# Urban development schemes, municipal finance and staffing in small cities in Gujarat and West Bengal

## State and municipality level figures

**Project Report**

René Véron

Anna Zimmer

Natasha Cornea

Jérémie Sanchez

Swiss National Science Foundation research grant 10001A_140516
"Small cities, urban environments and governance in India"

Lausanne 2019

FNSNF
SWISS NATIONAL SCIENCE FOUNDATION

UNIL | Université de Lausanne

## 1 Introduction

The project "Small cities, urban environments and governance in India" aims to better understand urban environmental governance in India's non-metropolitan small cities (with populations of c. 100,000-500,000) in the context of neoliberal reform and decentralization. Research was carried out from 2012-2015 in Gujarat and West Bengal with a focus on the municipalities of Navsari (pop. 282,753) and Amreli (pop. 118,059) in Gujarat as well as Bardhaman (pop. 347,016) and Medinipur (pop. 169,127) in West Bengal (population data as per Census of India 2011).

The urban environment is understood here in a large sense to include urban environmental services and amenities, such as water supply, drainage and sanitation, solid waste removal and treatment, urban green space, forests and parks. Urban environments in small cities are shaped, among other factors, by flows of money, power and ideas. This report focuses on relevant flows of money from central and state governments to municipalities – flows that are of course connected with those of power and ideas, particularly in the case of central and state development schemes. The report also looks at the municipalities' own revenues and municipal staffing.

In terms of methodology, we draw upon an analysis of state- and municipal level accounts and budget estimates indicating fund allocations, revenue and expenditures related to the urban environment. This information was difficult to obtain. We accessed the data in most cases directly from state and municipal offices in Gujarat and West Bengal during our fieldwork. This required patience and persistence. The collected data has gaps and is not always reliable. Moreover, the comparison of municipal-level figures was in some cases problematic because the studied municipalities used different accounting systems. Nevertheless, they provide a good indication of the financial autonomy of municipalities as well as an idea of state-specific priorities in urban environmental governance. Additional secondary data available in reports and on websites was also included in the analysis

This report provides a complementary quantitative data set for a forthcoming publication on decentralization, municipal capacity and autonomy related to environmental governance in small cities in Gujarat and West Bengal. That publication draws more heavily upon qualitative information from interviews at the state and the city level and assesses enabling and constraining factors of municipal agency and power in the two states.

In the following, we present data on centrally-sponsored and state-government development schemes related to the urban environment, transfers of untied funds to urban local bodies (ULBs), revenue and expenditures of municipalities, and local staffing levels.

## 2 Centrally sponsored urban development schemes

At the time of our research, the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was the most important centrally sponsored scheme implemented in India's urban areas. It focused on 65 mission cities (large cities and other urban areas of national importance) and on the creation of urban infrastructure (water supply, transportation, etc.) and housing and slum development through four sub-missions, two each for the mission cities and for smaller urban centers.

Figure 1: Funds released under JNNURM (as per 31.12.2013)

| | Mission cities | Smaller cities |
|---|---|---|
| ***Infrastructure*** | | |
| Urban Infrastructure and Governance (UIG) | 43,200 (53%) | |
| Urban Infrastructure Development Scheme of Small and Medium Towns (UIDSSMT) | | 11,523 (14%) |
| ***Housing and Slum Development*** | | |
| Basic Urban Services to the Poor (BUSP) | 18,345 (23%) | |
| Integrated Housing and Slum Development Programme (IHSDP) | | 8,221 (10%) |
| *Total* | *61,545 (76%)* | *19,744 (24%)* |

Source: JNNURM website (National Informatics Centre, Government of India, n.d.)

Although JNNURM focused on large cities (see Figure 1), the scheme had also an important impact on smaller cities. Two sub-missions were implemented there: the Urban Infrastructure Development Scheme of Small and Medium Towns (UIDSSMT) and the Integrated Housing and Slum Development Programme (IHSDP). By the end of 2013, Rs. 11,523 crore had been invested by the central government in infrastructure projects for water supply, sanitation, solid waste management, etc. under UIDSSMT and Rs. 8,221 crore under IHSDP to build and upgrade houses and provide basic infrastructural facilities, such as water taps, latrines, waste containers, sewerage and storm drains, in slum areas (National Informatics Centre, Government of India, n.d.). The central government grants (80%) were to be matched by 10% from each the state government and the respective municipality.

The launch of JNNURM implied a significant increase in central funding for urban areas. State-level nodal agencies for the implementation, the State Urban Development Agency in West Bengal and the Gujarat Urban Development Mission, were reinforced to manage the new centrally sponsored urban schemes and implement them with specially hired engineers and other staff.

Figure 2 suggests that West Bengal and Gujarat were middle performers in the uptake of UIDSSMT funds. State officers in West Bengal stated that some projects ran into delays because of problems with land acquisitions but eventually all projects received their second instalments, indicating that they were properly implemented and co-funded by the state government and the ULBs. Indeed, the state was able to attract significantly more central funding under UIDSSMT than originally allocated, by a factor of 1.58 (yet, compared with a ratio of 4.04 in the case of Andhra Pradesh).

Figure 2: Central investment in urban infrastructure projects under UIDSSMT (in Rs. crore, as per 31.03.2014)

| State | Allocation | Funds released | Ratio allocated / released funds | No. projects completed |
|---|---|---|---|---|
| West Bengal | 315 | 497 | 1.58 | 18 |
| Gujarat | 352 | 347 | 0.99 | 40 |
| *All India* | *6400* | *12730* | *1.99* | *453* |

Source: JNNURM website (National Informatics Centre, Government of India, n.d.)

None of our studied municipalities in West Bengal and Gujarat, nor their corresponding Urban Development Authority (UDA) received any significant UIDSSMT grant recently. Bardhaman, for example, recorded a failed attempt to obtain central funding for a drinking water treatment project.

Funding under IHSDP for smaller constructions in slum (relocation) areas has been dispersed to a larger number of small cities. Figure 3 indicates that West Bengal received a substantial portion of the central funds and was able to complete many constructions. In both Bardhaman and Medinipur, IHSDP projects were integrated in the City Development Plan (CDP). In our selected cities in Gujarat, IHSDP was not prominent; slum upgrading and relocations were financed through state schemes and own funds.

Figure 3: Central investment in slum habitat infrastructure under IHSDP (in Rs. crore, as per 15.11.2015)

| State | Allocation | Funds released | Ratio allocated / released funds | No. constructions completed |
|---|---|---|---|---|
| West Bengal | 681 | 703 | 1.03 | 47,099 |
| Gujarat | 256 | 247 | 0.96 | 14,422 |
| *All India* | *6828* | *6432* | *0.94* | *338,845* |

Source: JNNURM website (National Informatics Centre, Government of India, n.d.)

The stipulated 10%-matching of the central funds can represent a significant sum for ULBs, although municipalities can take recourse to soft loans offered by the Gujarat Municipal Finance board and by the Municipal Development Fund Trust in West Bengal, respectively. While the municipalities in Gujarat seemed able to forward the required matching funds, the state government in West Bengal supported local governments by increasing its own share to 15% of the cost of sanctioned projects, because “the ULBs are too poor”, as a state officer reported to us.

**3 State government schemes related to the urban environment**

The flow of funds for the improvement of the urban environment in small cities under state government schemes is more difficult to trace because of the multiplicity of schemes and the fact that these usually cover large metropolitan areas and small/medium towns at the same time. The main schemes in West Bengal were the Development of Municipal Areas (DMA) for infrastructure projects, Basic Minimum Services (BMS) for water supply, roads, education in non-metropolitan areas, the Urban Employment Schemes (UES) and the Employment Generation in Urban Areas (EGUA) program, as well as the Swarnim Jayanti Mukhya Mantri Shaheri Vikas Yojana (SJMMSVY) for water supply, toilets, housing, roads, transport, health centers, etc. and the Nirmal Gujarat Yojana (NGS) for sanitation and solid waste management in Gujarat. In both states, there were smaller additional schemes related to solid waste management, urban greenery and forestry, slum upgrading, water supply, etc.

Our rough estimates based on official budget figures (Department of Municipal Affairs, Govt. of West Bengal, n.d.; Gujarat Municipal Finance Board, n.d.) indicate a yearly spending of about Rs. 1,000 crore in West Bengal and of around 3,715 crore in Gujarat under the above-mentioned schemes. However, these figures are not fully comparable, as the West Bengal numbers do not include state

government funds going through the Urban Development Department to UDAs instead of municipalities. Moreover, the figures refer to total budget estimates for all urban areas in the respective state; data on the proportion of budgets allocated to non-metropolitan areas was not available, except in the case of Gujarat's SJMMSVY, of which only 15% went to small and medium towns, and West Bengal's BMS, of which all funding went to non-metropolitan areas.

Figure 4: (Planned) expenditure under various schemes related to urban environmental governance (in Rs. lakh)

| | Bardhaman | Medinipur | Navsari | Amreli |
|---|---|---|---|---|
| UIDSSMT | 100 | 290 | N/A | 0 |
| IHSDP | 500 | 665 | N/A | 3 |
| *Total centrally sponsored schemes* | *600* | *995* | *N/A* | *3* |
| DMA | 50 | 150 | | |
| BMS | 76 | 300 | | |
| SWM Mission | 0 | 100 | | |
| UES | 363 | 300 | | |
| EGUA | 87 | 115 | | |
| SJMMSVY | | | N/A | 245 |
| NGY | | | N/A | 0.4 |
| *Total state government schemes* | *576* | *965* | *N/A* | *245* |

Sources: Municipal budget estimates 2013-14 (Bardhaman, Medinipur), Annual accounts 2011-12 (Amreli).

Indeed, our analysis of municipal budgets and accounts of the selected cities suggests that income through state government schemes (and from centrally sponsored schemes) was more important in the studied cities in West Bengal than in Gujarat (see figure 4). However, this comparison must be read with caution: the West Bengal figures derive from budget estimates (for 2013-14), those related to Gujarat from municipal accounts (for 2011-12); the listed schemes are not comparable and some schemes, particularly West Bengal's employment programs, were also used for projects unrelated to urban environmental governance; and the budget and spending under a particular scheme can fluctuate greatly from one year to another, particularly in Gujarat where larger infrastructure projects were implemented (see figure 5).

Figure 5: Government grants to select municipalities in Gujarat, 2007-08 to 2011-12 (in Rs. lakh)

| Navsari | | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | *Average* |
|---|---|---|---|---|---|---|---|
| | State grants for urban development | - | 8 | 10 | 12 | 607 | *127.4* |
| | UIDSSMT | - | - | - | - | - | *0* |
| | All other centrally sponsored schemes | - | - | 84 | - | - | *16.8* |
| Amreli | | | | | | | |
| | State grants for urban development | 2 | 1 | 82 | 70 | 245 | *80* |
| | UIDSSMT | 505 | 234 | - | - | - | *147.8* |
| | All other centrally sponsored schemes | 262 | 33 | - | 115 | 7 | *83.4* |

Source: Budget documents, Gujarat Urban Finance Board.

Whatever the exact figures on state investments in environmental governance in the selected cities, our analysis points to qualitative differences in the two states. West Bengal generally favored employment-oriented programs. In Bardhaman and Medinipur, urban employment schemes were often used for small-scale water works, urban forestry and beautification but also for maintenance work (street sweeping and drainage), thus filling gaps in the municipal operation and maintenance budget for the upkeep of the urban environment. By contrast, the Government of Gujarat embarked on larger infrastructure projects. In Amreli, for example, a Rs. 50 crore water supply project had been recently completed and an underground drainage system had been sanctioned.

**4 State transfers of untied funds**

The Indian Constitution has prescribed the allocation of a share of tax income to the states since 1951, but until the 1990s, the state's allocations to local bodies was done "on a whim, on an *ad-hoc* basis", as a state finance commissioner told us. Only the 74$^{th}$ Constitutional Amendment directed state governments to establish their own State Finance Commissions (SFC) responsible for fairly distributing a given share of the state tax income (from both central tax transfers and own taxes) to ULBs (and panchayats) according to a predetermined formula.

The allocation formula is discussed and adjusted every five years, that is, with each new SFC, and with reference to the Central Finance Commission criteria used for the allocation to states. The transposition of the central criteria proved difficult as certain indicators (e.g., GDP, HDI) were not available at the disaggregated scale of individual cities. We were not able to get access to the actual formulas used in either state, but criteria used included not only population size, area, poverty rate and literacy rate but also financial discipline and own revenue-raising efforts. Generally, SFCs balanced between need-based allotments and incentive-based ones rewarding 'good performance'. Also, the formulas were becoming more sophisticated as more disaggregated data was becoming available.

The proportion of devolved funds to local bodies amounted to about 5% of the state's net tax revenue. In West Bengal, some SFC allocations never reached the municipalities because the state government deducted some amount from the transfer to pay for the municipality's outstanding bills,

particularly electricity bills, owed to state-government-owned utility companies. A state-level officer said that the state government would at the same time often fail to pay the property taxes that are due to the municipalities. While there seemed to be no such direct deductions in Gujarat, an official order lets the state government pay outstanding electricity bills for defaulting municipalities and have them pay back in instalments from grants.

Figure 6: Transfers of untied funds to municipalities (in Rs. crore)

| | West Bengal | Gujarat |
|---|---|---|
| State Finance Commission | 339 | 240 |
| Octroi compensation | - | c. 2,500 |

Sources: Department of Municipal Affairs, West Bengal (budget estimates 2015-16); Gujarat Municipal Finance Board (revised budget provisions, 2014-15)

Urban local bodies (ULBs) in Gujarat received additional transfers of untied funds beyond the allocations from the Central and State Finance Commission. Figure 6 indicates that while financial devolution through the SFC were similar in the two states (if corrected by urban population size), municipalities in Gujarat received a much larger amount of untied funds through 'octroi compensation'. Octroi, the raising of a municipal tax for the entry of goods to the city, was an important traditional local revenue stream in the region of today's Gujarat. It was abolished in the year 2000; ever since, the state government has compensated the municipalities for revenue losses from octroi. In West Bengal and the erstwhile Bengal presidency, the system of local octroi was absent.

The flow of untied funds to our studied municipality was difficult to assess from the municipal accounts, as they appeared under different headings. However, figure 7 confirms the importance of the octroi compensation compared to the central and state finance commission transfers.

Figure7: Receipt of untied funds in selected cities, 2011-12 (in Rs. lakh)

| | Bardhaman | Medinipur | Navsari | Amreli |
|---|---|---|---|---|
| 13$^{th}$ Central Finance Commission | 137 | 77 | N/A | 129 |
| 3$^{rd}$ State Finance Commission | 153 | 75 | N/A | N/A |
| Octroi Compensation | - | - | N/A | 545 |

Sources: Municipal annual accounts, 2011-12.

**5 Own revenue**

According to data from the West Bengal Department of Municipal Affairs and the Gujarat Municipal Finance Board, own revenue raised by municipalities in West Bengal amounted to about Rs. 230 crore in 2015-16 while it was more than Rs. 400 crore in Gujarat. This general picture is confirmed by data from our selected cities (see figure 8). It can be partly attributed to a stronger economic tax base in Gujarat, but equally to tax reforms and more taxation autonomy than in West Bengal.

Figure 8: Revenue from own sources, selected cities, 2011-12 (West Bengal) and 2012-13 (Gujarat)

| | Bardhaman | Medinipur | Navsari | Amreli |
|---|---|---|---|---|
| Revenue (in Rs. lakh) | 1,156 | 622 | 1,655 | 881 |
| Revenue per capita (in Rs.) | 333 | 368 | 585 | 747 |

Source: Municipal accounts

Revenue from own sources include municipal incomes from various taxes, rents, fees, user charges, etc. In Gujarat, municipalities have the authority to set their own the rate of the property tax, the most important endogenous municipal revenue stream. In West Bengal, by contrast, municipal property tax rates are determined by a state-level institution, the Central Valuation Board. Moreover, a government declaration prevents municipalities in West Bengal to impose a separate water tax. However, low municipal revenues in West Bengal are not only a consequence of limited taxation authority but also of political disincentives and unwillingness of local elected officeholders to impose taxes. Raising own revenue proved to be politically difficult, except for taxes on mobile-phone towers, bus stands, rents, etc. Yet, Medinipur managed to introduce user charges on door-to-door collection of household wastes.

**6 Municipal expenditure**

Although municipalities in Gujarat reported fewer financial constraints than their counterparts in West Bengal, figure 9 indicates that the total expenditure per capita was not very different in the selected cities in the two states (the higher figure for Amreli may be conjunctural). However, Bardhaman and Medinipur had higher revenue expenditures (e.g., recurring expenses for operation and maintenance) and lower capital expenditures (e.g., asset-creating investments) than their counterparts in Gujarat. Particularly, the employment of 'unskilled' labor was very high in both Bardhaman and Medinipur.

Fig. 9 Municipal expenditure in selected cities, 2011-12 (West Bengal) and 2012-13 (Gujarat)

| | Bardhaman | Medinipur | Navsari | Amreli |
|---|---|---|---|---|
| Total expenditure (Rs. lakh) | 5134 | 2585 | 2847 | 2287 |
| *Rs. per capita* | *1479* | *1526* | *1664* | *1903* |
| Capital expenditure (Rs. lakh) | 1614 | 879 | 1535 | 1246 |
| *Rs. per capita* | *465* | *517* | *897* | *1051* |
| Revenue expenditure (Rs. lakh) | 3520 | 1706 | 1312 | 1041 |
| *Rs. per capita* | *1014* | *1009* | *767* | *852* |
| Capital-revenue ratio | 31:69 | 34:66 | 54:46 | 54:46 |

Source: Municipal accounts

The low ratios between capital and revenue expenditures, particularly in West Bengal, point to the difficulty of municipalities to make investments in the improvement of the urban infrastructure and environment, as expenses for operation and maintenance weigh heavily on their budgets. Unfortunately, we cannot nuance this claim with comparative data from municipal accounts of the

four cities. Expenditures on the urban environment (e.g., water supply, sanitation, solid waste management, parks) appear under different headings (e.g., particular schemes, salaries, vehicles) and can therefore not be estimated with confidence. The differing accounting systems and categories used between the four cities rendered the comparison impossible. As an illustration, however, figure 10 presents data on capital and revenue expenditures for selected urban environmental services in Medinipur, where such data was better identifiable than from the accounts of the other three cities.

Fig. 10 Expenditure on urban environmental services, Medinipur, 2011-12 (Rs. lakh)

| | Capital | Revenue | Total |
|---|---|---|---|
| Water Supply | 27 | 261 | 288 |
| Drainage and sewerage | 45 | 101 | 146 |
| Conservancy (SWM) | 0 | 379 | 379 |
| *Total* | *72* | *741* | *813* |

Source: Municipal accounts

Figures 9 and 10 suggest that about one third of the municipal expenses in Medinipur were spent on environmental services. This is, however, a gross underestimation as both investments and maintenance related to the urban environment were done under other accounting categories and through government schemes (e.g., the West Bengal Urban Employment Scheme) that are not accounted for in figure 10. Yet, the high (revenue) expenditures for the urban environment are still remarkable, particularly those for conservancy work (mostly wages for waste collectors and sweepers). The revenue expenses for water supply include wages for maintenance and repairs but also electricity bills for the operation of pumps lifting water from the Kasai river to overhead tanks. The small capital expenses in 2011-12 were made on new installations of tube wells and community taps. However, in 2012-13 already, Rs. 70 lakh were spent under a state government scheme, seemingly for the preparation of an inter-municipal water supply project.

**7 Municipal staffing**

Figure 11 gives an overview of the staffing situation in the selected cities indicating a higher proportional municipal staffing level in West Bengal than in Gujarat. In both states, posts at the municipality are sanctioned by the state government: in Gujarat by the Department of Urban Development and based on the size class of the city; in West Bengal by the Municipal Service Commission based on population and needs criteria. In Gujarat, no adjustments to increased population size had been made since the early 1970s; in West Bengal, there had even been efforts to reduce the number of sanctioned posts. In Bardhaman, for example, a reduction from 1221 to 680 posts was proposed in 1995 but contested by the municipality. Waste work accounts for a large proportion of municipal employment: Bardhaman employed 576 persons in this sector, Medinipur 222 and Navasari 247.

Figure 11: Municipal staff in selected cities

| | Bardhaman | Medinipur | Navsari |
|---|---|---|---|
| Allocated posts (permanent) | 1221 | 1002 | 786 |
| Permanent staff | 871 | 346 | 761 |
| Temporary staff (contract staff, casual workers) | 600 | 462 | |
| Vacant posts | 169 | 194 | 25 |
| *Total staff* | *1471* | *808* | *761* |
| *Staff per 10K population* | *42* | *48* | *27* |

Source: Fieldwork, 2013-14

Figure 11 also points to a high number of vacant positions in West Bengal. The government often did not replace retired and deceased municipal workers in permanent positions, particularly 'unskilled' class IV workers (e.g., waste workers). As the state government did not react to appeals, the municipalities increasingly hired workers on a casual or contractual basis. The payment of salaries and benefits is largely covered from the municipal budget, including from money channeled through development schemes. For example, Bardhaman employed five additional waste workers per ward from the West Bengal Urban Employment Scheme to fill the gaps. Some work also got outsourced. In Gujarat, interviewees did not point to workforce problems. It seems that much work was outsourced. In Amreli, neighborhood organizations were sometimes called upon to collect and remove wastes.

**8 Conclusions**

This review of state-level and municipal accounts and budgets reveals that tied funding through government schemes was more important for investments in the urban environment in small cities in West Bengal while untied funding was comparatively more important in Gujarat. However, ULBs in West Bengal were sometimes able to fill gaps in the municipal budget through the strategic use of (employment-oriented) state government schemes. While we do not have exact figures, our data indicates that municipalities spent a significant proportion of their budget (certainly more than 30%) for urban environmental services, including solid waste management, water supply and sanitation. Particularly in West Bengal, revenue expenses (salaries, operation and maintenance costs) for the upkeep of the urban environment and urban environmental services by far outweighed capital investments for new infrastructure. Generally, staffing levels and flows of funds to small municipalities outside metropolitan regions are very limited. However, our qualitative analysis based on interviews (published elsewhere) shows that municipal agency is impeded not only by inadequate flows of (untied) resources and limited fiscal powers (which are more important obstacles in West Bengal), but also by other structural constraints such as the presence of parastatal agencies bypassing ULBs, the sway of government officers over elected councilors, and the lack of decentralized planning, of which the latter two are more predominant in Gujarat than in West Bengal.

**Sources**

Amreli Municipality, Accounts, 2012-13

Burdwan Municipality, Accounts, 2011-12

Burdwan Municipality, Budget estimates 2013-14

Department of Municipal Affairs, Govt. of West Bengal, Budget estimates, 2015-16.

Gujarat Municipal Finance Board, Revised budget provisions, 2014-15.

Midnapore Municipality, Accounts, 2011-12

Midnapore Municipality, Budget estimates 2013-14

National Informatics Centre, Government of India, Jawaharlal Nehru National Urban Renewal Mission [WWW Document]. Jawaharlal Nehru National Urban Renewal Mission. URL www.jnnurm.nic.in (accessed 11.20.15).

Navsari Municipality, Accounts, 2012-13

Navsari Municipality, Budget estimates, 2013-14