CHAPTER – 3

REVIEW OF LITERATURE AND CONCEPTS

3.1 General

Previous studies on the Local Self Governments are reviewed in this chapter. The performance of town panchayats in different states all over India with special reference to following as observed by the various scholars and researchers is presented here.

1. Local finance,
2. Local government expenditure and various determinants of local government expenditure,
4. Administration and
5. Services of Town Panchayats.

3.2 Local Finance

Kerala Taxation Enquiry Committee has analysed the problem of local finance in Kerala while pointing out the inadequacy of revenue of panchayats. The Committee discovered that the local bodies had not used their tax powers. The Committee recommended setting up of a local finance corporation in Kerala.
for advancing loans to all local bodies seeking long – term capital resources for financing remunerative project like transport, market, cinema houses hotels etc.¹

Subramania Ayer’s work is concerned with State-panchayat financial relationship. He has arrived at the conclusion that the local government’s poor performance was the result of inadequate resources. He advocates that one of the requisites for the decentralized planning is radical change in the existing powers between the state and panchayat bodies.²

Roger G. Smith analysed the problems of local finances of 40 cities in developing countries. He has analysed the pattern of expenditure and revenue and found that different cities followed different degrees of importance. He has shown that public work, health, education and general administration activities accounted for huge public expenditure in many cities.³

Thavaraj has explained the finances of local governments in India. He has narrated the development and the pattern of the local bodies in India. Through his analysis on finances of local bodies, he has shown that there were resource constraints. He has stated that the panchayat bodies can discharge their functions satisfactorily only when adequate funds are available to them. “The health of local self-government depends on the health of its finances and the democratic consciousness it can generate”. He has also recommended that the Central

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³ Roger Smith, Financing Cities in Developing Countries, IMF Staff Papers, Vol. 12, 1974, p. 234.
Government should provide more finance to the States so that the states could help
the local bodies. He argues, “A starving mother like State Government can not
ensure the financial health of the local bodies”. He has also brought out the fact
that there is adhocism in fiscal transfers to local bodies. He recommends a
thorough review of Centre-State-Local relations on the transfer of funds to the
local bodies.  

Rama Rao and Nageswara Rao made a study of problems and prospects of
urban local governments in Karnataka in which they found that the financial
constraints and growing urbanisation have limited the ability of the urban local
public sector in production and distribution of public goods. They concluded that
the population density and growth of population have insignificance on the
per capita total expenditure. 

Sharma, Pareeh and Tombi Singh have also made a similar study of the
determinants of urban local expenditure. The result of their empirical analysis
revealed that revenue and population are the important variables in determining
the level of urban local expenditure.

Mahesh Bhatt and Bharadraj studied the municipal finance in Gujarat. In
their paper the problems of imbalance between rapidly growing needs, arising
from higher urbanization and sources of revenues of municipal bodies of Gujarat

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4 M.J.K. Thavaraj, Financial Administration of India, (Sultan Chand & Sons, New Delhi),
5 S.Rama Rao and M. Nageswara Rao, Problems and Prospects of Urban Local Governments in
6 K.M.Sarma, Pareeh and Tombi Singh, Determinants of Urban Local Expenditure: An
have been analysed. They have pointed out that the only way out to reduce the imbalance and to have autonomy of local bodies is to intensify own tax efforts. The study further pointed out that grants-in-aid are essential, but must be given on a matching basis to reduce complacency of local bodies in making their own tax efforts.  

Narayanan and Sivasubramaniyan studied finance of panchayat systems in Andhra Pradesh. They have found that panchayats have not made any significant progress in the sphere of resource mobilization. The revenue of a majority of panchayats is mostly unsteady partly due to the fluctuations in the tax revenue of the panchayats. They have shown that certain reforms in the existing fiscal dimensions of panchayat are urgently called for.

Peter Fortune has applied the Cobb-Douglas production function to the data obtained from 198 communities in Ohio. He estimated the elasticity of substitution between capital and labour as 0.99 a value neither statistically nor economically different from unity. This supports the application of Cobb-Douglas technique to the cost function of local bodies.

James Papke has analysed the current practices in the decision making process and the implications of tax policy on the quality of state and local tax structures. He has also examined the role of state and local taxation in the context

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of the goal of economic stabilization of the national economy. In short his study reviews the fiscal perversity hypotheses. He has concluded that during prolonged recessions state and local government finance is fiscally perversed. The recession increases the financial distress and imposes rigidity on governmental tax planning. To the national stabilization policy the state and local governments have responded in a logical fashion.  

Kusam Lata Kedia has done research on local finance in Uttar Pradesh. She has examined the finances of 12 Municipal Boards in Varanasi division for the period from 1951-52 to 1978 –79. She has adopted the descriptive method. She has analysed the financial resources of the Municipal Boards by tracing the growth and contribution of tax, non-tax sources and grants. Expenditure pattern of the local bodies has also been examined by her. She concluded that the Municipalities have failed to exploit the existing sources of revenue. Though the revenue has increased, the Municipalities were not able to perform their services adequately due to the rapid increase in urban population and inflation. Octroi contributes three fourth of the tax revenue of the Municipal Boards. To make use of property tax, she has recommended reforms in administration, assessment and collection. Lack of co-ordination between local bodies and State Governments, mismanagement, lack of civic consciousness of the people, interference of local

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politicians in administration of local bodies, the rigid attitude of the bureaucracy were the reasons for the failure of local bodies in discharging their duties.\textsuperscript{11}

Terri E. Sexton and Richard J. Sexton, in their paper on re-evaluating the income elasticity of the property tax base, had critically examined the existing property tax system, income elasticity, developed an economic model of market valuation for residential property and identified the determinants of the residential tax base. Country level market value data have been complied by applying assessment – scale ratio for each country to the assessors’ market value for residential property. They concluded that income elasticities combined with an independent prediction of income growth provide a convenient and popular way to forecast tax revenue or tax bases.\textsuperscript{12}

Kopardekar and Sastry made a study on the financial position of urban local bodies. They have found that grants-in-aid from the State Government were mounting year after year. They have also observed that the borrowed funds could not get any prominence in the financial structure. The role of borrowings from development banks and institutions must be explored.\textsuperscript{13}

Kulkarni in his study on city size and municipal finance in Gujarat, based his study on the statistical data of the 55 municipal towns including four municipal corporations in Gujarat. He examined the relationship between the city size and

municipal finance and suggested that for achieving efficiency, the size of the city should be optimum. His study established the association of tax structure with the size of the municipal body in sq. kms.\textsuperscript{14}

Dipen Roy generalized that accounting information system should play a vital role in the effective and transparent functioning of the grass roots democratic industries.\textsuperscript{15}

Beate Kruse observed that a package of anti poverty measures to the urban poor must be implemented through the Urban Local Bodies with financial support from the Central and the State Governments as well as from Municipal funds.\textsuperscript{16}

Subhash C. Arora viewed that in Haryana, the house tax and octroi were the major sources of income in the Tax-Revenue category. It has been observed that the house tax was not fully exploited because of the compulsions and constraints of the very nature of the popularly elected body. So it depended upon octroi and wished to enhance the age-old octroi charges. On the other hand, a move to abolish the octroi is getting momentum in the State. It would be highly advisable to find out alternative sources of income for the civic body before taking such a drastic step.\textsuperscript{17}

Soumen Bagchi concluded that in recent years, arranging funds for infrastructural facilities, particularly urban basic services, has become the major plan of urban development policy in India. In the absence of a current account surplus, governments have been forced to look for alternative sources of financing for long-term investments in urban areas.\(^{18}\)

The State of Tamil Nadu decided to adopt double entry and accrual system of accounting in late 1997 because it wanted to be able to present acceptable information to funding agencies on the financial position and performance of Urban Local Bodies (ULB)\(^ {19}\).

In his article entitled, “Municipal Finances in Andhara Pradesh”, Gnaneshwar points out the trends of revenue and expenditure in the state, brings-out the fact that the property tax has been the main internal revenue of the municipalities. The financial transfers especially, the assigned taxes and plan grants have been gaining significance in recent years.

Finally, there have been certain efforts to improve the internal revenue of the municipalities by way of reforming the property tax, enhanced water charges, commercial ventures and privatization of certain civic services. These initiatives, if continued with more vigour, would certainly improve the revenue base of the municipalities in the state.\(^ {20}\)


Wang Tiankai reported that the purpose of his study was to examine the effectiveness of State Government’s fiscal transparency in Municipal bond issuances. Fiscal Transparency Index (FTI) is applied to quantify Government fiscal transparency. Each state is assigned a FTI score from one to eight (the lowest to the highest score) to indicate the degree of fiscal transparency. The empirical estimates show that in a sample of a state general obligation bonds, online budgeting reports had a statistically significant effect on lowering Municipal bond issuing cost, but online CAFR (Comprehensive Annual Fiscal Reports) and fiscal policies are not significant enough to influence Municipal borrowing cost. An interesting empirical finding in the research is that both too high and too low FTI will result in a lower efficiency in Municipal bond issuances. This indicates that a fiscal transparency optimal point exits in Municipal bond issuances. The findings presented here contribute to an improved understanding of the impact of fiscal transparency in the field of Municipal bond issuances.²¹

The Karnataka Legislative Assembly adopted two bills of far reaching consequence to the Municipal Corporations and Municipalities. Accordingly the civic bodies can levy and collect an infrastructure cess at a rate not more than Rs. 500 a year on every motor vehicle used on the roads of the city. Further more, it can levy a solid waste management cess at a rate not more than Rs.1,000 a year

on the owners or occupiers of buildings or lands for the collection, transportation and disposal of solid waste.²²

Dange analysed and suggested that the Urban Local Bodies be made financially self-supporting and reduce their dependence on the already, fiscally overburdened State Governments. For this urban local bodies have to develop commercially viable projects for which appropriate pricing policy based on user charges, improved cost recovery, improved accounting and financial management system, professionalism of the workforce, improved service delivery system and preparation of a capital investment plan are necessary. As far as tax revenue mobilization is concerned, Urban Local Bodies will have to widen their tax base and see that tax arrears recovery is expedited. New taxes can be levied like local pollution tax, vacant land tax, environment protection tax, floating population tax, cess on vehicle tax etc.²³

Kwon, Osung has held the view that in recent years, fiscal decentralization has been advocated worldwide. The common motive is that fiscal decentralization is considered to have the potential to improve the performance of the public sector. This study concluded that decentralization improves economic efficiency and accountability in the Korean public sector. The levels of developmental and redistribution expenditure increase as decentralization proceeds in Korea. Finally

the degree of decentralization is positively associated with a degree of the fiscal independence of local governments.\textsuperscript{24}

Chetan Vaidya and Hitesh Vaidya have suggested that increasing Municipal revenues is a major challenge for ULBs. Some have significantly increased revenues as well as reduced the cost of delivery of services. Progress has been made in developing a legal framework for Local Governments to access outside resources to finance urban infrastructure. Effective partnerships of Central, State and Local Governments, community-based and civil society organizations, the private sector and academic institutions will not only increase investment by the private sector and communities for improving urban infrastructure but also strengthen ULBs in achieving the objectives of decentralization envisioned in the 74\textsuperscript{th} constitutional Amendment.\textsuperscript{25}

Sitakanta Sethi has examined that local self-government has the potentiality to involve the urban poor or the beneficiaries in the planning, implementation, monitoring and evaluation process. He has analysed that the local self-government, particularly, the panchayats that are self-reliant in their planning and development activities, are given financial assistance directly by the Central Government.\textsuperscript{26}


Kurunakar Patnaik suggested that local sources are to be harnessed, need consultation and knowledge required for the success of development efforts. He analysed that the local bodies should have access to adequate resources and constitutional safety.\textsuperscript{27}

Manoj K Teotia has concluded that the deficiencies in urban infrastructure in Punjab can only be mitigated by adequate investments. However, these are beyond the existing fiscal domain of ULBs. Since budgetary transfers and grants by the State Government are inadequate and are not likely to increase, ULBs must mobilize additional local Municipal resources, access the capital market and introduce reforms in urban management practices for financing urban infrastructure.\textsuperscript{28}

Eom, Tae Ho stated in his essay that New York State is one of the States, which suffers from poor property tax assessment. The quality of property tax assessment is the most basic, but a critical factor. When the whole property tax system was evaluated, it was found that none of the existing research provided a comprehensive evaluation model for property tax assessment. It was also found that key property tax administration factors such as assessment ratio, assessing

jurisdictions and re-assessment activities were critical in improving property tax assessment.²⁹

Adeyemo suggested that the present unhealthy condition of the Local Government should be rescued. The state and federal governments should ensure that they do not infringe on the revenue yielding areas of Local Government. They should also put a stop to the persistent deduction in the monthly allocation of Local Governments. In the same vein, States should henceforth remit the constitutional 10 per cent of their internally generated revenue to the Local Councils. Local Governments also need to increase their internal revenue base rather than relying on the federal allocation. Similarly, Local Governments should re-order their priorities and block all avenues of wastage and leakage’s.³⁰

Dannis and Lynda have found little empirical evidence with respect to financial management capacity or its relationship to overall financial condition. In this study certain statistically significant moderate correlations were found with respect to financial condition and financial management capacity. However multiple regression analysis of financial condition and financial management capacity (controlling for governance and socio-economic factors), indicated no statistically significant relationship between them as conceptualized and operationalised for this study when controlling for certain governance and socio-economic factors, annual limits on increases in assessed property valuations and

population were found to be statistically significant with respect to financial condition.\textsuperscript{31}

Subroto Dhar, has recommended that the performance of the panchayat institutions is often hit by financial crunch. To overcome this crisis, one should accept that there is nothing unethical in making extensive use of service taxes / user charges in delivering civic and other developmental services to the poor. One such area, which has a high tax potential and tax buoyancy and remains untapped by many states is common property resources. This paper discusses the different dimensions of such resources in the panchayats, their utilization status, their extent, the hurdles and roadblocks in exploiting them, management and environmental concerns from different stakeholders’ viewpoints, and it lists observations and recommendations of a blueprint for the future.\textsuperscript{32}

In Andra Pradesh thousands of panchayats suffer from acute shortage of funds mainly because they are shy of or inefficient in collecting taxes. About 95 per cent of the panchayts in Andra Pradesh completely depend on funds provided by the union and state governments even for minor development works and 70 per cent of them borrow money from the state government to pay salaries. Panchayats have been empowered to collect property, water and entertainment


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(Cable TV) taxes and a cess on fish tanks and markets. However, the power is exercised only by a minority of panchayats.\textsuperscript{33}

A few years ago, there was a lot of interest in obtaining credit rating for municipal corporations. Organizations like CRISIL and ICRA did much work in this direction. A few cities like Bangalore and Ahmedabad raised about Rs.100 crore each by floating bonds. The total amount raised by the different cities, however, was not very high. Between 1998 and 2002, 12 corporations raised a total of about Rs.700 crore. There was also an issue whether such bonds should carry a government guarantee at all. It is also reported that these bonds will yield 8 per cent tax-free interest. The finance ministry is now reported to have agreed to provide guarantee cover. If several city governments float municipal bonds and if these are traded in the secondary market, then they will become an attractive source of investment. Internationally, municipal bonds are favoured by retail investors. Usually, these bonds carry a tenure of 7 to 15 years. It is hoped that the municipal bonds will become a significant source of funds for the cities.\textsuperscript{34}

Narayan et.al had looked at one experiment that has been tried out in Bangalore city. Bangalore had problems in raising its own revenue. The authors identified that lack of modern accounting system for the local body was a reason

for not accurately estimating the revenue. They advocated the introduction of the Fund Based Accounting System (FBAS) was the major step in the direction.\(^{35}\)

Arabi has concluded that to access more capital markets, urban local bodies must develop commercially viable projects and strengthen their own financial position at present. The most critical factor, indeed for urban local bodies is to obtain market finance for establishing a healthy revenue base.\(^{36}\)

Pardhasarathi has advocated initiating the following measures to improve the finance of urban local bodies. They include the preparation and implementation of revenue improvement action plans, which include revision of tax base, strengthening and streamlining tax administration, reduction of expenditure on establishment etc. Revision of property tax base after a gap of 10 years, enhancement of non-tax rates in the areas of dangerous and offensive traders, advertisement tax, water charges etc are part of efforts.\(^{37}\)

Arabi observed that urban local bodies are to be gradually switched over to modern integrated financial system with its essential components of budgeting, accounting system. An infusion of private capital and management can ease fiscal constraints on infrastructure investment and boost efficiency at least in future.\(^{38}\)


Pardhasarathi has also recommended that the outsourcing of functions and services to be initiated as an important reform measure by local bodies to increase service delivery.\(^{39}\)

Kundu has felt that there is a need to establish a State Development Council to discuss policy issues relating to decentralization and financial management of local bodies.\(^{40}\)

Arabi has suggested that urban local bodies must demonstrate creditworthiness and obtain an investment grade credit rating and this forces them to improve their revenue base by introducing reforms, including improved cost recovery and financial management, and better management of urban services.\(^{41}\)

### 3.3 Local Government Expenditure and various Determinants of Local Government Expenditure

A lot of studies have emerged on the determinants of local government expenditure. Along with traditional independent variables, per capita income, urbanization and density of population used by Solomon Fabricant\(^{42}\) percentage of families with less than Rs.12,000 income, tax yield, population increase, percentage of population over 25 years with less than five years of schooling state


and federal aid used by Seymour Saks and Robert Haris,43 area of states, tax effort, state’s role and previous expenditure used by Ira Sharkansky44 were taken into account to find out the determinants of local government expenditure. Multiple regression analysis was employed to identify the factors responsible for this. All these studies identified the variables such as per capita income, urbanization, federal and state grants are determinants of local government expenditure.

Subhash C. Arora has pointed out that on the expenditure side, it is pertinent to mention that a major portion of the expenditure is spent on establishment which includes both office and miscellaneous contingencies leaving very little for the development works. An astonishing fact which comes to light is that during the year 1997 - 98 the overall expenditure on establishment was as high as 93.52 per cent leaving only 6.48 per cent for the development works.45

Shipra Maitra concluded that increasing municipal indebtedness is a threat to self-sufficiency in the long-run. There are several avenues of augmenting the own resources of the urban local bodies, which will increase revenue and reduce expenditure. Ahmedabad, Bangalore and Delhi corporations have tried various ways of expenditure reduction like involving citizens in maintenance of assets, contracting out services, introducing new system of accounting, identification of properties through computerized method etc. It is not difficult to mobilize funds

through market borrowing. But in the long-run, increasing loan charges will force them to restrict maintenance expenditure and affect the quality of life of the citizens. \(^4^6\)

In his study on urban growth of finance in Delhi, Nimish Jha has observed that the financial analysis of Municipal Corporation of Delhi proves the lack of resources beyond doubt. Increased in its responsibilities coupled with environmental, economic, administrative, technological and socio-political factors have brought out the gap in the income and expenditure ratio. Resources gap has increased in absolute terms over the period. Nevertheless, factors such as decline in fiscal dependence on higher levels, increase in own tax sources of Municipal Corporation of Delhi etc, are indicators of improved fiscal health. \(^4^7\)

Since the provision of water or sanitary services involve considerable investment, Arabi suggested a time bound programme with a multi-layered approach is necessary in India, which in turn may cover various aspects of sustainable use of invaluable water resources - like introduction of new and traditional technologies for water conservation, recycling, reuse etc. As many city local self-government units are cash strapped, private sector entry and partnership between private and public institutions should be explored to provide domestic water supply, sanitation and waste water treatment facilities in urban areas.

Cheaper domestic waste – water treatment technologies like biological treatment


need to be examined as an alternative to the more expensive conventional method of treatment.\textsuperscript{48}

Organization for Economic and Cooperative Development (OECD) discussed three possible broad strategies to increase financing to the urban wastewater in selected municipalities of the Sichuan province in China. These three strategies are: ‘Taxpayers’ pay”, “Users’ pay” and “Creditors’ pay”. These strategies may help the province to meet the capital, maintenance and operational expenditure. So far, the above strategies to be both socially and politically feasible, it was important to allocate some social protection budgets in order to compensate the poor families and households for the payments they made towards water and sanitation bills.\textsuperscript{49}

Harvey E. Brazer published a comprehensive study on city government expenditures in USA. The study is based on a sample of 462 U.S. cities with different population classes. He employed the cross section multiple regression technique to identify the determinants of public expenditures. He identified median family income factor as significant for all services and population size was significant only for sanitation services.\textsuperscript{50}

Harvey S. Shapiro analysed the relationship between per capita local public expenditure and population size and income. His analysis was based on the data

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of 3,1000 country areas in the U.S.A for the year 1957. He found that there is a direct relationship between population size and local expenditure.\textsuperscript{51}

Herny J. Schmandt and Stephen G.Ross studied the relationship between the per capita expenditure of local government and population size, median family income, density of the area and state aid in the year 1957. The study was based on a sample of 3096 country area. Of course, state aid followed by median family income and physical boundary were found to be significant factor.\textsuperscript{52}

Sharma examined the growth pattern and levels of revenue, expenditure and also the level of aggregate capital expenditure of urban government. He also examined the determinants of revenue expenditure and size-cost relationships. He used a cross section multiple regression model to 46 sample towns to determine the local expenditure in India. He identified grants-in-aid followed by population size as factors significant in the determination of local expenditure.\textsuperscript{53}

Mathur examined the complexity of urban problems and the limitations of internal resources. He analysed the structure and pattern of grants-in-aid, supplement tax collection to the local bodies to maintain their financial health and contribute their might to the overall national regional development.\textsuperscript{54}

Rao, in his article, explained the government initiative to evaluate the performance of urban local bodies in Andhra Pradesh. The government felt that it would be desirable to evaluate the performance of municipalities and municipal corporations and to rate them. In the rating process, marks got under all activities of the municipalities will be added and rating is given to municipalities in the following order: above 90 marks – very good, between 70 and 90 marks – good and below 70 marks – average.

In fact, the government has evaluated the performance of 109 municipalities for the quarter ending March 31, 2001. Out of 109 municipalities in the state, 11 municipalities have been ranked as ‘Very Good’ scoring more than 90 marks, 88 as ‘Good’ scoring between 70 and 90 marks and the remaining 10 as ‘Average’ with less than 70 marks. 55

Amitabh Mukhopadhyay felt that the campaign for democratic decentralization in Kerala was no doubt sagacious, participative and vigorously implemented. However, there was no audit certification to vouch for expenditure incurred or to counter allegations of ‘decentralized corruption’. Social audit as communicative action – drawing on the experience of the Mazdoor Kisan Shakti Sangathan in the conduct of jan sunwais (public hearings) in Rajasthan – can help

foreground the pretext of accountability and unleash the energies of people to establish accountability in local bodies.\textsuperscript{56}

\textbf{3.4 Grants-in-aid}

Alok remarked that grants-in-aid are provided to fill the revenue gap of the municipalities so that they can meet the expenditure on basic functions. They may be (a) conditional or specific grants meant for specific purpose, e.g. some schemes or projects. This can be further classified into matching or incentive grants and non-matching grants (b) general purpose grants or block grants based on some criteria or formula meant for additional resources with no condition attached. Grants can also be either statutory or non-statuary. Statutory grants are compulsory transfers which may be in lieu of abolition or withdrawal of certain taxes such as octroi.\textsuperscript{57}

Partha Mukhopadhyay pointed out that the Jawaharlal Nehru National Renewal Mission is an ambitious programme to build infrastructure in India’s cities and towns. However, the mission does not sufficiently recognize that the core urban deficit is not the lack of infrastructure but the lack of local self-governance. He also pointed out that the role of the Central and State Governments would be to provide additional funds especially for specific projects

of regional or national importance and transitional support for the urban local bodies as they take on the move to full self-governance.\textsuperscript{58}

3.5 Administration

In 1994, of Wisconsin’s 1849 cities, villages and towns, 1266 or 68 per cent were towns, representing 31 per cent of the states population. Even though towns constitute the largest portion of municipal governments in the state, there are very few studies relating to that topic. This lapse in the collection and distribution of information about town government and town operations constitutes a serious void.

An important aspect of this informational gap on town government in Wisconsin concerns the position of the town administration. Due to the lack of attention to and documentation about, towns and the position of town administrator, public knowledge of both understands minimal.\textsuperscript{59}

Williams, Mark Carlson stated in his research that performance measurement has been a part of the public administration landscape since the founding of the field over one hundred years ago. Performance measurement systems have included basic workload measures to complete outcomes in terms of efficiency and effectiveness. The most recent innovation in performance


measurement i.e. comparative benchmarking was adopted and accepted from the business community in the early 1990’s to the public sector.

Despite the long-standing attention to performance measurement in the public sector, the focus has tended to be on the adoption of performance measures rather than evaluating their effectiveness. The recent adoption of competitive performance measurement benchmarking programmes has been no different. The focus on the adoption of performance measures is rooted in an implicit assumption regarding the rational nature of government organizational outcomes. While professionalizing, the government Workforce has led to more efficient and rational outcomes, it is important to recognize that many forces are at work within and from outside public institutions that help shape government outcomes. As a result, better information leading to better outcomes cannot be simply assumed.

The study will address the question of whether a comparative benchmarking program yielded an increase in program efficiency and effectiveness over time. The primary analytical tool used to address the question of improved efficiency will be ordinary least square panel model.\(^\text{60}\)

Mahipal concludes that the extension act has been an important legislative piece to extend democracy in the form of panchayat body without under winning their culture and traditions. But most of the concerned states have been indifferent

to its enactments as well as developing powers and authority to the gram sabha and panchayat. 61

Srivastava remarked that, in a parliamentary system of government, urban and rural local governments derive their powers, functions and responsibilities from the state government legislations. This concept of a local self-government or rather, local government paves the way for a proper delineation of functions and powers of the latter, for the smooth flow of funds from state governments and also ensure community involvement in activities. It will thus help strengthen local bodies at the lowest level, rejuvenating a system that has remained dormant for two centuries. 62

Ray and Borthakur observed that Panchayati system is one of the institutions meant for the development of people at the grass root level. It helps in the devolution of powers to the people at grass root level. In Karnataka, 29 departments were transferred to the three-tier panchayati government. Assam has been the second state to hand over 29 departments to panchayati government. With this development, the responsibility of journalists have increased manifold. They should keep constant vigilance over the functioning of panchayats and report

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61 Manipal, “Panchayats in Fifth Scheduled Area”, Economic and Political Weekly, 35(19), May 6-12, 2000, pp. 1602-1606.
the misdeeds of those at the helm of affairs in proper time so that misuse of power does not take place.63

George Mathew viewed that, the institutionalization of panchayati systems since the 1990s has added greater momentum to the decentralization process. It has also had deeper implications for the human rights situation in India. Even as the democratic process has been extended, changes in traditional society have involved conflict. This article argues however that as isolation of villages is forever broken by inroads of media, technology and spatial mobility, the new panchayat system will only help weave the village into the broader social fabric. It is with increasing democratization and intervention of civil society institutions that concern for human rights will assume its rightful place alongside a vibrant democracy.64

Samir Ghosh and Madan Mohan Maji concluded that, the role of panchayat system is vital for self-governance at grass root, it provides an ideal forum for decentralized planning and implementation of development programmes in accordance with the people’s needs and aspirations. The empowerment of panchayat institutions is of great importance for the economic and social development of villages.65

Another indepth study was made by Israel Igwe in 1993 with reference to Nigerian Local Government, as it affects personnel management policies, demonstrates that conscious attempts were made at different times, to introduce sound modern personnel practices. The motivating force behind these reforms is the failure of the personnel policies of the colonial and the immediate post-colonial local authorities, which fostered paternalistic personnel practices. It is instructive that the stupendous task of reforming the personnel practices of the councils was implemented at different stages, thus drawing heavily from the experience of the past.66

In the opinion of Israel Igwe, local authorities are primary agencies for providing basic social, economic, cultural and physical needs of local communities the world over. The ability of the councils to provide these services ultimately depends upon the calibre of staff in their employment. It is often argued that a local council with adequate financial resources has the chances of discharging her responsibilities effectively and efficiently but this may not always be the case.

In a sense therefore, the image of any form of local government system and the extent of local services it provides is reflected in the calibre of staff of the councils.67

In most parts of the developing world, Zhuyu claimed that the urbanization process has been dominated by rural-urban migration and the growth of existing

cities. However, case studies in China’s Fijian Province suggest that this process can also be achieved mainly by two forces, the development of Townships and Village Enterprises (TVE) and the inflow of foreign investment and facilitated by the relevant policies adopted by the Chinese Government since 1978. The former has been very effective in the transformation of rural employment structure, while the latter has brought many physical changes to the previously rural landscape. Being mutually complementary, the two ways of rural transformation have not only benefited and urbanized the rural areas, but kept many farmers in their hometowns, replacing the dominant role of rural-urban migration and the growth of existing cities in the urbanization process.68

As observed by Medha Kotwal Lele, the passing of the 73rd and 74th amendments, many states enacted legislation bestowing significant decision-making powers to the panchayats. In Maharashtra, however, two parallel bodies with different legitimising sources continue to function, the gram sabha and the traditional panchayats or collectives, which are generally dominated by upper and richer caste men. This has often led to some piquant situations.69

In order to sustain the reform process, the Indore Municipal Corporation with the help of Indo – USAID FIRE project and Institute of Management Studies (Devi Ahilya University, Indore) developed a comprehensive training programme

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for elected representatives as well as corporation officials to enhance personal effectiveness and capacity building.\footnote{Best Practices by Urban Local Bodies in India, \textit{Urban Finance}, 17 (3): 2004, p.6.}

Samuel Paul has reported that the government’s failure to effectively monitor the outcomes of public expenditure is a major reason for corruption and the low level of accountability in the country. There are genuine problems of observation, measurement and incentives behind this failure. In respect of public services, it is possible to substantially compensate for this failure by seeking ‘user feedback’ on services. This paper presents the findings of a civil society initiative in Bangalore that produced ‘citizen report cards’ on the city’s services, based on user feedback and stimulated public agencies over a period of a decade to improve service outcomes. While citizen monitoring may be the only option when a government is indifferent to outcomes, there is no reason why the latter should not seek user feedback and benchmark its services when its internal monitoring is weak or incomplete. The citizen report cards of Bangalore offer a replicable approach that has now been tried out in other cities both in India and abroad, and even in rural areas. Whether the advocacy that follows the report card will improve service outcomes in all contexts is difficult to say as the responses from public agencies may vary. But even when a government and its agencies are
indifferent, citizen report cards can be used to nudge them to pay more attention to service outcomes and public accountability.71

3.5.1 Public and Private Participation

Public participation in policy making and implementation is an integral part of public administration and an essential ingredient of community development and democracy investigates how the process of public participation in policy making and implementation can be strengthened and made more fluid. Participation should be encouraged and preserved.72

Suresh Misra et al have analysed that local governments have decentralization of power and functions to promote democratic institutions and secure greater participation of people in development. They have examined that the seventy-third Amendment provides for a basic frame work made up of the key elements in local self government for institutionalization. They have concluded that local community participation in development has to be genuinely local and directly related to the people.73

Rashmi Sharma has analysed Kerala’s socio-economic context and political culture. The author examined the actual follow-up events and the impact of political affiliations, staffing issues and lack of technical experience on the course

of project implementation. Rashmi Sharma has concluded that the people’s campaign as the decentralization process came to be called off in Kerala, sought not merely to transfer administrative power from the state government to the panchayats but to elicit people’s participation in development.\(^7^4\)

Rahunathan, superintending Engineer, at the office of the Commissioner of Municipal Administration, has varied experience in municipalities as a senior engineer and attempted private sector participation efforts in operation and maintenance of water supply / street light and also maintenance and upkeep of Bus stands.\(^7^5\)

In his study Abdul Raheem, has viewed that community participation should be easily summarized as a desirable approach; however, the approach was not as easily implemented. For government bureaucracies, the familiar path is straight service delivery, with community residents as clients or beneficiaries, not as partners in service management.\(^7^6\)

Sameer Vyas estimated that Tamil Nadu is one of the most highly urbanized states in India, with 43.86 per cent of the population of 62 million living in urban areas by 2001 census. The state is ranked fourth among the major states in terms of per capita income. While 16.5 per cent of the urban poor live in slums, the figure for Chennai, the state capital, is around 30 per cent. In terms of urban


services, Tamil Nadu, together with other states, faces the challenge of providing adequate and efficient infrastructure. The following statistics indicate the scope of the problem. The state’s urban population in general has access to drinking water, however only 30 per cent have adequate quantity. Less than 40 per cent of households residing in municipalities have house connections. The figure for panchayats is about 24 per cent. Only 16 per cent of the Urban Local Bodies (ULBs) have a sewerage system and even these ULBs cover only a part of the household population. While most solid waste generated is collected, the majority of local authorities do not have organized disposal facilities. Less than 50 per cent of the roads have storm water drains.  

Prabhakar et al have concluded that, a well-disciplined, committed, dedicated, seasoned and visionary municipal leadership both political and administrative is indispensable. Along with this, the government’s liberal and practical approach for devolving funds to urban local bodies would go a long way in this regard. Equally important is the change in citizens’ attitude and perceptions towards municipal administration. Last but not the least, involvement of private sector and NGOs in municipal governance is highly desirable. All such measures would certainly ensure the attainment of the ideals of urban good governance.  

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3.5.2 E-Governance

Somanathan has examined the evolution of local governments in eight western European countries in an attempt to find clues to what makes for successful devolution of power to local governments. It appears likely that rising income led to a greater demand for local public goods and also helped the citizenry to articulate this demand in a politically effective way. History may have played an important role by delaying, though not halting, the devolution of powers to the local level in states, which inherited centralized bureaucracies. While some of the pattern of evolution seems explicable, much remains to be understood, in particular why centralized absolute states evolved so differently in Scandinavia as compared to France, Spain and Italy.\(^79\)

Prakash Kumar advocated web based tender notification system because it allows publication of all tender notices at one location, which can be viewed by any one at any time on different keys. It enables the citizens to see different types of civil work being undertaken in their area, a step towards putting information of contracts in public domain under Right to Information. The system can also be used to do expenditure analysis for the entire government for better and efficient procurement.\(^80\)


E-Governance represents the strategic and systematic use of modern information and communication technology by the government to improve the efficiency, transparency and accountability in its functioning and interface with citizens. Governments are deploying the technology to become increasingly responsive to stakeholders such as citizens, vendors and numerous interest groups regarding the access to information on the functioning of the governments.

In August 2002 the Government of India announced that it would implement a comprehensive programme to accelerate e-governance at all levels of the government to improve efficiency, transparency and accountability at the government –citizen interface. As an initial step, the Prime Minister’s Office set up a high-powered Task Force on Information Technology and Software Development.81

Aikins, Stephen Kwamena investigated the reasons for the why government’s failure to take advantages of the interactive features of the Internet to bring citizens closer to their governments?. Studies showed many governments at all levels have not taken advantage of this potential to improve website deliberative features to enhance online citizen participation (e-governance).82

The Tirunelveli Corporation in Tamil Nadu has developed a strategy of involving more numbers of Residents Welfare Associations in all sorts of services of the civic body. As per this plan, the associations would collect petitions from

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their residents and hand them over to the officials concerned on behalf of them and also the telephone and mobile phone numbers of the corporation officials would be published shortly to enable the public to contact the right official for their grievances or civic problems.\(^{83}\)

Minimol observed that the E-Governance ventures, when implemented in full, are expected to fundamentally alter the quality of public services and improve the efficiency of government. Another sphere in which e-governance projects are being rolled out is local self-government. Computerization of local bodies will not only enhance accountability at the grass root level but will also provide users with better service levels.\(^{84}\)

Based on the above reviews important concepts used in this study are defined. They are stated below.

### 3.6 Services of Town Panchayats

#### 3.6.1 Public Services

Many Urban Local Bodies were under suspension, supersession and dissolved for a long duration. As a result, the functioning of Local Self

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\(^{83}\) Staff Reporter, Residents’ Welfare Association to be involved in Corporation Works, The Hindu, December, 15 2005, P.3.

Government (LSG) in terms of public utility services was unsatisfactory. There was also the absence of people’s representatives in the administration system.85

Aureliano Fernandes analysed Aggrandiser Government and Local Government and informs that Aggrandiser Government in most states continues to hold on to most powers, even as they have been formally devolved to local government through conformity legislations. He says local government is able to provide good motorable roads, implement water supply, electricity or social welfare schemes or even impound stray cattle. He concluded that if LSG has to fulfil its foundational tenets of empowering the community then there is need to transcend the thinking that devolution of powers will alone ensure governance at local level. To fulfil a ‘Social Contract’ with an inclusive participatory, planning and associationalism are essential methodologies to transform India.86

A scheme to create Model Towns in the next four years was announced by the Andhra Pradesh Chief Minister on 19th October 2005. The scheme envisages ten identified basic amenities for all villages and towns by 2009. This includes the provision of houses, water and power connections, and wet latrines besides nutrition and primary education to children, link roads and sanitation facilities for each settlement and pension for the elderly.87

87 Nagarpaliga Update, September – October 2005, p.4.
3.6.2 Health and Sanitation

Kousalya has made a study on Coimbatore Municipality with special reference to health and sanitary services from 1966 to 1981. She has shown that expenditure on health and sanitary services have been increasing during the study period. 88

Dharmendra Pratap Yadav stressed the need to relook at the current strategy envisaged to achieve sanitation facilities to all. Well designed, user friendly and clean dry toilets without producing smell, is the only solution to achieve the millennium goals of sanitation. Dry toilets are eco-friendly with the following features: i. save water, ii. do not produce sullage and hence no cost of sullage treatment and laying of sewage pipes, iii. no ground water contamination and iv. produce good manure. 89

The Indo-USAID Financial Institutions Reform and Expansion (FIRE) project is assisting the Sangli – Miraj – Kubwad Municipal Corporation, Maharastra to implement a citywide community – led sanitation programme. From the pilot project Sangli – Miraj – Kubwad Municipal Corporation learned the importance of the community participation in all stages of citywide sanitation project. 90

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3.6.3 Waste Management

The Solid Waste Management (SWM) scenario in India presents, by and large a gloomy picture argued by Mazumdar. Reliable data on detailed techno-economic aspects and socio-cultural response to the urgency for change, which are so essential for appropriate planning, is scanty. Public participation is lukewarm. There are however certain inherent good points, such as low per capita waste generation, absence of difficult and complicated waste material, and presence of a large non-formal sector engaged in waste recycling, which should be highlighted and taken advantage of. Positive intervention from governmental organizations, resident associations, and other action groups had set forth a chain of decentralized activities which seem to hold great promise in the area of primary collection, segregation at source, and recycling. In this article, attempts have been made by Mazumdar to present (i) an overview of the situation in India, (ii) outline the options available, and (iii) suggest suitable measures and models for SWM. New technologies are welcome for field testing through point demonstration plants followed by detailed monitoring, but only those technologies which have been proven in the field should be considered for full-scale application. Our past experience favours simple rugged technology with low capital outlay, low gestation period, and low maintenance requirement over sophisticated ones.91

Sundari and Sratha have found out in their study that there has been a significant increase in the generation of domestic, urban, and industrial waste in the last few decades due to rapid population growth and industrialization. The problem of waste disposal from both domestic and industrial sources has become quite acute in some towns and cities, with disposal facilities lagging far behind the total quantity of waste generated. This paper examines solid-waste management by Gobi (short for Gobichettipalayam) municipality in Erode district (Tamil Nadu, India). The study revealed that even the simpler methods of collecting and open dumping were not implemented efficiently. While composting by municipalities is gaining significance all over the world—particularly in the US, Holland, and Germany—because it is cost-effective and substantially extends the landfills useful life, but this practice is gradually eroding in Gobi. Irregular collection of garbage in some regions and unattended piles of solid waste amounting to about 2,322 tonnes per annum led to environmental pollution in the Gobi block. Therefore, development of suitable technologies for collection, disposal, and utilization of wastes is essential to minimize adverse health and environmental consequences.\(^92\)

Lah, Tae Joon felt that Municipal Solid Waste (MSW) management confronts a complex problem, juggles a large number of design variables and therefore potentially presents the public decision makers with large zones of uncertainty about how to proceed. The U.S Environmental Protection Agency

developed the solid waste management hierarchy to provide a waste reduction framework for MSW. Indianapolis is unique in still using all three models of disposal simultaneously, recycling, incineration and land filling. Indianapolis has recently gone through an innovation in MSW management, known as managed competition which opened the trash collection to competitive bidding by both public and private service providers. There were surprised findings associated with managed competition.\textsuperscript{93}

Rapid growth of Tirupur city motivated the urban local body to strengthen its solid waste management system as suggested by Krishnagopal. Tirupur Municipal Corporation experimented the comprehensive approach in solid waste management by involving NGO’s CBO’s (Community Based Organisations) private parties and media. The various sectors were involved at different stages of solid waste management process. Media supported awareness campaigns, NGOs provided intellectual and institutional support and activities like collection and transportation of waste were privatized. The initiative yielded positive results and sanitary conditions in the city have considerably improved.\textsuperscript{94}

As a follow-up excise to the amendments made in the Karnataka Municipal Corporation Act, by the State Government, the Bangalore Mahanagara Palike Council, in it’s budget special, has approved the proposals to levy an annual ‘basic infrastructure cess’ on vehicles and a monthly cess on solid waste. The cess on


vehicles is to generate resources for the construction of transport infrastructure like roads, flyovers, while the cess on the waste on all property owners will pay for the disposal of waste. For this cess, varying slabs have been fixed for residential units, commercial establishment, industries, hospitals, hotels, marriage halls and others. The responsibility for the collection of Solid Waste Management cess will be entrusted to the contractors who manage the waste collection or to Residential Welfare Associations (RWA).\textsuperscript{95}

Nixon, Hilary Kathleen has examined household’s willingness to recycle e-waste at drop-off recycling facilities. Results highlighted the importance of recycling convenience and led to several policy recommendations for municipalities to maximize re-cycling response rates. The researcher also explored public support for Advanced Recycling Fees (ARFs) for e – waste. A majority of respondents support a one per cent ARF.\textsuperscript{96}

\textbf{3.6.4 Other Priority Services}

Damotharan analyses why the ‘modern’ local self-governments of India do not capture the ‘ecologic’ geometry of biodiversity conservation. He found the reason as the present day panchayat institutions in India are conceived largely within the ‘non-ecological’ space. Studies on Indian Society speak of ‘panchayats’ as local bodies exercising administrative, economic, political and management

functions – in short all functions necessary to maintain the well being of the community covered by them.97

Peeyush Bajpai et al, narrates how urban Indian households obtain water for their daily requirements. The link between economic status and access allows the analysis of the issues such as water sharing, sole access, ability to pay, need for improvement etc. The authors also put forth a strategy for levying user charges for different economic status household. They argued that the Increasing Block Tariff (IBT) model is inapplicable where the water connection is shared among households, a characteristic common among the poor.98

Bauer Michael Robert appreciated collaborative environmental decision-making as a power sharing process that achieves results through dialogue. Environmental problems occur where ecosystems and human social systems converge. As a result, they are not easily resolved by science or technology because they stem from the diversity in human perception, expectations and values. A decision making process known as collaboration offers a method of joint problem solving that is based upon an application of social learning theory; collaboration is inspired by the concept of participatory democracy and advanced by the exchange inherent in a civic discourse. It can involve individuals, representatives of agencies, organizations and other groups in open discussion

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where the process participants share information and power as they take joint responsibility in attempting to make decisions, reach solutions or resolve issues.\textsuperscript{99}

Delhi Government has accorded high priority to ground water recharging through Rain Water Harvesting. All new buildings having an area of 100 sq. mts. and more should have facilities for rainwater harvesting.\textsuperscript{100}

Annapurna Shaw observed that the outward expansion of larger metros, gradual changes in land use and occupation have transformed the rural hinterland into semi-urban or peri-urban areas. Inhabitants of these ‘peri-urban’ regions are increasingly threatened by a deteriorating quality of life promoted by deforestation, water depletion and pollution as well as by the poor or almost non-existent mechanisms for sewage disposal. This article highlights the environmental dimensions associated with the spread of urban agglomerations by focusing on the problem of increased solid wastes in India’s peri-urban regions. It looks at two local level initiatives formed to create a sustainable solid waste management system. But tasks such as solid waste management cannot be left to local initiatives as community organizations lack sufficient resource or capacity to provide such a service in its entering. Policy makers need to give such areas more civic autonomy or provide, via the state government, a modicum of basic environmental services.\textsuperscript{101}


3.7 Concepts

Household

A household is taken to mean a group of persons related by blood marriage or adoption, living under the same roof and sharing a common kitchen continuously for not less than one year at the time of the interview.

Revenue Divisions

Stipulation of certain areas by the government for the purpose of revenue administration within the district under the control of Revenue Divisional Officer is called Revenue Division.

Grades

On the basis of income criteria town panchayats are classified into four grades.

Town Panchayat

Town panchayat or Nagar Panchayat stands (by whatever name called) for a transitional area, that is to say, an area in transition from a rural area to an urban area.

Own Revenue

Own revenue includes tax revenue, non-tax revenue, income from properties and income from special services. Tax revenue includes property tax,
professional tax, tax on carriages and animals and non-tax revenue includes building / license fee, water charges and library cess.

**Revenue Expenditure**

Revenue expenditure comprises of salaries including conservancy staff, obligatory expenses and discretionary services.

**Property Tax**

The tax is designated as “Taxes on lands and buildings”. In the Government of India Act of 1935 the parallel entry was “Taxes on lands, buildings, berths and windows”. The property tax may comprise taxes on water, drainage, lighting and scavenging.

**Professional Tax**

Professional tax is another source of revenue available to the local bodies. It is levied on the professionals residing within the jurisdiction of the local body. A slab system is used to collect this tax depending upon the amount of earnings of these professionals.

**Grants-in-aid**

The grants-in-aid are the grants given by the central and the state governments to the local bodies. It may be specific or general grants.
3.8 Terminology

Ratio and Proportion

The terms ratio and proportion are used interchangeable in text.

Financial Figures

All the financial figures stated in the thesis are assumed at constant prices.

3.9 An Overview

Out of a number of studies relating to the local bodies, many have pointed out the inadequacy of finance as the reason for unfilled obligations in local governments. They have considered failure of local bodies to exploit the existing sources of revenue, unexplored avenues of taxes, government’s control over the tax policies besides inflation were the real culprits for the inadequate revenue. Few of the studies suggested the reasons for imbalance between the revenue and expenditure of the local bodies were the ever increasing population and the growth of size of the towns. A few have highlighted the need for seeking alternative and cost effective fund raising techniques like cheap borrowing from banks and financial institutions and even approaching capital market for their requirements. Cost control, cost savings, training of the local government personnel and elected representatives, e-governance and public-private partnership are the few measures suggested by researchers to bail out local governments from their indebtedness and increase their efficient functioning in the discharge of public services at the
grass root level. Therefore, taking into account the expanding horizons of local bodies in administrative, economic, environmental and social areas, further research can be undertaken in the respective spheres to understand more and carry out recommendations for the maintenance of the well-being of the community.