of municipal revenue expenditure and the expenditure on O&M was 40% during 2001-02 (Mathur, 2005, p. 201-203). In Assam, during 1997-98, wages and salaries constituted 42% and O&M 54% of total revenue expenditure; in Manipur, 71% on wages and salaries and 9% on O&M; in Meghalaya 52% on wages and salaries and 30% on O&M; in Tripura 57% on wages and salaries and 1% on O&M. Thus, on the whole, expenditure on establishment charges is much higher, and much less is spent on improvement of services in urban areas by municipal governments.

Further, within the own source revenue, tax revenues constitute 56% and non-tax revenue 26% of the total municipal revenues. As per economic principle, charges should be the primary means of financing local government services because most are not pure public goods. In India, on an average, own non-tax revenues (fees and user charges) are much lower than own tax-revenues (Table 17). In Agartala, non-tax revenues of municipal government constitute 11% of total revenues as against 9% tax revenues. In Guwahati, non-tax revenue was 9% as against 69% tax revenue; in Imphal, non-tax revenue was 16% against 82% tax revenue; in Kohima, non-tax revenue was 22% and tax revenue 76%; and in Shillong non-tax revenue was 18% and tax revenue was 56% during 2001-02. It is evident that charges are not the main sources of financing local services. Thus, major source of funding local service in NER is from tax revenue and the inter-governmental transfer is low in most cases. Though user charges constitute the most important mechanism for cost recovery, in many states, small municipalities incurred losses and the user charges are generally levied far lower than the per capita expenditure. Most municipal governments and parastatals are not recovering even the maintenance cost. In India, maintenance cost recovery through user charges is hardly one third of the total operation and maintenance cost. The concept of user charges should be adopted as a matter of policy in the municipal finance. Levying of user charges needs rationalization by devising suitable rate structure and improvement of collection machinery to enhance efficiency and quality of services and to facilitate economical use of resources. The state and central governments can facilitate enforcement of such policy by linking them with proceeds of shared funds and grants to local governments. The earmarked grants can be released only after careful assessment of operation and maintenance costs to be recovered from the consumers or beneficiaries. Provision of urban services should not be considered as free public goods or as obligatory services offered in return of general taxes levied by the municipal governments but viewed as commodities which are to be provided on commercially viable basis, goods for which a service charge or user fee has to be paid. The service charge or user fee is in the long run expected to be adequate to meet the entire cost of supplying these services both capital cost, and operation and maintenance cost.

According to the principle of local financing, the transfer system should overcome vertical and horizontal imbalances and inter-governmental transfers should provide funding for assigned functions. The financial transfer from states to local governments in India was only 17% of total municipal revenue receipts during 1997-98. In European countries studied, grants are major share of revenues for local governments. For example, local governments in Hungary received 44% of their total revenue as grants from state governments, 20% in Slovenia, 35% in Czech Republic, and 49% in the UK. In most of these countries, for performance of mandatory responsibilities, local governments are automatically entitled to normative contribution from the

central budget. In a majority of capital cities in NE states, revenue grants are lower than own source revenues except in Agartala. Revenue grants constitute 80% of total revenues of municipal governments in Agartala, 22% in Guwahati, 2% in Imphal, 2% in Kohima, and 26% in Shillong during 2001-02 (MoDoner and ADB, 2003, p. 9-5). However, this should be seen against the overall revenue income and expenditure position of each municipality. Per capital income of municipality in Agartala was Rs. 517, Rs. 360 in Guwahati, Rs. 89 in Imphal, Rs. 67 in Kohima and Rs. 280 in Shillong against all India states average of Rs. 482. In term of per capita expenditure, municipal governments in Agartala spent Rs. 398.5, Rs. 320.3 in Guwahati, Rs. 98.6 in Imphal, Rs. 63.2 in Kohima and Rs. 229.2 in Shillong against all India states average of Rs. 576.7 during 2001-02. Thus, though revenue grants are lower than own sources in most municipalities in NE, their per capita income and expenditure are lower than all India average figures, indicating poor financial health and low level of service delivery. Further, transfers from shared taxes in Indian municipalities include entertainment tax, motor vehicle tax, stamp duties, professional tax, entry tax, etc., which account for only 4% of total transfers which is extremely low compared to other countries. In Hungary, share of income tax constitute more than 50% of total local tax revenue, in Slovenia shared tax revenue constitute 42% of total local revenue, and in Czech Republic, local governments receives 41% of shared tax proceeds. In Philippines, local governments' share in the national internal revenue taxes was 40% of total internal revenue collection. Shared taxes to municipal government are very insignificant in NE states. From the above analysis, inter-governmental transfer in India as a whole is much lower compared to countries analyzed. Thus, more financial transfer in the form of grants and shared taxes is a prerequisite to augment the resources of municipal governments to enable them to provide basic level of urban services and to fulfill these responsibilities. The task of augmenting municipal resources by CFC and SFC should be made mandatory which should also keep in view the financially weaker municipalities to overcome regional imbalances. Specific and general inter-governmental grants or special assistance from higher levels of government to local governments should be institutionalized within the legal and constitutional framework to overcome the problem of municipal finances in the country.

The Indian constitution does not provide for an independent set of taxes that the municipalities can raise. In this regard, ECLS prescribes that part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limit of the statute, they have the power to determine the rate. In India, the taxes and rates are determined and regulated by the state governments. There is no distinct tax domain for municipalities and the state governments' discretion in determining taxes, tax rates and even exemptions are significant. Though the Eleventh Finance Commission recommended that local governments should be empowered to fix rates of taxes and user charges, local governments have very limited power to determine the rates. The states' involvement in property tax valuation and assessment, and also specifying or approving tax rates have not encouraged the municipalities to take responsible decisions. The municipal governments in NE states have no power to set any rates of taxes under their areas. Most of the taxes are optional in nature and, thus, the municipal governments are reluctant to impose the taxes. The SFCs have not proved to be useful in empowering local governments with assignment of mandatory taxes and the discretion to set their own taxes and user charges. In order to build up own revenue source, local governments should have

considerable discretion to set their own level of local taxes and user charges. Further, most of the states have opted for a global sharing of their tax revenues, which lacks the concept of equalization grant. In Slovenia, local government receives financial equalization if its proper revenues are not sufficient to cover assessed expenditure. Thus, financial transfers should be done by taking into consideration the resource mobilization capacity of each municipality and equalization principles to overcome horizontal and vertical imbalances. There should be broad criteria set for financial transfers by linking service requirements of each local area.

From the above analysis, we may conclude that local government finances in NE states and other states in India are highly centralized. The local governments have to depend on the higher levels of government for revenue transfers and their own source revenues are just enough to meet their O&M and establishment charges. The per capita revenue and expenditure is low and the level of services provided is not of standard quality. However, unfortunately, inter-governmental transfers from higher levels of government are very low and are based on adhoc arrangement without proper norms and equalization principles. In terms of local expenditure, India stands much lower than the countries studied which only indicates the lesser progress made in decentralization of fiscal and financial power to local governments. State governments set the rates for taxes and user chargers and the share of user charges for local financing is insignificant in real terms. Viewed from the decentralization dimension of Johnson and Minis (1996), local governments in NER and other states stand at the lower end. The municipal finance is marked by low level of central to local transfers, high reliance on central governments transfers and shared taxes, and user charges being set by central government. However, in the decentralized governance system, local governments should have broad authority to set own source revenue and intergovernmental transfers are formalized and well established (Figure 2).

6.7 Case studies of urban local governments in selected capital cities of NER

The broad issues relating to institutional arrangements of urban governance in NER and other states in India have been analyzed in the previous sections. In order to appreciate the condition prevailing in urban local governments in the NER, specific cases of selected capital cities, namely, Agartala, Gangtok, Kohima, and Shillong may be studied in detail in this section. The status of municipal governments in these capital cities would perhaps represent the general condition of municipalities prevailing in the region. These capital cities represent those with and without municipal governments. In Agartala, a well-established elected municipal council with specified geographical jurisdiction exists. Gangtok though covered by municipal law, no election has been held since its inception. In Kohima, the first elected municipal council has taken charge a year ago in 2005. In Shillong, a state government administered municipal board covering only one tenth of the urbanized area looks after urban affairs.²³

In line with the provision of 74th CCA 1992, six northeastern states of Assam, Manipur, Meghalaya, Sikkim, Tripura and Nagaland have enacted municipal legislations. Two states of

²³ Shillong is the only capital city covered under the Sixth Schedule [Article 244(2) and 275(1)] which has provisions for administration of tribal areas of Assam, Meghalaya, Mizoram and Tripura. Shillong municipal board controls larger part of Greater Shillong Planning Area (GSPA), and some area are with tribal institutions under the Sixth Schedule.

Arunachal Pradesh and Mizoram have neither adopted the provisions of CAA nor enacted municipal legislations. It is observed that overall, NER is marked by underdeveloped urban governance system. The institutions of urban local governments as developed in other states in India are not operational in a majority of the capital cities. Since CAA has left the subject of municipality to state governments, two capital cities (Aizawl and Itanagar) are yet to enact the constitutional provisions. Of the six states with municipal legislations, only three capital cities (Agartala, Imphal and Kohima) have democratically elected urban local bodies under CAA 1992. The other three capital cities (Guwahati, Gangtok and Shillong) did not have democratically elected municipal governments. Thus, a majority of capital cities in northeastern states are deprived of modern elected municipal governments in urban areas. This indicates the need for constitutional provision to ensure adoption of the principles of local self-government to manage urban affairs and enactment of municipal laws in all the states. The machinery of SEC independent of the state governments should be established and strengthened for regular conduct of election with definite timeframe if elected local governments are to be secured as per CAA in NE states.

Viewed from above, a move from direct governmental management of civic services to modern municipal government by elected councils is very slow in the NE. But, the general perception and the situation is fast changing particularly due to the rapid growth of urban centres and urban population mainly in the capital cities, and the realization of the complexities of managing large urban agglomerations. The usual reasons for the underdeveloped urban governance system in the NE are mainly attributed to: (i) a small size of area and population of the hill states where a third tier of government was not considered imperative till recently; and (ii) the important role played by the traditional/tribal institutions in governance, particularly control over land ownership, occupation, and use (MoDoner and ADB, 2003, p. 7.1-2). However, in comparison with municipalities in European countries studied, the size of population in all the capital cities of NER is much larger and many of them exceed 100,000 except Itanagar with 61,957 populations (Table 4). Thus, in terms of population, the capital cities are fully justified to have modern municipal governments for efficient and responsive provision of urban services. This is a step towards securing good urban governance and decentralized provision of services based on local needs and choice. Traditional institutions of governance in urban areas are only in Shillong, even there, master plan areas are already under municipality jurisdiction.

We may briefly examine the prevailing legal status of urban municipal governments in NER. For this purpose, the legal provisions of municipal governments in Agartala and Imphal where elected local governments are in place and in Guwahati where municipal corporation functions have been taken for detail analysis. Some important legal aspects of municipal governance followed in these capital cities are given below (Singh, 1999):

(i) Tripura Municipal Council Act, 1994 provides for constitution and organization of municipal government in urban areas. In the municipal council consisting of directly elected and nominated members collectively responsible to the council, chairperson-in-council exercises all executive powers. The chairperson is indirectly elected by the council and in case of failure, the state government can appoint from amongst the elected members. The municipality is entrusted with

nineteen mandatory functions including nine functions as per 12th Schedule of the constitution. The municipality has the power to levy, collect ten taxes, duties, tolls and fees. However, all the taxes are optional in nature. The state may make rules to regulate the manner and rates for levying taxes. The state government may also make rules for carrying out the provisions of the act and may dissolve a municipality on ground of incompetence, failure to perform duties imposed, and to carry out directions given by state government or abuse of powers. The municipality is heard before dissolution, which is laid before the state legislature. Officers and employees are appointed by the mayor/chairperson, however, the power to create and abolish any post vests with the state. The state government may divest any property or transfer for a limited period for development and maintenance. No details of the composition and role of the ward committees are mentioned in the act. State finance commission and state election commission are not provided in the municipal law.

(ii) Manipur Municipalities Act, 1994 defines the operations, competences of municipality and its relationship to the state. In the municipal council, the chairperson is indirectly elected by the members at the instance of the deputy commissioner (state representative in district). He watches over the financial and executive administration, exercises supervisory and executive control over the officials. The chairperson may cease to function in office if remains absent from office owing to illness or any other cause for a period exceeding three months without the leave. The state government may entrust the municipalities with functions for preparation of plans and implementation of schemes including those listed in 12th Schedule of the constitution. The municipality is entrusted with 21 mandatory and 20 discretionary functions. The municipality may impose 13 optional taxes with the prior approval of the state government and the state may direct the municipality to impose any tax or to modify the rate of any tax. The council can appoint executive officers and officials only with the concurrence of the state. Without the approval of the state government, no disciplinary action can be taken against the executive officers. The budget of the municipalities and accounts statements are submitted to the government. No byelaws passed by the municipality can come into force until the state government confirms it. The government may also suspend the execution or order of the municipality or prohibit the doing of any acts. The municipality may be dissolved by the state government for failure of performing obligatory duties, exceeds, or abuses its powers. The state government may constitute ward committees for a municipality having a population 300,000 or more. Each ward committee consists of not less than 5 wards consisting of elected members, officers of the municipality as ex-officio members at the behest of the state and nominated citizens. No details of state finance commission and state election commission exist in the act.

(iii) Guwahati Municipal Corporation Act, 1969 provides for urban government in capital city. The corporation consisting of elected councilors and appointed members is headed by mayor who is responsible to the corporation. All matters are determined by a majority of the councilors voting and the proceedings of each meeting are forwarded to the state. The corporation may appoint officers and such appointments are subject to the approval of the state government. The municipality is entrusted with 24 mandatory and 47 discretionary functions, which include 5 functions as per 12th schedule of the constitution. The corporation has the power to impose six mandatory and nine optional taxes. Any abolition of existing taxes, duties and fees or reducing

and increasing the rates can be carried out only with the sanction of the state. The corporation prepares its budget estimates, manages its own property and asset under its control, and can borrow for investment in assets with the prior approval of the state government. No regulation made by the corporation can have effect until approved by the state government. The state government may depute any employees to inspect or examine any municipal office or work. The government may suspend the execution of resolution or order or prohibit the doing of any acts, which is in contravention of the power conferred by the act. Ward committees having a population more than 300,000 may be constituted in a municipality. Each ward committee consists of not more than four wards. There are four elected members and four interest groups nominated by state in the ward committee. The ward committee looks after the needs of the residents so that they need not go to the municipality. The SFC and state election commission find mention in the definition section of the act.

The legal framework of municipal governments in these capital cities provides for decentralization of decision-making process to elected councils for city governance. The local authorities are entrusted with large responsibilities and the power of levying taxes. The council in Imphal and Guwahati are headed by chairperson and the executive heads of the councils are appointed by the state. In Tripura, chairperson of the council is also the executive head. The state exercises supervision over the municipal administration through the urban development department and is subject to overall policy set by state government. In many areas, the state governments have the overriding powers over the urban local governments. The council can be dissolved on ground of failure to follow or comply with the directions of the state. In the overall urban affairs, the councils are subordinated to the state, function as their agents following policy and programme set by state. The requirement of state approval on budget estimates, levy and rate of taxes, appointment of higher officials, bye-laws, etc., can be seen as constraints on the powers of local governments. A number of mandatory and discretionary responsibilities over and above those listed in 12th Schedule of the constitution are assigned to urban local governments but the resources to carry out those responsibilities are not clearly specified in the municipal laws. This is left under the discretion of the state. Though the councils are empowered to mobilize revenues from various taxes and user charges to sustain the civic services, but the taxes are mostly discretionary and non-mandatory in nature. The ward committees are the only formal institution for citizen participation, but dominated by councilors with only a few nominated members. The councils are dependent on the state governments for transfer of responsibilities listed in the acts and for financial resources to deliver such functions. Only a few functions are actually performed by these municipal governments. The local body in Guwahati performs limited water supply, drainage, solid waste management, street lighting, roads, schools and dispensaries. In Imphal, the council performs solid waste management, street lighting, schools and dispensaries.

State finance commissions have been constituted in four states having municipal laws, except Nagaland and Meghalaya. The status of SFCs in NE states is not very encouraging as given in Table 18:

Table 18: Status of SFC constitution and submission of reports in NE states, 2003

State	Month of SFC constitution	Month of submission report	Month of Action taken report (ATR)	Period covered by SFC
Arunachal Pradesh	Not constituted	N.A	N.A	N.A
Assam	June 1995	February 1996	March 1996	1996-97 to 2000-01
Manipur	April 1994	December 1996	July 1997	1996-97 to 2000-01
Meghalaya	Not constituted	N.A	N.A	N.A
Mizoram	Not constituted	N.A	N.A	N.A
Nagaland	Not constituted	N.A	N.A	N.A
Tripura	August 1996	September 1999	November 2000	2000- 01 to 2004-05
Sikkim	April 1997/July 98	August 1999	Submitted	2000-01to 2004-05

Source: Adapted from Alok, 2004, p. 28-41.

Note: N.A: Not Available.

The role of SFCs in the devolution of finances to local governments is still very limited. Even in those states where SFCs have been constituted, their recommendations have not augmented the municipal finances. The transfer of funds to municipalities depends wholly on the condition of state finances and on adhoc arrangements, indicating the need to change the status of SFCs as explained earlier. State financial grants to ULBs are low in most capital cities, showing increasing trends only in Agartala and Guwahati. State financing of urban services through ULBs is low mainly because the state governments directly provide urban services. The per capita income and expenditure of ULBs are much lower than all India states average figures, indicating poor financial health and low standard of services delivered to local citizens. In most cases, own non-tax revenues are much lower than own tax revenues, indicating low mobilization of user charges and their financing of local services. The resource bases for these ULBs are limited. Moreover, much of the revenue expenditure of municipal councils is spent on establishment expenses and their O&M expenditure is low which not only means poor services but also deterioration in assets. During 2001-02, against all India states average of 54% on establishment expenditure and 40% on O&M expenses, ULBs in Guwahati spent Rs. 200.2 million (77%) on its establishments and only Rs. 53.3 million (21%) on O&M; Imphal spent Rs. 20.5 million (93%) on establishment and Rs. 1.5 million (7%) on O&M; Agartala spent Rs. 63.8 million (86%) on establishment and Rs. 8.9 million (12%) on O&M; and in Shillong, establishment expenditure was Rs. 12.7 million (42%) and Rs. 17.7 million (58%) on O&M. During the same period, most of ULBs spent much less capital expenditure for creation of new services and assets, indicating wide gap between resources available and expenditure requirement for basic urban service in all capital cities in NER. Capital expenditure in Guwahati municipality was only Rs. 8.6 million, Rs. 0.5 million in Imphal, Rs. 27.4 million in Agratala, and Rs. 23.33 million in Shillong.

6.7.1 Agartala

Tripura is the second most populous state in the northeastern states having a share of 8% of the NER total population.²⁴ Agartala, the capital city of Tripura, has a Master Plan Area of 92.0 sq. km with a total population of 421,000 in 2005, which accounts for 69% of the state urban population (MoDoner and ADB, 2006a, p. 3-1). The state has a clear policy of promoting local self-government and entrusting civic functions to the municipal government. As per 74th CAA 1992, Agartala has a fully functional, elected municipal council, namely, Agartala Municipal Council (AMC) constituted under the Municipal Act, 1994 for democratic city governance. All mandatory provisions for local governments such as legal framework, state election commission, state finance commission, ward committees and assignment of duties and functions are in place. The first election took place in 1995 and the AMC started functioning since January 1996.

At the state level, Urban Development Department (UDD) looks after the overall municipal administration and urban policy of the state without direct responsibility for implementation of urban services. Various levels of government scrutinize contracts and expenditure of the municipality. The size of council is decided by the state. AMC functions on the model of chairperson-in council consisting of 17 councilors and 8 nominated sector presidents. The council is headed by chairperson elected by the councilors. The council consists of the chairperson, vice-chairman and four executive members and councilors. The chairperson-in-council is the executive head of the council and the main policy maker. AMC is assisted by four standing committees of public work, public health, finance and social welfare. The chairperson is assisted by chief executive officer who is the head of administration of the council with about 588 staff strength. The personnel are largely drawn from the state and state civil services.

The municipal area is divided into three zones comprising of a group of wards for administrative expedience for decentralizing the provision of urban services on the line of Surat municipality. The zonal offices are headed by executive officers from the state civil services. Their main activities include assessment of property taxes/fees, collection, sanitation, drinking water, registration of birth and death, solid waste management, street lighting, etc. At the grassroots level, ward committees operate in the existing 17 wards in which the councilor of concerned ward is the chairman. Each ward committee can have one ward committee. Each ward committee consists of 7 to 11 members with those nominated by the chairperson and the councilor. The ward committee is generally responsible for (i) holding annual public meetings for discussion of administrative report, and future plans and programmes; (ii) redressal of citizen's grievances; (iii) identification of ward problems, overseeing execution and provision of urban services; and (iv) planning and functioning of various obligatory and discretionary functions and arranging annual general meeting of ward residents. However, the actual involvement of ward committees in municipal affairs is limited, the meetings are not held regularly, and the influence on the policy decision is very limited.

Of 18 functions assigned by the law, the state government has so far delegated 14 functions to the municipal government which include: (i) public health, sanitation, conservancy and solid

²⁴ Assam has the largest population with 68.24% of the total population of NER (Census of India 2001).

waste management; (ii) roads and bridges; (iii) provision of urban amenities and facilities such as parks, gardens, playground; (iv) burial grounds and cremation grounds; (v) street lighting, parking lot and public convenience; (vi) promotion of cultural, education; (vii) planning for social and economic development; (viii) urban forestry, environment protection; (ix) safeguarding interest of weaker section of society; (x) slum improvement; (xi) urban poverty alleviation; (xii) cattle ponds, preservation of cruelty to animals; (xiii) regulation of slaughter houses and tanneries; (xiv) water supply (only revenue collection); and (xv) construction of buildings. AMC also implements a number of state and centrally sponsored schemes within their area. Despite assignment of these functions, AMC performs only few services of sewerage, solid waste, sanitary and some regulatory functions while the majority of functions are being performed by government departments and agencies.

Urban services are fragmented amongst different agencies like Public Health Engineering Department (PHED), Public Works Department (PWD), UDD, etc. Some urban services are exclusively with the AMC and others are jointly shared with state departments. Most important functions such as urban planning, town planning, regulation of land use, fire service and water supply, transport, etc., are kept outside the control of AMC, which reduce its important role in urban affairs. Involvement of private and NGOs is extremely limited. The distribution of urban service delivery amongst various institutions is given below:

Table 19: Institutions responsible for urban service delivery in Agartala

Sl. No	Service/Function	Institutions
1.	Water supply-bulk	PHED
2.	Water supply-distribution	PHED and Urban local bodies
3.	Storm water drainage system	Urban local bodies
4.	Sewerage	Urban local bodies
5.	Sanitation	Urban Local bodies
6.	Solid waste management	Urban local bodies and NGOs
7.	Roads	PWD and Urban local bodies
8.	Street lighting	Tripura Electricity Corporation
9.	Public transport	N.A
10.	Traffic management	Police
11.	Fire services	Fire service department
12.	Parks, open spaces development and management	Urban local bodies
13.	Community/ public toilets	Urban local bodies
14.	Slum upgradation	Urban Local bodies
15.	Primary education	Education department
16.	Primary health	Health department
17.	Town planning	UDD
18.	Building permission	UDD and Urban local bodies
19.	Land registration	Revenue department.

Source: Report of North Eastern Region urban development project (TR-18), MoDoner and ADB, New Delhi, 2006, p. 3-5.

Note: PHED: Public Health Engineering Department; PWD: Public Works Department; NGOs: Non-governmental Organizations; N.A: Not Available; UDD: Urban Development Department.

AMC is marked by several institutional deficiencies. The main areas are summarized as follows: (i) centralized decision-making within AMC and state bureaucratic direction and approval of certain expenditure and policy decisions; (ii) lack of knowledge of city or urban development in AMC, and lack of awareness of roles and responsibilities amongst councilors; (iii) inadequate technical skills and inefficient administrative machinery to provide responsive services with limited conception of citizen charters for service delivery; (iv) lack of transparency and accountability in decision-making, restricted information flow, weak inter-departmental coordination, poor budgeting, weak financial management due to old accounting system and low computerization; (v) poor grievance redressal system, weak grass-roots level decision-making process and limited community involvement in planning and programme implementation; (vi) Non-involvement of citizens in urban development and management and budgeting process; and (vii) lack of awareness of civic service issues amongst local residents and civil society organizations.

It is observed that though AMC is in operation with the necessary institutional, administrative and operational system for delivery of services, but the existing organizational capacities are equipped to deliver only a few urban services efficiently. AMC provides only a few urban service demands of its citizens. Urban services are highly fragmented amongst government departments and agencies, and AMC is devoid of most functions already assigned. The decision-making process within AMC is quite centralized and municipal bureaucracy is inefficient and lacks transparency with very limited dissemination of information on various projects, programmes and services being undertaken or provided. The scope of ward committees is limited and largely represented by councilors and their nominated members, thus, limiting people's participation. There is no formal provision for participation of citizens, civil society organizations, NGOs and other stakeholders in ward committees. Thus, people involvement in decision-making process and service provision in the local government is extremely limited within the existing framework. There is no legal provision for direct citizen participation, assemblies of citizens, referendums, peoples' initiatives, open meetings, etc. The AMC should be strengthened by decentralization of decision-making power and functions from the state with more functional autonomy in the administration and staff management. They should be entrusted with the main responsibilities in urban affairs as listed in the municipal acts with sufficient resources to discharge assigned functions. There is much scope for involving citizen groups, NGOs and community based organizations (CBOs) in planning and urban service delivery due to rising interests and expectation of services amongst local citizens.

The state government has devolved some financial and taxation powers to municipality. AMC is empowered to levy taxes, tolls, duties and fees. The main revenue earning measures of AMC are property taxes, water tax, tax on advertisement, tax on cart and carriages, tolls on ferries and bridges, fees on license and permit, fees on construction and reconstruction on buildings, vehicle parking fees, etc. There is a provision for horizontal distribution of some taxes and grants-in-aid to urban local bodies based on broad criteria such as (i) population (55% weightage), (ii) area, (25% weightage), and (iii) backwardness in terms of distance from state capital (20%). The council receives share of taxes and grants-in-aid from state budget annually. Grants and transfers from state constitute over 74% of the total revenue of AMC, indicating less revenue generation

from own sources. The total receipt increased from Rs. 56.5 million in 2001-02 to Rs. 199.7 million in 2004-05. Own source non-tax revenues have been growing faster at 27% as against tax revenues at 23%.

Table 20: Trends in revenue receipts of Agartala Municipal Corporation (Rs. Million)

Details	2002-03		2003-04		2004-05	
		% to total		% to total		% to total
1. Revenue Receipts:	25.2	24.3	36.8	35.2	49.0	24.5
(a) Own sources –Taxes	9.3	9.0	16.3	15.6	18.1	9.0
(b) Own sources-Non Taxes	9.3	9.0	16.7	16.0	29.5	14.7
(c) Grants under Non-plan	0.0	0	0.0	0	0.0	0
(d)Advances and Deposit	6.5	6.3	3.8	3.6	1.5	0.8
2. Capital Receipts	78.6	75.7	67.8	64.8	150.7	75.5
Total receipts(1+2)	103.8	100	104.6	100	199.7	100
Plan grants	72.0	69.4	64.0	61.2	149.3	74.76

Source: Report of North Eastern Region urban development project, (TR-21), MoDoner and ADB, New Delhi, 2006, p. 2-28.

Note: Non-plan grants: annual allocation made out of revenue accounts mainly for running administration; Plan grants: usually refers to allocations recommended by planning commission mainly for schemes/projects for development.

Though AMC has been empowered to levy 10 optional taxes and several types of fees, out of these, the council levies only 5 main taxes and fees such as property tax, tax on vehicles, license fee, parking fee and a water tax. Thus, the resource mobilization capacity of AMC is poor. The revenue collection is not commensurate with the growth of urbanization. The property tax in Agartala comprises holding tax, water tax, conservancy tax, and street lighting tax. There is no tax or user charges for solid waste. Municipality is levying user charges on water, street lighting, solid waste management and parking fees. There is a need to increase efficiency of financial management: revision of rates, rationalization of property tax, increased tax base (solid waste, taxes on vehicles, toll tax, etc.), introduction of mandatory taxes rather than discretionary taxes and e-governance for improvement in collection of revenues.

AMC is sustaining mainly on grants received from central and state governments. The expenditure on establishment accounts for nearly 85% of the revenue expenditure, and the share of O&M expenditure was only 11% during 2004-05. Thus, most of the revenues are used towards establishment expenses and less towards local services. Even the capital expenditure was only Rs. 52.5 million as against revenue expenditure of Rs. 79.3 million during 2004-05. The total investment requirement estimated only for core urban services based on norms was Rs. 2,097 million (Table 7). It is evident that the state and the municipal governments do not have enough own source revenues to provide even the basic service requirements, indicating the urgent need for resource flow from higher levels of government for development and sustainability of the city.

6.7.2 Gangtok

Sikkim has an area of 7,096 sq. km and a total population of 540,000 constituting only 1.38% of the NER total population. Gangtok is the capital city of Sikkim, which has Greater Gangtok Planning Area (GGPA) with an area of 76.95 sq. km and a total population of 105,372 in 2005. The Gangtok Municipal Corporation Act, 1975 was repealed in 1985 and than functions, powers and duties of municipality were transferred to the state. The Urban Development and Housing Department (UDHD) is responsible for policy making, regulating urban affairs, demarcating urban areas, framing and implementing sanitary rules, removal of solid waste, providing street drainage, etc. No municipal elections have been held since 1975. The legal framework for municipal government in Gangtok is well set under the new Sikkim Municipal Act, 1995 enacted as per provision of 74th CAA 1992. The state has even constituted state finance commission under this Act. However, the state has not operationalised municipal government in Gangtok nor has the mandatory provisions of the act implemented. Thus, most of the civic functions continue to be carried out by UDHD.

In the absence of elected local government, urban services are delivered by various state departments. The situation witnessed multiplicity of agencies in urban service delivery, leading to fragmentation of responsibilities and duties. The distribution of urban service delivery amongst various institutions in Gangtok is as under:

Table 21: Institutions responsible for urban service delivery in Gangtok

Sl. No	Service/Function	Institutions
1.	Water supply-bulk	Public Health Engineering Department
2.	Water supply-distribution	Public Health Engineering Department
3.	Storm water drainage system	UDHD
4.	Sewerage	Public Health Engineering Department
5.	Sanitation	UDHD
6.	Solid waste management	UDHD
7.	Roads	Public Works Department
8.	Street lighting	Power department
9.	Public transport	Sikkim Nationalized Transport
10.	Traffic management	Police
11.	Fire services	Fire service department
12.	Parks, open spaces development and management	UDHD
13.	Community/ public toilets	UDHD
14.	Slum upgradation	UDHD
15.	Primary education	Education department
16.	Primary health	Health department
17.	Town planning	UDHD
18.	Building permission	UDHD
19.	Land registration	Revenue department.

Source: Report of North Eastern Region Urban development project (TR-18), MoDoner and ADB, New Delhi, 2006, p. 5-6

Note: UDHD: Urban Development and Housing Department.

It may be observed that the absence of decentralized urban service delivery system indicates extreme centralization and concentration of powers amongst state departments. The city is devoid of democratic governance and the scope of promoting exit and voice of citizens is thus absent in Gangtok. Considering the population size and the basic urban service requirements in the capital city, there is an urgent need for a representative local government to deliver responsive public services as per local needs more efficiently than the state machinery. Absence of local government is the major obstacle for intergovernmental transfers from higher levels of government. Local government should facilitate decentralized provision of public services, and efficient and effective service delivery. The state government should constitute municipal government as per Sikkim Municipalities Act 1995 with all mandatory institutions for decentralization of decision-making process and resources at the local level.

The situation in Gangtok indicates the absence of constitutional mechanism to ensure conduct of election to constitute local government. The state also had repealed the previous municipal act and now is delaying the process of installation of municipality. It also demonstrates the weak footing on which the concept of local self-government stands in the constitution of India. The issue goes beyond the legislation of local laws, but it involves the right of local citizens to self-government to manage their own local affairs. It is also about decentralization of political power and strengthening of urban local governance system. The provision under CAA and municipal acts does not guarantee constitution of local self-government by state governments. Thus, as long as the subject of municipality is left to the state, it is quite possible that state governments may decide not to constitute ULBs as in Arunachal Pradesh, Mizoram, Bihar and other Union Territories. Viewed from the above, there is a need for review of the existing constitutional framework under which local self-government is visualized and envisaged. The concept of 'local self-government' needs to be redefined under the constitution to guarantee the rights of local citizens to local self-government. It calls for an enabling provision in the constitution to ensure conduct of regular election for local governments where state governments fail to comply with the mandatory requirements. This will only ensure constitution of elected local governments by the states in India.

6.7.3 Kohima

Nagaland has an area of 16,579 sq.km with a population of 1,989,000 constituting 5% of the NER total population. Kohima is the capital city of Nagaland with a Greater Kohima Planning Area (GKPA) of 63.36 sq.km. The GKPA has a population of 125,900 in 2005, which accounts for 33% of the total urban population of Nagaland (MoDoner and ADB, 2006a, p. 6-1). In pursuant of 74th CAA 1992, the state of Nagaland enacted Nagaland Municipal Act 2001. The mandatory provisions of Part IXA of the Indian constitution are incorporated excepting some provisions relating to holding of election within six months of a councils' dissolution, reservation of seats for women, constitution of ward committees, and empowerment of the municipal councils. After the first election in January 2005, Kohima Municipal Council (KMC) with 19 councilors, one from each ward, came into operation. KMC has 19 elected members with four ex-officio members and a chairman and a vice-chairman. The chairman who is indirectly elected by councilors heads the council. The chairman is assisted by Chief Executive Officer who heads

the administration with 91 staff under his control. There are six sections in the municipality: general administration, accounts, revenue, sanitation and sewerage, public work and solid waste management. At the state level, Urban Development Department (UDD) is responsible for administration of urban local bodies. The state government is in the process of decentralizing power to the local government. However, transfer of functions, powers, financial resources to KMC is very slow as it involves long bureaucratic procedures. KMC is yet to have in position officers and staff required which is to be drawn from state governments in the absence of own municipal cadre of service. In this situation, KMC will continue to depend largely on state government for manpower needs. The administrative machinery of local council is ill equipped to handle assigned urban services. The legal and administrative process for empowering the municipal government is deficient. Mandatory institutions viz., state finance commission, standing committees, ward committees are yet to be constituted. There is a need for clear policy and programme for decentralization of decision-making powers to KMC with a definite timeframe.

The functions entrusted to municipal council as per the municipal act are divided into obligatory and additional functions. The obligatory functions include: (i) regulation of land use and construction of buildings; (ii) planning for economic and social development; (iii) sanitation, conservation and solid waste management; (iv) urban forestry, and environment protection; (v) safeguarding the interest of weaker section of society; (vi) slum improvement; (vii) provision urban amenities including parks, play ground and gardens; (viii) promotion of cultural and educational; (ix) burial grounds and cremation grounds (discretionary function); (x) cattle ponds and preservation of cruelty to animals; (xi) registration of births and deaths; (xii) street lighting, parking lot and public; (xiii) regulation of slaughter houses and tanneries (discretionary functions); (xiv) water supply; (xv) drainage and sewerage; (xvi) roads and bridges; (xvii) municipal markets; and (xviii) city planning schemes. The state can entrust any additional functions to KMC from time to time. Of the above functions, KMC now looks after only two functions viz., provision of sanitation and solid waste management. The other functions are with various government departments. There is an informal institution of village council at the ward and goan buras at sub-ward level traditionally involved in solid waste disposal, sanitation, water supply and maintaining pedestrian paths working closely with the wards councilors. These institutions are though informal but democratically composed. They can be carefully integrated at the ward level by providing the legal and regulatory framework for identifying problem in service delivery and defining solutions, and to facilitate civic engagement. At present, there is no legal and administrative provision for involving local community, NGOs in city planning, development programme and implementation.

Apart from the functions provided by KMC, the provision of other urban services in the capital city is fragmented amongst different state departments and agencies such as PHED, PWD, UDD, and Power department providing services directly. The distribution of urban service delivery amongst various institutions is given in Table 22:

Table 22: Institutions responsible for urban service delivery in Kohima

Sl. No	Service/Function	Institutions
1.	Water supply-bulk	PHED, Private
2.	Water supply-distribution	PHED, Private
3.	Storm water drainage system	PWD, Border Road Task Force
4.	Sewerage	Kohima Municipal Council
5.	Sanitation	Kohima Municipal Council
6.	Solid waste management	Kohima Municipal Council and UDD
7.	Roads	PWD and Border Road Task Force
8.	Street lighting	Power department
9.	Public transport	Private Operators
10.	Traffic management	Police department
11.	Fire services	Fire service department
12.	Parks, open spaces development and management	N.A
13.	Community/ public toilets	Kohima Municipal Council
14.	Slum upgradation	UDD
15.	Primary education	Education department
16.	Primary health	Health department
17.	Town planning	UDD
18.	Building permission	UDD
19.	Land registration	Survey and Land Records Department.

Source: Report of North Eastern Region urban development project (TR-18), MoDoner and ADB, New Delhi, 2006, p. 6-5.

Note: PHED: Public Health Engineering Department; PWD: Public Works Department; UDD: Urban Development Department; N.A: Not Available.

KMC is marked by many institutional deficiencies which may be summarized as follows: (i) state control of urban affairs and centralized decision-making, limited transfer of powers, functions and responsibilities; (ii) weak financial resources, and low mobilization capacity and resource base; (iii) weak administrative machinery for discharge of assigned functions; (iv) lack of knowledge in city planning and urban development, and lack of awareness of roles and responsibilities amongst councilors; (v) lack of statutory institutions such as state election commission, finance commission, ward committees, standing committees, and limited organization capacity for delivery of services; and (vi) Non-involvement of citizens in provision of civic services and lack of awareness of urban service issues amongst local residents and civil society organizations.

The state government is yet to devolve full financial and taxation powers to the municipal government. The municipal act empowers KMC to levy several taxes such as property tax, octroi, tolls and fees, advertisement tax, show tax, fire tax, tax on vehicles and animal and scavenging fees. Of these only octroi, tolls and fees, tax on vehicles and tax on advertisement are mandatory taxes and the rest being discretionary taxes. KMC is levying professional tax and market tax only at present. Property tax has not been introduced. The state gives an annual grant of Rs. 0.1 to 0.2 million per annum to municipal council to provide urban services under their charge. Thus, transfer from state government is extremely low. The revenues of KMC comprise

of own revenues and grants from the state. The total receipts have increased from Rs. 9.5 million in 2003-04 to Rs. 11.5 million in 2004-05. Own tax source (Rs. 8.5 million) was higher than non-tax source (Rs. 2.9 million) during 2004-05, indicating low user charges for local service financing. During 2004-05, out of the total revenue expenditure of Rs. 12.8 million, establishment expenditure was Rs. 7.5 million and O&M expenditure was Rs. 5.3 million, and the capital expenditure was only Rs. 1.0 million (MoDoner and ADB, 2006b, p. 5-31). The per capita revenue expenditure of the council in 2001-02 was only Rs. 63.2 as against Rs. 398.5 in Agartala and Rs. 229.2 in Shillong and all India states average of Rs. 576.7. The per capita income was Rs. 67 as against Rs. 517 in Agartala and Rs. 280 in Shillong and all India states average of Rs. 482. The total estimated investment requirement for core urban services only based on norms was Rs. 1,246 million (Table 7). Considering basic urban service requirement in Kohima, the municipal finance is largely inadequate, indicating poor level of urban service provided to the citizens. Unless the municipal council is empowered and the inter-governmental transfer is formalized, the urban services in this capital city will remain largely underdeveloped, indicating deprivation of basic human service needs to the local citizens.

6.7.4 Shillong

Meghalaya occupies an area of 22,429 sq.km with a population of 2,306,000 constituting 5.91% of the NER total population. Shillong is the capital of Meghalaya and the Greater Shillong Planning Area (GSPA) is spread over an area of 173.87 sq.km. The total population of GSPA is 369,766 in 2006, which accounts for 78% of the total urban population of the state (MoDoner and ADB, 2006a, p. 7-1). Shillong is the only capital city in the NER which falls under the Sixth Schedule of the constitution. Thus, there are two distinct areas within GSPA, areas which are under the Shillong Municipal Board (SMB) and Autonomous District Council of the Sixth Schedule areas. Outside the SMB but within GSPA, the ADC, Dorbar Shnongs and Syiem play important roles in provision of civic services. Thus, Shillong is different from other capital cities in NER wherein a number of institutions for urban governance are in operation. At the state level, urban affairs department (UAD) controls urban development, policy and planning, and disbursement of projects funds. Next below, directorate of urban development (DUD) is responsible for supervising municipal boards, town committees and finalizing municipal limits. On traditional institutions side, ADC which has executive and legislative authority controls allotment and occupation of land, collects land revenue and imposes land taxes, looks after town administration, public health and sanitation; Dorbar Shnongs involves in civic affairs of the city and functions like ward commissioner, articulating the interest of the local people; and finally, Syiem takes up schemes relating to civic infrastructure outside the municipal area. Thus, the legal framework for urban local governance in Shillong city includes the Sixth Schedule of the constitution, which is an instrument to govern tribal areas for protecting and empowering tribal institutions of governance at the local level. The other is the Meghalaya Municipal Act 1973, (not under CAA 1992) providing legal framework for municipal government in Shillong. The existence of multiple institutions of local governance, exclusive and autonomous in functions, has created a serious institutional crisis, making the institutional arrangements for delivery of urban services untenable in the capital city (MoDoner and ADB, 2006a, p. 7-7). Since the passing of Meghalaya Municipal Act 1973, no elected local body has functioned in Shillong.

SMB is administered by a commissioner appointed by the state government. The SMB functions under the Meghalaya Municipal Act 1973. The last election to the municipal board at which a full board was constituted took place in 1967. In 1973, the board was superseded and since then no elected local government has been in position. An amendment to the act in the year 2000 empowers the state government to declare municipal election null and void if the election fails to elect at least one third of ward commissioners. Thus, two municipal elections were held in 1997 and 2000 under the supervision of urban affairs department (no SEC constituted), but no elected municipal board could be constituted as per requirements of the law as many traditional institutions saw municipality as a threat and boycotted the elections. SMB is entrusted with obligatory functions such as water supply, hospital and dispensaries, roads, street lighting, slum upgradation, urban poverty alleviation, sanitation, public health, registration of births and deaths, and implementation of central and state schemes. However, SMB is presently involved partially in executing and maintenance of services of water supply, solid waste management, sanitation and street lighting only. SMB area has 27 wards, of which five are all government wards where central and state laws apply. The remaining wards are technically within the Sixth Schedule area. However, ADC does not exercise many of its powers and functions in the SMB area. Since the provision of 74th CAA 1992 is not applicable to Meghalaya state, no ward committees and state finance commission have been constituted by the state government.

The Shillong Municipal Board is headed by chief executive officer who operates through two executive officers with 722 staff under his control drawn from state government. The administrative machinery has an elaborate organizational structure, which includes public works department, public health and conservancy, urban poverty elevation, water works, buildings, license, birth and death registration, etc. Meghalaya Municipal Act does not clearly state the objective for creation of municipalities. However, it is intended to achieve an efficient administration of the municipal area with the responsibility of managing water supply, lighting, drainage, sanitation, removal of sewerage, improvement of roads and bridges, parks and gardens, and public convenience. Besides SMB, urban services are fragmented amongst several government departments responsible for delivery of services under GSPA. These include PHED, PWD, UAD, Directorate of urban affairs and Meghalaya Urban Development Agency. The distribution of urban service delivery amongst various institutions is given below:

Table 23: Institutions responsible for urban service delivery in Shillong

Sl. No	Service/Function	Institutions
1.	Water supply-bulk	Public Health Engineering Department,
2.	Water supply-distribution	PHED, Shillong municipal board
3.	Storm water drainage system	Shillong municipal board
4.	Sewerage	Shillong municipal board
5.	Sanitation	Shillong municipal board, private
6.	Solid waste management	Shillong municipal board, NGOs, Dorbar
7.	Roads	Public Works Department
8.	Street lighting	Power Department for municipal board
9.	Public transport	Private Operators
10.	Traffic management	Police department

Table 23: Institutions responsible for urban service delivery in Shillong (Continuation)

11.	Fire services	Fire service department
12.	Parks, open spaces development and management	Forest department
13.	Community/ public toilets	Shillong municipal board
14.	Slum upgradation	Shillong municipal board
15.	Primary education	Education department
16.	Primary health	Health department
17.	Town planning	Urban affairs department
18.	Building permission	Shillong municipal board, Traditional institutions
19.	Land registration	Shillong municipal board, Traditional institutions.

Source: Report of North Eastern Region urban development project (TR-18), MoDoner and ADB, New Delhi, 2006, p. 7-7.

Note: PHED: Public Health Engineering Department; NGOs: Non-Governmental Organizations.

Several issues concern urban governance system in Shillong. The main issues and deficiencies are broadly summarized as follows: (i) absence of a democratically elected municipal government as SMB is a government administered body; (ii) existence of a number of traditional institutions exercising legislative and financial powers alongside SMB under different constitutional and legal mandate which causes conflicting and overlapping of roles and jurisdiction in urban management; (iii) absence of clear policy on assignment of competences amongst different institutions, agencies and parastatals resulting in un-coordinated activities and fragmentation of functions in delivery of urban services; (iv) overlapping geographical and population boundaries and the absence of economies of scale in provision of services; (v) inadequate devolution of financial resources and weak organizational capacity of SMB; (vi) lack of formal legal and administrative provision in SMB to horizontally integrate ADC, Dorbar Shnongs, Syiem, NGOs, and local communities for collective participation in city governance; and (vii) limited involvement of citizen groups, civil society organizations in provision of civic services and urban affairs.

In the present local political environment, a majority of local citizens recognize that the current institutional arrangements for urban local governance are not tenable. However, no consensus exists how to improve urban governance. Urban governance in Shillong indicates a highly complex situation. With the existence of decentralized local institutions with functional autonomy under the Sixth Schedule of the constitution, a simple form of representative government may not be able to represent the diverse needs and aspirations of citizens from different socio-economic and political groups. A mere restoration of elected municipal government in Shillong under the political and bureaucratic control of state government would defeat the spirit of decentralization guaranteed by the existing Sixth Schedule. The traditional institutions are democratically composed and have tremendous power within their areas, which cannot be overlooked. Moreover, imposition of 74th CAA in Shillong will not succeed without adequate institutional arrangements to integrate all stakeholders in network governance. The faith of local citizens in local democratic process and in the municipal governance system needs to be first restored. Repeated attempts to elect municipal government in Shillong have failed even with the Court intervention. There is a need for different institutional arrangements to

govern GSPA keeping in view the Sixth Schedule environment. The possible alternative will be to have formal structure for participation of local institutions (ADC, Dorbar Shnongs, and Syiem), citizens groups, NGOs and civil society organizations in urban governance at different levels. We have already seen replication of the existing 74th CAA does not guarantee a fully decentralized and autonomous local self-government in others states. Thus, the solution could lie in recognition of participatory governance and a local self-government not subordinated to state, as major areas of the state are already under the ADCs fully autonomous from state control. Such urban local self-government should have clear geographical and administrative boundaries, fully mandated competences and taxation powers. The municipal government should be empowered as single agency with all major responsibilities of urban affairs for regulating and providing service delivery to meet diverse needs and aspirations of local citizens.

The revenues of SMB comprise of own revenues and grants from the state. The municipal act empowers SMB to levy 16 taxes such as property tax, octroi, stamp duty, professional tax, tolls and fees, advertisement tax, tax on vehicles, drainage fee parking and market fees, betterment tax, etc. Only taxes on vehicle and advertisement are mandatory taxes and the rest are discretionary taxes. Taxes on land and buildings, drainage, lighting and latrine fee are all linked to the annual value of holding. The total receipts have increased from Rs. 39 million in 2002-03 to Rs. 65.50 million in 2004-05. Own tax revenue (Rs. 32.66 million) was higher than non-tax revenue (Rs. 23.16 million) during 2004-05, indicating low share of user charges in financing local services. However, non-tax revenues are growing faster at about 34% per annum compared to tax revenues growth of 17%. Grants and transfers from state constitute over 14% of the total revenues as against 50% of own tax sources, 35% of own non-tax revenues, indicating low transfer from higher levels of government, despite the council being under state control.

Table 24: Trends in Revenue Receipts of Shillong Municipal Board (Rs. Million)

Details	2002-03		2003-04		2004-05	
		% to total		% to total		% to total
1. Revenue Receipts:	24.6	63.0	52.0	83.6	55.9	85.2
(a) Own sources –Taxes	19.3	49.4	31.2	50.2	32.7	49.8
(b) Own sources-Non Taxes	5.3	13.6	10.8	17.4	23.2	35.4
(c)Loans	0.0	0	10.0	16.0	0.0	0
2.Grants from state	14.5	37.0	10.2	16.4	9.7	14.8
Total receipts (1+2)	39.1	100	62.2	100	65.6	100

Source: Report of North Eastern Region urban development project (TR-21), MoDoner and ADB, 2006, p. 6-30.

During 2005-06, out of the total revenue expenditure of Rs. 60.27 million, establishment expenditure was Rs. 48.06 million and O&M expenditure was Rs. 12.20 million. In the previous years, SMB used to spent lower establishment expenditure than that of expenditure on O&M. The capital expenditure has also decreased to Rs. 0.11 million from Rs. 5.40 million during 2003-04 (MoDoner and ADB, 2006b, p. 6-35), indicating decreased investment in infrastructure and poor level of services provided. The per capita expenditure of SMB in 2001-02 was Rs. 229.2 as against Rs. 398.5 of Agartala and all India states average of Rs. 576.7. The per capita

revenue income was Rs. 280 as against Rs. 517 in Agartala and all India states average of Rs. 482. The total estimated investment requirement for core urban services only based on norms was Rs. 2,495 million (Table 7). Thus, it is evident that the local revenues are largely inadequate for meeting the rising urban service requirements. The low growth of local revenues also indicates low revenue mobilization by the council. There is an urgent need for intervention at the highest level for building up of the capacity of the local government to prevent further deterioration of service delivery in this capital city.

CHAPTER - 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusions

We have seen that the trend of urbanization is advancing irreversibly and most of world population will soon live in towns and cities. India with urban population of 285 million growing at a rate of about 3% annually is one of the fastest urbanizing countries in the world. With a fast developing economy, India's urban population is expected to reach 550 million, 41% of total population by 2021. The level of urbanization in NER is likely to go up from 5.9 million urban populations to 54 million in 2016. Urban India currently contributes nearly 60% to the country's GDP; the urban centers are the centre point of innovations and hub of many activities, creating livelihoods. At the same time, cities and towns are severely stressed in terms of infrastructure and service availability. In 2001, 50% of urban households had no piped water within premises and 44% of them were devoid of sanitation facilities. As per Census 2001, 14% of urban population lives in slums, with a significant proportion of it without access to even the most basic services. We have seen the capital cities in NER suffer largely from deficiencies in urban services. There is a widening gap between the availability and demands for basic urban services.

The above situations warrant strengthening of urban governance system at the local level to effectively plan and manage the urban affairs so that basic urban services are available to every citizen. Urban local governance would involve the sum of the many ways individuals and institutions, public and private regulate and manage the common public affairs of the city. Local governance is no more the sole concern with government, but increasingly of all those involved in decision-making which affects the welfare of local citizens and organization of local public affairs by different institutions and stakeholders led by elected local authorities. For effective urban management, norms of good urban governance are increasingly emphasized and adopted by local authorities, which include sustainability, subsidiarity, equity, efficiency, transparency and accountability, civic engagement and citizenship, and security. Good urban governance can well be operationalised through local self-governments, democratically constituted decision-making bodies-municipalities.

As part of the trends towards securing empowered local governance system to ensure good governance and promote efficient and effective service delivery, many countries in the world have witnessed a strong wave of decentralization and democratization by the constitutional anchoring of local government based on internationally recognized democratic principles. Financial decentralization to the first level of governance is also showing an increasing trend. Local expenditure to the total public expenditure of different countries in the world is quite substantial. Such local spending is supported by higher inter-governmental transfers and own source local revenues. A clear and stable constitutional basis for local governments is considered an essential foundation for establishing local authorities' position as partners in governance system. Local governments derive their rights and powers from the constitution or domestic legislations and are mandated with the responsibilities of developing local economy and social

services. The existence of local governments can encourage active involvement of citizens in self-government. With real responsibilities and autonomy, local governments can provide administration, which is both effective and close to citizens. The local governments are considered efficient structure for delivery of services according to varying needs of different localities.

We have seen that in India the concept of urban governance through local government is linked to constitutional and legislative provision. The 74th CAA 1992 provides for various institutional arrangements and enactment of local laws for constitution of local self-government in urban areas. Under CAA, it is incumbent on the state governments to endow municipal governments with such power and authority as may be necessary to enable them to function as institutions of self-government. Notwithstanding the CAA 1992, many states are reluctant to decentralize political decision-making process and devolve fiscal and financial powers to municipal governments. A majority of states in NER have not adopted the principles of local self-government or constitute elected municipal governments. Mandatory institutions as per provisions of CAA 1992 are either not in place or not functioning effectively. Thus, they are not in a position to provide and manage urban services proactively. Municipal governments are facing acute shortage of capacity and resources for provision of services. Most municipalities are starved of resources because of their inability to effectively use their revenue raising powers. The inter-governmental fiscal relation is not favorable to have any impact on municipal finances. The initiative of the government of India is directed largely towards developing infrastructure and services in urban areas through programmes, and organizational reforms and implementation of CAA. However, effort for constitutional empowerment of municipal governments to become key actors in urban governance is lacking.

We have analyzed various aspects of institutional arrangements for urban governance under the existing constitutional and legal provision for municipal governments. We have seen the constitutional amendment and enactment of municipal laws without decentralization of political powers to municipal governments by state governments have not secured institutions of local-self government in urban areas. Local self-governments should be based on the principle, which recognizes the rights of local communities to self-government. The local government should be third tier of governance system on the principle of subsidiarity. While the effectiveness of urban governance in delivery of public services depends on financial resources, skills and motivations of political leaders and officers, institutional arrangements and the organizational structure greatly affect the performance of municipal governments. Due to low level of decentralization of decision-making process and devolution of fiscal and financial powers, municipal government in NER and other states are not equipped to handle their assigned duties. The local governments are no different from government departments implementing urban policy and programme of the state governments, performing only a few functions. Considering the huge investment requirements for basic urban services in NER and the low level of infrastructure development, clearly local governments alone cannot undertake the task of service provision. Concerted efforts of central and state governments and local governments are needed to provide core urban services in these cities. One may argue that development can best be achieved by centralization of both political power and financial resources through centralized planning system and states

providing services directly with limited role of the local governments. However, we have seen that the effectiveness of service delivery and infrastructure development at the local level depends much on empowered local authorities. Funds for urban infrastructure and services can be effectively utilized if empowered local government, supported by appropriate institutional arrangements, takes full charge of urban affairs. Unless this is brought about, urban governance situation in NE states and India is not likely to improve much even in the near future.

Even where there is decentralization of political power, if this is exercised by municipality which is based on hierarchical and monolithic organization structure, urban service delivery would not be efficient and effective. The institutional arrangements for local government should be broad-based, inclusive and participatory, which recognize citizens as the principal wealth of the cities. In the democratic environment of urban governance, citizens have the right to participate in the conduct of local public affairs. The local government should provide political and legal environment through which citizens can articulate their interest, exercise democratic rights, meet their obligations and mediate their differences. Institutional arrangements for local governments should embrace all stakeholders, citizens, NGOs, civil society organizations, private and the third sector. Locating of decision-making process close to where the action takes place will improve the effectiveness and quality of service delivery. Accountability in service delivery depends on closer linking of costs and benefits of services provided with active citizen participation. The responsiveness of the service providers will increase due to proximity of local government to taxpayers, users and the beneficiaries.

In order to achieve decentralization through municipal system, fiscal and financial decentralization is urgently needed for increase inter-governmental transfers from higher levels of government to local governments and increase resources mobilization capacity at the local level. Thrust should be given to evolving of a proper mechanism for higher inter-governmental transfers to provide better services at the local level. Financial stability at the local level would result in expanded tax bases and rising living standards. This would enhance willingness to be taxed and to pay for services provided by responsive local governments. However, increase in resource allocation to municipal government should be seen from different perspective. It is not money nor technology or even expertise, which will drive long-term development of cities. The usual assumption in the public sector is that increased allocation of funds automatically leads to improved delivery of services. Hence, usually, strong emphasis is laid on increase of resource allocation to local governments to improve services. It may be emphasized that mere increase in transfers to local governments will not result in improved delivery of services. Projects and schemes do not fructify due to weakness in delivery system, and accountability and monitoring mechanism. Thus, in order for increased resource allocation to result in improved and sustainable urban service provision, the local governance system should be driven by empowered, responsive, efficient, transparent and accountable urban local self-governments administered through good urban governance practices.

7.2 Recommendations

We have studied the status of urban governance in India's North East and in other states in general by analyzing the existing constitutional, legal and administrative structure of municipalities. Urban local governance has been studied from international perspectives observed in different world organizations, institutions and literature. The analysis of municipal systems is based on the comparative studies of the experiences and practices of local self-governments in different countries in Europe, Asia including those in Brazil, South Africa and Nigeria. Based on this study, some common trends, experiences and good practices in local (urban) governance around the world have been observed which are essential for empowerment of urban local self-government in India for efficient and effective delivery of urban services. The deficiencies and weaknesses in the institutional arrangements for urban governance have been observed and the measures needed for improvement constitute the recommendations. The objective is not to replace the existing constitutional and legal framework of urban local self-government in India, but to make amends and empower the existing municipal system to become institutions of self-government, the main actor in urban governance. The ultimate aim of democratic urban local governance is to achieve excellent service delivery and to enable local communities to solve their own problems and manage their own affairs for sustainable human development in urban areas. Thus, the objective is to have a democratically empowered municipal government that would plan and manage urban affairs based on good urban governance practices. We may now suggest recommendations for empowerment of urban local-self government for effective urban governance in NER and other states in India.

The constitutional amendment act of 1992 and the state municipal laws do not define the concept of local self-government and guarantee the right of local citizen to self-government. The absence of the principles to govern local self-government and the level it occupies in the governance system (as third tier) in the constitution is the inherent weakness of municipal system. As a step towards empowering urban local governance system, the concept of 'local self-government' and the principles to govern local government should be clearly enshrined in the constitution. The local government should constitute a 'third tier' of governance system and the principle of subsidiarity should be recognized in the constitution. This will alter the present 'top down' approach in policymaking and service delivery in the public domain.

Under the constitution, municipality is the state subject. Keeping the subject of municipality under the preview of the state government does not ensure constitution of urban local government, as the states are reluctant to decentralize decision-making process. The state governments decide the nature of decentralization and the shape of local government and the extent of local autonomy. Many states in NER and other states have neither adopted 'local self government' principles, nor enacted municipal laws or held elections. Conceptual change in the political system is needed to recognize the principle of subsidiarity for adopting local self-government as a unit of democratic governance at the local level in urban areas. The constitution requires state governments to endow the municipalities with powers and authority to enable them to function as institutions of self-government. We, however, have seen the assignment of broad responsibilities and financial mandate under CAA does not result in political decentralization,

devolution of fiscal and financial powers, functional autonomy of local government and democratic governance at the local level. In order to put an end to optional approach of the state government in regards to creation of urban self-government the following measures are recommended: (i) the subject of local self-government should be kept under the Concurrent List to enable the central government to legally empower local government to ensure their functional autonomy, (ii) assignment of exclusive functions with distinct and separate domain to local governments should be laid down in the constitution, (iii) power of taxation with distinct and separate tax domain to be made mandatory, (iv) local authorities should be given the right of recourse to judicial remedy to secure free exercise of their powers and respect for principles of local self-government which is to be enshrined in the constitution.

The role of urban local government in planning for socio-economic development of urban areas would entail altering the balance of power between the state and the local government. To take up the responsibility of planning for sustainable development of urban areas, the local government needs to become main actor in urban governance, mandated to regulate and manage substantial share of public affairs. On the contrary, urban local governments are not only devoid of due share in the developmental process, but are also not equipped with powers, responsibilities and the autonomy to manage city affairs. Only a few functions of urban services are with the local urban government. Local governments have no direct link with central planning commission of the country which concentrates only on aspects related to the centre and the state in terms of developmental planning. The local government is not viewed as third tier of governance system but is deemed subordinate part of the state government. The urban local government should be able to formulate its own development plan under the central planning commission for transfer of plan funds. A new framework is needed where the higher levels of government and the local governments can work together in a complementary manner for the development of the country's economy.

There should be constitutional provision to ensure immediate adoption of the principles of local self-government and enactment of municipal laws in all the states. The provision of CAA 1992 should be made applicable and mandatory for all states in NER with suitable modification including those states where the provision is not made officially applicable (Nagaland, Mizoram and Meghalaya). Unless the constitution provides for guarantee of the right of local citizens to self-government, democratically elected municipal government is not expected to be constituted in the near future in a number of states in NER. The provision under CAA is insufficient to make the municipality fully autonomous, independent of state government and other democratic local institutions. Thus, municipal government should be empowered constitutionally to become single agency with all major responsibilities of urban affairs to regulate and provide public services that meet diverse needs and aspirations of local citizens. Only local self-government with distinct geographical and administrative boundaries, clear mandated competencies and taxation power would be able to effectively govern the affairs of urban areas in the NER.

The institutional arrangement of state election commission under CAA does not ensure conduct of election to constitute representative local government. The state governments may even decide not to have or constitute urban local government by not conducting elections. In some

states, municipal elections are conducted by state departments at their discretion. The SECs where existed are not empowered enough to conduct regular elections independent of the state government. The responsibility for conducting election in the states for both state legislature and urban local government should be vested in the SEC under the overall directions and control of the Election Commission of India by constitutional amendment. This will secure independent constitutional authority to ensure regular conduct of elections to local governments in all the states.

The assignment of municipal responsibilities and functions under CAA is left to the state government. The state governments assign responsibilities over and above those listed in the 12th schedule of the constitution. These functions overlap with the functions already performed by the state governments and their agencies. The local governments do not have the resources commensurate to perform these functions, thus, leading to fragmentation of functions amongst parastatals, development agencies, state departments and municipalities. This makes the provision of services inefficient and without economies of scale. This is in contrast to the principle of decentralization wherein responsibility of service provision is to be allocated at the closest appropriate level consistent with efficient and cost-effective delivery of services. The assignment of responsibilities should be clearly defined into 'essential' and 'agency' functions with distinct domain of municipalities in the constitution and should not be subject to discretion of the state governments. Any changes in the responsibilities of municipality should be done only in consultation with local governments, as that will directly affect their planning, finances and decision-making process.

Once the responsibilities of the municipal government are defined and made mandatory under the constitution, there should be a clear separation of functions between the state government and the local government to avoid overlaps and to ensure role clarity. This will also facilitate determination of per-capita expenditure norms for fulfillment of assigned responsibilities and finding out the ratio of per-capita expenditure to be incurred by the state government and municipality. These norms can be used as a basis for inter-governmental transfers to match every assigned responsibilities at the local level. An integrated mechanism may be devised amongst planning commission (plan funds) CFC (central transfers) and SFC (state transfers) to facilitate institutionalized inter-governmental transfers to local government to overcome vertical and horizontal imbalances. The criteria/formula should be devised under this mechanism to ensure equity in the access of resources and provision of services by different municipalities.

To review the progress of decentralization and devolution of fiscal and financial responsibilities to municipal government under CAA and municipal laws, a parliamentary standing committee should be constituted. Such committee should oversee the implementation of mandatory provisions by the state governments to make the efforts of transforming the municipalities as institutions of local self-government more meaningful and practical oriented. Recommendations made by such committee would be useful for generating discussions or debates for legal empowerment of local self-government and for institutionalization of inter-governmental transfers to local governments through a framework of central planning commission, CFC and SFC.

As a move towards empowerment of local government, the local government should be given the power to decide its own executive. There is no uniformity in the model of government, mode of election and the term of the mayor. The central government is in favor of indirect election of mayor and empowered standing committee to exercise executive powers of the urban local government. The merit of having directly elected or indirectly elected mayor in the local government should be further examined by constitutional expert committee before implementation, keeping in view the strong need for empowerment of urban local government as third tier of governance system. The power of the local government should vest in the executive council headed by mayor on the principle of collective responsibility.

To ensure political autonomy and accountability of the local government the following measures are recommended: (i) the authority to dissolve elected local government should be vested in the parliament to safeguard the institution of local self-government and judicial opinion sought before such proceedings; (ii) local government to appoint their own political executive and the executive powers to be exercised by the mayor as a political and administrative head; (iii) to have fixed tenure of mayor for stability and accountability; (iv) the constitutional court to oversee legality of the activities of local government and not by a committee as envisaged by government of India; (v) local government to have power to manage their own personnel and cadre of service at their disposal; and (vi) to have formal provision for people's participation in decision-making and service provision and to make local government accountable to the electoral constituents.

The institution of ward committees under the CAA provision aims to bring municipal government closer to the people, achieve people's participation in planning and delivery of services and to ensure accountability of elected representatives to their electoral constituents. Most of municipal laws do not provide for constitution of ward committees and many cities do not have ward committees. Most of the ward committees have limited members and dominated by elected representatives with their nominated members. In order to achieve people's participation, accountability and transparency in the municipality, the ward committees should be made mandatory and broad-based to include civil society organizations, NGOs, residents associations, local businesses and other stakeholders within a legal framework. Administrative and legal provision should be made to formally integrate the ward committee system with local institutions of ADCs, Dorbar Shnongs and Syiems (Shillong), and panchayats and gaon-buras (Kohima) to participate in decision-making process, planning, design and delivery of services to make the local government participatory.

The present constitutional and legal framework in India is not sufficient to secure participatory governance. Without adequate people's participation and civic engagement in urban governance, empowerment of municipal government may tend to result in centralization of political and bureaucratic power in the local government. With limited people's participation, low level of information flow, low focus on the needs of citizens and absence of citizen charters, the present municipal system appears to be a replication of state bureaucracy which is hierarchal and monolithic in structure. In order to secure democratic, participatory, and 'co-producers' oriented urban governance, municipal system should have the legal framework to institutionalize the

practices of attendance in council meetings, committee memberships, open meetings for involvement of citizens in budgetary process, planning, problems identification and defining solutions. The primary purpose of local self-government is to achieve citizen participation in self-governance and to provide delivery of services as per local needs and preferences, which is not always feasible at higher levels of government. At the higher levels of government, solutions to local problems concentrate in the hands of officials geographically and personally detached from the problems. For securing people's participation to influence policy and decision-making process at the local level, the constitution should have a provision for direct democracy such as citizen's assemblies, referendum, public hearings and people's initiatives as in other countries studied. To institutionalize accountability mechanism in the municipality, citizen feedback mechanism in the form of citizen report card, survey, public interest litigation, etc., may be widely used.

In order to move towards good urban governance, the municipal government should be supported by institutions promoting good governance. Such institutions should be set up in NER and in other places to provide professional support to local governments with best practices on urban governance. Good governance institutions should ensure implementation of best practices in municipality and facilitate regular benchmarking of performance amongst municipalities.

The constitutional and legal framework do not prescribe for size of population and area for municipalities. Determination of population size and areas of a municipality is left to the state government. A clear territorial jurisdiction and critical mass of population is required for efficient service delivery. Broad criteria for the size and area of municipality may be prescribed for various types of municipalities to determine optimal utilization of resources and basic standard of services with a view to achieving economies of scale and allocative efficiency. This would also facilitate benchmarking of municipal performance for constant improvement. The constitution does not provide for cooperation amongst municipalities. Legal and administrative framework should be developed for cooperation amongst various municipal governments for sharing of resources, expertise, joint execution of projects, planning, etc.

With increasing private participation in provision of infrastructure and services in urban areas, there should be uniform and clear policy of privatization of municipal services. The constitution or the municipal laws do not provide forms of service delivery as seen in transitional countries studied. There is an increasing trend of private participation in municipal services. Experiences have shown to be more economical and beneficial to outsource certain municipal services than to directly produce and provide those services by municipal governments. In view of the inability of municipalities to finance and manage large volume of municipal functions, the state government and the municipal government should have a clear policy of engaging private sectors in municipal services with an objective to achieve efficiency and quality of services and to build up infrastructure in partnership with private sector financing. Such policy should lay down guidelines in which services the private sector or the third sector should be engaged in and where public sector should intervene. This will facilitate a more systematic and effective use of the private sector in municipal services. Local government should normally provide services where local market failures are high.

As seen, the urban governance is marked by fragmentation of urban services amongst parastatals, government departments, development agencies and the municipal councils. This reality should be appreciated and a new approach for securing efficient and effective system of service delivery in urban areas needs to be adopted. The local governance system should be able to involve all stakeholders, citizens, and the private or the third sector to work in partnership to draw resources, experience and capacity of various actors to compliment the capacity of the municipality to provide multiple solutions in response to diverse needs and preferences of local citizens. We have seen that local municipal governments in the northeastern states and in other states are not empowered to play the regulatory role in urban affairs. Unless the local government is elevated, empowered and recognized as third tier of governance system, urban governance in India as a whole will remain weak and unsystematic. Thus, building up of appropriate institutions and organizational structure of municipality is the pre-requisite for empowerment of urban local government. Urban local government should be in a position to take full ownership of urban affairs of the city under its mandate. The model of local government should be broad-based, not modeled on vertically integrated hierarchical and monolithic structure of the present municipal system. It should be based on participatory governance by horizontally maintaining relationships with different stakeholders and civil society organizations and citizens; downwards with residents, households, neighborhoods; and upwards with state and central governments in a complimentary manner for sustainable development of the cities.

The institutional arrangement for inter-governmental transfers from higher levels of government is not provided for in the constitution or the state municipal laws. There is no concept of divisible pool arrangement amongst three levels of government in India as existed in Brazil, South Africa and Nigeria. We have seen that with the low level of own revenue sources, the responsibilities assigned to local governments cannot be carried out without regular fund flow from higher levels of government. It is recommended to introduce mandatory central revenue sharing for municipalities by constitutional amendment. This should be devised to ensure functional and financial autonomy of municipal governments in discharge of their responsibilities. The power of local taxation with separate tax domain should be made mandatory in the constitution to empower local governments to mobilize resources within their own jurisdiction. Under the present system, the devolution of fiscal and financial power to local government is at the discretion of state governments through rules and regulations specified by them from time to time.

The constitutional provision of SFC for augmenting the resources of local government has not resulted in increase of transfers from the state government. Transfers (shared taxes and grants) from the state government remain low and the mobilization of own resources is poor and largely inadequate. Many NE states have not even constituted SFCs and where constituted they are ineffective. Thus, SFC recommendations should be made mandatory and the implementation to be monitored by state legislatures. The SFC should also look into the development requirements, resource mobilization capacity, and equity needs and adopt formula/criteria for devolution of resources and taxation powers to local governments instead of the present global sharing approach. The transfers from state to local bodies (grants and shared taxes) should be made mandatory, transparent and regular under legal framework.

The transfers from CFC awards from the central government should be enhanced keeping in view specific infrastructure/service requirements to overcome the immediate service deficiencies in urban areas. This should be dovetailed with the development plan of urban areas to be prepared by municipalities under the central planning commission as recommended earlier. The transfers should be on normative scale based on prescribed population and area size, and basic urban service expenditure norms. The present level of CFC grants (spread over five years) is too meagre even to meet the basic infrastructure needs of the capital cities. Inter-governmental transfers from CFC and SFC should be integrated ultimately with the concept of a divisible pool of central revenues to be shared between union, state and municipalities.

In order to ensure faster release of funds to the local government, a new mechanism for direct transfer of funds from central government and other agencies to local governments should be devised instead of routing through the state consolidated fund. Fund flow to the local government should be accounted for in the consolidated fund of the local government to be created for the purpose. This will ensure systematic and predictable fund flow to the local government as the present system is cumbersome and lengthy in procedures. This would be necessary in view of the local government being increasingly recognized as third tier of governance system, which is legally entitled to central revenue sharing. With this, it is recommended to have a separate accountability mechanism for local funds in the municipal councils through C&AG institutions. Within this framework, municipal accounts committee independent of executive may be constituted under local laws to ensure accountability instead of the state legislature in keeping with the institutional and financial autonomy of the local government.

The level of local government expenditure to the total public expenditure of the country need to be increased substantially if deficiencies in the existing level of services provided are to be eliminated. This should be made possible through the new mechanism of the inter-governmental transfers suggested earlier. Without such mechanism, resource flow of huge magnitude required by local governments in India would not be feasible. As seen, the share of local government expenditure as against the total public expenditure in India has been deteriorating and was roughly estimated to be 4% (1997-98). On the contrary, expenditure needs in infrastructure and services are increasing with the rapid pace of urbanization and rising operation and maintenance costs. In the transitional countries studied local expenditure range between 13% (Slovenia) to 24% (Hungary) of the total public expenditure. In highly devolved system of government, the local expenditure range between 35% (Germany) to 56% (Denmark) of total public expenditure.

The revenue share of local government in India as a whole in the combined revenue of three tier of government was a mere 3% (2000-2001). Low level of local expenditure and low revenue share of local government do indicate high fiscal and financial centralization in India. The low level of expenditure in service provision only indicates the need for creating institutional arrangement both to increase transfers from higher levels of government and local resource mobilization through legal and constitutional provision. At present, the local municipal governments are not able to play the expected role in urban economy and are not able to generate revenues of local origin to the expected level due to lack of their clear mandate and competencies

in the constitution or local laws. As the potentials for higher mobilization of resources in urban areas are increasing, fiscal powers of local governments should be strengthened. Serious attempts should be made at the highest level to reduce this distortion by way of : (i) increased taxation powers of local government; (ii) delegation of fiscal power to local government to have considerable discretion to set their own level of local taxes and user charges; (iii) defining distinct tax domain to be imposed at the local level to increase local revenue source base; (iv) rationalization and broadening of shared taxes and grants from higher levels of government; and (v) formalization of inter-governmental transfers from the centre and state governments to local governments through SFC, CFC and planning commission.

In the scheme of local financing, the share of own source revenues of local government are much higher than inter-governmental transfers even when municipal services are provided at sub-standard scale at the local level. Own revenue sources of municipalities in northeastern states are largely inadequate to meet their revenue expenditure requirements, let alone for capital expenditure. In other countries studied, inter-governmental transfers constitute majority share of local financing. This indicates high dependence of local governments on higher levels of government to finance their activities and low financial decentralization in India as a whole. Further, the level of shared taxes from higher level of government is quite low compared to other countries studied. In those countries, transfers on account of shared taxes to the total local government revenues is quite substantial. Thus, there is an urgent need to change the existing concept of shared taxes in regards to municipal finances. This should constitute a major component in augmenting municipal finances. Inter-governmental transfers (grants and taxes) should be integrated with central divisible revenue pool and formalized within legal framework.

The local governments in NER and other states in general mobilize much less non-tax revenues than tax revenues indicating low recovery of charges. At the same time, inter-governmental transfers are lower in majority of cases. Thus, tax revenues constitute the main source of financing local services. In view of this, the concept of user charges should be adopted as a matter of policy in municipal finances by devising suitable rate structure. A mechanism should be worked out to link this with the level of inter-governmental transfers to enforce recovery of user charges by municipal governments to make investment in services sustainable. The municipal governments in NE states have poor financial health and low level of service delivery considering low per-capita income and expenditure compared to all India states average figures. The CFC and planning commission should give special assistance to financially weak municipalities on the principle of equalization over and above the normal transfers to overcome horizontal and vertical imbalances across states and amongst municipalities of individual states to overcome regional or area disparity.

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