

Citizens' Participation in Urban Local Bodies – Policy Implications for Central Finance Commission¹

1. Institutions of local government are highly participatory primarily by virtue of their close interface with local communities. This also brings them under intense gauge of local communities that ensures local government accountability. A relatively closer proximity of local governments with the local populace places them in a better position to transform representative democracy into a participatory democracy. Participation in governance can take many forms based on length of engagement and depth of participation. This enables ownership of local development initiatives, which contributes to successful implementation of local development initiatives. Participation of civil society in local governance and exercise of its voice in local governance processes strengthens local government accountability and responsiveness of local government institutions and policies. Participation, in order to be meaningful, requires institutional capacity of the local governments to come up to the aspirations of local communities. Fiscal strength constitutes the most important parameter of institutional capacity. People's participation, therefore, becomes an imperative in strengthening fiscal strength of local government through generation of local government revenue and efficient allocation of the locally raised resources to various local development initiatives.
2. It is increasingly felt that better informed citizens', local governments and key stakeholders having knowledge about the nature of resource-related processes at the local level, (i) have better understanding of dynamics of their interaction with each other therein, (ii) are able to identify actual and possible impacts of participation that would lead to improved citizens' interaction and engagement with specific inputs towards poverty reduction, and (iii) help increase accountability of elected/local government functionaries.
3. This being the conceptual overture of local self-government, what is the status of participatory governance in actual practice? Answer to this question has important policy implications. With a view to find answer to this question, PRIA conducted case studies of Gram Panchayats (GPs) in the states of Kerala, West Bengal, Himachal Pradesh, Uttar Pradesh and Gujarat to have a broader understanding of citizens' engagement in governance that forms the core of 'local self-government'. To capture another facet, and highlight initiatives taken by the people and supported by the civil society organisations Public Record of Operations and Finances (PROOF) campaign was taken up in Karnataka.

¹ The Twelfth Finance Commission has now been dissolved and its recommendations have been passed on to the Government. As this paper is, therefore, not likely to have any policy impact on the Twelfth Finance Commission's findings, a general Policy Paper for the Central Finance Commission has been prepared which can be used by the following Central Finance Commission or other similar national policy-making institutions.

4. The present research is a spin-off of an earlier research conducted by the Institute of Development Studies, Sussex on 'Legal Frameworks for Citizen Participation,' which revealed that without legal provisions and real spaces for citizen engagement in the fiscal fields of local governance, the effectiveness and impacts of citizen participation are restricted. It also configured that even where legal frameworks are in place, various factors militate against these. Where citizens participate in governance processes with self-interest of deriving individual benefits, outcomes may be sub-optimal or biased due to the inequalities and inter-actor power differentials that, by and large, characterize social processes and policy spaces.
5. We present below highlights of the case studies that give a flavour of macro-analysis of different forms of citizens' engagement as part of democratic local governance.

Fiscal Process

6. Local government institutions, both in urban and rural areas, depend a great deal on fiscal devolution from respective state governments. One of the important elements of fiscal financial and fiscal federalism is clarity in revenue assignments to all levels of governments and a principle of inter - government transfer that should try to address both the vertical and horizontal fiscal imbalance. The 73rd and 74th Amendments to the Constitution provide for setting up of a State Finance Commission (SFC) in each state to delve into the issue of fiscal transfer to local bodies. The amended Article 280 of the Indian Constitution as well enjoins on the central Finance Commission to suggest transfers to the local government.
7. As regards the vertical fiscal imbalance, most states have failed to devolve matching revenue sources to local bodies for corresponding functional allocations. Typically, states when dealing with revenue assignment have not devolved powers to levy or collect taxes, introduced fees or user charges. None of the State Finance Commissions (SFCs) have so far looked into vertical fiscal imbalance and tried to suggest devolving of additional tax authority despite two generations of SFC regime. Presently almost no attempts are made to bridge revenue gaps arising from expenditure assignments. Himachal Pradesh is a typical example of this, while Kerela is a rare exception.
8. Some of the key observations of fiscal decentralisation undertaken by the state government to PRIs in Kerela are as follows:
 - 35% of plan funds devolved to local government – highest in India;
 - 80% of devolved grants are untied – greater power to local governments;
 - Primary share of devolution (70%) to village councils, districts receive 30%; and
 - Mandatory 10% grants-in-aids for Women Component Plan.

9. The Himachal Pradesh Panchayati Raj Act was passed in 2002. Among others, the Act looks at providing an expanded resource base to rural local government and empowers Panchayats to levy and collect 'appropriate' taxes, duties, tolls and fees. However, this Act clearly shows unwillingness of the State government to recognise the rural local governments as the third tier of governance; key observations of the regional case study supporting this include:
- Service delivery role of PRIs not clear;
 - Limited resource raising powers with PRIs;
 - All fees to be collected by PRIs are subject to clearance from State;
 - No links between expenditure to be incurred and resources to be raised/provided; and
 - Role defined for PRIs do not go much beyond being agents of state government/state-level agencies.
10. As regards horizontal fiscal imbalance, hardly any of the SFCs have suggested transfers within a framework of equalisation.
11. Fiscal situation in India's small and medium towns is even grimmer. Whereas, on one hand, growth impulses within these towns need to be properly channelled for an orderly growth, on the other hand, local governments have neither institutional capacity nor a strong local economic base to mobilise revenues locally. SFCs in most states have shown little concern for linking resource rising authority to expenditure assignment. In fact, most SFCs have shown a tendency to recommend transfers only to bridge existing revenue gaps. The consequence is a marked decline in own revenue generation by the local bodies.
12. This situation also limits accountability of public service delivery agencies. Moreover, access to information about financial flows and other inputs, outputs and outcomes are essential at local levels to inform local constituents and to encourage peoples' participation in the political process. Many decentralised systems and even other conventional forms of political representation have been found to fare poorly on the accountability criteria. Thus, there is a need for greater fiscal decentralisation, which will benefit in terms of enhanced responsibilities both to the electorate and the officials of service delivery agencies.

Local Government Accountability

13. Local bodies being the grass-root level of government need to demonstrate fiscal accountability by using the devolved tax authority for financing the expenditure decisions. The study also reveals that the GPs have been wanting in using whatever authority is devolved to them for generating their own revenue. This also limits accountability of public service delivery agencies.

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Resource Raising

14. Decentralisation and devolution are said to enhance resource mobilisation from own sources of revenue as the local government serves as a forum for the local population to deliberate on local problems and devise solutions that are in conformity with the nature of local problems. Development initiatives at the local level become the motivating source for enhancing local government revenue. This is highly localised interpretation of participatory process. The research findings from all the four states, however, do not support this. The West Bengal case study brings to notice that the popular hypothesis of “greater the participation, greater the resource mobilisation” does not always hold true. Although participation levels are among the highest in the country (and among the various case studies), this has not resulted in higher revenues for GPs, depending more on capacity of the people to pay and political will of the party in power.
15. Gram Panchayats in Uttar Pradesh do not generate any revenue from their own sources. West Bengal stands comparatively better, where out of the four GPs under study 2% to 22% of the funds were generated from own sources. Uttar Pradesh situation is largely due to unwillingness to charge; the local leadership is apprehensive of antagonising the local electorates by imposing tax on them. Even the economically well to do households do not pay any tax with a contempt for the local government; they apprehend misappropriations of the revenue raised locally. The study revealed that even though the local citizenry is ready to contribute their labour, this is not exploited by the GPs.
16. In Himachal Pradesh, the study revealed that even though at the state level the average per capita revenue as Rs.16 per capita in reality, 74% of GPs show only Rs.5 per capita. GPs are generally reluctant to tax their constituents or raise awareness about this for the prime reason of pressure exerted by vested interests. Even in Kerala that has fared relatively well on resource generation count, participatory process for revenue generation has been substantially weak and involvement of citizens in resource raising efforts is also negligible. In fact, there is a compartmentalisation of fiscal decisions, with people being involved mostly in spending decisions. Citizens are not aware of the potential revenue situation of the GP, actual revenue collections and the funds available after the salaries and other maintenance costs are met. Splitting of financial decisions in this way alienates citizens from contributing to the incremental changes they can make. The lack of perception that services have to be self-

financed and status of own revenues can make a difference, to a certain extent, can be attributed to information disclosure.

17. An important finding of the study that capacity of local governments to raise revenues is not only dependent on the level of decentralisation and strength of peoples' participation, but also on capacity of local governments themselves. Another interesting finding of the study is that even though people are satisfied with a minimum standard of performance in service delivery better service delivery does not motivate them for tax compliance, although lack of it evokes antipathy. As a result, people residing in areas receiving the basic minimum level of service delivery are not willing to pay more for better service delivery.
18. The Finance Commission would, therefore, need to appreciate the utility of participation of citizens for revenue generation and should make suggestions in its report for creating appropriate participatory structures and process. There are instances now that the urban local bodies have involved residents' associations in collection of Property Tax on the basis of incentives to the associations in the form of some share in increased revenue beyond an identified percentage.

Budget Allocation and Evaluation and Monitoring

19. Participatory processes in budgetary allocation substantially contribute to efficiency; it ensures effective use of scarce resources and ensures the value for money. Though the case studies do not lend support to such practice, they do point to some rudimentary but interesting participatory process that have started unfolding especially in Kerala and West Bengal. In Kerala, which followed the People's Plan Campaign, with an intention to make decentralisation process sustainable, discussions cover a range of issues including improvement in provision of services and enhancing functional specificity. Such discussions consequently lead to adoption of measures including social audit, citizens charter, grievances redress drives, data base creation and revision accounts and introduction of other registers. In West Bengal, people give their suggestions for basic needs statements and proposals for annual budgets on a large number of issues.
20. Involvement of PROOF in budget allocations and rationale behind such allocations has had positive implications for budget allocations and improved accountability of BMP. For example, an analysis undertaken by PROOF of expenditure incurred by BMP on schools supported by it revealed that per student expenditure was more in these schools than even in the best of private schools. Suitable changes/actions were taken after this to ensure better revenue utilisation. Such exercises will also help improving efficiency of BMP and help in judicious resource allocations. However, lack of participation of the local government elected representatives has a negative impact on the accountability criteria to some extent.

21. Kerala has an innovative practice for social audit. In Kerala, the practice of social audit, a monitoring mechanism instituted through peoples' pressure, is common. Under this, committees are formed which have the power to monitor development works carried out by the Panchayats. At least four persons from each Gram Sabha are selected to form the social audit committee.

Social Audit – Kerela

22. Social audit is a citizens monitoring mechanism instituted in Kerela. As part of these audits, committees are constituted to look into the implementation of development work consisting of at least four persons from each Gram Sabha (including selected members of kudumbasri to represent women). This practice, however, is still not widely practiced, and had been constituted in only one of the PanchayatsH studied. The social audit team is divided into three sub-groups; each involved in the activities of sectors of development activity under the Gram Panchayat, i.e., productive, service and infrastructure. The team makes an evaluation of projects that were implemented/are in the process of implementation. The report of the social audit team, however, had limited relevance in the scheme of implementation of development work.

The Way Forward

23. The case studies have thrown light on important dimensions of local governance and finance. Some of these are of great relevance for the central finance Commission. These are mentioned below:
24. Fiscal strength happens to be the most important of all the parameters of decentralisation. The local governments in rural and secondary cities of India have fragile fiscal health that needs strengthening. The central Finance Commission needs to take note of such a situation and suggest appropriate measure not only to supplement the resources of local governments but most importantly, the measures needed to strengthen the fiscal capacity and integrating these measures within the Commission's report. . This will enjoy great deal of legitimacy for implementation in various states.
25. SFCs have not been as effective as was anticipated of them. This is due to various reasons. Two important reasons that explain this are (i) the very constitution of the SFCs and (ii) the approach and methodology adopted by the SFCs. SFCs are mostly constituted of favourites of the state bureaucracy and the retired ones. This does not allow bringing the required wisdom to the SFCs. This entails that the law for creation of SFCs should provide for the type of expertise needed to be brought on to the SFCs in the form of Members.
26. There has to be some mechanism for orientation of the SFC Members through occasional brain storming sessions in the very beginning of the creation of SFCs.

27. SFCs would need to be educated on the mechanisms for addressing vertical and horizontal fiscal imbalances and approaches and methodologies that can be adopted for analysing fiscal trends and status of local governments.