

## Chapter - 2

அஞ்சாமை ஈகை அறிவூக்கம் இந்நான்கும்  
எஞ்சாமை வேந்தற் கியல்பு

Dauntlessness, liberty, wisdom, diligence – it is the virtue of a king not to fail in these four.

*Thirukkural – 382*

If he brings in (the whole) for the King, he should be warned in case of minor offence, in case of a major offence should be punished according to the offence.

*Arthashastra – 2.9.16*

## Chapter – 2: Understanding the Urban Sector

This chapter is divided into three sections. Section I provides an introduction to the urban sector, Section II provides an account of accountability and transparency with reference to urban sector. India, Tamil Nadu and Chennai specific aspects are also discussed. Section III provides inputs on the importance of this research.

### Section-I: Indian Urban Sector

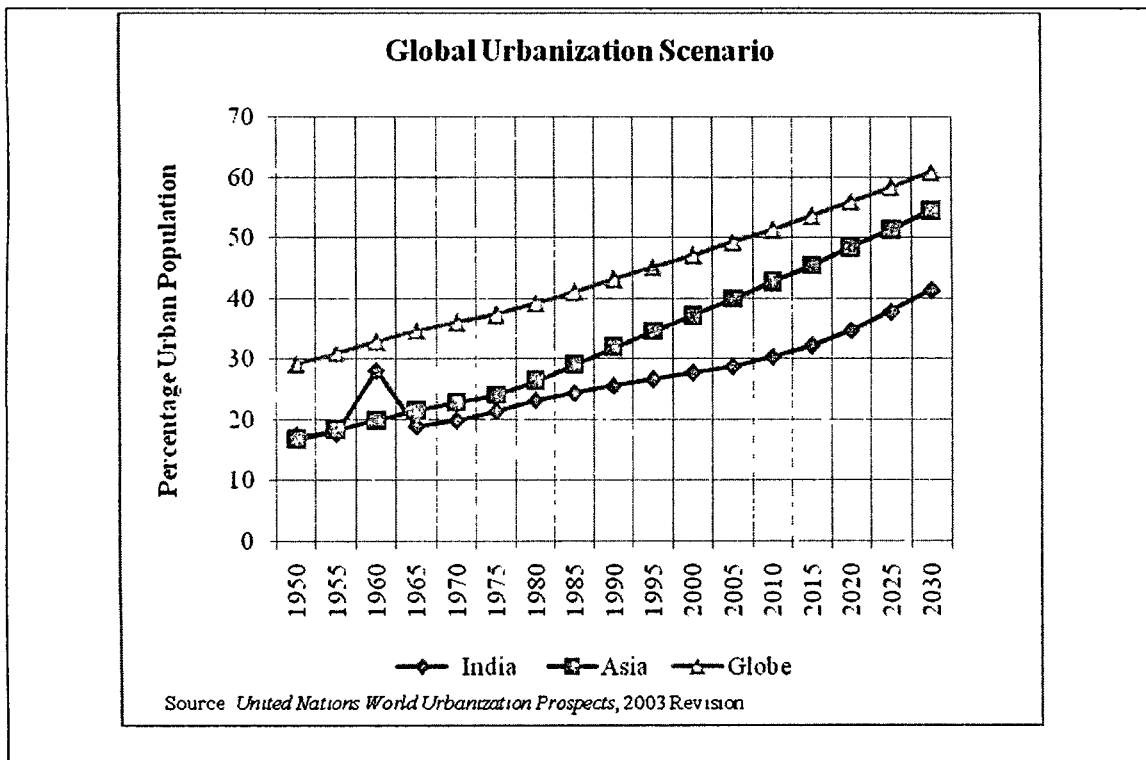


Figure 2-1 Global Urbanization Scenario

In India, while its one billion-plus population is predominantly rural, over 300 million people live in urban areas. One-third of this population lives in 35 urban agglomerations or cities with population exceeding one million. The share of GDP generated in urban areas

has increased over the past 10 years.....<sup>18</sup> Cities are responsible for delivering various public services, yet severe infrastructure shortages in water supply and sanitation, roads, transportation, housing and waste management, and inefficient management have resulted in poor quality services with limited coverage.<sup>19</sup>

In India the process of urbanization seems to have slowed down on a national basis with its contribution to GDP actually growing steadily. This is summarized by the graph and discussions by Roopa Purushothaman (2009).<sup>20</sup>

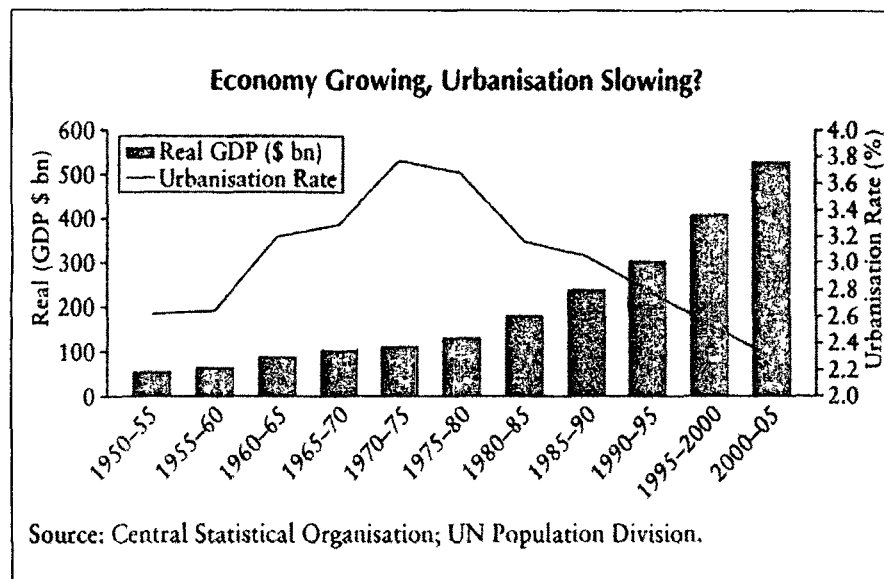


Figure 2-2: Urbanization and Economy

With faster and more integrated economic growth, urbanization is gaining momentum in the developing countries; nearly half of the world today is urban. India's urban population grew from 26 million in 1901 to 285 million in 2001, with the share of population in cities and towns steadily rising from 10.8 per cent in 1901 to 27.8 per cent in 2001. The number

<sup>18</sup> World Bank, (June 2001), *India Urban Sector Strategy*. The Strategy notes suggest that urban poverty is less well analyzed than rural poverty.

<sup>19</sup> The 1996 *Rakesh Mohan Infrastructure Report* estimated that annual investments of about US\$5 billion (1.5 percent of GDP) are needed to make up for past under investments and future demands on urban areas.

<sup>20</sup> Roopa Purushothaman (2009), from chapter on *The Next Urban Frontier*, in India 2009, Business Standard Publication, pp-235.

of metropolitan cities went up from one in 1901 to 35 in 2001. The percentage of urban population living in these million-plus cities increased from 5.84 in 1901 to 38.60 over the same period<sup>21</sup>.

**Table 2-1: Number and Population (in Million) of Urban Agglomerations (UAs) and Towns (1901-2001) in India**

Census Year	Number of UAs/Towns	Total Population	Urban Population	Urban Population as % of Total Population
1901	1,830	238,396,327	25,851,873	10.8
1911	1,815	252,093,390	25,941,633	10.3
1921	1,944	251,321,213	28,086,167	11.2
1931	2,066	278,977,238	33,455,989	12.0
1941	2,253	318,660,580	44,153,297	13.9
1951	2,822	361,088,090	62,443,934	17.3
1961	2,334	439,234,771	78,936,603	18.0
1971	2,567	548,159,652	109,113,977	19.9
1981	3,347	683,329,097	159,462,547	23.3
1991	3,769	846,387,888	217,551,812	25.7
2001	4,378	1,028,610,328	286,119,689	27.8

1 Urban Agglomerations, which constitute a number of towns and their outgrowths, have been treated as one unit  
2 The total population and urban population of India for the year 2001 includes estimated population of those areas of Gujarat and Himachal Pradesh where census could not be conducted due to natural calamities  
3 The total population and urban population of India for the year 1991 includes interpolated population of Jammu & Kashmir where census could not be conducted  
4 The total population and urban population of India for the year 1981 includes interpolated population of Assam where census could not be conducted

**Source: Census of India 2001**

The contribution of urban areas to country's Net Domestic Product (NDP) has been steadily increasing from about one-third in early 1970s to about 50 per cent in the post-liberalization period (Table 2-2).

**Table 2-2: Share of Urban Areas in National Income**

Year	Total NDP (Rs. Billion)	NDP Urban (Rs. Billion)	Share of Urban in Total NDP (%)
1970-71	368	139	37.7
1980-81	1103	453	41.1
1993-94	7161	3312	46.2

**Source: Central Statistical Organisation, reported in Mohan (2004).**

Mohan, Rakesh and Shubhagato, Dasgupta (2004) *Urban Development in India in the Twenty First Century Policies for Accelerating Urban Growth*, Fifth Annual Conference on Indian Economic Policy Reform at Stanford Center for International Development, June 4-5,

<sup>21</sup> RBI (2007), *Municipal Finance in India An Assessment*, Department of Economic Analysis and Policy, Reserve Bank of India, Mumbai, December 27, 2007

Similarly, the share of the urban areas to national income has also been steadily increasing. It is estimated that the urban areas contribute to as high as 60 per cent of the National Income (Table 2-3). According to the 2001 census, India has a population of 1027 million with approximately 28 per cent or 285 million people living in urban areas. As a result of the liberalization policies adopted by the Government of India it is expected that the share of the urban population may increase to about 40 per cent of total population by the year 2021. It is estimated that by the year 2011, urban areas would contribute about 65 per cent of Gross Domestic Product (GDP).<sup>22</sup>

**Table 2-3: Contribution of Urban Areas to National Income**

Year	Share of Population (%)	Share of National Income (%)
1951	17.3	29.0
1981	23.3	47.0
1991	25.7	55.0
2001	27.8	60.0

**Source:** Ministry of Urban Affairs, Government of India, reported in Kumar (2003).  
Kumar Dhirendra (2003): *Environmental Management Systems – An Exemplary for Urban Local Bodies.*

While the contribution of the urban areas to National Income is overwhelming, the contribution of the urban local bodies in this regard seems to be limited. The recent analysis by the Reserve Bank of India on the ULBs brings out the significance of ‘local public finance’<sup>23</sup>. As per the Report of the Twelfth Finance Commission, India has 3,723 ULBs, of which 109 are MCs, 1432 are municipalities and 2182 are Nagar Panchayats. The total revenue of the municipalities grew from Rs.11,515 crore in 1998-99 to Rs.15,149 crore in 2001-02 at a compounded average growth rate (CAGR) of 9.6 per cent. The total expenditure increased from Rs 12,035 crore to Rs 15,914 crore during the same period,

<sup>22</sup> Ministry of Urban Development, *Jawaharlal Nehru National Urban Renewal Mission, Overview*, pp-3, from <http://www.jnnurm.nic.in>

<sup>23</sup> RBI (2007), *ibid*

registering a CAGR of 9.8 per cent. In spite of the growth of the municipal sector in the country, it accounts for a very small proportion of both Gross Domestic Product (GDP) (at current prices) as well as revenue and expenditure of the upper tiers of Government.

**Table 2-4: Revenue Significance of the Municipal Sector**

Year	Municipal Revenue (Rs.Crore)	Percentage of GDP at Factor Cost	Relative share of Municipal Revenue (as per cent of Total Revenue of)		
			State Govt.	Central Govt.	Combined State & Central Govt.
1998-99	11,515	0.72	4.4	4.1	2.5
1999-00	13,173	0.75	4.2	4.4	2.5
2000-01	14,581	0.77	4.2	4.5	2.4
2001-02	15,149	0.73	4.1	4.2	2.3

Source: (i) Reports of Eleventh and Twelfth Finance Commission, (ii) Economic Survey, GoI 2004-05

Total revenue of the municipal sector accounts for about 0.75 per cent of GDP of the country (Table 2-4). In contrast, the ratio is 4.5 per cent for Poland, 5 per cent for Brazil and 6 per cent for South Africa [Buckley (2005)]. Similarly, municipal revenue forms a little more than 2 per cent of combined revenue of State and Central Governments. Total revenue of ULBs has been growing at a lower rate (9.7 per cent during 1998-99 to 2001-02) than the growth of combined revenue of Central and State Governments (10.8 per cent during 1998-99 to 2001-02). This is reflected by a marginal decline in the share of municipal revenue in total government revenues from 2.5 per cent in 1998-99 to 2.3 per cent in 2001-02.

**Table 2-5: Expenditure Significance of the Municipal Sector**

Year	Municipal Expenditure (Rs.Crore)	Percentage of GDP at Factor Cost	Relative share of Municipal Revenue (as per cent of Total Expenditure of)		
			State Govt.	Central Govt.	Combined State & Central Govt.
1998-99	12,035	0.75	4.52	4.31	2.21
1999-00	14,452	0.82	4.60	4.85	2.36
2000-01	15,743	0.83	4.53	4.84	2.34
2001-02	15,914	0.76	4.22	4.39	2.15

Source: (i) Reports of Eleventh and Twelfth Finance Commission, (ii) Handbook of statistics on Indian Economy, RBI 2005-06

In terms of total expenditure, the municipal sector accounts for about 0.79 per cent of the GDP of the country (Table 2-5). While municipal expenditure accounts for little over 2 per cent of the combined expenditure of State and Central Governments, it declined further between 1999-2000 and 2001-2002.

With over 50 per cent of GDP from the Urban areas, the revenue generated by the local government which provides the basic infrastructure is less than 1 per cent. This requires a systematic investigation. Thus the economic role of urban sector and hence the role of urban finance in the performance of India's economy is extremely important, as the urban local bodies provide the basic infrastructure. Unless the Corporation provides good infrastructure like roads, drainages, water supply, etc., no enterprise will be happy to invest in the locality. Today, with globalization and networking of economies, a country like India is likely to lose to a country like China due to lack of infrastructure provision and maintenance, which in urban sector is governed by the local institutions like the Corporation.

The performance of the Corporation (in providing proper adequate infrastructure) directly affects the economic performance of the urban areas, which in turn affects the performance of the country as a whole. For providing infrastructure, financial resources and their management become the key issues. “Inadequate financial resource is one of the principal reasons that municipal services are inadequate in almost all developing countries and transitional countries. Even when local governments have been assigned clear service delivery responsibilities, lack of revenue-raising powers and unpredictable intergovernmental transfers often hinder the ability of municipalities from efficiently discharging these functions in a way that is responsive to local constituencies.”<sup>24</sup>

The role of public finance with regard to the urban sector is undergoing a massive change across the globe. While the basic reasons for the same stems from the increasing demands of the citizens and the need to create better quality public infrastructure, different approaches to financing in the public finance arena is also increasing. With the information technology (IT) revolution and availability/accessibility of information, differences in the public financial practices across the globe are becoming similar.

In India while the private sector has the wherewithal to adapt itself to the changing pressures, the public sector, particularly the governmental institutions have always been slow to react. Until recently the Urban Local Bodies (ULBs<sup>25</sup>), were considered as ‘some

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<sup>24</sup> USAID (2006), *Municipal Finance: Assessment and Implementation Toolkit*, pp-1 PADCO in association with Andrew Young School of Policy Studies, Georgia State University, TCG International, LL C

<sup>25</sup> **Urban Local Bodies (ULBs)** of India are the constitutionally provided administrative units that provide basic infrastructure and services in cities and towns. According to Census of India 1991, there are 3255 ULBs in the country classified into four major categories:

- Nagar Nigams
- Nagar Palikaa
- Nagar Panchayats

Large urban areas are governed by *Nagar Nigams*, often simply called *corporations*. The area under a corporation is further divided up into *wards*. Individual wards or collections of wards within a corporation sometimes have their own administrative body known as *ward committees*. Smaller urban areas are governed by *Nagar Palika*, which are often referred to simply as *municipalities*. Municipalities are also divided into



insignificant small government offices' doing some maintenance works like garbage removal, road/drain maintenance works, etc. In recent times with the increasing focus on service delivery and its 'infrastructure' for the same, ULBs have become the centre of infrastructure creation and maintenance. This particular aspect itself has changed the role with specific reference to public finance. They are no more 'small/petty government offices' but infrastructure managers for that part of the country. This means the management has to be top class.

An analysis of the fund requirement for the urban sector during the Eleventh Five Year Plan<sup>26</sup> clearly shows the focus on the infrastructure. The total fund required for implementation of Eleventh Five Year Plan targets in respect of urban sector is shown in Table 2-6. Note that most of the investment is for infrastructure.

**Table 2-6: Eleventh 5 year plan estimates for Urban Sector**

Sl.No.	Sub-Sector Plan	Estimated Amount (Rs. In Crore)
(i)	Urban water supply	53,666
(ii)	Urban sewerage & sewage treatment	53,168
(iii)	Urban drainage	20,173
(iv)	Solid waste management	2,212
(v)	Management Information system (MIS)	8
(vi)	R & D and PHE training	10
<b>Total</b>		<b>1,27,025</b>
<b>Source of funding</b>		
(i)	Central Sector outlay	70,000*
(ii)	State Sector outlay	35,000*
(iii)	Institutional Financing	10,000
(iv)	Assistance from External Support Agencies	10,000
(v)	FDI & Private sector	2025
<b>Total</b>		<b>1,27,025</b>
Source Eleventh Five Year Plan 2005-12, Report of the Steering Committee		

wards. which may be grouped together into *ward councils*. One or more representatives are elected to represent each ward. (wikipedia).

<sup>26</sup> *Report of the Steering Committee on Urban Development for Eleventh Five Year Plan (2007-2012)*; pp-55-56

Table 2-6 clarifies two issues: one relating to the size of investments in infrastructure required and the other relating to the key aspect of urban management. To manage the estimated Rs.1.27 lakh crores or Rs 1,027 billion, the urban sector executives need to be professionals of the top order. They need to migrate to the role of infrastructure manager with excellent finance management skills. The infra-manager and finance manager roles of the urban manager have forced the need to have excellent information, based on which funding and management of urban infrastructure could be attempted. This implies directly the responsibility of both accountability and transparency towards stakeholders on urban managers. Thus, issues relating to maintaining proper accounting records, maintaining details of various works taken up in individual wards of citizens etc. and providing information of the 'source and uses of money' to various levels of information seekers, from local citizens to government/funding agencies, have cropped up.

In such a change process, the issues relating to accountability and transparency have gained extreme importance in relation to access to finance, as newer instrument and governance issues demand different types/depth of information from the public bodies. With the 74<sup>th</sup> CAA in India, the role of ULBs has changed. The concept of subsidiarity<sup>27</sup> brings with it increased devolution/decentralization of power from the State to the ULBs. Also there is an increased role for the 'participation' of the citizen, which enables the citizen to be real 'stakeholder' in the local governance. Hence, the basic pressure on the ULBs arises from:

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<sup>27</sup> According to Wikipedia **Subsidiarity** is an organizing principle that matters ought to be handled by the smallest, lowest or least centralized competent authority. The Oxford English Dictionary defines subsidiarity as the idea that a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level.

- Having information to understand the actual performance: Increased pressure on the operational performance (project implementation/asset maintenance) and financial data (actual cash flows)
- Providing information on the performance: Need for finding newer instruments to finance their projects (like bonds, pool financing, public – private participatory finance, etc)
- Sharing of information with the public : Providing information on governance as required by the CAA for the understanding and participation of public in the affairs of the ULBs
- Reporting to authorities: State, Central and other funding agencies and authorities.

Across the globe, and more so in countries like India, which have fast changing macro-economic scenario, there are serious issues in public financial management in this regard. It is in this perspective that this thesis attempts to look at ‘accountability’ and ‘transparency’ issues.

## **Section-II: The Urban Local Bodies**

Urban Local Bodies (ULBs) play an important role in the planning and development of urban areas. The governance of the urban localities lies with the ULBs. After the 74<sup>th</sup> Constitutional Amendment Act (CAA), the ULBs govern the urban areas of the country. While this has conceptually taken governance to the level of citizens, the most important stakeholders in the economy, the ULBs have not geared themselves up in governance, which is their key role. According to Prof.Mathur<sup>28</sup> “... most studies undertaken to assess the functioning of municipalities in India point out that the performance of municipalities in the discharge of their duties has continued to deteriorate over time. It is noted that municipalities in India are confronted with a number of problems, such as inefficiency in

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<sup>28</sup> Mathur,M.P. (2007), *Impact of the Constitution (74th) Amendment Act on the Urban Local Bodies: A Review*, National Institute of urban Affairs, NIUA-WP 07-02, pp-3

the conduct of business, ineffective participation by the weaker sections of the population in local governance, weak financial condition, lack of transparency in the planning and implementation of projects, etc., which affect their performance adversely”.

According to Prof. Mathur, an important initiative of the Government of India to strengthen municipal governance is the enactment of the Constitution (74th Amendment) Act (CAA) in 1992. Until the recent amendment, local governments in India were organised on the basis of the '*ultra vires*' principle (beyond the powers or authority granted by law) and the state governments were free to extend or control the functional sphere through executive decisions without an amendment to the legislative provisions. Through this initiative, an attempt is being made to improve the performance ability of municipalities, so that they are able to discharge their duties efficiently.

With the enactment of the CAA, the municipalities have acquired constitutional status for the first time in the history of local governments. The important provisions specified in the Act include constitution of three types of municipalities, devolution of greater functional responsibilities and financial powers to municipalities, adequate representation of weaker sections and women in municipalities, regular and fair conduct of municipal elections, and constitution of Wards Committees, District Planning Committees, Metropolitan Planning Committees and State Finance Commissions.

The CAA provisions provide a basis for the State Legislatures to guide the State Governments in the assignment of various responsibilities to municipalities and to strengthen municipal governance. Accordingly, several State Governments have amended their Municipal Acts/Laws/Legislations so as to bring these in conformity with the Constitutional Provisions. It is also learnt that the municipalities are confronted with a number of problems, despite the amendments in the State Municipal Acts and the implementation of the 74th CAA provisions. For instance, in several States, there exists a problem of ineffective participation in the decision-making process, delays in the transfer of funds to the municipalities despite constitution of State Finance Commissions, poor recovery from various tax and non-tax sources despite devolution of powers, etc. It is further learnt that there is an influence of various social, economic and political factors on the functioning of municipalities in India.

Table 2-7: ULB distribution in States of India (2004)<sup>29</sup>

SI No:	Name of State/UT	Number of Urban Local Bodies			
		Municipal Corporation	Municipal Council	Nagar Panchayat	Total
1	Andhra Pradesh	8	108	1	117
2	Arunachal Pradesh #				
3	Assam	1	29	55	85
4	Bihar	5	32	80	117
5	Chattisgarh	10	28	72	110
6	Delhi	1	1	0	2
7	Goa	1	12	0	13
8	Gujarat	6	143	0	149
9	Haryana	1	24	43	68
10	Himachal Pradesh	1	20	28	49
11	Jharkhand	1	20	22	43
12	Karnataka	6	123	93	222
13	Kerala	5	53	0	58
14	Madhya Pradesh	14	48	48	110
15	Maharashtra	22	225	0	247
16	Manipur	0	7	20	27
17	Meghalaya @				
18	Mizoram @				
19	Nagaland @	0	3	16	19
20	Orissa	2	35	66	103
21	Punjab	5	97	31	133
22	Rajasthan	3	11	169	183
23	Sikkim	0	0	8	8
24	Tamil Nadu	6	151	0	157
25	Tripura	0	1	12	13
26	Uttaranchal	1	31	31	63
27	Uttar Pradesh	12	194	422	628
28	West Bengal	6	117	3	126
Total		117	1513	1220	2850
Notes:					
1. # - There are no municipalities in Arunachal Pradesh.					
2. @ - The 74 " Amendment Act provisions have not been applied to certain Scheduled Areas and the Tribal Areas of India.					
3. Blank spaces in the table indicate that data are not available.					
4. Status of Information provided in the table is based on data collected over a period of time and may therefore not tally with the latest position of different states of the country.					

<sup>29</sup> NIUA (2007)

Implementation of the CAA is an important step in the governance of the ULBs. NIUA study (2007) provides an insight into the status of the CAA implementation. Though the data is as at 2004, the study provides an idea of the pace of the progress and also how some states are ahead of the others. It may be noted that some important provisions of the Act have been included in the table. These are: constitution of ULBs; reservation of seats in ULBs, regular conduct of elections, constitution of Ward Committees (WC), District Planning Committees (DPCs), Metropolitan Planning Committees (MPCs) and State Finance Commissions (SFCs).

**Table 2-8: Status of Implementation of CAA – Key Reforms<sup>30</sup>**

Sl No:	State/UT	Constitution of ULB's	Reservation of Seats	Regular Conduct of Elections	Constitution of WCs	Constitution of DPCs	Constitution of MPCs	Constitution of SFCs
1	Andhra Pradesh	√	√	√	√			√
2	Arunachal Pradesh #							√
3	Assam	√	√	√				√
4	Bihar	√	√	√		√		√
5	Chattisgarh	√	√		√	√		√
6	Delhi	√	√	√	√			√
7	Goa	√	√	√				√
8	Gujarat	√	√	√				√
9	Haryana	√	√	√				√
10	Himachal Pradesh	√	√	√				√
11	Jharkhand	√	√					√
12	Karnataka	√	√	√	√	√		√
13	Kerala	√	√	√	√	√		√
14	Madhya Pradesh	√	√	√	√	√		√
15	Maharashtra	√	√	√	√			√
16	Manipur	√	√	√				√
17	Meghalaya @							
18	Mizoram @							
19	Nagaland @							
20	Orissa	√	√	√		√		√
21	Punjab	√	√	√				√
22	Rajasthan	√	√	√		√		√
23	Sikkim	√	√	√				√
24	Tamil Nadu	√	√	√	√	√		√
25	Tripura	√	√	√				√

<sup>30</sup> NIUA (2007)

SI No:	State/UT	Constitution of ULB's	Reservation of Seats	Regular Conduct of Elections	Constitution of WCs	Constitution of DPCs	Constitution of MPCs	Constitution of SFCs
26	Uttaranchal	√	√	√				√
27	Uttar Pradesh	√	√	√				√
28	West Bengal	√	√	√	√	√	√	√
Notes:								
1. # - There are no municipalities in Arunachal Pradesh.								
2. @ - The 74 " Amendment Act provisions have not been applied to certain Scheduled Areas and the Tribal Areas of India.								
3. Blank spaces in the table indicate that data are not available.								
4. Status of Information provided in the table is based on data collected over a period of time and may therefore not tally with the latest position of different states of the country.								

The main objective of the CAA was to take governance nearer to the people. This would mean increased participation of the citizens. This would also mean making the system more transparent to the stakeholders. Transparency of information with regard to governance would be possible only if the administrators (who run the system as different from the citizen stakeholder) are made accountable for their actions. Thus accountability and transparency are part of the objectives of the CAA. Participation of the stakeholders, particularly the citizens, is another area of focus of the CAA. Hence the analysis provided in Table 2-2 shows that in most of the initiatives like formation of WCs, DPCs, MPCs that involve external stakeholders (outside the local governance system) are yet to be implemented. One of the major reasons for the lack of implementation in this regard is the availability of a well laid out accountability and transparency mechanism that will expose these facts to the general public. Also lack of monitoring mechanisms at the government level contributes for lack of timely implementation. In fact, though these are citizen-centric initiatives, most of the elite and educated citizens themselves are not aware about their own rights and obligations in this regard. *This is one of the areas considered in this study.*

### **Government of India (GOI) strategy for Urban Development**

According to the 2001 census, India has a population of 1027 million with approximately 28 per cent or 285 million people living in urban areas. As a result of the liberalization policies adopted by the Government of India, the share of the urban population is expected

to increase to about 40 per cent of total population by the year 2021. It is estimated that by the year 2011, urban areas would contribute about 65 per cent of gross domestic product (GDP). However, this higher productivity is contingent upon the availability and quality of infrastructure services. Urban economic activities are dependent on infrastructure, such as power, telecom, roads, water supply and mass transportation, coupled with civic infrastructure, such as sanitation and solid waste management. All these depend upon the availability of finances with ULBs. Hence finance is possibly the major area that requires attention in the urban sector.

Investment Requirements in the Urban Sector<sup>31</sup>: It is estimated that over a seven-year period, the Urban Local Bodies (ULBs) would require a total investment of Rs. 1,20,536 crores. This includes investment in basic infrastructure and services, that is, annual funding requirement of Rs. 17,219 crores. It is well recognised that in order to fructify these investments, a national level initiative is required that would bring together the State Governments and enable ULBs catalyse investment flows in the urban infrastructure sector.

According to the JNNURM the expected outcomes<sup>32</sup> are:

On completion of the Mission period, it is expected that ULBs and parastatal agencies will have achieved the following:

- (1) Modern and transparent budgeting, accounting, and financial management systems will be designed and adopted for all urban service and governance functions
- (2) City-wide framework for planning and governance will be established and become operational
- (3) All urban residents will be able to obtain access to a basic level of urban services
- (4) Financially self-sustaining agencies for urban governance and service delivery will be established, through reforms to major revenue instruments
- (5) Local services and governance will be conducted in a manner that is transparent and accountable to citizens**
- (6) E-governance applications will be introduced in core functions of ULBs/Parastatal resulting in reduced cost and time of service delivery processes.

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<sup>31</sup> Ministry of Urban Development, *ibid*, pp-3

<sup>32</sup> Ministry of Urban Development, *ibid*, pp-6-7



One of the outcomes of the JNNURM project itself is with regard to accountability and transparency aspect laid out clearly in the GOI document. This stresses the importance of the topic taken up in this study. It is also observed that the first and foremost outcome in this regard is the ‘modern and transparent budgeting, accounting and financial management system’.

Apart from this, the synthesis of various initiatives in the urban reforms in India highlight the concepts of auditability (control) and information transfer (reporting); these clearly indicate respectively accountability and transparency aspects of the reforms. These are summarized as follows:

- Finance is a major area of concern for creation of required urban infrastructure and provision of urban services (to the extent that CAA includes specific sections in this regard);
- Accountability is sought to be introduced by introduction of accrual accounting in the ULBs – in order to provide basis for better management/governance of ULBs;
- Auditability of the financial statements increases the accountability of the ULBs;
- Financial statement reporting to concerned authorities and auditors increase the transparency aspects;
- The infusion of technology for the purpose of public interface (like payment counters, web-sites, etc.) not only increases the information transfer but also increases participation of the stakeholders and transparency.

*Since the ULBs deal with the public money, the transparency and accountability in financial transactions seems to be the major focus. However, in order to use the public funds properly in a way that is appropriate for developing infrastructure and providing services to citizens accountability and transparency are required. This is the centre point of this thesis.*

### **Section III: Key issues in Governance in relation to ULBs**

In his path breaking work based on Indian conditions Dr.Samuel Paul<sup>33</sup> (2002) brings out the issues in governance with regard to the public services:

- Resource constraints
- Incompetent and unmotivated service providers
- Corruption
- Civil Society's weaknesses
- Productivity of services not a priority

Resource constraints act as the key barrier to provision and maintenance of public services. In the case of ULBs the resource constraints result not only in poor maintenance of the existing infrastructure but also restricts the creation of new infrastructure. The management of ULB is not able to make both ends meet. Most of the revenue collected gets spent towards the administration of the ULB, and there is no scope for additional infrastructure creation as required by the citizens. This results in dissatisfaction of the citizens. Hence service delivery and satisfaction levels are directly influenced by resource constraints. The financial resources cannot be managed properly if the accounting systems are not robust. Hence the accounting system forms the basis of good governance by providing accountability and transparency platforms.

Incompetent and unmotivated service providers. In the ULBs incentives for good performance and punishment for bad performance are not easy. These result in absolutely no check on the quality of the personnel recruited for the services. Apart from this the working conditions are poor (triggered by organization culture and resource constraints). All these impact the availability of qualified and talented persons in the ULBs to handle public services. So, even if the infrastructure is created, there is inadequate quantity/quality of human resources for service delivery. There has to be a transparent mechanism of recruitment of the employees, and systems for holding them accountable if the incompetency and motivation issues are to be addressed.

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<sup>33</sup> Paul, Samuel (2002), *Holding the State to Account – Citizen Monitoring in Action*, Books for Change, pp-7-25

Corruption takes several forms. It could vary from taking bribe to providing concessions to influential persons, thereby prejudicing the interest of the common citizen. It is stated that the elite get their jobs done in public institutions either through influence or money. “We have evidence.....proving that the poor pay a larger proportion of their income as bribes than the rest of the population”<sup>34</sup>. One of the major reasons for corruption is the lack of transparency. People are not aware of rules and hence need to depend upon someone working in the ULB, or touts. This also happens when there is no system for complaints and, in case it is there, the complaints are not resolved at all. The Right to Information Act (RTI) seeks to address certain aspects in this regard. Increasing accountability through severe consequences for corruption and transparent decision process only can control corruption in a positive way.

Civil Society’s weaknesses do influence the way governance is handled by ULBs. First and foremost the neighbourhood communities, residents’ associations, etc. are not organized properly. While some of them are quite active, there are very few cases of them playing a lead role as envisaged in the policy documents or vision for good urban governance. Still the citizens of India are carried away by the concept of ‘representative democracy’ and not ‘participatory democracy’, which is the key for the functioning of civil societies. Also, the civil societies take up more of advocacy issues rather than urban governance issues. The civil societies actually play a vital role in connecting ULB management and the citizens through accountable governance system and transparent information transfer.

Productivity of services is not a priority in the ULBs. This is due to the complete lack of accountable systems within government. In case a PWD engineer is not productive in comparison to his private sector counterpart or in case he has not completed a project as per plans, there is no rigid system of holding him accountable. Also there are no quality or service benchmarks (now contemplated under JNNURM) that are transparently made known to the citizens in order that they understand the quality they get. Some of the Corporations do have Citizens’ Charter. But these are neither transparently made available nor is there a system of follow-up.

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<sup>34</sup> Paul, Samuel (2002), *ibid*, pp-15

*Thus we see that in all the areas of governance of the ULBs, the issues relating to accountability and transparency play a key role. Hence there is a need to design, establish and review accountability and transparency systems for the benefit of citizens.*

In the words of Harry Kitchen<sup>35</sup> (2005), the entire aspects of accountability and transparency with regard to the municipal services are summarized succinctly:

“In the provision of local public sector services, **accountability** is achieved when a customer or tax payer is able to identify who is responsible for what and is able to link the governing unit responsible for the service direct to its funding.”

“**Transparency** is achieved when citizens or taxpayers have access to information and decision-making forums, so that the general public knows what is happening and is able to judge whether it is appropriate”.

*Having provided a backdrop of the urban sector with specific reference to transparency and accountability aspects, this study examines available literature in this regard.*

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<sup>35</sup> Kitchen, H (2005), *Delivering Local/Municipal Services*, Public Services Delivery edited by Anwar Shah, The World Bank, pp-121-122