CHAPTER - I

CONCEPTUAL BACKGROUND AND RESEARCH DESIGN

Local self governments constitute an integral and inalienable part of a democratic pattern of governance. They form a vital link in the hierarchical system of a country's federal governmental structure - the national, the provincial and the local, all working together to provide the citizens with a decent level of living and an improved quality of environment. Local self governments act as catalysts of change and development and make provisions for urban amenities and social facilities to the population living under their jurisdiction with due emphasis on mass participation, self-reliance and local initiative. Vice-President S.D. Sharma while speaking at a function to mark the foundation laying of the All India Council of Mayor's (AICM) building in New Delhi on Dec. 22, 1990, emphasised the urgent need to metamorphose the municipal bodies in country and transform them into 'forward-looking, modernised, operational units'. He underlined the need to evolve a multidisciplinary approach for effective urban management. To achieve the desired transformation in urban local bodies, there may be a need to review the existing legislation concerning urban management as a substantial part of the laws governing municipal bodies have been evolved from those
of the United Kingdom, the Vice-President said. It is estimated that by 2001, almost one-third of the country's population would be living in urban locations. This would mean that an estimated 320 million people may be living in urban area as against 150 million in 1981. This would have important implications for the future of municipal management in our country, Dr. Sharma pointed out. Speaking at the same function, the Minister for Urban Development, Daulatram Saran bewailed that local self-government bodies did not have adequate resources to carry out their functions and were also forced with undue interference in their working. The government would try to push through the constitution Amendment Bill granting more powers to civic bodies.

Promotion of welfare of the whole society, specially the poor and under privileged, and creation of a better environment with improved quality of life alongwith the maintenance of law and order has enormously increased the ambit of functions and activities of the government. A large number of such functions can best be performed by local governments only as the former require local initiative, constant and close supervision, and mass participation. The local governments can better understand the needs and aspirations of the population and can better manage the process of transformational development and simultaneously, can relieve the higher level government of many such responsibilities. Besides, local government is found to be the most economical means of managing affairs at the local level provided an effective and efficient system of supervision, coordination, participation,
monitoring and evaluation is also developed.

Democracy and Decentralisation

Local self-government ensures an active participation of local population in the process of decision making and in managing their affairs. Thus it helps in building local leadership and local institutions. Self-governance at the local level stimulates political consciousness and a sense of responsibility and sacrifice among the people. The local population finds it much easier to identify itself with local leaders and with development schemes formulated at the local level. Local self-government serves as the training institution for local leaders and ensures a regular flow of talented leaders at higher levels. The system of election and popular representation also ensures gross root participation at various levels. A successful and self-reliant development process requires a gradual shift from planning with the people to planning by the people and this can best be ensured through an effective and efficient system of local self-government and institutions. Micro level planning is becoming increasingly important which emphasises the need for devolution of decision making and decentralisation of administration. It also requires a 'bottom-up' approach to planning and programme implementation. Local self-government may be in an enviable position to tackle the problems like marginalisation and alienation of certain sections of the society in the process of development, alleviation of absolute poverty and neutralisation of the deprivation trap.
"It is necessary that there should be a devolution of power and a decentralisation of machinery and that such power be exercised and such machinery be controlled and directed by popular representatives of local area." 2 Decentralisation is the essence of democracy and results in increased operation efficiency. Centralisation keeps the people off the administration and thus may lead to remote control and dictatorial attitude. Concentration renders the system over loaded, compartmentalised and sometimes immune. In spite of its apparent strength, it is susceptible to sudden collapse. Decentralisation is a better mode of governance in a socialistic pattern of society committed to democratic norm and values. Local self-governments are important means of achieving decentralisation of political power. However, decentralisation of authority and devolution of power does not mean diffusion and multiplicity of governments. The former involves a good measure of integration and coordination at various spatial and functional levels as well as socio-financial accountability to the higher echelons of the government and to the population within the area of the jurisdiction of the local government. Decentralisation with directive guidance from above: some measure of accountability from below and responsiveness to the local needs and aspirations seem to be the essence of local self-government in rural as well as urban area.

Planned Economic Development

Local Self Governments have a vital role to play in the country because of government's intention of devolution of
authority and decentralisation of administrative and planning functions and a general consciousness for the diversification of economic power in order to initiate a self reliant development process. It is an instrument for not only acquisition of economic prosperity but also its equitable distribution i.e., growth with redistribution. However, one can not ignore the fact that in spite of execution of 7 Five Year Plans, involving massive investment, both in public and private sectors, most of the benefits have been cornered by a minority at the top and there has been no let up in the miseries of the common man. The development benefits have failed to percolate towards the bottom. Masses still groan in poverty and hunger. Alienation, marginalisation, vulnerability and deprivation have been the lot of the rural and urban poor alike. This has led to wide spread public criticism of the planning process hither to pursued by the Government.

India, for centuries, has been beset with a multiplicity of problems, poverty and illiteracy being the primary ones. Development has taken place. There has been some success in poverty alleviation programmes. Literacy rate has increased. However, the aspirations of the population have risen much faster than the achievements. Planning at the national level is not likely to solve the problems. We need a system of planning at various spatial levels. National planning and local planning are necessary and complementary to each other and the two should be coordinated at the sub-national (regional) level. The question is which one we should adopt and implement first to solve our immediate
economic and social problems? Or is it essential to treat them simultaneous, integrated and complementary? A country as vast and diversified as ours can not make provision for every town and village through National and State planning. An efficient system of planning and administration at regional as well as local levels is necessary. It requires decentralisation of planning and administration to ensure mass participation, local initiative and self-reliant appropriate development. Only the plans of local bodies can make, provide, promote and maintain civic amenities for the local people. It will be a significant step towards democratic socialism in the country.

The establishment of planning at various spatial levels should become a reality. Galbraith and Colin Clark attribute the slow economic growth in developing countries to the inherent weakness of the planning process itself. The success of planning cannot be achieved through centralised planning (excessive emphasis on capital investment) but through local planning i.e. investment in human welfare (civic amenities and building up a favourable social climate).

Investment in civic amenities welfare programmes and institution needs to be increased and speeded up because lack of social facilities and infrastructures is the cause of many diseases and social evils. The 'Bustees' of Calcutta, the 'Chawls' of Bombay, the 'Jhuggis' of Delhi and the 'Ahatas'
of Kanpur are too prominent to be ignored in the planning and administration of these metropolitan and industrial cities of India. The very concept of democratic socialism and welfare state will be meaningless unless people are assured of clean air, safe water, secured life and healthy environment.

The widening gap between growing population and available social and physical services over the past two decades not only inhibit economic development, but act adversely to maintain lower-income families in poverty. Local governments have been able neither to maintain the existing status of services nor to extend them to those areas of the city with large number of migrants. Housing shortages are acute and slum and squatter settlements abound in nearly all the cities. Rondinelli has outlined four actions to strengthen the economies of existing secondary cities in the developing countries which seem to be quite pertinent here.

(a) extending basic social services and municipal facilities and infrastructures that support productive activities and improve human resources;

(b) improving physical structure to make these cities more efficient and conducive to productive economic activities;

(c) strengthening the economic base and employment structure; and

(d) strengthening the planning, administrative and financial
capacity of local governments to manage urban development.

The dichotomy of investment in welfare programmes and productive investment loses its meaning in Third World economies. Health has an obvious and fundamental influence on human welfare; and if the health of the bulk of the population in a developing country can be improved this could well have a major impact on overall welfare distribution. The provision of an adequate water supply and sanitation facilities complemented by programmes of hygiene education can have a significant impact on health, and hence on community development and the resultant socio-economic situation. Thus, one may conclude that improvement in social facilities and programmes for human resource development are most likely to accelerate the process of economic development and this can best be achieved at the local level.

Local people should be encouraged to seek solution to their own social and economic problems. The key to progress lies in the successful implementation of democratic, efficient and local planning. Local planning must be democratic because the process of development should include and give due preference to all sections of the local population. It must be efficient because it should be capable of managing the local services in a way which will help in raising the standard of living and in improving the quality of life. It must be local because planning
should be for the local people, by the local people and for the solution of their local problems based on local resources and technology.

OBJECTIVES

Local finance has been a rather neglected branch of public finance because of a very diffused pattern and its meagre share in the total finance. Of late, the emphasis on devolution of power and decentralisation of administration has attracted the attention of scholars to evaluate and appraise the finances of local bodies both rural as well as urban. Economists and financial analysts have studied the finances of urban governments in aggregate terms and at metropolitan level. One can scarcely notice such studies dealing with the finances of secondary cities and large towns which form the most vital link in urban continuum and which are required to function as the counter magnets to the rapidly expanding metropolitan cities. The present study dealing with the financial aspects of municipal administration of a corporate city of a rather backward economy is intended to fill this gap. Varanasi, being neither a capital city nor a metropolitan centre, has been selected for a detailed study and analysis.

The Municipal Corporation of Varanasi is expected to offer a reasonably good quality of life and healthy environment to the urban residents and to perform quite a large number of obligatory and discretionary functions as laid down, from time
to time, in relevant rules and regulations as well as acts and ordinances. The successful execution of these functions involves financial outlays and the Nagar Mahapalika Adhiniyam has empowered the corporation to raise revenue and borrow funds to be spent on the performance of these functions. The Adhiniyam has laid down the essential guide lines for the proper administration of the municipal finance.

The State Government has appointed commissions/committees from time to time to enquire into various aspects of the finances of the corporation(s) and to suggest measures to streamline the financial administration. The U.P. Government has superseded the municipal corporation several times for default in financial matters and/or negligence in carrying out the obligatory functions. However, these commissions and committees have failed to examine all the aspects of the finances of the municipal corporation and have not drawn parallels, wherever possible, from other municipal corporations within the State and outside. The present study, therefore is an attempt to analyse and examine all the relevant aspects of the finances of the corporation. The main objectives of the present study are:

1- to examine the existing state of affairs of the municipal finances with an objective to ascertain that the resources are being efficiently raised, optimally utilised and properly administered:
2- to deal with various sources of revenue and items of expenditure in order to evaluate whether the corporation has adequate resources to meet out its financial obligations while discharging the obligatory as well as discretionary functions;

3- to suggest measures to be adopted by the corporation to ensure proper utilisation of resources, for augmenting the municipal revenues, for enhancing the capacity to negotiate and repay loans and for improving the financial administration, and

4- to formulate guidelines to be adopted by the state government and, in certain cases, the national government for monitoring the functioning of the urban government and for improving the finances of the municipal corporation.

Data & Methodology

The study is based on primary as well as secondary sources of data. The official records, the municipal budgets for various years, minutes of meetings and audit reports have been extensively consulted to secure desired data and relevant information in order to present a comparative study of 8 municipal corporations of U.P. and some other corporations of the country. The necessary data have been obtained by personal interviews and discussions with the officials of the corporation and elected local representatives. The data pertaining to population has been obtained from relevant census publications.
Though the main part of the study begins after the brief explanation of the theoretical framework work of the local finance and concept of local self-government in India and abroad, nevertheless, this introductory part provides the basis and rationale against which the financial administration of the municipal corporation of Varanasi has been examined and evaluated. The present study starts with an aggregate analysis of revenue and expenditure of the municipal corporation and later goes on to examine in detail different sources of revenue and items of expenditure. In certain cases four/five yearly averages have been used in order to avoid annual fluctuations in municipal finances and per capita incidence of taxes and expenditures have been worked out to account for the growth in population. To make the study more instructive and to bring home the points more closely the finances of Varanasi Municipal Corporation have been compared at the state level with those of seven other municipal corporations of Uttar Pradesh namely, Kanpur, Lucknow, Agra, Allahabad Gorakhpur, Bareilly and Meerut and at the national level with those of Bangalore, Ahmedabad, Nagpur, Indore, Trivandrum and Patna.

With an objective to avoid unnecessary details, attention has been directed to the budgetary data for the years 1960-61 to 1968-69, the year 1960-61 being the first financial year of the municipal corporation and 1968-69 being the latest financial year for which the data was available. The study proceeds in the logical sequence with an objective to arrive at generalisations.
Hypotheses

The proposed study, for the sake of argument, assumes certain propositions which may be approved or disapproved with reference to the facts. These hypotheses, based on empirical observations, primary and secondary sources of data and a few studies completed in the subject field of municipal finance, are the following:

1- That though the decentralisation of decision making and devolution of power facilitates local participation and stimulates political consciousness nevertheless, the central authority at the state or national level should monitor the functioning of the local self-governments as the elected representatives may be subject to all sorts of pressures and pulls.

2- That the municipal revenue has miserably failed to keep pace with the run away growth of population of certain large cities in India and abroad resulting in over strained social facilities, inadequate urban amenities and deteriorating quality of the urban environment.

3- That the items of municipal expenditure no less important than the sources of municipal revenue and the former need to be properly accounted for and closely monitored while the latter need to be built local initiative and internal efficiency.
4- That in a developing economy having indifferent and ignorant electorate and socially irresponsible administration some vested interests get entrenched in the management of civic affairs resulting in neglect, inefficiency, corruption and misappropriation of funds as well as ad hocism in decision making and administration. This again underlines the need of effective supervision and close monitoring by the state government.

5- That grants-in-aid and borrowings should be treated as extra ordinary sources of municipal revenue. The former should adhere to the conditions specified in the sanction while the latter should be invested in a way to ensure adequate return in future to facilitate repayment and increased municipal revenue.

6- That some significant shifts in the relative importance of items of expenditure and sources of income can be easily identified among the municipal corporations and in the Varanasi Municipal Corporation during different years.

7- That the pattern of financial administration and the structure of hierarchic relationship and horizontal compartmentalisation are not in tune with the process of development and democratisation. There is need to realign the focus and restructure the relationship so that cities become a viable habitat of man and agents of growth and modernisation for the comple-
mentary region.

The City of Varanasi

Varanasi, a city of great antiquity with hoary traditions of religious sanctity, learning, art and culture, has been able to maintain its ancient celebrity and distinction uninterruptedly. It is perhaps the oldest living and planned city in the world. Its very name is derived from the two rivers—Varuna (Barna) and Assi bounding it on the north and south respectively. Its name Kashi reflects the spiritual attainments and enlightenments of the Rishis and Saints who lived in the forest retreats spread all over the ancient site and its environs. As a consequence of socio-cultural and political changes the city imbibed manifold diversities while maintaining certain underlying uniformity of life.

The archaeological findings reveal earliest human habitations at Rajghat plateau and a little latter at a nearby village (Kamauli) towards north. Varanasi was one of the first Aryan settlements in the Middle Ganga Valley. Varanasi was a great seat of Aryan Philosophy and religion during second millennium B.C. The Kingdom of Kashi flourished during the early centuries of the first millennium B.C. but was annexed to the Kosala in about 650 B.C. During the Buddhist period Sarnath grew rapidly and extended upto the north of Varuna. Hiuen Thsang found residential quarters extending along the high ridge-like bank of
the Ganga from Rajghat in the north to the confluence of the Assi with the Ganga in the south.4

Varanasi became an important centre of commercial and industrial activities under the royal patronage of the Hindu monarchs. However, the city could not escape the wrath of Muslim invaders from Mahmood of Ghazni to Aurangzeb. After the decline of the Mughal Empire, the Kashiraj, the Sikh power and the British contributed to the revival of Varanasi. The British established a number of educational institutions and the city's landscape underwent several improvements including the provision of municipal water supply and construction of bridges on the rivers and roads and railways. The Cantonment and the Civil Lines are amongst the notable additions by the British.5

Varanasi \(25°18'N\) and \(85°1'E\) enjoys a commanding position on the crescent shaped left bank of the Ganga. It has become a focal point of rail and road transport and lies midway between Delhi and Calcutta. The G.T. road skirts the city proper. Annual inundation by the Ganga and the Varuna is a common feature. The nature of topography has greatly influenced the pattern of urban spread in the city from early times. It is possible to reconstruct the initial plans of this ancient city around three major nuclei: Omkareshwar in the north, Visheshwar in the middle and Kedareshwar in the south and thus emerged the three 'khands' (zones) of Varanasi.6 One can have a fascinating
view of the river front at early dawn from the Malviya bridge. Along the entire riverside as many as 74 ghats provide entrance to the interior of the city. The main current of the Ganga skirts the Varanasi side and the stability of the river side has been maintained by the construction of the pucca ghats and buildings.

The city had a population of 218573 persons in 1881 and it has grown continuously since then. It has exceeded the million mark now. Varanasi is one of the most crowded cities with an average density of 6,996 persons/km$^2$. The municipal corporation area has a population density of 9027 persons/km$^2$.

Table 1.1 shows the civic status, area, population and population density, number of occupied residential houses and house holds of various components of Varanasi Standard Urban Area. Varanasi Municipal Corporation, which forms the subject matter of present study, includes 5 urban out growths namely Sheodaspur, Varanasi Railway Colony, Ashapur, Karaundi and Tulsipur. It covered an area of 78.50 km$^2$ and had a population of 708,647 persons (1981). The rural base of the Varanasi Standard Urban Area is quite obvious. The city has made significant progress in industrialisation, trade and transport and commerce. Multiplicity of local-self governments is noteworthy even if one leaves aside the sectoral undertakings and service organisations.
The commercial activity is concentrated in the core of the city, the Chowk and surrounding areas. Silk fabrics, brass wares, wooden toys and tobacco products are produced in cottage industries while factory industries consist of cotton textiles, oil crushing, iron and steel rerolling, general engineering, ice, chemicals and aluminium. Diesel Locomotive Works and Hari Fertilizers and Soda Ash Factory are large industrial enterprises. There are two industrial estates - one along the G.T. Road in Lahartara and the other near Ramnagar. One can discern a tendency towards functional specialisation and commodity specialisation in the urban space. Department of Town Planning, Avas Vikash Parishad, Varanasi Development Authority and other private colonizers and individual entrepreneurs can pool their resources and coordinate their programmes to facilitate an integrated and rational growth of the city.

Scope and Limitations

The Varanasi Municipal Corporation was constituted in 1960 and hence the financial year 1960-61 has been taken as the base year for the present study. A period of 28 years (1960-61 to 1988-89) has been chosen for the study with the objective of measuring the progress of the finances of the corporation and examining the functioning of the municipal administration. It is pertinent to mention here that the management of water supply system is vested in a separate organisation 'Jal Sansthan' financed
by the state government and elementary education is being looked after by the education department of the government of Uttar Pradesh. These institutions have their separate budgets and independent sources of revenue. Thus the present study does not deal with their finances in detail. It confines itself to the analysis of the finances of the general municipal administration of the corporation.

Though the present study covers a period of 28 years (from 1960-61 to 1988-89) the data for the municipal corporations of Bangalore, Ahmedabad, Nagpur, Indore, Trivandrum and Patna were available only for 22 years (from 1962-63 to 1984-85). The comparison of the finances of the KAVAL corporations and of the Gorakhpur, Bareilly and Meerut municipal corporations have been on the basis of data available for 24 years (from 1960-61 to 1984-85). The mid year population estimates for the calendar year have been used to find out the per capita expenditure and per person incidence of the revenue for various financial years ending on March 31. For example mid year population estimates for 1984 have been used for calculating the per capita expenditure and incidence of expenditure in 1984-85. Population for 1984 has been estimated by increasing the population 1981 by applying percentage annual growth rate during the decade (1971-81). Various sources of revenue and items of expenditures have been aggregated.
and disaggregated for the convenience of the present analysis, however, utmost care has been taken to maintain their comparability.

Organisational Structure

The sequence adopted in the presentation of materials reveals the approach adopted in the study. Though the main focus of the proposed study is to examine the items of expenditure and sources of revenue of the Varanasi Municipal Corporation nevertheless, most often, a comparative study of the municipal corporations of Uttar Pradesh and some city corporations of India has been presented. In order to do away with yearly fluctuations, the items of expenditure and sources of revenue have been examined over a longer period of time using four/five year average/interval. Population size bias has been eliminated by using per capita incidence of expenditure/revenue and proportionate share of each item/source to total expenditure/revenue.

The present study has been organised into four parts and all together there are fourteen chapters. Part A, more or less introductory in nature, contains three chapters. Part B, dealing with various aspects and items of municipal expenditure, consists of three chapters. Part C, devoted to a study of various sources of municipal revenue including grants-in-aid and borrowings, has five chapters. There are three chapters in Part D
which deals with various aspects of financial administration and planning and the relationship of the Varanasi Mahapalika vis-a-vis the state government and presents a summary of the whole work, conclusions and suggestions.

In laying foundation of the study Chapter 1 presents the conceptual framework and the design of the study and includes, in short, the background information of the city of Varanasi and also explains the rationale behind the proposed study. Chapter 2 examines the evolution of municipal governments in India in general and in Uttar Pradesh in particular. It brings out the ancient tradition of local self-governance and gives in detail the evolution of modern municipal government under the British rule and thereafter. Chapter 3 deals with the organisation and constitution of the Varanasi Municipal Corporation; its deliberative and executive wings and the obligatory and discretionary functions. Next three chapters (4, 5 and 6) deal with various items of municipal expenditures. Chapter 4 examines the importance, growth and classification of municipal expenditures of Varanasi and compares the same with some other corporate cities of Uttar Pradesh and India and presents an analysis of expenditure on traditional municipal function like public health and associated aspects of drainage, conservancy and water supply. Chapter 5 provides a detailed description of the expenditure on some other traditional municipal functions namely education, public safety,
general administration and collection charges and also includes a discussion of miscellaneous expenditures. The expenditure on public works, child welfare, sports and games, gardens and parks as well as planning the development of the city form the subject matter of Chapter 6.

Next five chapters deal with various sources of municipal revenue. Chapter 7 entitled Sources and Trends of Municipal Revenue has been devoted to a study of growth trends in municipal revenue vis-a-vis State and Central revenue, and its classification. It also includes a discussion of various forms of direct taxes like property tax (assessment, growth tax rate and collection cost) and taxes on animals and vehicles, entertainment, theatre, advertisements and passengers. Chapter 8 contains a detailed description of indirect taxes. Growth of revenue, tax schedule, collection cost, incidence and evasion of octroi as well as terminal tax and toll tax have been discussed in this chapter. Chapter 9 deals with non-tax revenue and municipal trading as sources of municipal income. Rent from municipal property, sale proceeds of land, buildings, produce of land, shops and slaughter houses, interests and other miscellaneous receipts are main sources of the non-tax revenue while municipal trading consists of public utilities like transport, electricity and milk supply and cinema
houses. There is need to augment the sources of non-tax revenue and to increase the activities of the corporation in the domain of municipal trading. Chapter 10 examines the rationale behind and the type and form of the grants-in-aid from the state government to the local bodies. It also includes a discussion of its per capita incidence, and associated problems and puts forth certain suggestions to remedy the situation. Chapter 11 entitled "Municipal Borrowings" has been devoted to the study of purpose, procedure, sources and redemption of loan, borrowing powers of the Varanasi Municipal Corporation, borrowings and total revenue and the extent of indebtedness, problems of debt burden and certain remedial measures.

Chapter 12 presents some salient aspects of financial administration and planning including local budgeting and some new sources of municipal revenue and enhancement in tax rates. It lays emphasis on realistic performance budgeting, proper maintenance of accounts, adjustment of advances and a proper audit of accounts and early compliance of audit objections. Chapter 13 examines the relationship of the Varanasi Municipal Corporation vis-a-vis the state government. It deals with the nature of state controls, powers of inspection, sanction, dissolution and supersession of the Mahapalika. It also describes the powers of the state government over personnel and functions of various agencies and departments dealing with municipal affairs.

The entire work has been summarised, tentative conclusions have been drawn and certain suggestions to streamline the process