

Financing Small and Medium Towns:

An Action Research Study from Bemetara Town in India

Yogesh Kumar, Shyam Singh and Shrdha Kumar

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PREFACE

The mandate of the Swedish International Centre for Local Democracy (ICLD) is to contribute to poverty reduction by promoting local democracy in low- and middle-income countries. In order to fulfil this mandate, we offer decentralized through cooperation our municipal partnership programme, capacity-building programmes through our international training programmes and knowledge exchange through our Knowledge Centre. ICLD documents and publishes key lessons learned from our ongoing activities, initiates and funds relevant research, engages in scholarly networks and organizes conferences and workshops. We also maintain a series of publications.

"Financing Small and Medium Towns: An Action Research Study from Bemetara Town in India", by Yogesh Kumar, Shyam Singh and Shrdha Kumar, is the tenth report to be published in ICLD's Research Reports series. The report highlights the challenges of small and medium towns in to generate their own sources of revenue in order to provide services for their citizens. The study was conducted in the town of Bemetara with a population of approximately 28,226 inhabitants. During the study period, the researchers used action research and

engaged with the municipality participatory plans to improve the services sanitation and management. At the beginning of the study, the researchers found high disengagement of the citizens with the municipality provision of services. For instance, a large group faced problems related to the quality of the water supply, but did nothing to get the problem resolved. Based on these facts, the group of researchers supported the town of Bemetara to engage with their citizens in solving their problems.

All over the world, small and medium towns like Bemetara face enormous challenges to deliver services to their populations. They often lack the personal, technological and financial resources to do this. Therefore, this study recommends improving central transfers to small towns beyond the population ratio, allowing for more flexibility to use those funds according to the needs of their people and strengthening planning committees for more participatory rural-urban planning process. I hope the study provides the reader with an increased understanding of the role of local governments to contribute to more democratic and inclusive societies.

Visby, Sweden, November 2017

Olov Berggren Secretary General, ICLD

Caller

ABSTRACT

This research project studied the emerging challenges of small and medium towns in India to improve their finances and provide good services to their inhabitants. The study assesses the ability of various local actors, institutions and processes for decentralised planning and governance. Moreover, the researchers used action research to build the capacities of these local actors with decentralised regard to participatory planning for collaborative impact. The case study for action research was the municipality of Bemetara Nagar Palika Parishad, a small town in India's Chhattisgarh state.

The methodology of the study was participatory in nature and included three phases. The first phase was a mapping of the current status of the city administration using questionnaires. In the second phase,

Samarthan, the NGO where the researchers are based, collaborated with the local urban administration to carry out participatory planning in two wards. The third phase of research was based on capturing the processes and outcomes during the implementation of the participatory ward plans. The study exposed the importance of the powers devolved to the urban local bodies. cooperative environment between administration and political leadership. Finally, this study recommends improving central transfers to small towns beyond the population ratio, allowing for more flexibility to use those funds according to the needs of their people and strengthening planning committees for a more participatory rural-urban planning process.

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Dr Yogesh Kumar is the executive director of the Samarthan Centre for Development Support. He has a doctorate in development economics. He founded Samarthan in 1996 to promote participatory development and governance in India. He specializes in participatory planning, monitoring and evaluation. Over the years, he has written several papers on the issues of decentralized governance, accountability and transparency. He facilitated several grassrootslevel small and large-scale cases in which rural and urban local bodies have demonstrated capacities as effective institutions of local governance. Recently, Dr Kumar was nominated as a member of the Common Review Mission of Fourteenth Finance Commission, established by the Ministry of Panchayati Raj.



Dr Shyam Singh is an Assistant Professor of Social Sciences at the Institute of Rural Management Anand (IRMA), Gujarat, India. He holds a PhD in political science with a specialization in the politics of social policy and

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Shrdha Kumar is the Programme Director of the Samarthan Centre for Development Support. She has been working in Samarthan over the last fifteen years and currently heads the Center for Social Accountability for Addressing Urban and Rural Poverty (CSAP). Shrdha specialises in decentralised governance in rural and urban contexts in India. She has conducted several participatory studies on the effectiveness of the social sector programmes of the government of India using accountability such instruments as citizen report card, community score card and social audits. Shrdha contributed to the development of a large network of elected representatives of Panchayats village to strengthen the grassroots democracy in the state of Madhya Pradesh.

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Small Towns in India

The United Nations projects that the urban population of the world will increase by 72 percent – from 3.6 billion to 6.3 billion – between in 2011 and 2050.¹ In India, the urban population has grown from 23.3 percent in 1981 to 31.16 percent in the 2011 census. About 70 percent of the urban population in India lives in about 1,100 cities and towns with populations of 50,000 or more (Urban India: A

Demographic Analysis, 2014). A small proportion of 30 percent of the urban population live in more than 6,800 (86 percent) small and medium-sized towns, below a population of 50,000. Until recently, the major focus of urban planning has remained limited to big urban centres.² Large cities can attract investment and become engines of the country's growth.



Figure 1 Map of India. Source: Map Data © 2017 Google

launched in India. The Jawaharlal Nehru Urban Renewal Mission was designed to improve the infrastructure of selected large cities.

¹ World Urbanization Prospects: The 2011 Revision, 2012.

 $^{^2}$ A recent and major public intervention for small and medium towns – the Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) – was

Some of the large cities were also able to attract investment and raise resources for development, but small and medium towns got left out of this process (Kundu A., 2003).

As a consequence, medium and small towns are unable to attract people from other areas. Aside from weak employment opportunities, these towns do not provide better civic amenities, including health and education facilities, which make cities attractive.

The Context of India:

Constitutional recognition of urban local bodies and statutory financial provisions

The Seventy Fourth Constitutional Amendment in India recognised urban local bodies as a formal part of the democratically elected government in 1992. Cities and towns function as local governments with the devolution of certain powers, funds and functionaries. The financing of local government is critical to meeting the demands and aspirations of the electorates and citizens. Post Amendment, the national government allocated funds from the divisible central tax pool for the provision of basic services and for meeting the expenditures of local governments. Funds for local governments are primarily available for the provision of basic services, such as water supply, sanitation, waste management, drainage and street lighting.

"Governing cities is becoming a challenge because of inadequate finances, weak institutional framework and lack of capacity for service delivery", according to the report of the Fourteenth Finance Commission (2014; p. 106).

The Commission suggested that a separate municipal revenue list should be added to the Constitution to assign assured and sustainable sources of income to urban local bodies. There is a need to empower urban local bodies to generate their own sources of revenue to meet the gap between the available grants and the cost of providing services.

The 10th Finance Commission provided Rs. 100 million for basic services for the period 14th 1995-2000. The Commission recommended for Rs. 8,714.38 million for urban local bodies for period 2015-2020, which is a substantial increase over a period of 20 years. The 14th Commission also recommended distribution of grants into 80:20 ratios for the basic grant and performance grant for urban local bodies. The performance grant will be available if accounting systems are improved and the quality of services are monitored and published pre-established against а benchmark. The criteria for the distribution of grants has been fixed to consider 90 percent for the population and 10 percent for the area. The small and medium towns receive a lesser proportion of funds due to their small share of both population and area. The bigger towns have benefits of various other schemes, such as Smart Cities Mission,³ under which Rs. 4,800 million has been allocated for 100 cities over a period of five years. Each city will get about Rs. 10 million per year for five years. The 14th Commission also recommended that only 10 percent of the funds allocated under the 14th Commission shall be used for administrative purposes. Small and medium towns get low share of administrative expenses in absolute terms due to small amount of grants received.

City Profile of Bemetara town and action research design

The case of Bemetara town was used for an action research project in 2015.

 Bemetara has a population of 28,226 according to the census of 2011.

- About 20 percent of Bemetara's population lives in slum areas.
- There are 18 wards in the town and the municipal body has 18 elected ward members, along with a President and Vice President.

To compare Bemetara with other towns, there are about 1,900 cities with a population of between 20,000 and 50,000 people and about 4,400 towns with a population of less than 20,000 in India. Bemetara is one of the medium-sized towns with a high potential for growth, as it is the administrative centre of the newly created district. There is a large market around the main road providing the possibility of resource generation.



³http://www.downtoearth.org.in/news/what-s-the-progress-of-smart-cities-mission--58147

The study, supported by the Swedish International Centre for Local Democracy (ICLD), aimed to understand the challenges of small towns as institutions of democratic governance in delivering effective services to citizens – particularly related to water, sanitation and solid waste – by the local government. The study endorsed the argument that decentralization is constantly shaped by

politics (Easton, Kaiser & Smoke, 2010) and local politics determine the quality, access and reach of the services based on the preferences of the local leadership in power and the opposition.

Elected Representatives in Bemetara

The elected representatives serve two important functions in ensuring effective decentralization:

- To provide the citizens with a voice (Goetz & Gaventa, 2001) in determining the local needs, prioritizing, planning and implementing these plans.
- To make municipal administration more accountable and play a crucial role in the process of democratization and democratic consolidation (Salih & Nordlund, 2007).

Therefore, a decentralization model that does not recognize the role of the elected representatives, especially in a democratic society, remains ineffective.

Action Research

The action research was designed to work with the elected representatives, municipal staff and citizens to generate evidence around the above questions. During the study period, several processes were designed to strengthen the capacities of the municipality as well as enhance their engagement with the administrative machinery at the higher level. Moreover, the citizens participated in developing participatory plans for the city to improve water, sanitation and waste management services, which became the basis for improving the quality of services as well as for understanding the constraints in the implementation of citizen's plan.

Research Questions:

- a) Is it the capacity gaps of the elected representatives and the municipal staff that result in the weak delivery of services?
- b) Is it a lack of political will to provide greater autonomy to the urban local bodies to function as a local government that results in the poor delivery of services?
- c) Do small towns have too a weak financiabase to enhance their tax- and fee based revenue to augment the quality of services?

Emerging challenges

The action research resulted in a variety of experiences that increased understanding of the challenges that small towns like Bemetara face in delivering basic services to citizens. The challenges have been summarised in the following manner:

Emerging Challenges

- a) Weak political will to strengthen local governments as autonomous governance units
- b) Political identities of ward members on party lines dilute the collective strength of the municipal body
- c) Mismatch between the requirements of the towns and the availability of financial resources
- d) Weak financial sustainability of the municipality
- e) Low participation of citizens in planning and monitoring basic services
- f) Inadequate preparedness of local governments to meet current challenges.
- a) Weak political will to strengthen local governments as autonomous governance units

The 74th Constitutional Amendment created the legal space for the urban local bodies to function as local governments. However, control and the procedure for supervision has not undergone significant change. The Chief Municipal Officer of Bemetara town attends the weekly planning and reporting meeting of the District Collector, the administrative head of the district⁴. This is primarily done to receive instructions as well as to get sanction for spending funds allocated by the Finance Commission or grants of the government schemes parked with the municipality. In spite of several efforts enacted during the research study for developing weekly plans of the municipal officials, the priorities of the district administration diluted the planning of the municipality. There is a knee-jerk reaction of the municipal officials to address the problems rather than developing a longterm and institutionalised system of response.

b) Political identities of ward members on party lines dilute the collective strength of municipal body

The elected President of the municipality belonged to the opposition party at the state level; therefore, there was limited support provided by the local legislative members of the state Assembly or Parliament. The ward members of opposition party always raised questions and objected to the decisions of the municipal council. The ward members of the opposition party could not join hands

programmes as well as for maintaining law and order. Each district is constituted by a number of villages and towns.

⁴In India, a district is an administrative unit below the state level for bureaucratically implementing development

with the President and the municipal council to address the issues of safe water, sanitation and solid waste. Similarly, the President could also not rise above the party line to develop a fair and unbiased plan for addressing the issues of sanitation and solid waste management in all deserving wards. During the study, a performance rating instrument was applied to assess perceptions of various elected ward members on the quality of services. Invariably, the ward members of the opposition parties rated quality of services substantially low and ruling party members exceptionally high. Small entities of local governments that are expected to deliver basic services become inefficient as partisan politics become more prominent.

c) Mismatch between the requirements of the towns and the availability of financial resources

The various State Finance Commission reports of Chhattisgarh state, where Bemetara is located, observed that there was no system for the timely transfer of assigned revenues to local bodies. The government of India has initiated Public Finance Management System (PFMS) in order to enable quick transfers of funds to state governments. There have been initial hiccups in establishing PFMS, however. Delays in resource transfers to municipal governments not only hamper development work, but also raise the cost of the work further.

In addition to the delay in resource transfer, there is a wide gap between the resources demanded by the urban local bodies and the resources provided, including the transfer of funds from the central and National Finance government Commission. The share of resources in the average annual income that a municipal government receives in the state of Chhattisgarh ranges between 20 and 22 percent, depending on the size and status of the municipal government; therefore, urban bodies are mostly reliant on the grants provided by the government. In Bemetara town, the proportion of the grants and subsidies has increased over the years, reducing the proportion of the lexible funds to be spent on the locally emerging demands of the citizens.



d) Financial sustainability of the municipality

movement of goods from the town has been reduced as a state share. The State

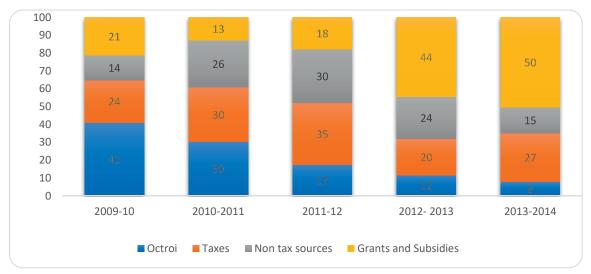


Figure 2 Composition of Revenue Income sources for Bemetara Municipality

The table above reveals that the share of *octroi*⁵ has gone down considerably and the proportion of grants and subsidies has gone up. The share of *octroi* compensation (also called Entry Tax) had gone down tremendously from 63 percent to 23 percent. Non-Tax Revenue (rents from municipal property, charges of various services and fees for issue of licenses and approvals) accounts for 15 percent of the total revenue income of Bemetara Municipality. Bemetara derives significant income from shop rents, registration fees and fees from the market.

This is a reflection of the fact that the compensation that local government used to get from the state government for the

Finance Commission's recommendations to provide flexible funds to the local governments out of the pool of state taxes have not been taken seriously by the state governments. The proportion of grants and subsidies have gone up over the years as tied funds, providing little flexibility to the local governments to meet local needs.

The share of property tax remained around 10 percent of total tax income, which is abysmally low. The municipal government has to undertake a regular assessment of properties and update its records for property tax collections. The share of water and sanitation tax was significantly high in the total tax collected by Bemetara municipality. Water tax and composite tax on sanitation have a low collection

urban local bodies as a portion of revenue generated through the entry of goods into the city or town boundaries.

⁵ Octroi is a tax levied by a local political unit, normally the commune or municipal authority, on certain categories of goods as they enter the area; see

https://www.britannica.com/topic/octroi. In India, several state governments impose octroi and later share it with the

efficiency at 66 percent and 64 percent respectively. Overall, the deficit in revenue has been decreasing over the years, which shows efforts towards financial sustainability. This can be further enhanced by improving collection efficiency, undertaking timely financial audits and other internal controls to reduce wasteful expenditures.

e) Low participation of citizens in planning and monitoring basic services.

The action research revealed that the citizens of the town were not formally involved in the planning process by the municipality. The annual budget and expenditure was never shared with the citizens; therefore, citizens were detached from the municipality, instead deferring to the elected member of their ward for their needs and requests. As a result, there was no comprehensive thinking to improve the situation of water, sanitation and solid waste in their area. The ward-level participatory planning designed during the study engaged all sections of the citizens to discuss their needs and possible solutions.

This resulted in greater engagement of the municipality with the citizens. Various joint plans emerged where the *Muhalla Samiti* – the Resident Welfare Committees – took responsibility for organising door-to-door garbage collection, monitoring leakages in water pipe lines leaking community taps, and other initiatives.

At the beginning of the study, the disconnect of the citizens with the municipality was highlighted in the citizens' report card, which was based on a statistically sound sampling design. The citizens provided feedback on the access, quality and satisfaction with basic services. The most revealing finding was that 64 percent of those who faced problems related to the quality of water supply did nothing to get the problem resolved. 24 percent of them gave verbal complaints and only 12 percent lodged a formal written complaint at the municipal office. More than half of those who complained were dissatisfied with the municipality's grievance redress mechanism on water supply issues. A few even had to pay a small amount (Rs. 50-200) as bribe to resolve their issues.

f) Inadequate preparedness of local governments to meet current challenges

During the course of this research and various interactions with municipal officials, state government officials, elected representatives and citizens, it has come out very clearly that local governments in

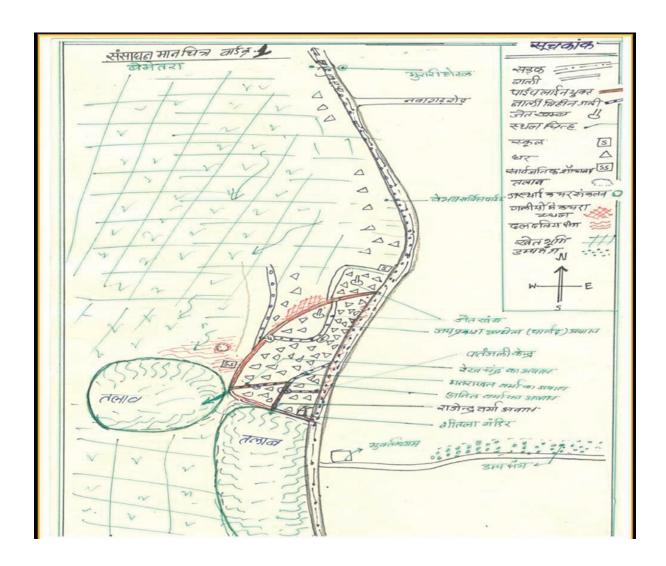
towns like Bemetara lack the capacity to deliver services.

The deficits and gaps include person-power shortage, obsolete technology and inadequate financial resources. Bemetara municipality lacks adequate person-power to deliver basic services to the citizens. Even the important positions of Sanitation Inspector and Revenue Inspector were vacant.



Policy Implications and Recommendations

This study provided several lessons that need to be considered to improve the quality of the delivery of basic services and policy asks. The key lessons learnt and recommendations are the following:



 Balanced urban growth is possible by strengthening the financial sustainability of small towns

Small towns are not attractive places for rural migrants to seek employment opportunities or for accessing better basic services. As a result, there is an influx of population in large cities from the rural areas as well as from small towns. Clearly, small towns require greater financial allocations from government funds to improve infrastructure as well as the quality of various services, like education and

health, in order to become meaningful service centres for the rural hinterland. The formula of the Finance Commission in India to determine the quantum of devolved funds based on 90:10 ratios for population and area is unfavourable for small and medium towns. There is a need to evolve a more nuanced and pro-small-town formula, as large cities have greater tax buoyancy and multiple sources of funding to sustain them.

Improved legal framework to strengthen the autonomy and democratic functioning of small towns

In spite of the constitutional amendment to establish local government in cities and towns, there is an overt and covert control of the bureaucracy. This reduces the autonomy of the small towns, particularly as their elected representatives have weak political and financial clout. There is a need to revisit the legal framework to determine a clearer division of resources, powers and functions between the state bureaucracy and local governments based on the principle of subsidiarity. With greater autonomy, capacity development and a reward mechanism for the growth of local governments, small towns can explore local solutions to improve the quality of services for their citizens.

 Provide flexible funds to municipal governments to meet local needs

The funds of the urban local bodies, especially in small towns, are primarily

received in the form of centrally sponsored schemes that are pre-designed with specific guidelines and outcomes. These funds are controlled by the state government. Many times, the schemes do not meet local requirements. The funding share of the urban local bodies determined by the National Finance Commission now gets transferred directly to the accounts of the local governments. However, the state government controls the flexible funds of the governments by issuing government orders for spending grants on specific items. This reduces the flexibility and response capacity of the local governments to address local needs.

Local governments require capacity building support and the professional engagement of experts who can help develop systematic plans for enhancing their own sources of income. Greater self-generated income will enhance their autonomy and ability to address the needs that emerge through the participatory planning. There is a need for greater investment to improve their own sources of income, which is only possible through the 'strong political and administrative will' of the government. Self-generated income is imperative to enhancing the flexibility and autonomy of local governments.

4. Strengthen District Planning Committees for comprehensive rural-urban planning

The District Planning Committee is the only constitutional body designated for planning in India. This Planning Committee is

envisaged to develop a comprehensive district plan integrating the developmental plans that emerge from the rural and urban local bodies. There is a continuum of the rural and the urban, i.e. large villages and small towns, in India; therefore, there is a need for integrated rural-urban planning. Many small towns are service centres of the hinterland villages; therefore, urban centres cannot neglect the requirements of the rural population to visit towns frequently for various services, such as the repair of farm equipment, retail purchases, health services, banking and the selling of agricultural produce. There are many welloff families in the rural areas who settle down in small towns for the education of their children or for better civic amenities.

Currently, the District Planning Committees, which function under the control of the administrative system, are very weak and ineffective. The voice of the elected representatives of the Panchayats and urban local bodies needs to be heard and incorporated in order to attain the larger vision of sustainable villages and smart cities and towns. The comprehensive planning for a sizable area, i.e. a district, where the rural and urban area's requirements are addressed in a holistic manner, will significantly improve the performance of the district on various social sector indicators (health, education, gender equality, etc.) and economic indicators (balanced growth of the agriculture, manufacturing and service sectors).

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