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INTRODUCTION AND
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CHAPTER - I

INTRODUCTION AND RESEARCH METHODOLOGY

1.1 INTRODUCTION

India is the largest country in the world which has adopted democratic form of government and federal setup of governance. As a result, there is a strong Central Government and many subnational governments along with the considerable number of local governments. They have been assigned a crucial role in achieving overall development of local areas and well being of the people in the area covered by their jurisdiction. The reality is that, they have been given an increased role to play in the above context, but financial resources and powers to raise revenue available for them are inadequate and insufficient, which has led to fiscal imbalance or fiscal crisis as usual and regular phenomenon for this layer of government in India. It is a fact that, Public Finance of India as well as abroad have paid less attention towards the finances of local governments compared to the degree of caution taken as to analyse the finances of national as well as subnational governments in the world economy. Research studies undertaken in India in the area of Public Finance have found to be concentrated in analysing the Central and State government finances. While local finances has not got the much needed attention. To analyse the problems of this layer of government, is no doubt of greater importance and relevance in respect of its significance in the overall development of local areas and more importantly in improving wellbeing and living conditions of the local people. That is why, it is the necessity of time to pay increased attention towards
analysing the problems of the finances of the local governments in India by undertaking research extensively as well as intensively.

The local government is distinguished on the basis of the area within which it works. When it performs its assigned duties and responsibilities in the rural areas then it is called rural local government and when the area of operation is urban, then it is known as urban local government. The nature of problems of the rural local governments differs from the urban local governments. The problems of the urban local bodies are more crucial and assume of more importance due to rapid urbanisation, migration of rural population as to search for means of livelihood, rapid development of education, industry and tertiary sectors in the cities, and also to derive some social benefits which have intensified the urban problems and thereby fiscal problems of the urban local bodies, while providing for public utility services and civic amenities to the citizens. This has led to rapid increase in their public expenditure, but due to narrow resource base and limited scope of revenue avenues have created significant fiscal strain for this layer government. As a consequence, it is becoming more difficult for the urban bodies to perform their assigned duties and responsibilities, and also providing for utility services and civic amenities for their citizens like water supply, urban transport, management of solid and liquid wastes, roads, health and medical facilities, education, public libraries and others in adequate quantity and in needed quality. That is why, how to augment financial resources to the extent required as to make provision for adequate and qualitative public utility services and civic amenities, as well as the discharge of responsibilities and duties shouldered to them in general in India, and in particular the State like Maharashtra. This invites an urgent need to examine the finances of the urban local bodies.
The 74th amendment to the Indian Constitution is a historic measure taken in India as far as the legal status of the urban local bodies and their constitutional recognition is concerned. The amendment assigns some additional responsibilities to this lower layer government and also facilitates for review of their finances coupled with devolution of resources from regional governments as per recommendations of the State Finance Commissions. Consequently, many States in the country have setup First State Finance Commissions (FSFCs) and the attempts are being made to implement recommendations accepted by the concerned State Governments alongwith the Maharashtra government, which is one of the high income States in India, as well as a leading State as far as the decentralization movement (Political, Powers, Responsibilities) is concerned. Besides, the amendment has changed the facet of federal setup of governance in India, alongwith a vital role to sub regional governments so as to work as engines of local development as aptly said by Mrs. Ursula Hicks. But, the thing to be noted is that the additional responsibilities devolved to the urban local bodies have increased the demand for additional resources so as to meet rise in their expenditure in general in India, and in particular in Maharashtra. At the same time, the first State Finance Commission report, especially in Maharashtra has played a dismal role in the context of augmentation of additional resources for this layer of government. This promotes urgency and intensity of review of finances of the urban local bodies in general in India, and in particular in the State of Maharashtra.

The urban local bodies have been engaged in the activities intensively as well as extensively so as to make provision of public utility services and civic amenities for the citizens, as a result they show distinct signs of fiscal imbalance. The increased attempts of this layer of government to provide for utility services
and civic amenities has pushed up is public expenditure more rapidly, but narrow revenue base coupled with limited revenue sources has failed to meet growing expenditure with collected revenue. This has restricted the Quantum and Quality of services and amenities to be provided to the citizens. It has also become the root cause of the problem of deficit for the urban local bodies, which indicates the growing thirst of analysing the finances of the municipal bodies in general in the country, and in particular in the State.

It is against this overall background, the present study attempts to examine the finances of Kolhapur Municipal Corporation, which is a representative of the urban local bodies in the Maharashtra State. Kolhapur is a unique Municipal Corporation in the Kolhapur District of the State, which is a popular and leading district in the Western Maharashtra. The present study is a case study of the finances of Kolhapur Corporation, as a result, this single or particular unit of municipal government is selected for our study. The prime intention behind the selection of this single unit of local government is to undertake intensive and indepth analysis of its finances. It is a micro level analysis of the finances of a single municipal government unit, which attempts to examine all facets and dimensions of its finances over a period of 20 years. The study also accounts for the efforts undertaken by the Corporation so as to provide the public utility services and civic amenities for its citizens, growth and their adequacy in the context of increasing demand for them from the citizens. It also tries to highlight the potentialities and possibilities of augmenting additional financial resources needed for the discharge of existing as well as additional responsibilities and duties assigned by the State government. The study also makes an attempt to analyse the growth and
composition of Revenue as well as Expenditure coupled with Tax rate structure and the problem of deficit.

1.2 HYPOTHESIS

The present study has attempted to test the following hypothesis with reference to the finances of Kolhapur Municipal Corporation.

"Higher levels of expenditure necessitates additional buoyancy and elasticity in revenue yields for which urban local governments have to devise new ways and means to generate additional resources in tax, non tax as well as debt receipts. In case this fails, then under fiscal stress inadequate expenditure levels resulting in uneven spread of expenditure benefits may have diverge socio-political impact in addition to creation of economic bads in the society."

Our study has attempted to test this hypothesis in the context of the finances of Kolhapur Municipal Corporation taking into consideration the period of two decades. The study proves that, public expenditure of the Corporation shows the trend of rapid growth which is faster than the growth of resource mobilisation. As a result, the significant gap is seen between Total Revenue and Total Expenditure, which is indicated by the deficit and its growing magnitude. It is a fact that, the Corporation has failed in mobilising revenues to the expected extent and pace, which denotes the need of augmenting additional financial resources. It is found that, the Corporation is in severe financial strain as a result, it is becoming difficult for the Corporation to undertake adequate levels of expenditure as well as its even distribution to provide the benefits of various public utility services and civic amenities for its citizens. It is observed that, the Corporation has not become possible to supply various services and amenities in adequate Quantity and Quality as well as their even distribution.
among the citizens. Consequently, the socio-political and economic evils like outbreak of diseases such as jaundice, hepatitis B, gastro, Cancer, throat trouble, discentry and others, is the outcome of the environmental pollution in the form of water, sound and air pollution in the city. At the same time, the citizens of the city have to face many inconveniences due to inadequate and in the required Quality the supply of public utility services and civic amenities.

Our study has proved that the hypothesis which was formed before the beginning of the present research work worked as a guide in undertaking this research throughout the period, and in each and every stage of our research. This reveals the relevance and significance of the hypothesis formulation before the beginning of any research work.

1.3 TITLE OF THE THESIS

The present study is completed under the title "Finances of Kolhapur Municipal Corporation"

1.4 SCOPE OF THE STUDY

The present study is the case study of the finances of Kolhapur Municipal Corporation. Therefore, the attempts are made to analyse all dimensions and facets of the finances of the Corporation extensively as well as intensively to the higher level possible. The efforts are also made in the study to review the finances of all Municipal Corporations in the State, because in absence which it will be an isolated study of only Kolhapur Corporation. But, it is a fact that, the study concentrates on examining the finances of Kolhapur Corporation in extensive as well as intensive terms for the period from 1980-81 to 1999-2000. And our study has proved that, there is a plenty of scope to go in detail
in studying multi-dimensions of the finances of a single unit of municipal government like Kolhapur Corporation.

1.5 PERIOD OF STUDY

Our study covers the period of 20 years from 1980-81 to 1999-2000, which is of two recent decades. The noteworthy things concerning selected period for our study are, it is the recent period of working of Kolhapur Municipal Corporation. The period covers that duration which is Post 74th Constitutional amendment period after 1994 which has greatly affected the finances of the Corporation. It also includes the period of new economic policy or economic reforms implementation after 1991, which has considerable repercussions on the finances of the Corporation. The Corporation was setup in 1972 and it was under the Administrator's rule upto 1978. The people's Corporation came into existence in 1978, but for the convenience of a decadal study of the finances of the Corporation, we have selected the period from 1980-81 to 1999-2000, of 20 years which forms of two decades. The present study also attempts to review the finances of the Corporation for coming two decades i.e. 2001 to 2020, by forecasting the necessary data concerning the Corporation.

1.6 OBJECTIVES OF THE STUDY

The main and important objectives of the present study are as follows:

i) Measurement of the extent of fiscal non-correspondence between revenue and expenditure with special reference to the Kolhapur Municipal Corporation;

ii) Study of the growth and composition of the revenue pattern - Tax, Non tax and Debt receipts of Kolhapur Municipal Corporation;
iii) Analyse the revenue as well as capital expenditure pattern of Kolhapur Municipal Corporation;

iv) Signify the importance of the need to augment revenue yields of Kolhapur Municipal Corporation with reference to Tax, Non tax and Debt receipts;

v) Measure the levels of expenditure pattern and ascertain whether the levels are adequate and if inadequate the extent of inadequacy with reference to basic amenities like urban transportation, drinking water supply, education and health facilities;

vi) To review the finances of Kolhapur Municipal Transport (KMT) which is an undertaking of the Corporation, and to examine its fare rate structure alongwith the overall performance;

vii) To draw and analyse the scenario of the finances of Kolhapur Corporation for the future or coming immediate decades.

1.7 REVIEW OF LITERATURE

As far as the literature available concerning the research topic is concerned, there are three aspects or constituents. Firstly, the literature available on theoretical concepts and background related to local finance in general and urban local finance in particular is in the form of books, journals etc. Secondly, it includes reports of the various commissions, committees and others intended to study the problem of urban finance in general perspective. Thirdly, it consists of actual research undertaken and brought out in the form
of research articles in edited books, journals, periodicals, dissertations and theses.

I. LITERATURE RELATED TO THEORETICAL BACKGROUND OF THE RESEARCH TOPIC

This category of literature is available mainly in the form of books and journals. There are many books written on Urban Local Finance or Urban Economics by the Indian as well as foreign authors. But it is a fact that, the foreign writers have written books in greater number than the Indians. The noteworthy foreign contributors in the form of books in this area are Allport (1996), Arnott(1996), Bahl and Linn(1992), Bahl and Roy(1981), Dominique and Gerry (1997), Netzer and Drennan (1997), Pola, France and Levaggi (1996), Rosengard (1998), Stars and Zhi (1996), Weidlich and Haag (1999), Wildasion and David (1994) and others. Likewise, the Indian authors who have contributed in this field are Bhattacharya M. (1972), Bhambhri (1969), Dash (1988), Konrad Foundation (1998), Modak (1995), Meenakshisundaram (1994), Rao (1986), Sarma (1986), Naidu (1974), Nanjundappa (1973) and so on.


II. LITERATURE IN THE FORM OF REPORTS

With regard to analysing the problems and suggesting measures on the local finance in the country in general and the State in particular, a few
efforts have been made by appointing commissions and committees mainly in the post independence era. Of them the noticeable are Finance Enquiry Committee, New Delhi (1949), Fiscal Commission, Govt. of India (1949), The Committee of Ministers constituted by the Central Council of Local Self Government, Delhi (1963), The Taxation Enquiry Commission, Delhi (1953-54), Committee of Local Self Government Ministers on Augmenting Additional Financial Resources of ULBs, Delhi (1963), The Study Group on Octroi, Bombay (1970), The Committee on Substitution of Octroi, Mumbai (1987), First Maharashtra State Finance Commission (1997), Mumbai and so on.

III. LITERATURE IN THE FORM OF RESEARCH STUDIES UNDERTAKEN

Under this category of literature related to the research topic the following are the important with more stress on recent studies undertaken.

Ali Ashraf has studied the finances of Calcutta Municipal Corporation during the sixties with main focus on its debt finance or revenue. He found that, the borrowing powers of the Corporation are restricted as a result it could not raise adequate debt finance. He suggested that the strong financial position of the Corporation facilitates the greater use of loans for development purposes.

Rao and Hazarika have thoroughly studied the municipal corporations in the country under the broad perspective of Local Self Government in India in the Eighties. They have undertaken the study under broad heads such as historical background, theory of local government, development of municipal government in India, functions and income sources of the municipal bodies in the
nation, along with special attention towards the budget, but neglected expenditure aspect of their fiscal operations. They found that, these are not independent bodies and units of administration, no freedom and their financial administration is not completely free, did not have effective supervision and grants were not based on scientific principles.

Abhijit Datta has analysed the finances of Calcutta Municipal Corporation with grants as thirst area after 1960s. He has taken into account the State Local relationship and principles and problems in the distribution of grants. But he has not discussed indetail the revenue and expenditure aspects of fiscal operations of the Corporation. He concluded that the various grants extended to this unit of government are obscure and confused. A system of grants to local authorities should be developed based on well defined and coherent principles. They should be given two classes of grants namely revenue grants and capital grants.

Nanjundappa and Nadkarni have examined the pros and cons of urban taxation with reference to Hubali Dharwar Municipal Corporation during the 1965. But they have not paid much attention towards public expenditure and all other aspects of Revenue except taxation. They have also measured tax burden of some important taxes.

Amaresh Bagchi has examined the State of municipal finances in India in the context of devolution considering the period from 1965-66 to 1986-87. He concluded that, there is need to devolve more powers to local authorities and decentralise in order to foster initiative and responsibility at local level and considerations of equity and efficiency. The accent should be on strengthening the property tax. In the context of municipal finance accountability should be
enforced by providing sufficient fiscal powers to the local bodies and to evolve a suitable grants system with inbuilt incentives.

Mathur, M. P.\(^6\) has studied fiscal operations of the municipal bodies in India in a research article considering the period from 1979-80 to 1992-93 with more attention on their revenue aspect. In this study, he has taken into account structure of urban bodies, functions, composition of Revenue and Expenditure and has given stress on resource generation.

Sarma, K. S. R. N.\(^7\) has analysed the issue of non tax revenue with emphasis on municipal service charges taking into account estimation of unit cost, revenue burden, composition of service charges, demand function in his research paper. He concludes that full cost recovery of municipal services is disputable in long term, but possible in the short run. Adoption of performance budgeting, commercial accounting at municipal level would help a good deal to keep a close watch on expenditures on services and in enforcing the needed controls.

Kamlesh Misra\(^8\) has studied the city governments in India during the period 1991-92 and 1993-94 in a research paper taking into account Revenue and Expenditure in the context of fiscal crisis. He has suggested policy options to tackle the fiscal problem of this layer of government with some measures to augment resources as well as reducing expenditure commitments. But the study is related to only large cities in the country and does not cover other aspects of their fiscal operations.

Mohanty, P. K.\(^9\) has examined municipal finances in India, in his research article in the context of decentralisation in India. Decentralisation initiatives
effected through the seventy fourth Constitution Amendment Act in order to materialise, is dependent upon reforming of municipal finance and devolution of new sources of revenue to the city governments. On this background he has suggested certain measures and strategies to tackle this situation.

Sekhar and Bidarkar\(^{10}\) have analysed the budgets of five municipal corporations in the country during the period 1989-90 and 1995-96 and studied Revenue as well as Expenditure aspects of their fiscal operations. They found that revenues have not kept pace with the growth of cities which restricted the extent and quality of services provided by them. It also became difficult to undertake capital investment in the infrastructures needed for development. They observed a considerable gap between estimated and actual figures in the budgets.

Mrs. Palsule-Desai\(^{11}\) has undertaken the study of the finances of Kalyan Corporation for Ph. D. degree in which she has examined its finances in the context of master plan and development of the city. The striking feature of revenue of the Corporation is, it has raised debt revenue from the World Bank. The study mainly suggests to enhance its financial resources.

Soumen Bagchi\(^{12}\) has analysed the need and urgency of investment in urban infrastructures in a research paper on the ground that, arranging funds for infrastructural facilities, particularly urban basic services has become difficult for ULBs in India due to absence of a current account surplus. Hence the governments have been forced to look for alternative sources of financing long-term investments needed for urban basic services. The study concludes that it is not beyond their capacity, but would need certain financial, structural, institutional, administrative changes and restructuring.
Rajeshirke, N. Y.\textsuperscript{13} has examined the administration of KMT with emphasis on its service efficiency for the period of five years based on the primary and secondary data. Our study agrees with the conclusions drawn by the study. But the study is not dealt with the analysis of Revenue and Expenditure on Revenue and Capital accounts and does not analyse the fare rate structure and deficit problem of the undertaking.

It is against this whole background the present study is undertaken which analyses the finances of the Kolhapur Municipal Corporation, a unit of urban local government in India and tries to fill up the gap in the study of local finances in general and urban finance in particular which is included in Public finance. Our study is different than the others on the ground that, it touches the finances of all municipal corporations in the Maharashtra State. It reviews Revenue and Expenditure of the Corporation indetail for the period of two decades. Considering even their minor breakup with special focus on Tax rate analysis, growth and adequacy or inadequacy of civic amenities and public utility services and finances of the KMT, a undertaking of the Corporation. The noteworthy thing is, the study also endeavours to analyse the scenario of the finances of the Corporation for coming two decades.

1.8 RESEARCH METHODOLOGY

The present study is a library based, which is mainly relied on the secondary data. The study analyses the finances of the Municipal Bodies in the State with more concentration on the finances of Kolhapur Municipal Corporation during the period taken into our consideration.

As the study is mainly based on the secondary data, the data sources for the study of the finances of Kolhapur Municipal Corporation consist
of budgetary documents, administrative reports and necessary information from the office records of the Corporation. The present research work also attempts to highlight the finances of all municipal Corporations in the State and the sources of data concerning all Municipal Bodies in the State comprise of various information published by the Government of Maharashtra and others through the publications like Economic Survey of Maharashtra, Statistical Abstract of Maharashtra, Municipal Year Book, Handbook of Basic Statistics, Report of First Maharashtra State Finance Commission, Economic Survey of Government of India and other publications like journals, magazines, periodicals etc.

To collect the secondary data regarding all Municipal Corporations in the State, I visited the following libraries:

1) The Library of Indira Gandhi Institute of Development Research, Mumbai
2) The Central Library, Mantralaya, Mumbai
3) The Library of Gokhale Institute of Economics and Politics, Pune
4) The Library of University of Poona, Pune
5) Shri Balasaheb Khardekar Library, Shivaji University, Kolhapur
6) The Library of Chh. Shahu Institute of Business Education and Research (SIBER), Kolhapur

Besides the data collected from the above cited sources, so as to gather some detailed information concerning the finances of Kolhapur Corporation as well as all other Corporations in the State the discussions were held with the Commissioner, Deputy Commissioner, Chief Accountant, Heads of important departments, Mayor and Corporators of Kolhapur Corporation. Deputy Secretary
and some officials from the urban development department, Mantralaya, Government of Maharashtra.

The collected data is tabulated in the light of objectives and chapter scheme of the present study and interpreted with necessary statistical tools like Compound Growth Rate (CGR), percentage increase over the period, Relative share of different heads and components in the Total Expenditure and Total Revenue, Per head share, extent of growth, average and others. To analyse the finances of Kolhapur Corporation for coming future, forecasted the necessary data with the help of 'Least Square Method'.

The graphical presentation of data has special importance in research methodology and research work. As a result, the present study has attempted to represent some important data and trends in some important variables through bar diagrams and pie diagrams.

The present research work comes under or specialised in the Public Finance, one of the developed branches of Economics. The study has used some important terms such as Own revenue, Transferred revenue and Shared revenue. Own revenue refers to the receipts collected by the government by imposing taxes, rates, charges, fees, rents and other own sources. It is an important criterion which indicates the fiscal autonomy of the government. Transferred revenue implies the revenue transferred to lower level government from the national and subnational level governments in the country. It goes to lower layer government in the form of grants in aid. Shared revenue is that part of Revenue receipts which goes to local bodies from the State government in the form of share in tax revenue of some State government taxes imposed and collected by the municipal governments in the State.
The study also attempts to examine growth and adequacy or inadequacy of the public utility services and civic amenities provided by the Kolhapur Corporation to its citizens during the period under review like medical facilities, roads, water supply, primary education, urban transport, street lighting etc. with the help of physical and financial standards, norms, criteria, parameters given by National Institute of Urban Affairs (NIUA) New Delhi, Zakaria Committee, Karnataka Taxation Review Committee, World Bank and the Government of Maharashtra.

1.9 CHAPTER SCHEME

The present research work is divided into main seven chapters in all which has following chapter scheme.

Chapter - I : Introduction and Research Methodology
Chapter - II : Overall Budgetary Situation of Kolhapur Municipal Corporation (KMC)
Chapter - III : Growth and Composition of Total Revenue of Kolhapur Municipal Corporation
Chapter - IV : Growth and Composition of Total Revenue of Kolhapur Municipal Corporation
Chapter - V : Tax Rate Analysis of Kolhapur Municipal Corporation
Chapter - VI : Finances of Kolhapur Municipal Transport (KMT)
Chapter - VII : Conclusions and Suggestions
1.10 ADMINISTRATIVE SETUP OF THE KOLHAPUR MUNICIPAL CORPORATION

The administrative setup adopted by Kolhapur Corporation is shown in the enclosed chart.

1.11 MAP OF THE AREA COVERED BY KOLHAPUR MUNICIPAL CORPORATION

The geographical area covered by the Corporation is shown in the enclosed map.
### Administrative Setup of the Kolhapur Municipal Corporation (Nine Main Departments)

**Commissioner**

**Deputy Commissioner**

**Assistant Commissioner**

| Standing, Transport & Special Committees | General Administration Department Commissioner | Establishment Department City Engineer Medical Officer Primary Education Department City Transport Department Secondary Education Department Collection Department |
|------------------------------------------|-----------------------------------------------|--------|-------------------|-------------------|-------------------|-------------------|
| Mayor                                    | Deputy Commissioner                            | Deputy Engineer Assistant Superintendent Administrative Office | Transport Manager Additional Transport Manager Head Master | Head Mistress |
| Town Secretary                           | Assistant Commissioner                          | 6 Assistant Engineer 7 Branchos Teaching & Non-teaching Staff | 1) General Administration Department | 2) Traffic Department |
| Statutory Committee                      | 6 Sub Departments                              | 6 Sub Divisions 1) Enquiry | 3) Workshop Department |
| 6 Special Committees                     |                                               |                     | 3) Assessment Department |
|                                          | 1) Law Committee                               |                     | 4) Estate Department |
|                                          | 2) Medical Assistance and Health Services Committee |                     | 5) Bhaskarao Jadhav Library |
|                                          | 3) Establishment Committee                     |                     | 6) Animal Shelter |
|                                          | 4) City Improvement Committee                  |                     |                     |
|                                          | 5) Sport Committee                             |                     |                     |
|                                          | 6) Library and Garden Committee                |                     |                     |
|                                          | 7) Store Department                            |                     |                     |
|                                          | 8) Public Relations Division                   |                     |                     |

**City Transport Department**

**Secondary Education Department**

**City Water Supply Department**

**Deputy Commissioner**

**Assistant Commissioner**

**16 Junior Engineers**

**284 Staff**
REFERENCES


