FIELDWORK REPORT

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Fiscal Decentralisation, Participatory Processes & Inclusive Development

WP-6 Combined Field Report

Prepared by WP-6 Country Teams: Brazil, Peru, South Africa & India

Coordinator N. Sridharan

2 CHANGE SUSTAIN

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1 Introduction

Development thinking the world over has changed from that of 'big push' post-war thinking to a neo-liberal 'Washington consensus' to the understanding that neither the former nor the latter really works in ensuring successful catch-up development. Several alternative models of development have been created in practice by strong politicians, such as in the case of East Asian Miracle countries (Popov: 2010) or the erstwhile Latin American Boom. The transition from authoritarianism to democratic governance regimes, especially in developing countries in 1990s triggered social mobilisation in many countries, leading to decentralisation, deepening democracy, citizen participation and social control of public policies (Neiva, et al: 2012), and alternative development processes. Even to this day, most of the developing countries operate in a command and control environment with little or no orientation to serve their people (Shah: 2008). Fiscal decentralisation, which is part of this transition, is often characterised as a stimulant for 'deepening democracy' and making citizens participate in the decisions that affect their lives. Decentralisation processes pushed by social movement pressures, as in the case of Latin American countries, resulted in new and innovative participatory structures such as deliberative councils on specific issues of public policies, and forms of participatory budgeting (Neiva et al. 2012). The Chance2sustain project looks into 'Fiscal Decentralisation, Participatory Processes & Inclusive Development' in Brazil, Peru, South Africa and India, covering several cities within these countries.

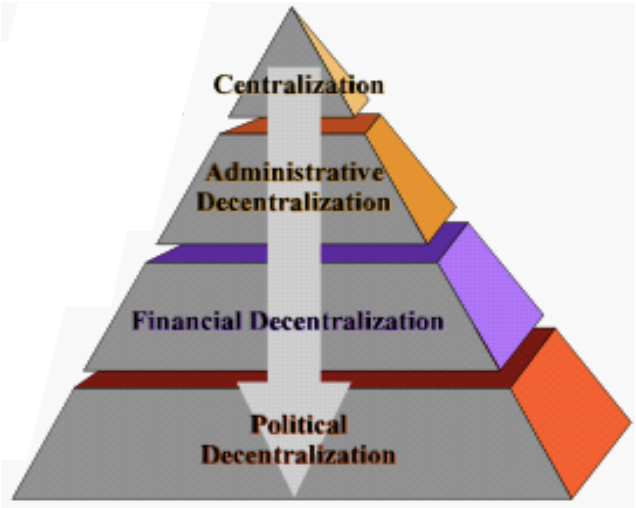
Taking the lead from Latin American Countries, especially Brazil, developing as well as developed countries across the world have experimented for more than a decade now with participatory processes, which encompass public policy decisions through participatory budgeting. Participation of citizens in local governance involves community decision-making in identifying priorities, implementation and monitoring of projects including mobilising and managing resources (Institute of Development Studies: 2002). Local variations were also set up in Asia; e.g. in the Philippines through participatory budgeting experiences, in India through legislation. In South Africa legislative processes ensured inclusive and participatory development processes for local governance (ibid.p.10). Participatory governance introduces changing power and power relations, based on values of transparency, accountability, responsiveness and inclusion (Institute of Development Studies: 2002: 5). The 'big shifts' that occur in the participatory governance system is that of a 'project-centric approach' to a 'process-centric

approach' (ibid, p.12) in the whole development approach. In other words, the participation concept shifts from participation in the social arena and community in development projects to a concept of participation relating to citizenship and democratic governance (Gaventa: 2002), and more recently to resource sharing. New forms of engagement between citizens and the state require re-thinking about the ways in which citizens' voices are articulated and represented in the political process, and a re-conceptualisation of the meanings of participation and citizenship to local governance (Ibid.p.3). It is a two-way interaction.

This two-way interaction between the State and citizens has taken various forms, depending on three enabling conditions (Heller: 2001); namely: a) strong central-state capacity; b) a well-developed civil society, and, c) an organised political force, such as a party, with strong social movement characteristics. Similarly, it has been pointed out (Renis: 2012) that even in the case of decentralisation processes, how the local governments are accountable to democratic forces and civil society under horizontal decentralisations, than vertical decentralisation, where in the local governments are accountable to their central organisations. In this decentralised arrangement, 'we now have a plethora of consolidated participatory spaces, in the different spheres of government (Federal, State and Municipal) and in relation to different public policies (Teixeira: undated). In fact, participatory spaces were conceived as a complement to representative democracy (Ibid, p.2). Cornwall (2008) explains the typology of participation used by Pretty (1995); namely, manipulative, passive, participation by consultation, participation for material incentive, functional participation, interactive participation and self-mobilisation, to drive the idea of 'clarity through specificity' to realise its democratizing promise. Participation is not always smooth but often results in contestations and contradictions (Pollock & Sharp: 2012). Participatory spaces emerged from two competing or complementary processes, namely, state-driven processes of decentralisation and public participation, and society-driven response to the public policies. Governance and empowerment are thus interconnected; this relation is weak in societies dominated by power elites, and strong in those societies where legal frameworks, administrative accountability and transparency and citizen-oriented management are strong (UNDP 1996: 3).

Development theorists approach 'decentralisation' from several perspectives, ranging from that of 'fiscal decentralisation' to political or institutional decentralisation, to 'incentive systems' as perceived by institutional economists, and 'participation' and emergence of informal organisations in the governance process as perceived by sociologists and political scientists (Van Sant: 2001). Van Sant indicates the relationship between the central government and the sub-national or local governments as follows: *'As decentralisation occurs, this relationship constitutes the reciprocal transfer of authority and responsibility between local and national authorities'* (VanSant 2001). This is explained in Figure 1, in which stages of decentralisation and transfers of power are represented.

Figure 1: Stages of Decentralisation & Power Relations



Source: VanSant (2001), p.2.

From centralisation, the power and functions are transferred to political representatives and to people in decentralisation processes through various stages. The dimensions of decentralisation, that is functions, access to resources, autonomy and accountability are re-written or re-engineered in the decentralisation processes. The dimensions as stated by VanSant (2001) are presented below in Figure 2.

The stages of decentralisation as well as the functional responsibilities, access to revenue and political autonomy and accountability vary among countries, depending on the perception of politicians, administrators and people themselves towards participation. Recent global trends towards devolution have been driven by the ideology that fiscal decentralisation is likely to have a positive effect on government efficiency and overall economic growth (Pose et al: 2009). The general belief that transfer of power and resources to lower levels of government allows a better matching of public policies to local needs and thus for a better allocation of resources, have led to various forms of

Figure 2: Dimensions of Decentralisation

Functional Responsibilities	Access to Revenues	Political Autonomy/ Accountability
• Minimal Urban Services • Basic Civil Record Keeping	• Small-scale fees, licenses, etc. • Low level of central to local transfers	• Officials selected by Central Govt. • Salaries set and paid by Central Govt. • Accountable to Central Govt.
• Basic urban services, not including most social services (education, social welfare, health)	• Reliance on Central Govt. Transfers and/or shared taxes. • User charges set by the Central Govt.	• Local Selection of Officials • Salaries set and paid locally • Accountability to local constituents
• Broad array of urban public works and social services	• Broad authority to set own source revenues • Intergovernmental transfers • Authority to incur debt	

Source: Modified from VanSant, 2001.P.2.

inter-governmental arrangements. 'Grants-financed decentralization enables politicians to target benefits to pivotal voters and organized interest groups in exchange for political support. Decentralization, in this model, is subject to political capture, facilitating vote-buying, patronage, or pork-barrel projects, at the expense of effective provision of broad public goods' (Khemani 2010). We see below how participation and fiscal decentralisation have taken various forms and shapes from that of influencing public policy space in the case of Brazil (one extreme) to that of India (where political participation exists) as shown in Figure 3. Compared to Brazil, policy-making in India is divorced from the people – especially the poorest members of society. Democracy in India is more impressive in form than in substance (Court 2001).

Constitutional rights of access to basic services in most of the large countries (populated) are not equal even after efforts of decentralisation and participation has emerged (Shah: 2008). For example, in the case of India, water supply, sanitation and social welfare, housing, and social protection are vested with the lowest levels of government. Similarly in Brazil, water, sanitation and shelter are not with the local administration (Ibid: p.4).

As the Figure 3 shows, in the Brazil scenario, participatory flows and decentralisation bring in new scalar arrangements in terms of participation, a new organisational ecology and have resulted in new policy outcomes based on participation at local levels. In the Indian case, political decentralisation and fiscal decentralisation has occurred due to a Constitutional Amendment. There is no people's participation in the planning, budgeting or implementation process, except political participation of elected representatives. In between comes Peru (where People's participation process exists but not to the same extent as Brazil) and South Africa (where fiscal decentralisation and people's participation exist in a moderate way). We see in the following sections how these variations are brought out in the case study cities (Gurza Lavalle et al. 2012).

2 Framework for Case Studies in Selected Countries

We analysed the following issues concerning the type of constitutional mechanism/arrangements for decentralisation and participation: do knowledge flows (GIS/SDI) affect processes of (de- or re-) centralisation in budget making? What forms of participation exist in budget making and who can participate and how? What kinds of network organisations are involved in budget making and what kinds of scalar arrangements exist?

We looked at the city level: how the centralised and decentralised fiscal flows were, the balance of internal and external fiscal flows to a city, what kind of budget oversight mechanism are in operation and at what level? In what way the budget outcome compares to set standards, how sectoral differences emerge within the budget, and how much transparency exists in the budget making and implementation process, and also whether the budgetary system is linked to local planning or not? (Baud, Gurza Lavalle and Sridharan 2012).

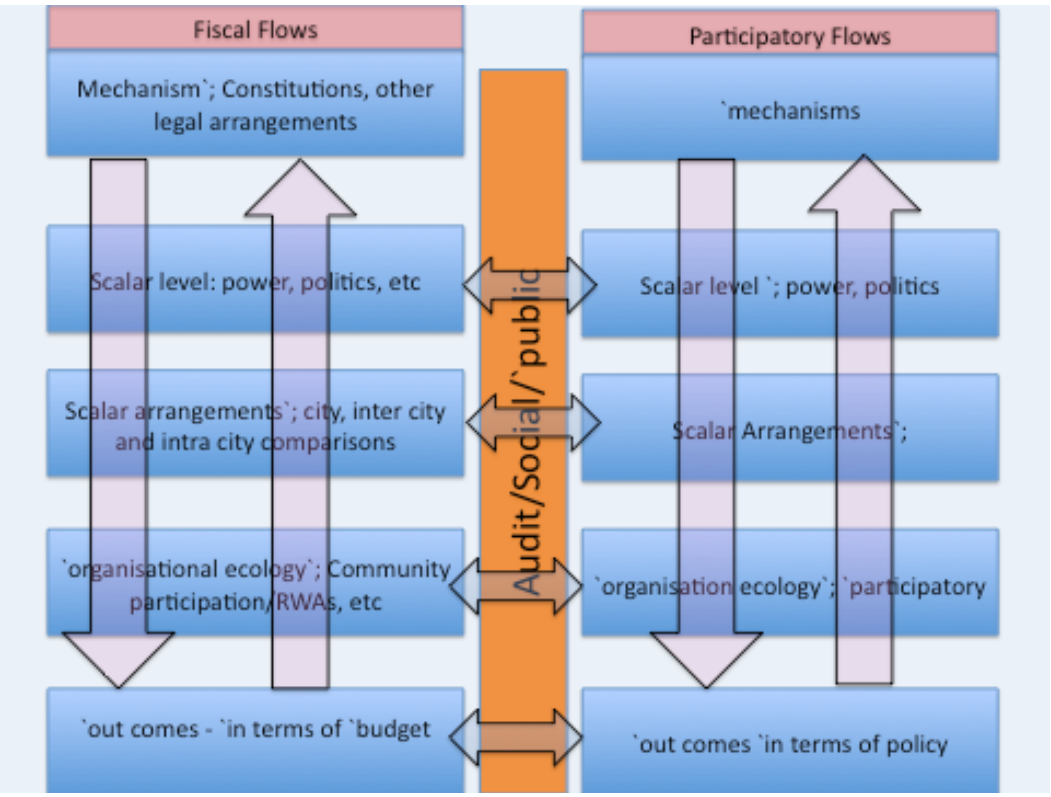
The following sections will analyse the case studies in terms of a) contextualising the link with the national level through constitutional mechanisms present in a country for decentralisation and participation, b) how the selected cities are linked to this mechanism, c) what impact these processes (both participatory and decentralisation processes) have generated in terms of policy or budget outcomes.

Country Specific Case Studies

2.1. People's Participation in Policy Making: Case of Brazil

The expansion of Participatory Budgeting (PB) from 1992 to 2008 is amazing. From 13 cases in 1993, to 53 in 1996 to 112 in 2000 and to 201 cases of PB in 2008 shows

Figure 3: Variations in Decentralisation and Participation



Source: Baud, Gurza Lavalle and Sridharan: Presentation at C2S International Workshop, Lima, Peru, 2012.

the remarkable progress that the PB has achieved compared to the initial Porte Alegre, the first Municipality to adopt PB way back in 1992 (Avritzer, etc: 2008). Region, Municipality size, and political party affect how PB programmes function (Ibid, p.2). Brazilian Institute of Geography and Statistics revealed the existence of 23,987 Municipal Councils linked to social policies way back in 1999 (Teixeira: undated). 64 Federal Councils covering 3.5 million people have participated at all levels of Federation in policy making and budget making issues (Ibid). More than 70 National Conferences held during Prime Minister Lula's Administration preceded by Municipal and State preparatory conferences. Figure 4 shows the spatial distribution of PB experience in Brazil between 2005 and 2008.

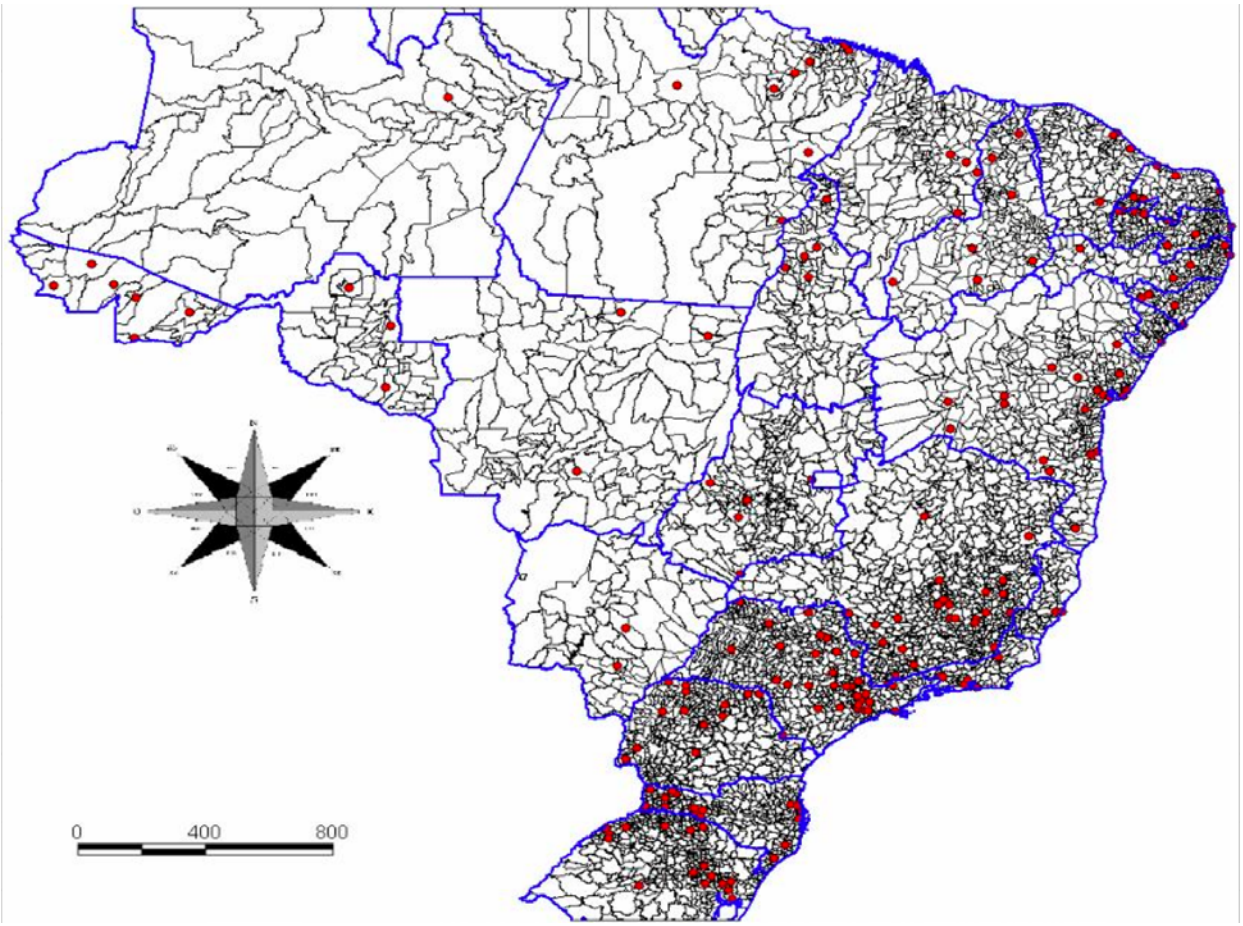
Participatory budgets are based on four principles. These are:

- **Re-directing public resources** for the benefit of the poorest;
- **Creating a new relationship** between municipalities and citizens (i.e. a new form of governance);
- **Re-building social ties and social interest**; and,
- **Inventing a new democratic culture** and promoting active citizenship (Lieberherr: 2003).

But how useful have all such spaces been? What is the meaning of all these mobilisations? What is the role of all this in Brazilian Democracy? Have these been brought in change in the participatory system or the mechanism of participation (Ibid).

Many factors affect the institutionalisation of participation in Brazil: Macro factors (such as state level, constitutional, disordered political system, etc), Meso factors (systematic inducements for regulation/ implementation; external conditionalities, commitment of state and federal government), local factors (such as role of participation in political competition, local organisation ecology, political alignment with state and federal levels, and the type of urban regimes), and,

Figure 4: Spatial Distribution of PB experience between 2005-2008



Source: Avritzer & Wamplier (2008), p.5

Micro factors (such as partisan networks, neighbourhood leaderships or community level cleavages)(Lavalle, Serafin, Porto and Voigt: 2012). Nylen (2003) shows how in Brazil, experiments in local-level participatory democracy, put into practice by the Workers Party – South America's largest left win party – demonstrated how 'Bringing the people Back in' helps in revitalising democratic politics. Nylen (2003) explains the role of 'participatory budgeting' in enabling 'popular participation' and also highlights the limitations of this efforts in citizen empowerment process. The role of the state in bringing in 'participation' is an important element of 'participatory democracy' in Brazil. Fiscal Responsibility Law that came into force in 2000 and Constitutional requirement of municipalities to allocate 25% of their revenue on education and 15% on health regulates the PB.

2.1.1. Case Study Cities

Three Municipalities of Guarulhos, Rio de Janeiro, and Salvador were taken up as case study to understand how participative institutions function in an integrated way in Brazil. Using a mixed method of qualitative and quantitative approaches, the study uses the Census based approach to understand the decisions produced by Policy Management Councils in a period of seven years and the demands approved by the PB in this current biennium. The study also analyses the decision produced by the participative institutions, and the relation between the role of these institutions and the action of political actors and the permeability of these institutions in terms of demands of the marginalised or the poorer sections of the population.

In the case of Guarulhos (SP), the study found that: A progressive institutionalization of the participative institutions, and an important role-played by these institutions in the political parties' strategies. These structures together with the encouragement of popular organization and participation became part of the strategy of PT and PMDB political parties. Participative institutions regularly play the role of regulator in terms of accountability and policy decision-making without being affected by electoral cycle. Networks of party loyalists have been formed through neighbourhood associations and issue oriented community associations, consequently cutting Guarulhos' periphery. Participatory Budgeting and Local Councils act differently according to the amount of intermediates between them and the population. PB happened in more vulnerable groups, which are often mediated by neighbourhood associations and their leaders, while, Municipal Management Councils occurred in a comparative less vulnerable groups with issue-oriented claims.

In the case of Rio De Janeiro (RJ) and Salvador (BA) the participative governance structure does not fit partisan disputes or the existing mediation forms between parties and citizens. In fact, another study (Avritzer & Wampler: 2008) gives the explanation of the support or otherwise of the PB by the Workers Party. It went on to explain the reasons for growth in the adoption of PB during 2001-2004 due to the role of other institutions in popularising PB, such as NGOS, labour unions, and political parties in the North East of the country. The spread of PB across Brazil according to this study, was driven by three processes, namely, i) Workers' party ruled municipalities adopted PB along with party's electoral expansion, ii) City became incubators for dissemination of PB knowledge hub, from where dissemination took place; and, iii) informal knowledge networks comprised of NGOs, CSOs, Unions and social scientists who spread the knowledge about PB across Brazil (Ibid, p.19).

According to our study, unfavourable scenario for participatory development, due to the little involvement of neighbourhood associations with the Municipality occurred in Rio De Janeiro (RJ), while in the case of Salvador (BA), associations are mostly linked with ethnic issues and less with policy issues. Participation has developed as opposed to oligarchical structure, but it has no ability to sustain in a wider institutional context. These emanate from our analysis, which gives three pointers: institutional design, strength of local civil society and political well of the executive. The institutional design is such that councils have a marginal space in decision-making process and they do not deliberate. As stated earlier, studies have pointed out that the PB spread due to the strength of Civil Society organisations, but in the case of Rio De Janeiro and Salvador CSOs are insufficient. Introduction of mediation structures that mobilise the social capital are required. Earlier studies (Avritzer & Wapler: 2008) have shown that the initial spread of PB occurred in those areas where the Human Development Index and the quality of life were high. This also supports our findings. Similarly political will of executive emerged as an important element in the success of PB. In fact, empirical diagnostics have denounced participation as merely formal and devoid of substantive influence on policy. Our experience in Guarulhos exposes the partiality of this view, and therefore shows stable and participator institutions with potential influence on policy decisions. All actors have vested interest in participatory process.

A. Guarulhos (SP) Case Study

Being the second largest GDP contributor to Brazil, Guarulhos is in a strategic position in relation to the State Capital Sao Paulo, and has a strong industrial base. Table 1 gives the picture of political alignment of Guarulhos.

Guarulhos has a complex territorial dispute between the PT and PMDB for grassroots population support. PMDB created some municipal council, nearing its relationship with the community, especially in regions with a long tradition of performance of neighbourhood associations. The arrival of PT in the political arena saw the intense investment in participation in terms of increase in the number of Municipal Management Councills; maintenance and improvement of PB; incentive to the institutionalisation of participation; and the incentive for popular participation around participatory structures. The PT consolidated its position, where its position was not there before and where PMDB did not have any influence before, especially near the neighbourhood of Pimentas. PMDB could not influence the policy space as compared to PT due to political competition.

To know the connection between the decision-making process and citizen participation, we carried out interviews with actors in Pimentas district, mapping the entry of actors in the governance networks, and interviewed the key informants involved in the participatory budget process. It was observed that the responsiveness of the participatory bodies to the actors dependent on the latter having knowledge of these spaces as well as their various channels of access. The challenge of the political party PT's has been to create a territorial network through the city, in other words, to make inroads into Pimentas. Pimentas is an essential region to consolidate PT's electoral base in the city. Pimentas district has both regular commercial as well as informal activities, unregulated physical growth and has a decisive influence on the electoral politics of the city.

Participatory Budget in Guarulhos has the following stages:

Leaders, representatives and council members play a crucial role by mobilizing local residents to attend the plenary; simultaneously, public announcements are made about the plenary. Sometimes, councillors and party activists enter the grassroots communities and mobilize participation in PB assemblies or ask for political support. Once the announcement has been made about the Regional Plenary session, Regional Plenary Session is held. Regional Plenary Session is held once in two years and the Mayor, secretaries and PB officials attend all the PB meetings. All citizens are registered during the assembly, getting an indication of their district and general information of PB. To make the PB process more dynamic new technologies are introduced during the deliberations. Each resident has the right to make a demand for a public policy and the demands are voted in the regional plenary. This demand is further pitted against demands from other regional plenary and these are defended through elected delegates.

PB brought positive effects for the city: i) Innovations and investment turned this participatory governance into a kind of showcase, transforming Guarulhos into second coordinator of Brazilian Participatory Budget Network; ii) PB presents qualities such as transparency, accountability and effective investments; iii) PB highlights recurrent problems and present them more quickly and with better information to the government; iv) It allowed a part of population grater access to political positions. PB council members and delegates benefitted from advantages brought by this policy. Similarly, Associations related with the local government network also benefit. However, networks of civil societies who are not included and/or have little interest in participating fail to benefit from those advantages that the PB brought in.

Decision-making process was mapped by documenting the resolutions, communiqués, tenders, technical reports and other administrative acts produced by the Municipal Councils. Decisions were mapped by searching for

Table 1: Political changes in Guarulhos

MUNICIPALITY	FROM 1993 TO 1996	FROM 1997 TO 2000	FROM 2001 TO 2004	FROM 2005 TO 2008	FROM 2009 TO 2012
GUARULHOS (SP)	PMDB	PDT / PV	PT	PT	PT
	(CENTER)	(CENTRE)	(CENTRE-LEFT)	(CENTRE-LEFT)	(CENTRE-LEFT)

Source: Lavalle et al. (2012): 'Ruling Parties, Associations and Citizens in Participatory Democracy in Brazil: An emblematic Case and Two counter examples', Lima, Peru.

particular keywords in the digitalized versions of the municipality's Official Gazettes over a seven-year period (January 2006 to December 2011). 35 municipal Councils were created between 1985 and 2010. Table 2 shows the results of our analysis.

Table 2: Impact of PB in Guarulhos

Acts produced by councils	1,403
Acts relating to the councils	491
Amount of acts involving councils	1,853

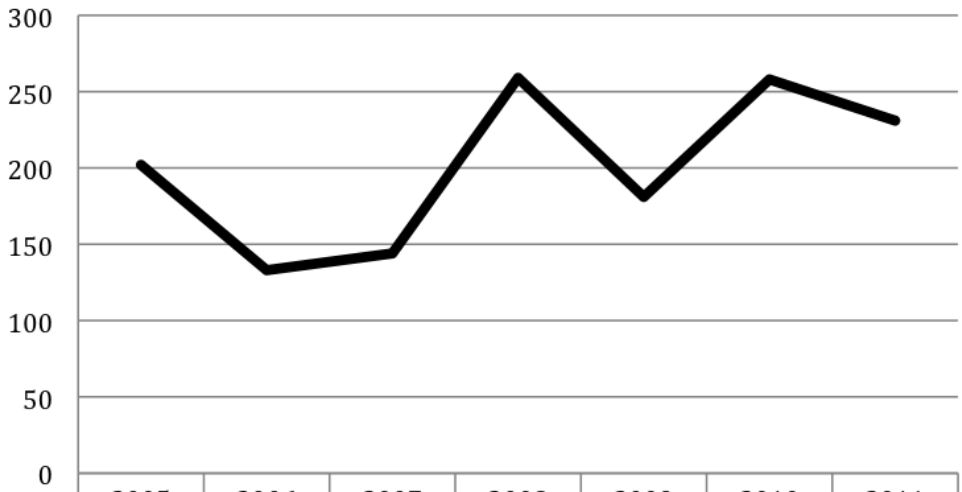
The number of Municipal Acts passed by through the PBs also showed an increase as seen in Table No. 3.

Councils in Guarulhos showed two dynamics, namely, progressive and stable institutionalization of PB, and, government priorities vis-à-vis specific constituencies and policies. This also brought in the variations in the decision made in different councils Guarulhos. It was measured in terms of number of Acts passed by the councils. High frequency, Average frequency and low frequency in the number of Acts passed with more than 500 Acts, 50 to 70 Acts, and councils not passing even Six Acts in a year, respectively. Councils linked to national level policy systems (ex: health and social welfare) and/or that have the power to manage funds, tend to be more active and more valued by the municipal administration implemented the project effectively than others. However, in Guarulhos case, there are many types of council, which are lagging behind in terms of implementation.

A deeper analysis of the production of each council was done to explain its activity by selecting 16 Municipal Councils as per their productivity. The typology is presented in Figure 4.

As shown in Figure 4, Policy management (24%) followed by Self-regulation (31%) seems to dominate the type of acts enacted by the Councils. Councils that performed a larger number of functions enacted more number of Acts. A specific type of act predominates when councils with a clear specialization in their functions are analyzed (CCSPBF and CCMPHAAPG). Self-regulation (type 5) does not decrease over time, councils engage in a continual process of redesigning their own institutionality, operational rules, choice of representatives, internal division of functions, etc. Acts relating to self-regulation are predominant during the first years of their existence. From the 10th year of operation, activities like policy management, on one hand, and the regulation, organization, control and accountability of conferences and other forums begin to increases.

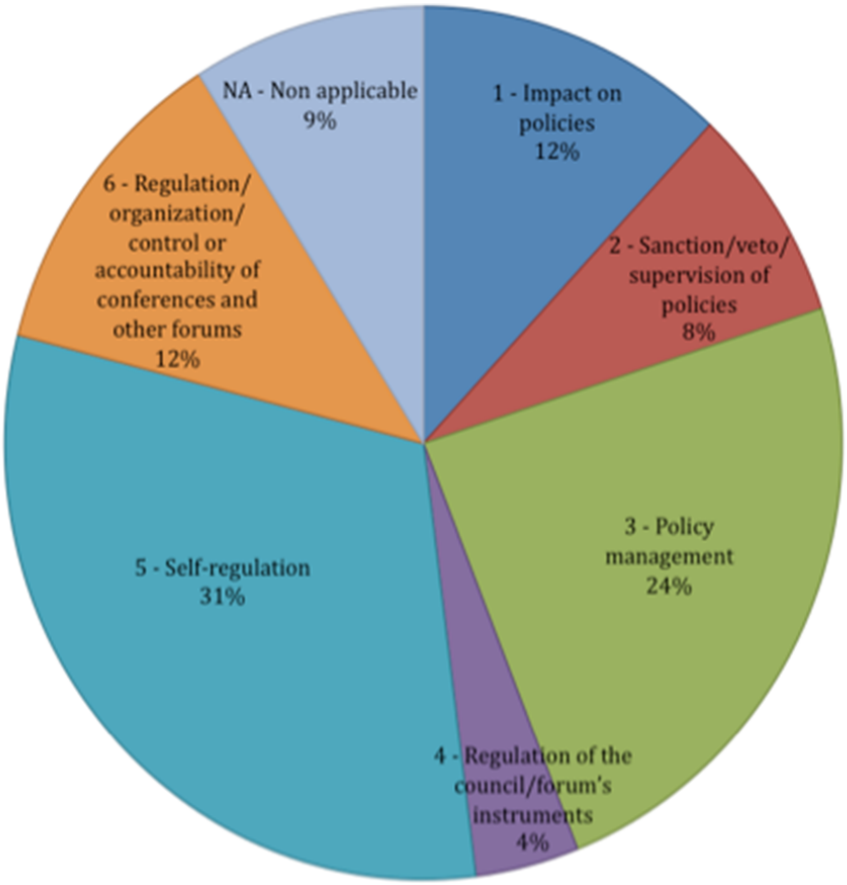
Table 3: Number of Acts issued by Municipal Councils



	2005	2006	2007	2008	2009	2010	2011
ACTS ISSUED	202	133	144	259	181	258	231

• Councils maintain a less direct relation with population;

Figure 5: Typology of Acts producing in Municipal Councils



B. Rio De Janeiro (RJ)

The second largest metropolis of Brazil, Rio de Janeiro remained a national capital from 1763 to 1960, before Sao Paulo became the capital. Rio De Janeiro's PB is the good example for Elite capture, as its participatory institutions excluded the poorest sectors of the population, though Rio had a tradition of having neighbourhood associations, which played an important role for social mobilisation through political institutions. The Elite capture was visible in the post democratic transition when the center-right and right wing parties, associated with business elites of Rio. This restricted the participation in Rio to selected few. Institutional hybridity along with polyarchical institutions, informality and clientelism and absence of rights co-exists in Rio, leaving little scope for participation.

As shown in Table 4, the Right Wing party often dominated the Municipality for several years giving way for elitist capture of the Municipality and influencing the PB process. Several authors (Santos:2000, Dutra:2010, Campagnac:2007, Silva: 2010) pointed out that the health and social welfare councils had strong social mobilisation compared to other sectors in Rio, but the agenda of these councils were not linked with the structural projects that were happening at the National level.

Table 4: Political Parties in Rio De Janeiro – Changing Scenario

MUNICIPALITY	FROM 1993 TO 1996	FROM 1997 TO 2000	FROM 2001 TO 2004	FROM 2005 TO 2008	FROM 2009 TO 2012
RIO DE JANEIRO (RJ)	PMDB / PFL	PFL	PTB / PFL	DEM	PMDB
	(CENTRE -RIGHT)	(RIGHT)	(RIGHT)	(RIGHT)	(CENTRE)

Source: Lavalle, et al (2012): 'Ruling Parties, Associations and Citizens in Participatory Democracy in Brazil: An emblematic Case and Two counter examples', Lima, Peru.

C. Salvador (BA)

Salvador historically had little influence on country's politics though it is the capital of Bahia state. The politics of Bahia was shaped by regional conservative oligarchies, reproducing a hierarchical and authoritarian culture. Salvador has considerable degree of association, but low levels of participation in public policy. Social mobilisation is weak and often associate with ethnic organisations, which follow the ethnic lines to influence political representatives. Local government takes little efforts in influencing participation and taking it to higher levels.

Table 5 shows that the right wing has been dominating the Municipality ever since the introduction of PB in Salvador. In this case, these right wings are often influenced by ethnic groups, which control most of the neighbourhood associations. Political parties align with these ethnic associations for political survival leaving little scope for transparent PB process. More over the deeply rooted ethnic political dynamism restricted the participatory spaces, and the distance between the federal government and the state resulted in the administration failure too. Authoritarianism and intervention in public policy councils were often occurred. Though public meetings and hearings were held for public policy discussions as in the council, the formal administration unlike in other cities opened very little space for public participation.

To conclude, it can be deduced that Guarulhos presented an interesting case of good performance of PB, in terms of impact as well as institutionalisation process. PB also impacted in terms of social policy influence in Guarulhos as compared to Rio and Salvador where rent-seeking informal networks captured the PB and influenced the decision making process. In fact, the conclusions drawn from our fieldwork also converges with the findings of the earlier study by Avritzer, et al (2008), which concluded that political culture in a particular region, poverty and HDI levels affects the PB. They also brought out the institutional design of PB (especially the existence of regional meetings, existence of PB council, representation of civil society, and the focus on budgeting on infrastructure issues addressing local issues). Rolnik & Cymbalista (2004) after analysing the three forms of collaboration between the local government of Sao Paulo and the CSOs proved the importance of CSOs and organisations in sustaining the PB process. PB has taken many forms and one of the recent innovations in Brazil in relation to public expenditure and budgeting is that of transparency. The transparency portal of the Federal Government publishes a wide range of information, including the expenditure of various agencies. Bolstered by a recent law on information access, the portal is helping to create a new culture of accountability in Brazil and now being replicated in other South American countries (Cruz & Lazarow: 2012).

2.2. Peru

Decentralisation is a worldwide process, developing in all regions at the same time (UCLG Committee on Local Finance & Development: undated). The political economy of PB process in Peru is interesting even to this day, as there are support for centralisation in majority of the provinces except for a few like Arequipa till late 2005, when Toledo government's proposed consolidation of Peru into a few macro-regions with a substantial degree of autonomy was rejected by many. But under the Commission for Decentralisation and Regionalisation led by Luis Guerrero the Peruvian congress responded with a legislation to guide a devolved approach to decentralising power, that culminated on July 20,2002, when the Congress headed by Toledo signed the Decentralisation Framework Law (Wright: 2012). Additional laws were added in November 2002, the Organic Law for Regional Government, the Organic Law for District and Provincial Municipalities in May 2003, and the Participatory Budget Framework Law in August 2003, where direct involvement of local residents in setting priorities for the capital investments of local governments (ibid, p.2). There is still an unfinished agenda of legislation,

Table 5: Political Capture in Salvador: Case of Rightist Party

MUNICIPALITY	FROM 1993 TO 1996	FROM 1997 TO 2000	FROM 2001 TO 2004	FROM 2005 TO 2008	FROM 2009 TO 2012
SALVADOR (BA)	PSDB	PFL	PFL	PDT / PMDB	PMDB / PP
	(CENTRE -LEFT)	(RIGHT)	(RIGHT)	(CENTRE)	(CENTRE -RIGHT)

Source: Lavalle, et al (2012): 'Ruling Parties, Associations and Citizens in Participatory Democracy in Brazil: An emblematic Case and Two counter examples', Lima, Peru.

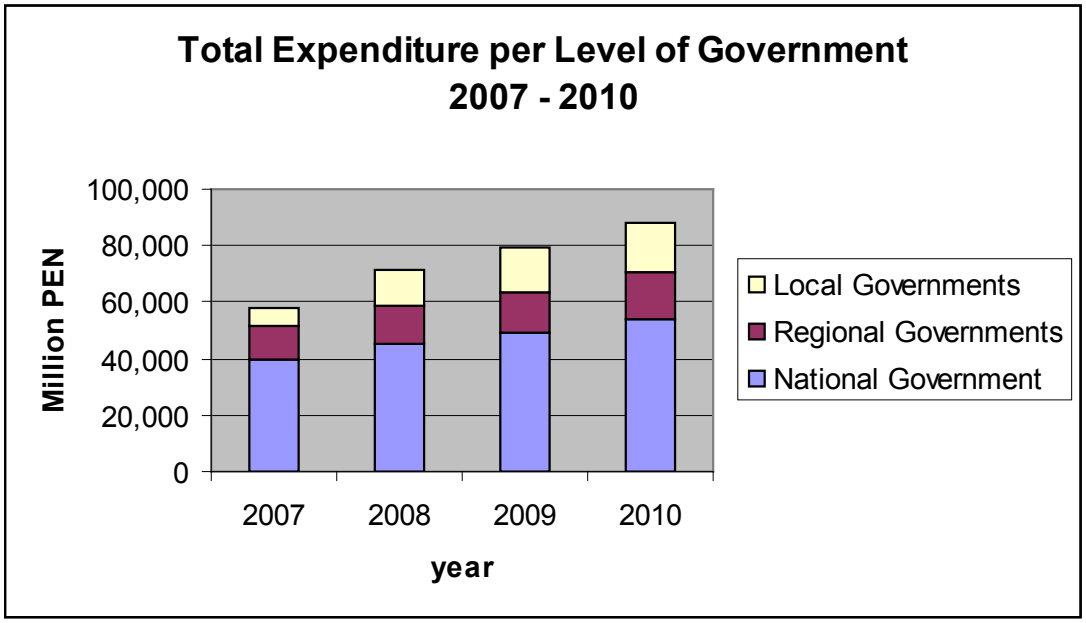
called Organic Law for Executive Power that remains bogged down in Congressional debate, which goes into the responsibilities including fiscal duties of various levels of governments (Ibid, p2.). According to the Law on the Participatory Budgeting Process, the Local and Regional Coordination Councils are the agencies that are to lead the PB process, and the representatives of the civil society and the elected representatives are responsible for implementing it (Kilimani & Salhuana (2010).

Decentralisation was not happening for a long time in Peru as it can be seen from the devolution figures. During some years of the Fujimori Administration approximately 95% of the total budget was spent by the national government while the Ministry of the Presidency administrated 20% of it. By year 2000 the municipal share of the national government was only 4% (Hordijk 2009), at a time when sub-national governments' average share for the rest of the Latin American region was 10% to 15% (AMPE 1999 as cited in Figueroa n/d) (Takano:2011).

It can be seen from the above Figure that the total expenditure levels of National Government is dominating all the other levels of government. Local Governments showed a marginal improvement from 2007 to 2010, even after the introduction of PB in Peru. Similar to Indian situation, the revenue share of the National governments in Peru has decreased while the local government's expenditure share has increased over the years, there by forcing the local governments to depend on the National Government indirectly (Ibid, p.14). We will see how this has impacted the PB in case study cities in the following sections.

Though studies pointed out improved performance of transparency at the regional level due to increased political will, development of legal norms, and the active engagement of public officials, the same aspects were not visible at the local level (Open Budget Initiative Sub-national Budget Transparency Studies: 2010). In fact, the report observes that 'in participatory budgeting meetings the attendance were generally low, with negligible representation from government officials, and accountability also suffers because of disorganised and mismanaged nature of these meetings' (Ibid, p2). Contrary to these findings, Hordijk (2009) states that PB has transformed the state at three dimensional levels, namely, the relation between the legislature and the executive, changes within the administration and changes with respect to transparency and accountability – the tools for good governance. Differentiating the PB in Peru with that of Brazil, Hordijk (ibid, p43) points out that there are four areas where transformations have occurred in Peru. These are i) citizens, 2) civil society, 3) the state, and, 4) civil society-state relations. In case of Peru, the PB is more like the Indian participatory system through elected representatives, unlike Brazilian Law where every citizen is allowed to participate. Peru's Law on PB, stipulates the participation of State representatives (60%), and CSO members (40% of which 30% should be from entrepreneurial organisations) (Ibid, p49). In fact, the

Figure 6: Expenditure per Level of Government



Source: Takano: 2011, p14.

number of PBs increased from 537 in 2004 to 661 in 2007. May be due to lack of autonomous deliberative space as stated earlier and top down approach in creating the PBs unlike in Brazil, the Peruvian PB design still in the developmental stage. In fact, Peruvian PB is closer to Indian experiment than with Brazilian experiment. However, the Peruvian experiment has enhanced the State-Civil Society interaction as compared to Indian experience. Peruvian nationalised push for PB also suffers from many macro level issues such as aligning with the time-table for the annual budget, lack of clear responsibilities or own source revenues, no incentives for prioritise, lack of ability to monitor spending and outcomes due to constraints in reporting, and there are no sanctions for not delivering results (Ahmad Ehtisham & Excribano-Garcia: 2006). Large inequalities among regions and individuals within the country, incapacities at the subnational level to handle greater responsibilities, and heterogeneity of the country itself, limits the levels of decentralisation and participation in Peru (Bustad Eric & Glimeus Linn: 2011). We see how the city responded to the PB processes in Peru through case studies.

2.2.1. Case Study Cities from Peru

Three case studies were carried out from Peru, namely, Lima, Callao and Arequipa. These are based on Takano's detailed study of these three city regions. The tax collection from Lima and Callao shows 52% to total exchequer while Arequipa shows 7.70% of tax collection to the exchequer. This is due to the mining loyalty that the regional governments receive. At the city level, Lima's budget shows an increase in Capital expenditure between 2007 and 2010 and also increases in debt servicing as compared to current or revenue expenditure. This shows the importance given to capital expenditure at the local level.

Metropolitan Lima Municipality, which spent in investment project to the tune of 226 million PEN in 2007 and 742 million PEN in 2010. The share of direct income from total budget has experienced a considerable growth from 12% to 35% between 2007 and 2010. Those participations that had decreased are credit operations, donations and transferences from 64% to 55% (which can tell us about a smaller dependence of debt) and FONCOMUN from 24% to 8% of total budgets for investment projects. For the case of Arequipa and Callao regional governments, although budget increases have not been as high as in Lima (respectively 59% and 53% between 2005 and 2010), capital expenditure has also obtained a very positive increase of 382% and 500%. No debt services have been identified for these two sub-national governments. Differently from the national trend of regional governments, budget for the Callao region experimented a big slump in 2009, related to its high dependence on volatile customs tax income from the international airport and the Callao port, the most important of the country.

Regarding efficiency, the 3 cases follow the same trend as the national average: capital expenditure holds the lower efficiency rate. The institutional capacities from regional governments in order to effectively spend investment funds have been seriously argued from the executive power since recent budget increases are not followed higher efficiency. For the case of Lima (figure 30), there has been an interesting convergence of capital and current expenditure until 2010 with more than 90% of the budget spent, compared to 2007, when less than 45% of the capital expenses budget was used. It is interesting that for 2009 Callao experienced both an important budget reduction and a decrease on their efficiency rates (figure 31). It certainly go against one of the issues raised by this report, which states that the bigger the increase the lower the efficiency. In Arequipa, figure 32 states that for the 2005-2010 period, current expenditure had an average efficiency of 97.4% while capital expenditure had an efficiency of 72.7%. Nevertheless it has considerably decreased by 2010 (66%).

When putting the regionalization effort within its particular political context first with the Toledo Administration (2001-2006) and then with the current Garcia Administration (2006-2011); we will find that the issue of political will becomes crucial. According to Dickovick (2006) the Toledo Administration suffered a big failure during the first regional elections in 2002 (they won only 1 of 26 regions) and decided to backpedal on the regionalization process; using its political power by controlling the CND in order to fight greater devolution to the regions. The deactivation of the CND and the creation of a more ad-hoc Bureau, dependant on the First Minister's office, implied a recentralization of the process lead during the current Garcia Administration. Regional governments themselves immediately formed the National Assembly of Regional Governments as a Civil Association in 2009.

Remy (2010) explains a disassembling of the Participatory Budget mechanism given by the Alan Garcia by restricting the role of civil society to define priorities but not anymore to propose which projects to prioritize –currently under full control of the government's discretionality. At the same time, these priorities need to be aligned with those ones defined by the central government through the Budget by Results scheme. 'The

president will enjoy a last year (of administration) with two thousand decentralized government units that will have to orient their budgets to the results that the central government has prioritized, taking as his the achievements of others' (Remy 2010:15).

Together with the recentralization of power after 11 years of authoritarianism under Fujimori, the overall democratic institutionality of Peru was seriously undermined at the time of returning to democracy back in 2001. The reconstruction process implicitly started from the idea that the involvement of the population and 'civil society would compensate the performance limits of the discredited political actors; and the idea that '…for 'democratizing' the political system, whose limitations were associated to the performance of political parties, it was necessary to open spaces for citizen participation and mechanisms of participatory or direct democracy.' (Tanaka 2007:1). It was based on a more de facto governability scheme through direct participation non-mediated by political parties (Remy 2010).

But it seems to be that those attempts to rebuild democratic institutions had a very contradictory character. While at the national level political fragmentation was certainly fought; at the regional level it was permitted under the decentralization. Figure 42 shows the evolution of the percentage gotten by winning lists for regional governments for the 3 regional elections held in Peru. The average for the 2010 elections is as low as 25%; 6.5 percentage points less than in 2006, meaning that the representation levels of the current regional government bodies is extremely fragile. Similar to Brazil, in Peru too winning parties were able to bring in the change at all levels of governments.

The decentralization process considered several mechanisms for citizen participation such as:

- Regional coordination councils (CCR)
- Local coordination councils (CCL) in its district and provincial versions
- 'Concerted' development planning that is directly related to participatory budgeting since they define the guidelines for project prioritization and implementation.
- Participatory budgeting
- Accountability and oversight schemes

According to the World Bank (2010 as cited in Remy 2010) a major problem related to the PB process is the low execution rate of prioritized projects (see table 8). For 2007, 11 governments executed less than half of prioritized projects with an average 34% for all regional governments, while rest of the projects portfolio kept accumulating.[1]

A possible reason is that initial budgets might be considered as rather 'conservatively calculated' by regional governments and thus are expecting big increases on adjusted budgets during the fiscal year; following the same trend explained before. This produces an overload of prioritized projects that eventually surpass execution capacities.

According to a research by USAID (2009) the most important institutional barrier to the relationship between prioritized and executed projects is the lack of compulsoriness of the agreements made during the process. This is also considered as one of the most important reasons why people stop trusting on PB. However, in 2009 the executive branch observed a reform to the Organic Law of Municipalities that intended to give binding character to the Participatory Budget agreements. The total number of participant agents in Regional PB increased from 1507 to 3217 in 2010 and declined to 2897 in 2011. At the municipal provincial level in 2005, the neighbourhood associations showed a participation of 24% followed by social organisations 11%, CSOs 6%, and indigenous communities 5%.

For politicians participation is seen more as a problem to solve than an opportunity for enhancing public management (UNDP 2006). Also, some interviewees from an USAID perception survey from 2009 from local governments stated that the mayors think that 'participation do not ensure votes, works do' (USAID 2009:54).

Remy (2010) defines the implementation of participation mechanisms as a model of 'Russian Dolls' (all the same but in different sizes) through which mechanisms for bigger territorial spheres have been implemented on smaller ones and vice versa. For example, when CCR were adapted and became CCL failed in local scales due to its small size and limited representation powers. A more organic way would have been the implementation of participation and oversight systems based on existing and well-developed grass-root organizational schemes. Also, participatory budgeting itself can be considered as an exercise from local municipalities that has been transplanted to regional spheres.

1 Aligned to that average, for example in Cajamarca between 2003 and 2005, only 30% of approximately 700 prioritized projects were executed (USAID 2009).On the other hand we can find extreme cases like Tacna where the ratio prioritized / executed projects was 40 to 1.

'Oversight committees' are bodies created within the PB process, between those participant agents who do not belong to the government apparatus. Their functions are mainly to follow up the agreements and denounce irregularities. Although most of the regions count with oversight committees they do not properly operate and their functions can be undermined by:

- no clear acknowledgement of their functions
- restricted access to public information
- high costs that need to be self-financed

According to Hordijk (2009) the provision of information from sub-national governments to the Participatory Budgeting information system (DNPP-MEF) has decreased. The author states that in September 2008 it was officially informed that more than 60% of them did not submit any information regarding that year's process.

Peruvian experience in PB has shown that it had a positive effect at various levels of government. However, it also pointed out that there are constraints at national level to bring in a regional consolidation, slow fiscal decentralisation process, lack of expenditure efficiency, and lack of political will to take it forward has affected the progress of PB. Thus, the decentralization process must also include those policies that promote the deconcentration of public and private investments; and the mobility and generation of local human capital. At this point, the biggest problem is not that the state in Peru is centralized but small, and the biggest challenge for decentralization is to make the state grow at the same pace it decentralizes. Strong legislation that gives autonomy to local bodies coupled with political will go a long way in achieving the goals of PB in Peru.

2.3. South Africa

Prior to Independence, in South African urban areas, municipalities were established according to the British model, with an elected city council (the franchise was restricted to the white residents) and they were responsible for services delivery in the functional domain of water and electricity, health inspection, traffic control, low cost housing, sewerage disposal, solid waste management and urban planning (Federico: 2012). User fees and property taxes covered the cost of these services. In the post-independence South Africa, the main debate was to have a choice between unitary or a federal state. The South African intergovernmental fiscal system is designed to address the issues of redistributing national revenue with a view to equity and poverty alleviation, through the assignment functions allocated to each sphere of government (Yemek: 2005). The final Constitution adopted in 1996, establishes three separate, but interdependent and interrelated levels of government: a national government, nine provincial governments and 284 local governments in the general frame of a cooperative government (p.10). Similar to Indian Constitution, in South Africa too, the provinces enjoyed legislative powers but experiences showed that the Federal government left no space at all to the provinces to execute law-making functions. Schedule 4 Part A of the Constitution deals with Urban and Rural Development and Schedule 5 deals with Regional Planning and Development in relation to provincial governments. The experiences of decentralisation during the first decade and half in South Africa shows that the form of decentralisation is more a symmetric one, where every province enjoys equal powers and functions.

At the local level, the National Local Government Negotiating Forum (NLGNF) in 1993 came out with a framework for guiding the local government transition in the form of Local Government Transitional Act in late 1993 and was incorporated as the Chapter X of the Constitution. The Municipal Structures Act of 1998 and the Municipal Systems Act of 2000 came into operation after the local government elections of 2000. While the Municipal Systems Act dwells on the type of Municipal structure that is Metropolitan council, District council, etc, The Act also elaborates on the five types of systems, namely: the collective executive system, mayoral executive system, the plenary executive system, the sub-council participatory system, and ward participatory system. The main role of ward committees is to foster public participation in local government. The ward committee consists of the councillors elected in the ward and no more than 10 other elected persons. The Municipal Systems Act provides for the duties of the municipal institutions (Chapter 8 of the Act) in relation to local communities and encourages community participation. It also allows delivery ways for service delivery such as delivery through public companies, and/or joint ventures. The Municipalities were also required to adopt their own integrated development plan considering the needs of the local population, resources and set out their own strategies.

Intergovernmental Fiscal Relations Act (1997) prescribes the process for determining the equitable sharing and allocation of revenue raised nationally to all the three levels of government. During the period between 2005 and 2010, the local government's share in the national revenue almost doubled (from 4.6% in 2005 to 8.3% in 2010) (Ibid, p.27). The share between the Federal and Provincial governments were allocated on the

basis of education share, health share, basic share (based on population), institutional component (5%), poverty component (3%) and economic output component (1%). The fiscal decentralisation perceived as an important aspect of good governance also leads to public participation and participatory decision-making. Though the 1996 Constitution provides for and promotes participatory decision-making, transparency, accountability, and openness, these are restricted to National Legislation where in 'Green Paper' (discussion document on a policy issue) and 'White Paper' (specific document approved by the Cabinet) are used to facilitate public debate on important national issues. However, the Constitution does not explicitly states the public participation at the local level government proceedings, except encouraging involvement of local communities in the matters of local government (Section 152) (ibid, p.31). The white paper on Local Government in 1998 highlights four types of citizen participation, namely, participation as voters, direct or indirect participation through CSOs, as consumers and end users of services, and as an organised partner. Chapter 4 of the Municipal Systems Act dwells upon the aspects of community participation in detail, including participatory budgeting and also in the strategic decision of public service provision (Ibid, p.32). The Public Finance Management Act of 1999 recognises the importance of good governance for achieving social development in South Africa. '*The governance gap in targeting poverty reduction within the South African fiscal decentralisation system is caused by related factors. Firstly, the equity outcomes for poor and socially marginalised people have not yet been realised. Secondly, there is no explicit universal quality standard of service provision, which complicates the measurement of the real impact on targeted populations. Thirdly, efficiency is still problematic because financial responsibility for service provision has been delegated from national to sub-national governments, but the resources have not been adequate to ensure efficiency, coverage and quality' (Yemek: 2005, p.20). 'The democratisation of the South African political environment has created opportunities for increased civic participation in priority setting and decision-making by elected local governments. However, fiscal decentralisation poses a particular challenge for citizen participation in local governance in view of its technical complexity and critical significance for the delivery of public services. Participation is often restricted to select groups and individuals, and tends to exclude the vast majority of citizens who pay local taxes and consume local services provided by local governments (Yemek: 2005, p.21).* We now analyse how these national level policies of decentralisation and regulations gets impacted at the city level by analysing eThekwini (Durban) city.

2.3.1. City Case Study

A. eThekwini

eThekwini means in isiZulu "the city by the sea", the territory is a South African metropolitan municipality (one of the 11 districts) located in KwaZulu Natal, a province in the North East of the country; the municipality has 103 wards, with the city of Durban within its borders and is renowned for its effective government and participatory budgeting experiment on the African continent. The Municipality spans an area of approximately 2297km2 and is the largest City in this province and the third largest city in the country. It is a sophisticated cosmopolitan city of over 3468088 people (7% share of the total South African population, making the metropolitan area the second most populous municipality in the country). The greatest population concentrations occur in the central and north regions. The central region is the Urban Core of the municipality and is home to approximately 1.30 million people (34%). The northern region follows this, which is home to approximately 1.15 million people (31%). The south accommodates approximately 730 000 people (18%) and the outer west region accommodates the least number of people with a total population of approximately 577 500 people (16.5) (It is known as the home of Africa's best-managed, busiest port and is also a major centre of tourism because of the city's warm subtropical climate and extensive beaches. (Municipality, 2011)

The Constitution of South Africa has certain mandates over the functioning and role of local governments. It promises to, "ensure the provision of services to communities in a sustainable manner" through its municipalities (local governments). It is the duty of the local governments to "Structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community" (Constitution, 1996, p. 78). As is expressed in the Constitution's Section 154 and the Municipal Finance and Management Act (2003), central governments can also take over responsibilities of local governments when these (stated responsibilities) are not being fulfilled. (Constitution, Section 139). In South Africa there exists a classification in which the various municipalities have been graded, Category A (Metropolitan), which enjoy the greatest powers and high population size and density, they enjoy the strongest revenue base and some basic infrastructure networks. In the present case eThekwini is one of the 8 category C municipalities; Category B (District), enjoy large population size and density, with the exception of not having a large revenue base or

infrastructure and Category C, involve mostly rural areas which have small populations, lack the infrastructure as well as the revenue base. eThekwini is a Category a municipality and hence should be more fiscally autonomous compared to the other two types of municipalities. Just as the local authorities' functions consist mainly of user fee-based services such as electricity, water and sanitation besides provision of other public goods like municipal and household infrastructure, streetlights and garbage collection, in South Africa, eThekwini has the following priority sectors to render services for (Figure 7).

The South African federal system is characterized by a relatively high degree of fiscal decentralization in terms of expenditure responsibilities and administration. However, owing to acute historical imbalances across provinces and municipalities, constitutional and institutional arrangements allow for extremely limited revenue autonomy. Compared to other developing countries, sub-national governments in South Africa are highly dependent on intergovernmental transfers from the central government. Accordingly, own-source revenue does not play the expected positive role to stimulate efficiency in public service delivery. Richer provinces appear to mobilize own-source revenue mainly to finance services other than education and health. Despite the focus of sub-national government financing on equity and redistribution, huge disparities exist across provinces regarding per capita revenue as well as per capita expenditure on health and education (Elhiraika, 2007).

The framework in SA states that municipalities must finance their service delivery mandates with their own revenue raising capacity, therefore municipalities are legally mandated to be fiscally autonomous. The limitation is that municipalities are incapable of borrowing in foreign markets and have ceilings with regard to the amounts to be borrowed (LGBER 2011), therefore the own sources of Fund for eThekwini municipality become the factor on which its efficiency depends and fiscal autonomy is exercised. Besides, the external sources of funds are:

- Conditional or unconditional grants
- 'Equitable' share of nationally collected revenues
- (Discussed in the previous section)
- Established rules that take into account the immediate
- Needs of the municipality

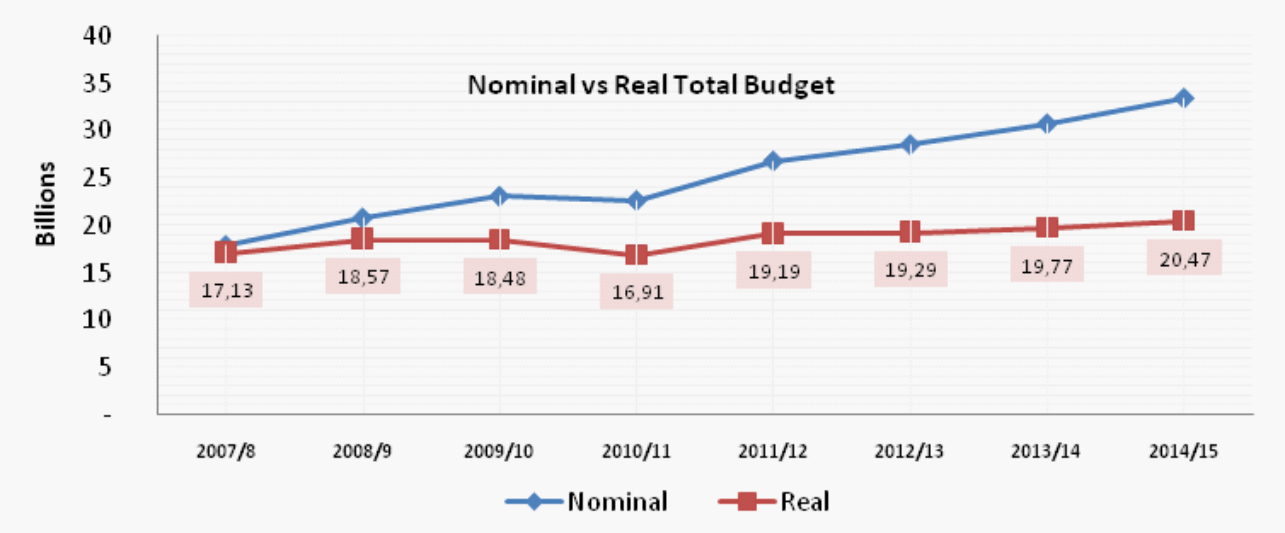
In 2010-2011 the total budget of eThekwini was 25.98 billion Rands. Its capital component and operating component were 5.4 and 20.5 respectively. The point of observation is that the total budget of eThekwini has not grown remarkably in real terms and has not been estimated to grow either.

Figure 7: Priority Sectors for Municipal Governments

Priority 1 functions	Priority 2 functions	Priority 3 functions
– Water (potable)	– Air pollution	– Municipal parks and recreation
– Electricity reticulation	– Beaches and amusement facilities	– Local sport facilities
– Sanitation	– Cleansing	– Public places
– Refuse removal	– Control of public nuisance	– Local tourism
– Cementries	– Fencing and fences	– Local amenities
– Fire fighting	– Sell food to the public	– Municipal airport
– Municipal health services	– Noise pollution	– Licensing of dogs
– Municipal planning	– Pontoons and ferries	– Child care facilities
– Municipal roads	– Pounds	– Sell liquor to the public
– Storm water	– Street lighting	– Markets
– Traffic and parking	– Street trading	– Burial of animals
– Building regulations	– Trading regulations	– Municipal abattoirs
– Municipal public transport		

Source: 2011 Local government budgets and expenditure review, Intergovernmental fiscal framework

Figure 8: Total budget growth 2007-2015(estimated)

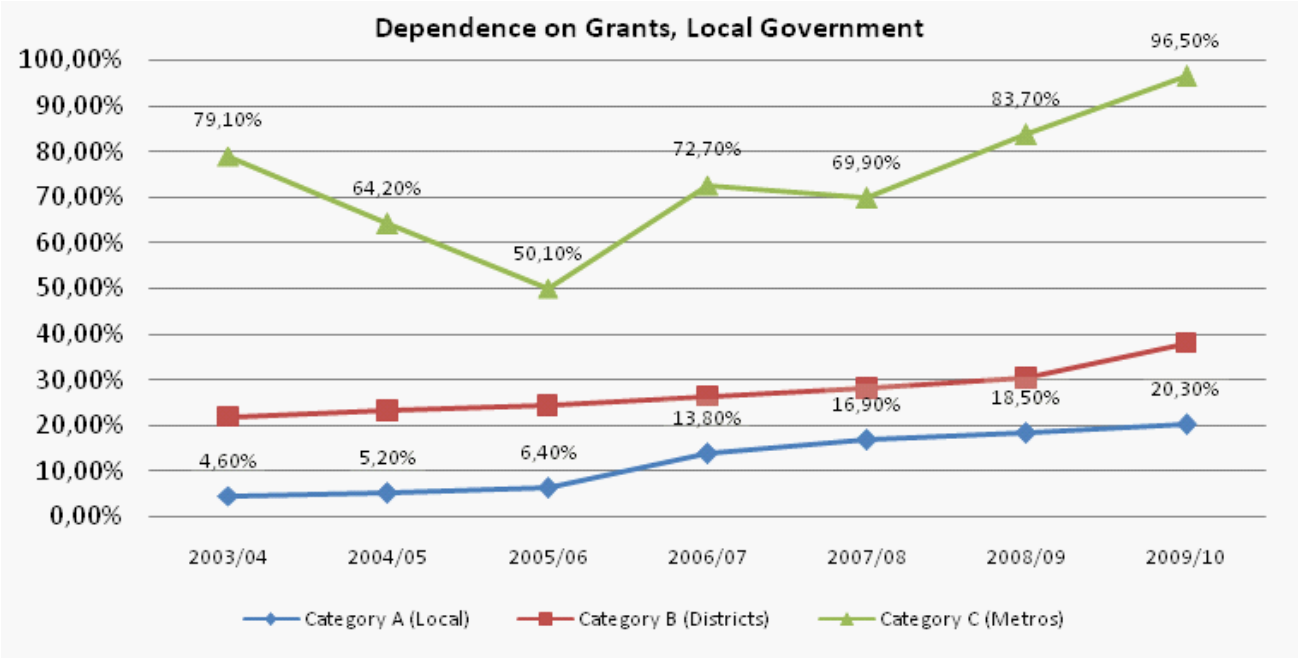


Source: eThekwini Draft budget 2012/13

It is well understood that if a government depends more on grant transfers it will be less autonomous. eThekwini is an A class municipalities and it is evident (Figure 9) that its dependence on grants has been considerably low in comparison to other levels of municipalities.

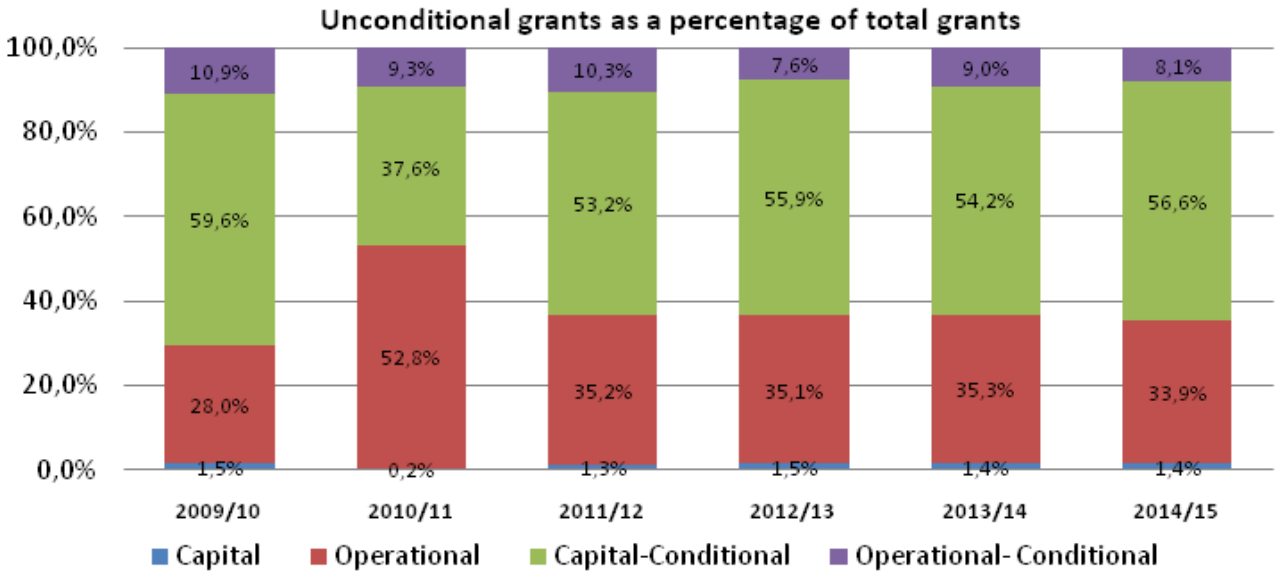
The grants given by national and provincial governments are conditional and non- conditional in nature. These are individually used for capital works and operational works. Analyzing these governmental transfers in eThekwini we observe that conditional grants constitute a greater part of the transfers. Also 36% grants are operational unconditional grants destined for expenditure towards everyday operations of the municipality most of these are to finance bulk purchases of free basic services, which in itself implies a limitation in the autonomy to spend, because they can't be spent on capital projects (Figure 10).

Figure 9: municipal Government dependence on grants



Source: Intergovernmental Fiscal Review 2009/10

Figure 10: Grants to municipal level government.



Source: Draft Budget 2012/13

Analyzing the expenditure patterns for eThekwini municipality, we observe that operational expenditures have remained a priority with a growing trend over the years, whereas, capital; expenditures have not been a priority. Thus indicates the national policy of reducing the service backlogs.

Since the larger part of the expenses is operational in nature, we conclude that the municipality has a large amount of control over how to spend the funds; as of the present fiscal year we have the municipality enjoying almost 91% of autonomy over its finances. Expanding service provision and correcting the backlogs created by the apartheid government has been the primary priority of the municipality, there forth it implies a more budget with strategies geared at diminishing basic service deprivation and social exclusion. Operational expenses can also be attributed to the unfunded mandates of the municipality. They are mandates that are the attributions of other spheres, which the municipality delivers and finances with its own income, this is because it has the extra capacity to operate and deliver on them more effectively than other spheres. As of now the municipality funds the 2.8 % (Figure 8) of total budget as unfunded mandates.

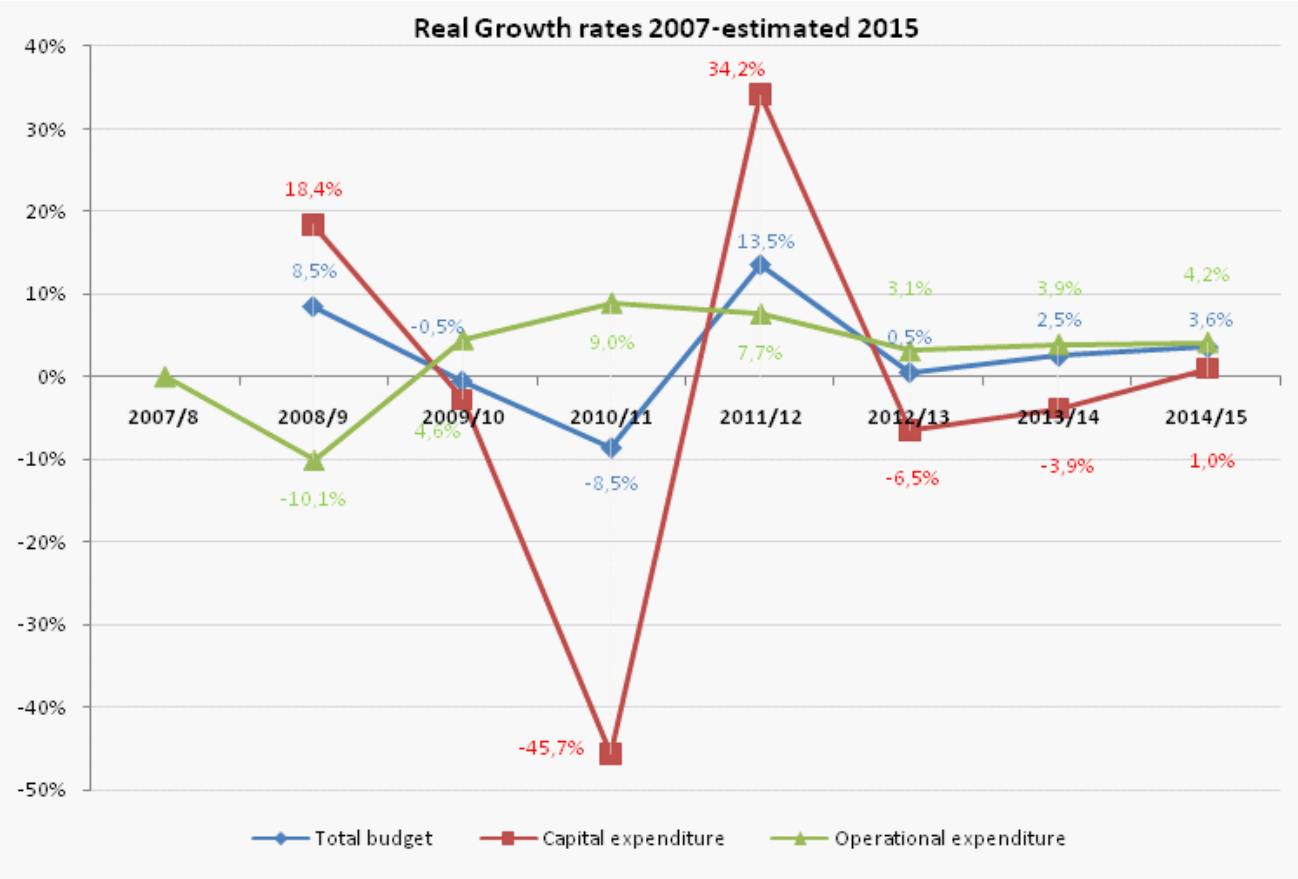
These unfunded mandates are cited as a positive example of municipal capacity, and the municipality has been awarded as well. It is even an expansion of its attributions and the municipality has taken on the mandates of other spheres outside its functional realm. Housing and health is one of the examples that prove its relative high capacities with regard to fulfilling the needs of the population. eThekwini has a high degree of responsibilities in providing goods and services and interacts with the population and provides development. It has been mandated to deliver: water, sanitation (water and waste removal), and electricity. In context with SA, an important reference is that even though these attributions have been devolved towards local government, the decentralization of other attributions like housing seems to be more similar to what has been referred as delegation than devolution.

A severe limitation to municipal effectiveness is corruption especially in the tender process (confirmed by all three); low municipal skills are also attributed as a serious problem, which results in the extensive use of consultants and outsourcing. Moreover, municipality is highly influenced by the provincial party caucus.

Table 6: Un-funded mandates - eThekwini municipality

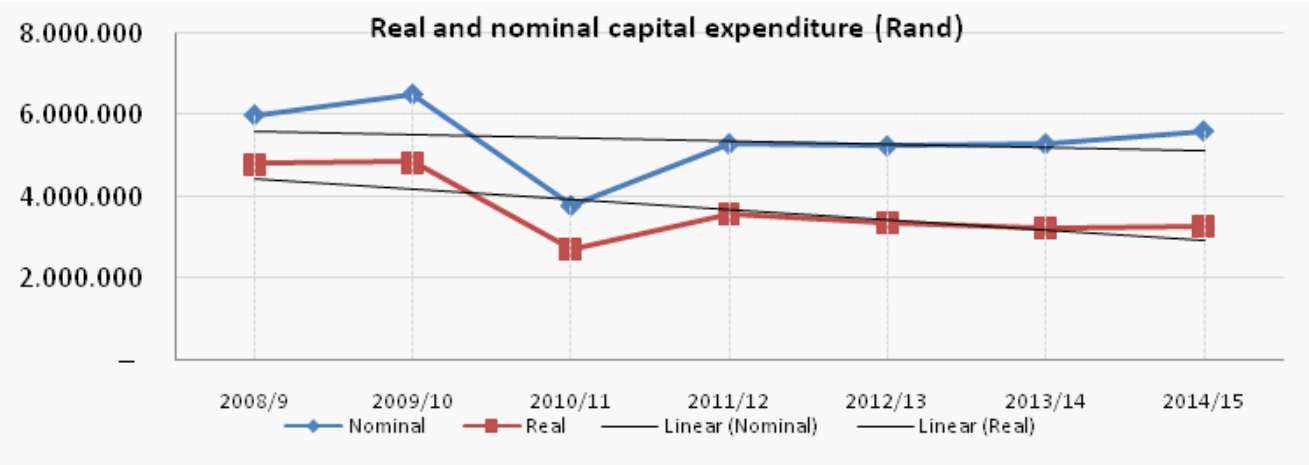
ETHEKWINI MUNICIPALITY ESTIMATES for the 2010/2011 financial year (Million Rand)	
Libraries	191.2
Health	261.7
Museums and Heritage	26.9
Housing: New development and hostel	224.0
Formal Housing	25.0
Total amount	728.8

Figure 11: Real growth rate of expenditure patterns



Source: eThekwini Draft budget 2012/13

Figure 12: Real Capital expenditure eThekwini municipality 2008-2015 (estimated)



Source: eThekwini Draft budget 2012/13

Participatory budgeting in eThekwini

The constitution of SA mentions in it, "To encourage the involvement of communities and community organisations in the matters of local government" (Constitution 1996, p. 78). Moreover, "Local government are committed to working with citizens and groups within community to find sustainable ways to meet their social, economic and material needs and improve their quality of lives". Therefore, in SA there is broad participation system in place; but it differs from the common participatory budgeting models in that it doesn't provide citizens with direct control over funds. As the important aspect towards having an institutional arrangement that provides more positive democratizing outcomes is that of having participatory institutions, South Africa has created one of the most progressive political systems in the world. The political system has been designed in a way that local municipalities are to be the engines of growth and development; they also bear the largest part of the responsibility of providing the institutions for community participation. The Municipal systems act No. 32 of 2000 gives the way in which information on participation should be communicated. Municipal Finance Management Act (2003): mandates participation in the municipal budget. Implementation of the mandated participation is contained in the Guidelines for the establishment and operation of municipal ward committees of 2005. Hence, there exist three ways in which participation is established in the system. The Community Participation Policy 2006 ensures that the government tells or informs citizens about decisions. This consultation model "is a two-way model of participation where government consults citizens. The second way is through large public meetings/discussions and contributions from government researchers or facilitators and responding citizens. Citizen's opinions are incorporated selectively in decision-making. The final perspective of participation is that of active participation, in this model "the involvement of stakeholders and all parties affected. All stakeholders participate in processes of planning and decision-making. Citizens through ward committees have full understanding of issues as they are relevant to their situation". (eThekwini Municipality, Community Participation Policy 2006, p. 9). The Municipal Structures Act (No. 117 of 1998) states that ward committees define the official form of participation. eThekwini municipality keeps its own participation policy too. The Local Government Laws Amendment Act (2008) mandates eThekwini municipality to financially sustain ward committees, LG must reimburse committee out of pocket expenses; funds which should be part of the municipal budget. Participation is an important part in the drafting of the Integrated Development Plan, the performance management system, the budget and the Long Term 2020 Municipality Vision along with strategic decisions relating to services. These are documents that influence and shape the decision making of elected officials and have a direct effect in the budget. It also allows for funds to be directly attributed to wards in order for them to participate directly in the development of their wards. But, Wards are not communities, but groups of communities, which in the end have different interests, because it mixes the different committees with different development needs and sometimes cultural settings; and more than 10000 people per community. Moreover, the ward committees have been taken over by the ruling party (the ANC), which sets the agenda. Most importantly, ward committees are advisory bodies in nature and have no executionary powers. Therefore participation has been brought in place but its effective implementation is yet to take off.

In all, eThekwini municipality exercises devolved authority on service provision and has enough revenue raising capacity to provide for these mandates. With regard to participation we have found that the municipality's strategies prove that participation is sterile, it is more close to consultation. Processes adopted in eThekwini not conducive to citizen participation and there are technical walls (what can and cannot be discussed), lack of capacity building, no transparency in review of input, highly centralised "block" allocations devoid of space content (apart from large scale projects) and no intra municipal decentralisation affect the participatory process. Participatory governance structure is not institutionalised and integrated in to the system even after Constitutional guarantees. 'The challenge of implementing participatory budgeting in South Africa is huge. Within the framework of co-operative governance, the government has already passed several legislations that demand community participation including the Municipal systems Act (Act 32 of 2000) Section 16 (1) and the Municipal Finance Bill 2000. There is need to build on this. South Africa has had a long history of collective, progressive struggle for socioeconomic equality and justice especially under apartheid (Langa and Jerome: 2004). Institutionalising participatory budgeting will enhance this continued trend of collectiveness to fight against socio-economic inequality and poverty.

2.4. India

The Constitution of India clearly specifies through Article 275, the expenditure responsibilities as well as the resources, which are in the domain of the Union as well as the State Governments. This has been done through three lists, the Union list, the State list and the Concurrent list

and except for the concurrent list there is no overlap. The States have been entrusted a crucial role in the growth process and most of the developmental functions have been assigned to them. They have the responsibility of developing social and economic infrastructure as well as maintaining the law and order. In terms of the powers to raise resources, Union Government has a predominant position. Taxes on income both for individuals and corporate entities; excise duties and tax on import and export of goods; service taxes, etc; are with in the domain of the Union. Taxes on consumption are assigned to the States. Taxes on services, though meant for final consumption are levied by the Union by virtue of the residuary entry (Entry 97) in the Union List. The taxes assigned to the Union are comparatively more elastic and buoyant and yield higher revenues creating a vertical resource imbalance between the Union and the States. Recognizing the asymmetry in the assignment of receipts and expenditure responsibilities, the Constitution envisaged a transfer of resources from the Union to the States. This structured revenue sharing arrangement not only attempts at vertical and horizontal equity; it also provides states with additional resources to meet their expenditure obligations. The heterogeneity and disparities that must be accommodated within the federal fiscal arrangements is considerable.

Successive Finance Commissions have adopted two basic principles, equity and efficiency, for determining the inter se shares of the states. The principle of horizontal equity has been guided by the consideration that, as a result of revenue sharing, the resource deficiencies across the states arising out of exogenous and identifiable factors are evened out. However, to neutralize adverse disincentive and moral hazard associated with such an approach, it has been partially complemented by efficiency. The normative assessment of revenue and expenditure attempted by Finance Commissions also provide some inbuilt mechanism of fiscal discipline. 12th Finance Commission deviated from the earlier ones in the sense it brought in more equity to the allocation process from the Center.

10th to 12th Central Finance Commissions recommended ad-hoc grants to ULBs and had not considered the idea of sharing central's own resources with the ULBs. However, a major decentralisation effort was made in 13th CFC recommendation, according to which, the centre's divisible pool of taxes will be given as grant-in-aid to local bodies during the fiscal 2009-2014. 13th CFC also imposed conditionality for this grant, namely all the ULBs should be fully empowered to levy property tax, constitution of ULB ombudsman, bench marking of essential services: water supply, sewerage, solid waste management and storm water drainage as per the Center's guidelines.

Another channel through which the State Governments get the funding is through the Planning Commission. This is an important source of funding for Centrally Sponsored Schemes. It has two components namely 70% loan and 30% grants for general category states and 10% loan and 90% grants for special category states. Planning Commission functions under the Prime Minister of the country, and all the Chief Ministers are members of its decision making body called National Development Council. The formula that is worked by the Central Finance Commission is not binding on the Planning Commission.

The differences between Central Finance Commission and Planning Commission are brought out in the following Table.

After the 73rd and 74h Constitutional Amendment Act in 1992, every State has to set up a State Finance Commission (SFC) for funding the local government (Urban as well as rural local bodies), on the basis of a formula worked out every five years. All the state governments have set up such a commission, and now 4th SFCs are being carrying out their work of arriving at the formula for fiscal decentralisation.

Table 7: Central Finance Commission Vs. Planning Commission

	Decision marketing Authority	Share in State Revenues & Borrowing
Constitutional Transfers: Tax sharing & grants	Finance Commission	24% (of revenues)
Discretionary Transfers: Grants & loans determined by political agents in ratio of 30:70	Planning Commission	6% of revenues 51% of borrowings

Source: Khemani, Stuti (2003): 'Does Delegation of Fiscal Policy to an Independent Agency Make a Difference? – Evidence from Inter-Governmental Transfers in India', The World Bank.

The primary task of the SFCs is to bring in a rule based equitable transfer system at the state and sub-state level. Second significant change is the creation of 'Ward Sabha' for ventilating the choices and preferences of the citizens, - a crucial democratic institution.

As per the suggestions of the 12th Central Finance Commission, most of the States have enacted the Fiscal Responsibility Legislation that covers reducing Gross Fiscal Deficit, Revenue Deficit, Limiting Guarantees, Total liabilities, Medium Term Fiscal Plan (MTFP), Compliance, and Fiscal Transparency. All the state governments have to go through the Comptroller and Auditor General's (CAG) monitoring and evaluation of all the funds. This is an autonomous organisation that audits the accounts of Central, State and Local level governments on yearly basis.

The share of local government expenditure in GDP declined from 1.7% in 2003-2004 to 1.5% in 2007-2008, similar to Peru. The share of local government budget to total central and state government is around 4% compared to more than 10% in other developing countries. The 10th Five Year Plan introduced two major instruments for financing cities, namely, City Challenge Fund and the Pooled Finance Development Fund. While the City Challenge Fund brings an element of competition to cities to mobilise their own revenue for financing infrastructure, the second one Pooled Finance Development Fund gives a seed money for a group of local government to carry out joint infrastructure projects.

2.4.1. City Case Study

We carried out our analysis of fiscal decentralisation, participatory budgeting and its impact on infrastructure provision in three cities of India: Chennai, Delhi and Kalyan-Dombivili. These are presented in the following section. The methodology adopted includes secondary data collection: mapping the institutions associated with various development of the city, fund flows, followed by primary surveys of officials, elected representatives, and ward council and standing committee members. These three cities are located in three different parts of the country with different institutional environment.

A. Case Study India: Chennai

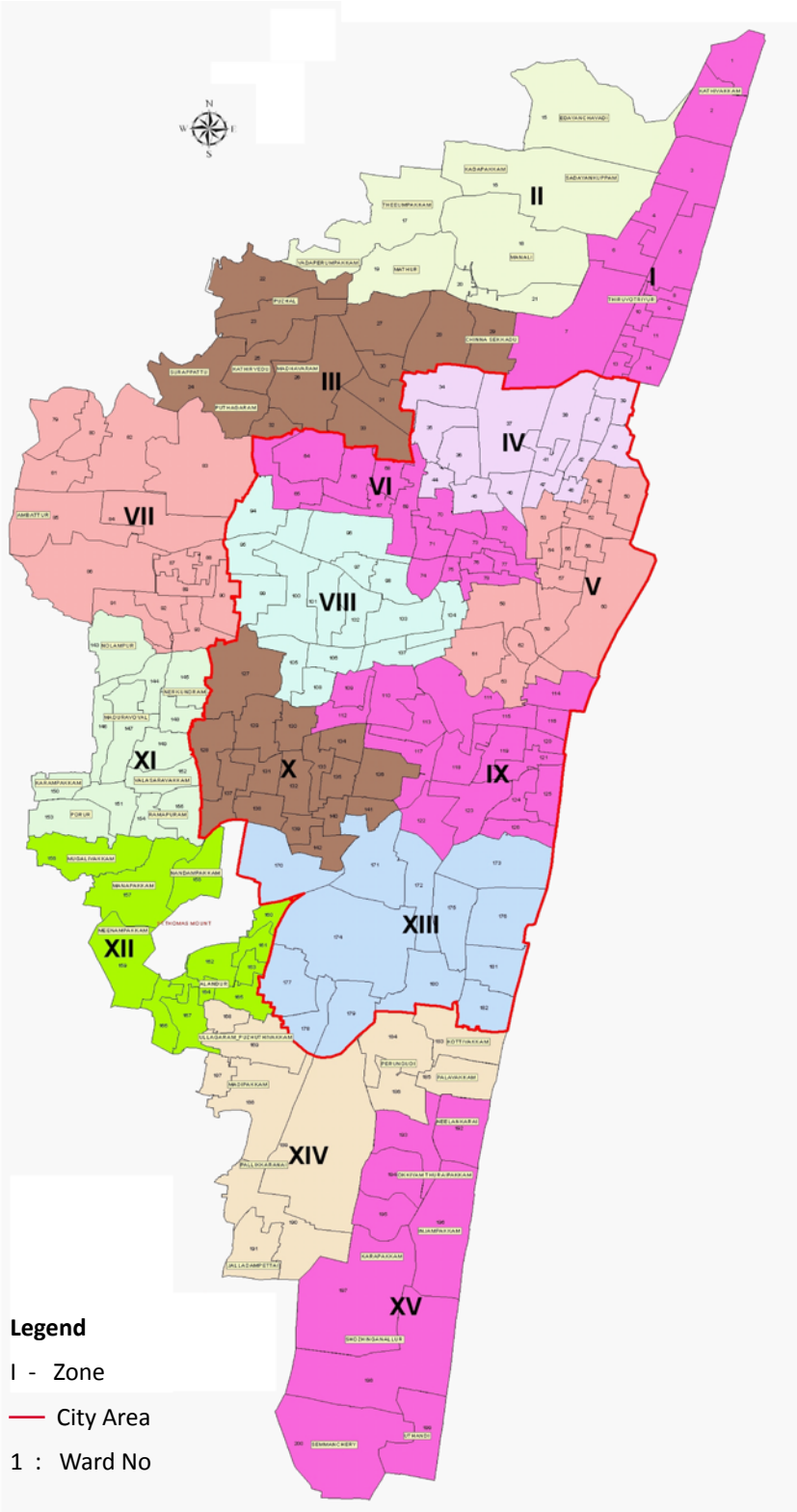
Chennai is the foremost corporation in the country set up in 1919 by the British under the Chennai City Municipal Corporation Act, 1919. Chennai Municipal Corporation (CMC), functions directly under the municipal administration and water supply department of the state Government of Tamil Nadu. Unlike in other states in India (except in the case of Delhi – a city state), in Tamil Nadu each municipal corporation has its own Governing Act. The decision to expand the area of CMC was enacted in the state assembly in 2011. This was based on a three-member committee set up under the chairpersonship of the Chennai Metropolitan Development Authority (CMDA) vice-chairperson in 2007. The area increased from 174 sq. Km. to 424.45 sq. Km. The decision to merge adjoining the villages and municipalities was taken in a participatory way as per the government notification of December 2012.

It explains that expansion was needed to provide water & sewerage system, solid waste management apart from other aspects such as roads, streetlights, etc. The resolutions by various municipalities submitted to the state government inform that a participatory approach was followed to arrive at the merger decision in which the general public, elected representatives from various levels, administrative staff and commissioners participated.

There have been efforts towards improving the Fiscal decentralisation patterns in the CMC. The sources of funds for CMC are State Government releases to the Corporation based on SFC's recommendations. Loans and Grants are released for various schemes (Govt. of India grants) on the basis of i) CFC's recommendation, and, ii) for implementation of specific schemes including poverty alleviation programmes. In addition, CMC receives Collector's development fund (2nd finance commission) from 2007, and MLAs constituency development fund. Of the total money received by CMC, 10% of the money allocated for CMDA should go to CMWSSB.

The Third State Finance Commission of Tamil Nadu State recommended: A) Rural – urban sharing of revenue (vertical sharing) is in the ratio of 58:42.B) Horizontal sharing: 30% for municipal corporations, 41% for municipalities, and 29% for town panchayats. C) 5% incentive fund out of the total devolution under pool b (own source funding of the TN Govt.). D) Loan deduction from urban local bodies should not exceed 25% of gross devolution. E) SFC recommended that the state should take up the matter of amending Article 285 of the constitution for empowering the local bodies to levy service charges for the central government buildings in view of the Supreme Court judgement. In addition, as in the case of Bangalore Municipal Corporation, tax mapping by using Goegraphical Information System may be attempted in Chennai to assess un-assessed and under assessed properties for improved exploitation of available property tax resources.

Figure 13: Expansion of Chennai zone wise



Source: Chennai Municipal Corporation 2012

Knowledge Construction around the Budget

The Third Finance Commission suggested Computerisation and e-governance (Panruti Model) for tax administration with the help of TNDUP III assisted programme. It was suggested that the earlier abolished Taxation appeal tribunal be reincorporated in the Tamil Nadu Urban Local Bodies Act, 1998 with the provision of full remittance of tax dues pending disposal of the appeal by individuals. It also proposed, Re-introduction of vacant land tax. The Chennai metropolitan water supply and sewerage board was allowed to increase its charges by 30% from 2007 onwards with an increase of 5 to 10% annually. In fact, the CMWSSB has been given blanket powers to fix the water rates in such a way that it could meet not only its revenue expenditure but also create surplus for investing in capital requirements. Hence there have been efforts towards bridging the revenue deficits with increasing tax collection efficiencies (with Information technology playing a vital role).

Fiscal Responsibility, Audit mechanism and Community Participation

Though there is a Fiscal Responsibility Management Act at the national level, in Tamil Nadu there is no such Act to regulate the public expenditure programme. The 3rd SFC suggested Fiscal Responsibility and Budget Management (FRBM) legislation for urban local bodies to take the structural reforms down to the third tier of the government. It suggested analysis of credit worthiness of the local body by reputed credit rating agencies and also suggested fixing a ceiling for borrowing by urban local bodies. Suggestion of concurrent auditing through e-mode to reduce the burden on local fund audit Directorate was made by SFC. Following the neighbouring state of Andhra Pradesh, the Tamil Nadu SFC suggested Community Participation Law

with area sambas represented by RWAs, NGOs, SHGs, and meet twice a year to review the budget and scheme implementation. It went on to suggest project planning to be done by area Sabhas. The financial power delegation being followed in CMC is as follows:

Table 8: Financial power delegation

Financial limit	Sanctioning authority
Up to rs. One lakh	Ward committees (15 in no.)
Rs. 1 – rs.35 lakhs	Commissioner
Rs. 35 – rs.40 lakhs	Standing committees (sc) except sc (taxation and finance)
Rs. 40 – rs. 45 lakhs	Standing committee (t & f)
Rs. 45 – 50 lakhs	Council
Above rs. 50 lakhs	Government
Powers for issue of technical sanctions	
Up to rs. Two lakhs	Assistant executive engineer
Rs. Two lakhs to rs. Five lakhs	Executive engineer
Rs. Five lakhs to rs. 25 lakhs	Superintending engineer
Above rs. 25 lakhs	Chief engineer

Source: Local Fund Audit Department (2006): 'Audit Report of the urban local bodies for the year ended March, 2005', government of Tamil Nadu, Chennai.

3rd SFC strongly suggested constitution of Chennai Metropolitan Planning Committee (CMPC) and functioning of CMDA as a secretariat of CMPC and that the present system resource sharing from the local bodies within CMDA for CMDA should be dropped. It advised 75% of development charges to be passed on to respective urban local bodies within CMDA, and 0.25% of collected revenue income for CMDA should be abolished. The **most important recommendation is to declare the entire CMDA area as an urban area by merging all the villages to nearby municipalities.** To make the budget more participatory, it suggested abolishing of Collector's Development Fund. MLA constituency development schemes should be from the projects identified by the urban local bodies and not on ad hoc basis, and 30% of the fund should be for core civic services. However, participation took a back seat when the merger of surrounding municipalities and villages with the CMC occurred. A Government Order (GO (Ms.) No.136 dated 12th September 2011) came out with the setting up of Wards Committee in each of the Zones combining several wards, ranging from 7 to 18 wards in a committee. The total number of wards and zones in the erstwhile Corporation area reduced to seven zones and 107 wards against 10 zones and 155 wards thereby increasing the area under governance per zone and ward. Even in the newly merged areas, which had separate municipalities with their own budgets such as Ambattur, the whole municipal areas was merged as one ward leaving little scope even for political participation in the budget making process. In fact, the community's fiscal capacity is restricted by the new municipal structure that allows no incentives for spatial competition (Karuppusamy & Carr: 2012). Erstwhile Municipalities such as Alandur had a history of participatory community funding (now being advocated by the Central Government through its Community Participation Fund), which is now dispensed with because of the new municipal structure within CMC.

Of the total 200 councillors, 30 councillors were surveyed in Chennai to know their views on decentralisation, participation and also about the Millennium Development Goals (MDGs) and sustainability. In fact, none of the Councillors are aware of the MDGs and they all revealed that there is no ward level budgeting process in CMC. Not many are aware of the new City Development Plan (CDP) which suggested a total amount of Rs.123, 207 million for the year ending 2026 on various projects. They are also not aware of the per capita expenditure of Rs. 22,184/- suggested by CDP. In fact, they were furious about how will the CMC pay back this amount as this is mostly funded by the Central Government. Similarly many of the councillors are not aware of their own roles and responsibilities. Transparent Chennai's analysis of participation by the 200 councillors shows that on an average the councillors participated and raised issues only 16 times from 2007 to 2011 (Transparent Chennai: 2012) bringing out less 'political participation' in Chennai's budget making process. Under the new State regime that comes out with frequent threats of dissolving the Municipal Corporation (See The Hindu: June 20, 2012) the Councillors were afraid to discuss anything openly. But they agreed with the Chief Minister about the corruption and transparency issue that she raised.

An analysis of Councillor and Mayor Funds by the Transparent Chennai (Meryl: 2011) showed that out of the total allotted amount of Rs.108.5 million, 70% was used. Each councillor was allotted Rs. 0.7 million in 2007 which was increased to Rs.1.5 million in 2008-9 during which period the total expenditure reduced to 63.5%. In 2009-10,

the councillor funds were increased to Rs.2.5 million and the spending fell to 41%. However, the study observed that the spending increased to 63% in 2010-11, due to elections. In the case of Mayor Funds, the study observed that out of Rs.5 million, only Rs.1.84 and Rs.1.3 million were spent during 2007-8 & 2008-9. This decreased to Rs.0.9 million when the actual allotted funds increased to Rs.20 million in 2010-2011 (Ibid, 2011).

A quick analysis of the CMC budget shows that Chennai's per capita average capital expenditure was Rs.1204/- and the per capita revenue expenditure of Rs.2461/- as compared to that of Mumbai's Rs.3433 and Rs.9888/- respectively during the period 2007-2010 (Sridhar, K: 2012). Wages that accounted for 49% of the total revenue expenditure in 2003-4 are slowly coming down to near 30% in 2009-10 (CMC Budget 2011-12). Chennai received around 21% of centrally sponsored project funds, and, 19% of the State sponsored funds for various infrastructure projects during the same period. Central Finance Commission's fund (13th CFC) to the tune of Rs.270.14 million was allocated to CMC during the year 2012. These were based on City Development Plan (CDP) projects and not emanated from the people through participatory process as envisaged in the 3rd State Finance Commission.

The city's strategy of bringing more area under the Corporation, may not lead to efficient participation in the long-run though it might increase the over all revenue of the Corporation due to an increase in the property tax base. Wards Committee that were formed are yet to be effective in planning and monitoring various projects. The capacity of the councillors needs to be built around budget formulation from the grass-root level and to address issues of the MDGs. Considering the low resource mobilisation capacity of the CMC, future projects need to be self-sufficient but the element of equity will still remain.

B. Case Study India: Political capital - Delhi

Politics and fund allocations always go together. 'Decentralization (devolution) offers significant opportunities to improve government accountability. Urban Local Bodies (ULBs) have to depend upon the State Government's political and bureaucratic lobbies to access to funds for development (UNDP: 2010). A new model evolved in 1995 in India was to doll out funds through elected political representatives in the form of Area Development Scheme every year. Started as a programme for Members of Parliament Local Area Development Fund (MPLAD Fund), it percolated to Municipal level as (Municipal Councilor Funds) across the country. Here we analyze the Local Area Funds for Delhi, how is it utilized and on what aspects it was used? 'Politicians understand only projects and not plans' (Sivaramakrishnan, 2011). A demonstration of this are the local area development funds (LADF) , allocated at all the three levels of people's representatives in Delhi, viz. Members of Parliament (MP-LAD), members of legislative assembly (MLA- LAD) and the ward councilors (councilors' LADF local area development funds) . Under this scheme each elected member can suggest works of developmental nature to be executed out of LAD funds in his/her constituency, majorly including creation of durable 'community assets' and for provision of basic facilities including community infrastructure, based on 'locally felt needs'. The 'Dos' and 'Don'ts' are prescribed by guidelines for the funds.

The political capital of India, The National Capital Territory Delhi has 352 people's elected political representatives, participating in development dynamics; 'Active' or 'inactive' is largely a seasonal expression. The union territory, city-state divided into nine revenue districts (Kala Seetharam Sridhar, 2012) and has its own Legislative Assembly (70 constituencies), Lieutenant Governor, council of ministers and Chief Minister. The Legislative Assembly seats are filled by direct election from territorial constituencies in the NCT. The head of state of Delhi is the Lieutenant Governor of Delhi, appointed by the President of India. The NCT has three local municipal corporations responsible for its administration (the other census towns which make up the NCT are governed by their local bodies). A. Municipal Corporation of Delhi (MCD) making up 94.22 percent of the area and 96.78 of the population. Recently MCD got trifurcated into further 3 municipal corporations North, South and east Delhi municipal corporations. Through an Extraordinary Gazette Notification of the Delhi Municipal Corporation (Amendment) Act, 2011 (Delhi Act 12 of 2011) in 29th December, 2011 (Department of Law, Justice& Legislative Affairs: 2011) the Municipal Corporation of Delhi (MCD) was divided into three separate Municipal Corporations namely, North, South and East Delhi Municipal Corporation. North Delhi Municipal Corporation has 152 Wards with 8 zones, South Delhi Municipal Corporation has 208 Wards with 5 Zones, and East Delhi Municipal Corporation has 64 Ward with 2 zones. Unfortunately, this restricts the number of Wards Committee in each zone and the political representation per 1000 population gets restricted in each of the Corporations and Zones. Previously in the erstwhile MCD, 15 zones were functioning as Wards Committee.

Devolution Dynamics

Delhi State like any other State in India has set up three successive State Finance Commissions to work out a formula to share the resources between the State and other local bodies within Delhi State. The fourth Commission has been formed and working out a formula for devolution. Unlike other States, which are covered under the Central Finance Commissions, Delhi is not covered under the Central Finance Commission formula but get its funding directly from the Central Budget and their Five Year Plans. In a way, this is a form of centralisation and as stated earlier, the Lt. Governor of Delhi, cannot introduce a budget without the consent of the President of India in the State Assembly. The Second State Finance Commission was given for the first time an additional task of recommending a devolution for Delhi Cantonment Board (DCB), (Department of Urban Development : 2001), which comes under the Ministry of Defence, Government of India. Regular task of working out a resource distribution formula for taxes, duties, tolls and fees levied by the Government of NCTD were given to the 2nd SFC. The 3rd State Finance Commission for the first time went into the status and vision of the city as debated by various institutions that were managing Delhi. These include 'Delhi – as a national Capital, as a distributive commercial center, and as a modern global city, which got reflected in its report. For the first time, sub-city level issues (below the Municipal corporation level that is zone level) were discussed and the commission came out with suggestions for resource allocation at zonal level within local bodies (Department of Finance: 2006). The Third SFC also dwelled upon the service delivery and its efficiency, and more importantly improving the financial position of the local bodies.

The Third SFC went in to depth (Chapter 5) on the analysis of Mega Events (work package2) beginning from the great Refugee Influx (1947), First International Trade Fair (1957), Ninth Asian Games (1982), Punjab Migrants Influx (1987) and Kashmir Migrants (1990) and Commonwealth Games and their impact on the physical infrastructure of Delhi, and forcefully brought out the issue of Governance, infrastructure and services in making the dream of Global city a reality. It suggested seamless interface between the State and the local bodies to achieve the global vision for the city. It emphasised the need for adherence to the National Urban Development Ministry's suggestion of having Metropolitan Planning Committee and greater participation of local bodies in the decision making process (decentralised decision making).

Urban Local Bodies Budget Dynamics

As observed by the Delhi 3rd State Finance Commission of, Delhi has multitude of institutions functioning at various scales and levels. There are central government autonomous agencies such as Delhi Development Authority on the one hand, and on the other Central Government Ministries (Delhi Cantonment Board), Departments such as Public Works Department directly functioning within the geographical space of Delhi, in addition to the state autonomous bodies such as Delhi water supply and sewerage board, and now Delhi Metro Rail Corporation, etc. So the role of Municipal Corporation of Delhi (MCD) is restricted to a great extent. On an average, the own revenue of MCD (from 1994-195 to 2004-5) were only 47% of its total revenue as compared to the planned grants from the State Government (22%). Non tax sources contributed 1.06 times more than the tax sources. Though the Delhi Spatial Data Infrastructure (DELHI SDI) has identified more than four hundred thousand properties, only about 38% of the total property tax potential has been tapped by the local bodies. And only 20.86% of the property tax demanded were collected (Department of Finance: 2006). In fact, some of the taxes and user charges of the local authorities were not revised since 1957.

Similarly, the expenditure of the MCD has been growing at the rate of 13.1% from 1994-95 to 2004-2005. During the same period administrative expenditure constituted 45% of the total expenditure. As compared to this, the maintenance expenses by MCD were only 8% of the total budget. It has been pointed out by a study (Sridhar and Kashyap: 2012) that the average revenue expenditure on wages accounted for 53.57% of the total expenditure. It observed a labour intensive municipal service provision ending up in a high cost. Capital asset creation with its own resources is minimal. Role of the Wards/Zonal committees in terms of budget (both in terms of revenue mobilisation or expenses) are not defined. The growth rate of expenditure as compared to the revenue was observed t be much higher in the case of MCD during the above mentioned period. In fact it the analysis showed the buoyancy of 1.831 in terms of revenue to expenditure. The per-capita real revenue average growth rate came out to be 2.75% as compared to the per capita real average expenditure which was 2.6%. Average Per capita capital expenditure was observed to be 28.98 Euros and the average per capita revenue expenditure was 65.21 Euros during the period 2007-8 to 2009-10 (Ibid, p.15). This reveals the deteriorating the service provision and maintenance which was pointed by the 3rd SFC as well.

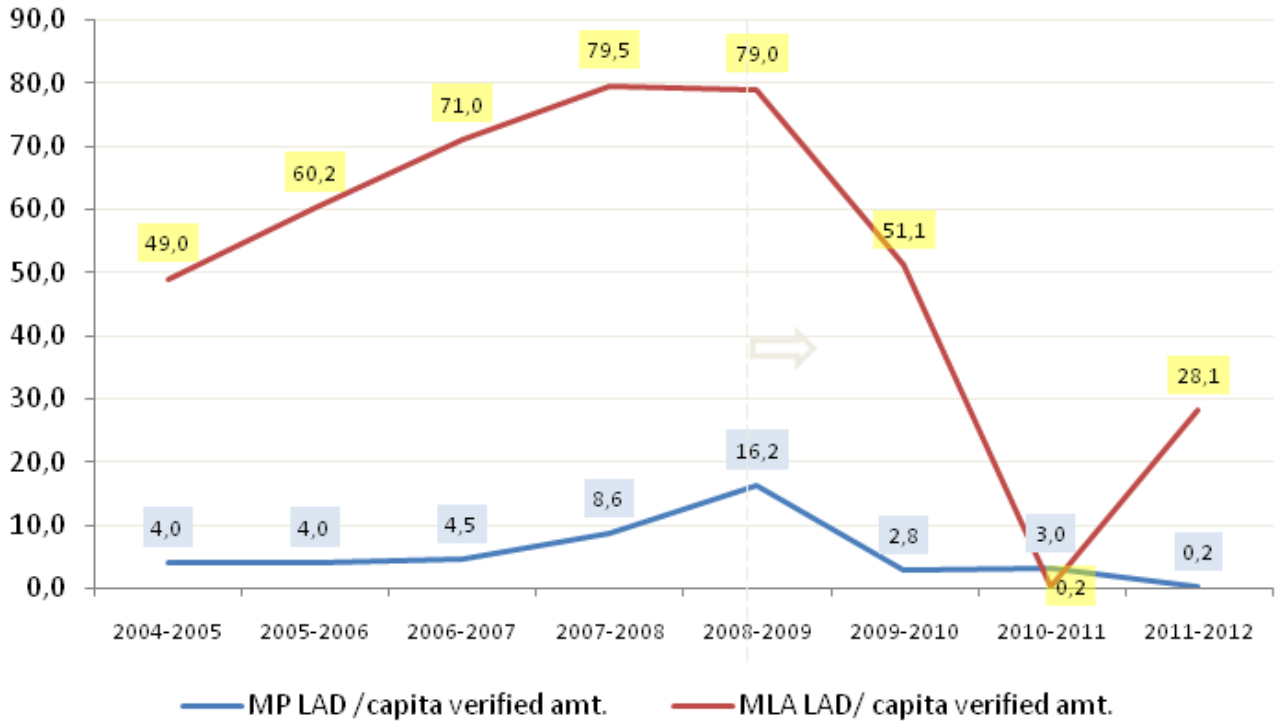
Local Area Funds scheme at Member of Parliament (National Level), Member of Legislative Assembly (State Level) and local municipal councillor (City Level) political representative levels

As the nature of the scheme speaks about, LAD funds are a tool to be used towards,

1. Enhanced people's participation in development, since the position of Municipal Councillors is that of key mediators between the poor and urban Governance agencies (Wit, 2009) and works under the scheme are to be based on '**locally felt needs'**
2. People centric development (works must include- community assets and community infrastructure
3. Empowering the people with a tool to measure the efficiency and capabilities of their elected representatives since they acquire a direct executionary role.
4. Therefore its healthy implementation is like one step closer to good governance. But, if the tool has been realised to its extents or has it undergone mutations in Delhi, is what the proceeding sections comment over.

In the year 2011-2012, Delhi saw a sum of Euro: 106.8 Million (10.6 % of the Budget estimate expenditure MCD, 2011-12) entitled to be allotted to the 352 elected representatives. Khemani (2010) describes this as 'political capture of decentralisation' (2010) and the use of funds as 'bring home the pork' phenomena (Khemani: 2009). LADS have gradually changed shape by being not a mere tool for political participation in development but also becoming politics in itself. Tracing the per capita expenditure verified of the MP and MLA LAD funds, one realises that the scheme has lost its significance since last 5 years (Figure 12 Per capita verified amounts of MP LAD and MLA LAD funds (Figure 2 Per capita verified amounts of MP LAD and MLA LAD funds in Rupees. Rs. One Crore is equivalent to 10 Million Rs. Which is equivalent to 0.14 million) although the entitlements per elected representatives per year are on a rise. Moreover, the nature of work executed at all the three levels of LADS is local in nature; therefore a sense of competition develops between the area councillor and the MLA, which may lead to unhealthy political conditions. This inconsistent spending pattern is due to the un-lapsable nature of the funds (Programme Evaluation Organisation:2000).If the released funds under the scheme are not fully utilized due to unavoidable circumstances then the unreleased fund left with the government in a particular year, is allowed to be carried forward / released for subsequent year's departments / agencies. Therefore the fund is deliberately not spent for to accumulate and spend in and round the election times. Thus, the 'acquired' strong relation between political cycle and use of LADS as a tool to fill vote banks is hard to neglect.

Figure 14: Per capita verified amounts of MP LAD and MLA LAD funds



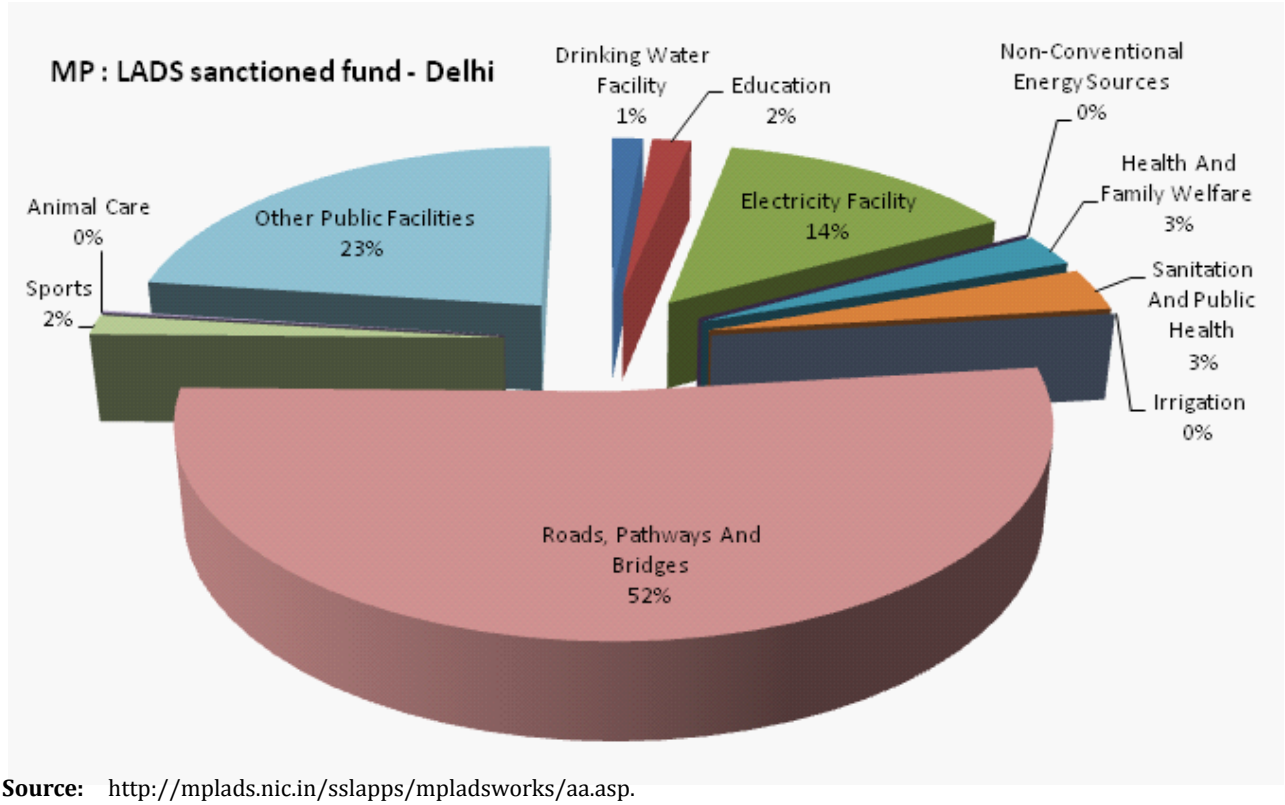
Source: Various Years Budgets (2002 to 2012-13) of the Central, State and Local Government.

People's participation and LADS is an even bigger myth. No method of public participation has been devised for the scheme and does not find a mention in the MP LAD guidelines. Though LADS is meant for "locally felt need for development works", the Comptroller and Auditor General's (CAG) report says there is no mechanism to identify the local needs. It says: "The scheme design doesn't ensure participation of various constituents such as resident forums, local bodies, NGOs etc in determining works responsive to locally felt needs". Often the MP and MLA LAD schemes do not fit in the larger development picture, overall city strategy, even more when there is no local area planning at the ward level pursued (largely consultant driven and no participatory budgeting).

Delhi is one of the states/Union territories whose % utilisation of the total amount of MP Local area development funds released is between 50- 60 % in the period of 1993-2000. (Programme Evaluation Organisation (PEO) 2000). During the period, 1993-2000, Delhi ranked third (out of 32 states/U.T.) only after the states of Gujarat and Sikkim, with 95.6 % funds being sanctioned out of the total funds released under MP LAD scheme, but Delhi subsequently ranked 22nd with the percentage of fund utilized over released (PEO), 2000). Hence, it has been rightly suggested, that the Ministry should insist on obtaining utilisation certificates for the previous release before releasing next instalment. This may act as an essential check on the flawed financial administration of the scheme and can ensure fruitful end use of funds released (Mohanty, 2004). Moreover, civil works, largely visible being executed and evident as asset creations are preferred by the elected representatives. Since, the engagement of private contractors is not permitted therefore the executing body is largely MCD and PWD which are over burdened with LAD civil projects. Figure 8: MP LAD funds utilization priority sector wise and Figure 7: sector wise expenditure of MLA LADS Delhi - 2004-2012 bring out the sectoral bias in the works executed under the LAD scheme.

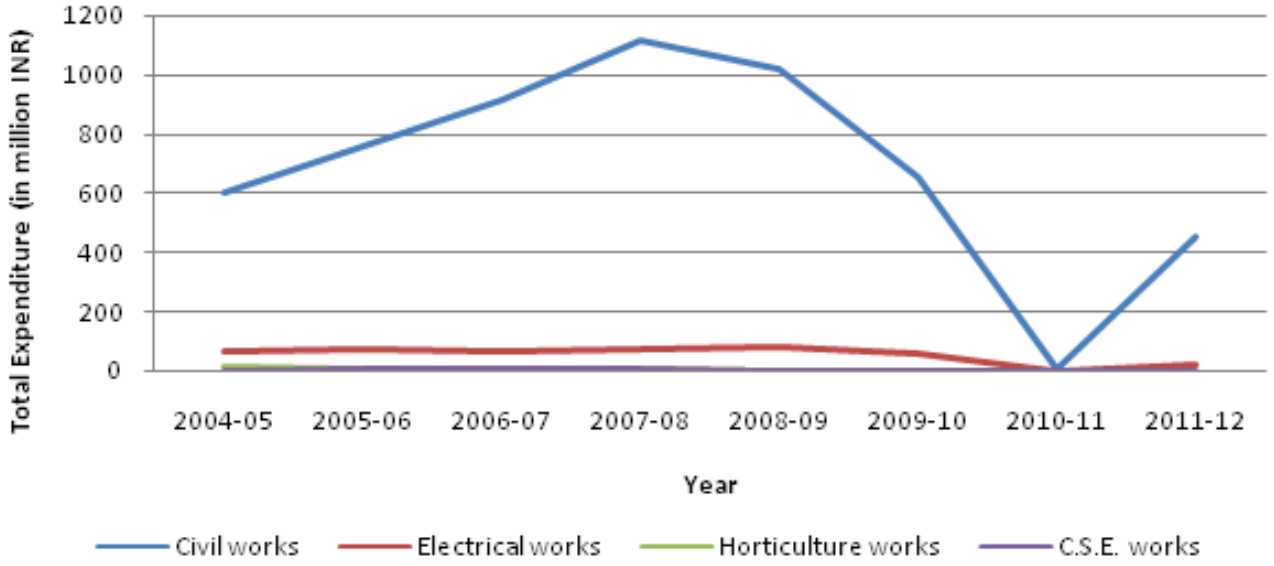
As suggested, MPLADS should be dovetailed with other schemes (Mohanty, 2004). A hierarchy of projects can be sought for the three levels of LADS. The annual entitlements can be relative to the nature and total population served by an elected representative. Of late, in the MPLAD guidelines 2012, there is a special provision for convergence of Member of Parliament Local Area Development (MPLADS) with MGNREGA and Panchyat Yuva Krida Aur Khel Abhiyan (PYKKA) and Urban Sports Infrastructure Scheme (USIS) of the Ministry of Youth Affairs and Sports for creation of more durable assets. Efficient utilization of funds can be with decision of sanctioning a small project too being in consonance and

Figure 15: MP LAD funds utilization priority sector wise



Source: http://mplads.nic.in/sslapps/mpladsworks/aa.asp.

Figure 16: Sector wise expenditure of MLA LADS Delhi - 2004-2012



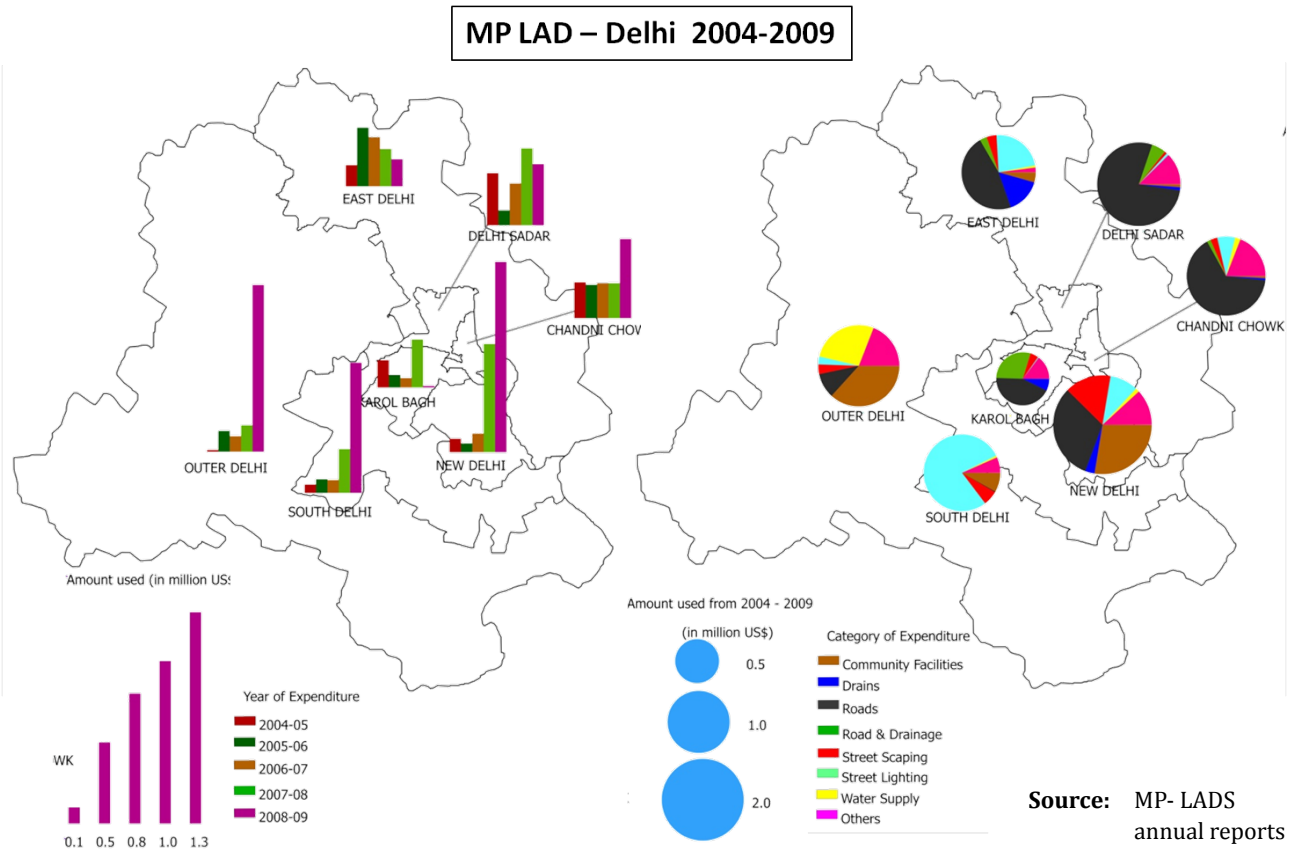
be discussed with the Master plan provisions, and the developmental activities in pipeline of the other agents of public service delivery. Synchronisation of projects with local area plans should be an upcoming challenge for Delhi LADS to be a success.

The spatial spread of the LAD funds amongst the various constituencies of elected representatives also brings out the fact that Central Delhi with Chandni Chowk and New Delhi constituencies has seen the maximum LAD funds used, but largely for roads and allied improvements. East Delhi has a more consistent fund utilization trend, with largely concentrating on roads and bridges. MLA LAD funds have been distributed quite equally on space, with NDMC and Cantonment area, being an exception. Civil works have again been a priority in all the assembly constituencies. Rohini, west Delhi and civil lines areas in Delhi have witnessed spending on electrical works. Councillors' funds have seen a poor utilization in the now East Delhi Municipal corporation area. Councillors' funds follow similar pattern as that of MLA LADS, with civil works being given impetus and electrical works ranking second concentrating in the Rohini, West Delhi and Civil Lines areas. (Figure 17, 18 and 19).

Governance by Mutation

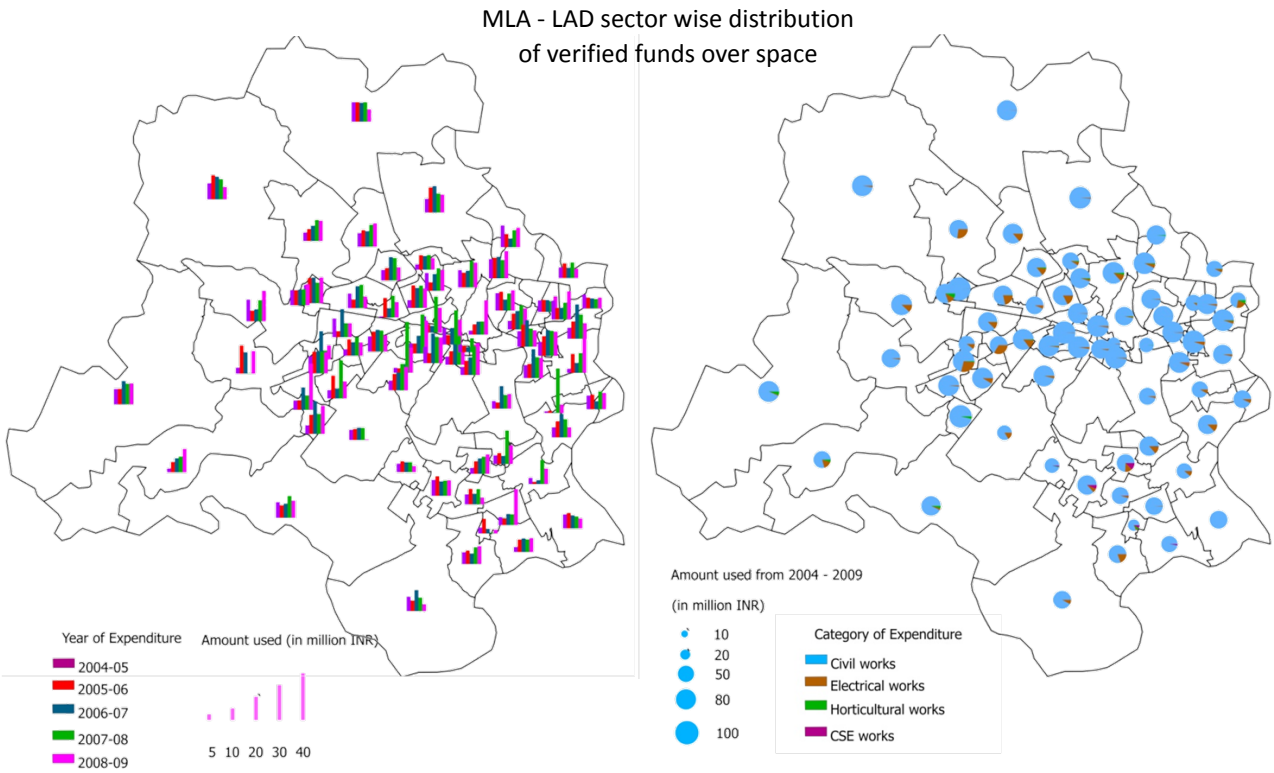
Delhi Government also introduced a unique form of governance system by mutating the governance system as enshrined in the 74th CAA, in the form of decentralisation of governance, mainly to urban local bodies. An alternative governance model of 'governance without government' (Chakrabarty: 2012) in the form of Bhagidari scheme – 'Collaborative governance', was initiated by the Government of the National Capital Territory of Delhi in 2000. Theorizing the Bhgidari model, Chakrabarty (Ibid 2012) states that this unique form of urban governance has three complementary ways enables governance, namely, a) articulation of governance paradigm, b) illustrative of stakeholders' involvement in both decision-making and execution of decisions, and, c) it challenges the theoretical Weberian bureaucracy-centric public administration model (p.4). Bhagidari scheme aims not at providing services to the people, but making them 'partners in service provision and maintenance'. Covering a wide range of Central Government, State Government and Local Government departments, and autonomous bodies, giving 'citizens a sense of ownership in sorting out civic issues and a sense of identity with new projects' (Delhi: Human Development Report: 2006). Though not covered under the 74th CAA (this is one of the major critic of the scheme, that is 'no constitutional basis') and diverting the real process of democratic decentralisation through elected representatives at the local body level, the programme survived for 12 long years to make its own impact, and brought about radical changes in the urban governance system in Delhi. Local elected representatives, including MLAs are not involved in this Bhagidari scheme, and it is a direct interface of citizens with government departments. Chief Minister's office at the State Level has a 'Bhagidari Cell', which can be accessed by the RWA secretary or office bearer directly through a green channel. This interface also helped the RWAs in increasing the fiscal commitment for development by the Delhi Government. We analyse the fiscal flows for this participatory progrmame below.

Figure 17: MP LAD funds spatial spread 2004-2009



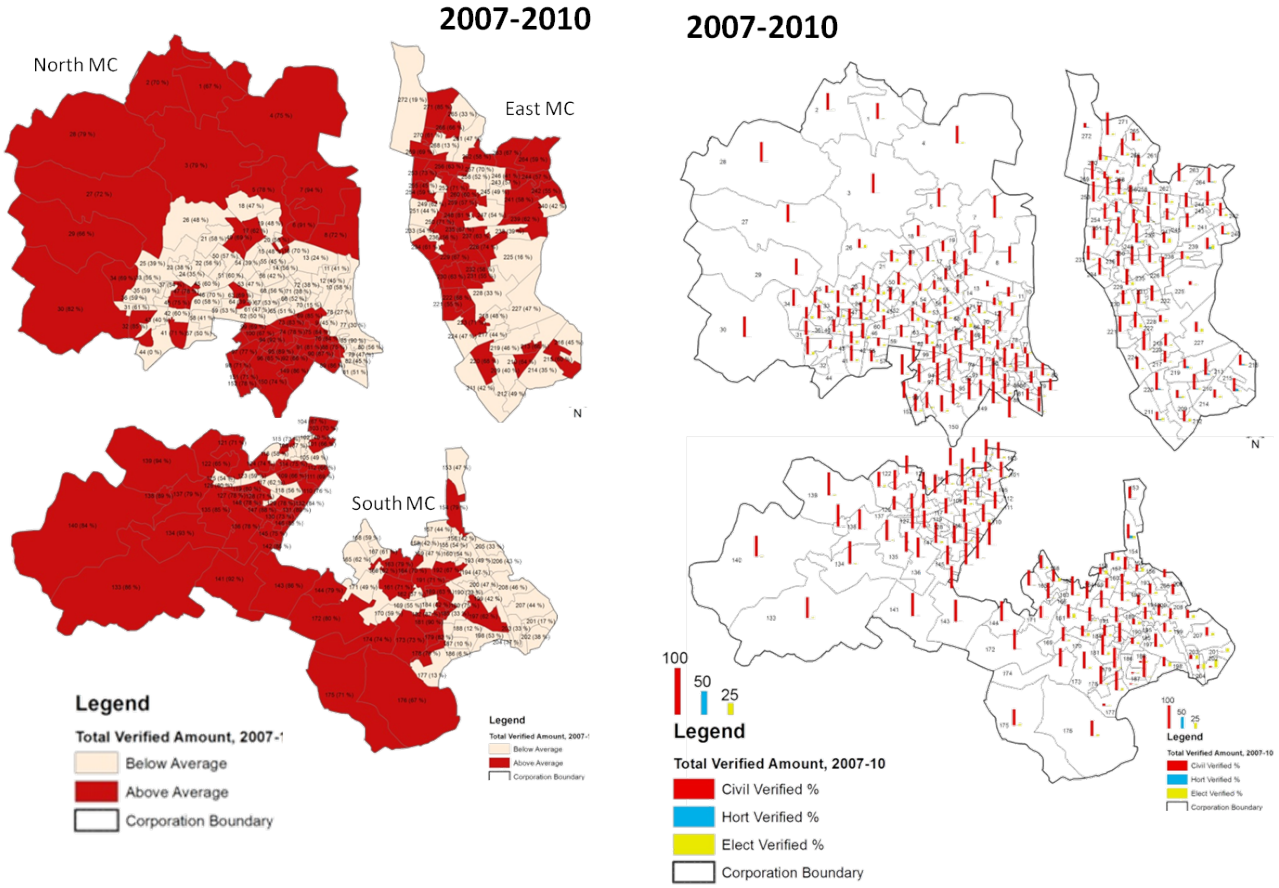
Source: MP- LADS annual reports

Figure 18: MLA LAD funds spatial spread



Source: Various Years Budgets (2004 to 2009) of the State Government.

Figure 19: Councillors' LAD distribution over Trifurcated MCD- 2007-2010



Source: Various years reports of engineering department MCD.

Fiscal flows to the programme are not direct fiscal transfers to the citizens or through RWAs. Under the programme of 'My Delhi I Care', a Fund in the name of "My Delhi I Care Fund" (Delhi Budget: 2010-11), has been created with the Deputy Commissioners of nine districts of Delhi to enable the citizens to participate and involve in the protection of their own habitat. This Fund has been created in 2010 with a seed money of Euros 0.71 million, and there are very less takers so far. Similar to the My Delhi I Care Fund, the Bhagidari scheme also received an outlay of Euros 0.42 million in 2011. This was for citizen-government interface. In addition to this the scheme also received an additional Euro 0.354 million for annual Bhagidari interface meeting, advertisement and publicity for Bhagidari.

Scaling up Governance

As per the 73rd and 74th CAA, Delhi Government set up the District Development Committees (DDCs) (a two tier set up) with an Apex Committee at the State level and 9 district committees at the district level to encourage decentralisation and decision making and to provide a responsive and responsible admninistration in 1999. The broad objective of the Committee is to involve the people directly and through elected representatives in the process of planning and execution and monitoring of various schemes, projects and policies. An amount of Euros 1.07 million was allotted in 2008-09 for these committees. A quick evaluation of the appraisal report of the past three years showed that, the DDCs were confined to monitoring of the existing plan schemes of various deparments and were listening to grievances of the public than involved in the planning and implementation process. In other words, the DDCs were not evolving as District Planning Bodies, as envisaged under the 73rd and 74th CAA. Another 0.11 million euros were allocated to stregthen Divisional Commissioner's office and to ensure equitable distribution of resources among legislative constituencies (Budget:2009-10). The District Development Committees are above the local government level and above the Ward level. In other words, a District Committee may have many wards and many local authorities in reality.

Our analysis of Delhi's data showed us: a) Delhi's development is driven mostly by political participation than by people's participation; b) even in the case of political participation typical vote-bank politics exist in resource allocation and utilisation, dictated by timing of elections; c) elected representatives are not aware of the Millenium Development Goals or infrastructure bench marks to be achieved in the City and they are aware of the Ward's budget and how to use them within the given fiscal framework and responsibility; d) State Government mutated the governance process to form the Bhagidari Scheme directly by avoiding the local bodies in the process of decision making. Even after all these innovative process of governance, Delhi still remains as complex as ever before, with direct funding from the Central Government (as stated earlier even the State Government Budgets are to be approved by the President of India before they are placed before the Assembly). In this set up, participatory budgeting is a distant dream in the case of Delhi.

C. Case study India: Kalyan-Dombivali (KD)

Kalyan Dombivilli Municipal Corporation (KDMC) was established in 1983 after merging the erstwhile Dombivli, Ambernath, and the Kulgaon- Badlapur councils along with 81 villages. Currently comprising 67.65 sq. Km, KDMC area includes Kalyan, Dombivli, and 25 villages. KDMC is part of the Mumbai Metropolitan Region area. The entire municipal area of KDMC is divided into seven administrative zones and 107 elected wards. The recent census (2011) recorded a population of 1,246,000 within the KDMC limits which grew with a compounded annual growth rate of 1.75% from the last census of 2001(CDP 2012).

The Kalyan Dombivali Municipal Corporation (KDMC) which is vested with the role of municipal services delivery, adopting a democratic procedure is governed by the BPMC Act of 1949. There exist multiple linkages of institutions and mechanisms in urban governance at Kalyan Dombivilli. There are para-statal bodies that influence the action of the local government (KDMC) through its policies and programmes related to urban development. Mumbai Metropolitan Regional Development Authority (MMRDA) is one such para-statal body which conceives and implements various programmes on social and economic development within the MMR region. For the current financial year (2012-13) there is a provision of approximately Rs. 62 Crore for development of existing rail system, sewerage and slum housing within KDMC. Apart from this, MMRDA also helps KDMC with untied grants and loans for implementing various urban development programmes. Further higher is the state government of Maharashtra, which not only deals with the sharing of revenues across various urban and rural local bodies through the State Finance Commission, also influences urban governance through its various policies, programmes, grants, loans, and services (police, traffic police, fire, electricity, roads, industries and housing). In particular, the department of urban development, public works, water supply and sanitation, housing, home, energy, and industries of State Government of Maharashtra deal with various policies and programmes that either directly help KDMC with the source of funding or through their own agencies in the implementation of urban development programmes. Some of these agencies are MSRDC, PWD, CIDCO, MIDC, MHADA, and State Police. For the latest financial year (2012-13), a provision of around Rs. 90 Crore has been made within the KDMC budget as a grant from the State Government. A major component of this grant comes in the form of Maharashtra Swarna Jayanti Urban Development programme for the KDMC area. Further a sum almost Rs. 96 Crore has been envisaged as a loan under the same programme. The Central Government also has shared almost Rs. 47 Crore with the KDMC as Finance Commission grant (2010-2013). The Ministry of Urban Development (MoUD), as a part of JNNURM grant, has shared a sum of Rs. 83 Crore with the KDMC in the current financial year for the improvement of sewerage service. MoUD has also shared a sum of Rs. 80 Crore in the current financial year as JNNURM loan. Likewise, Ministry of Housing & Urban Poverty Alleviation has shared a sum of 69 Crore in the current financial year as Basic Services for the Urban Poor grant. Hence, large scale projects and funds (from MMR, State and National level bodies/projects) have shown great impacts over fiscal performances of KDMC. The pilot survey at KD executed for this research work, brought out the existence of informal form of governance (networks) at the most decentralised level within KDMC area. In particular, the presence of such networks/ association is more visible in old settlement of the KDMC area. It has been found that these associations work very well, perhaps in absence of any support from the formal institutions (Pilot survey finding).

Participation in budgeting and its inclusiveness

Municipal budgeting and accounting process at KDMC has been adopted from the Bombay Provincial Municipal Corporations Act of 1949 (BPMC Act). KDMC prepares five types of budgets, which are; A-Budget, B-Budget, C-budget, P-Budget, and Gender budget. To make the budget inclusive the funds allocation across capital

works involves a long process and several key actors. Elected representatives and technical wing/bureaucrats both are part of the system. The elected representatives raise demand for budgets within their constituencies by raising local issues with the concerned department (spatial dimension). Later, departments send an engineer/ technical person who prepares a plan of works to be done within such constituencies. The requirements for budgetary expenses are then raised by the respective departments (sectoral dimension) within KDMC. Finally it is the standing committee that prepares the budget. Approved budget is required to be kept in the general body meeting / open house for further deliberations which is influenced by local level politics, thus leaving space for needed reforms. To synchronise the budgetary allocations with existing plans for the corporation area, the Provisions within the Master Plan (if the master plan already delineates the location of major infrastructure projects, there is a higher probability of getting funds for that project, subject to the availability of funds) are also scrutinised.

Moreover, unlike majority of Indian municipal corporations, wards committee in KD has a well defined resource allocation for improved service provision at the lower levels of the government. For the purpose of maintenance works within each wards committee zones, A-budget prescribes an expenditure limit up to worth Rs.5 Lakhs. Moreover, there exist funds allocated to their respective wards (through annual budget), which varies between 20 lakhs to 6 Crore. Besides this allocation, there is also a provision of 2 percent of the annual budget as a councillor fund / discretionary fund which gets divided amongst all the councillors after deducting the respective share for big posts like mayor, deputy mayor, party leader etc. For the current financial year (2012-2013) the councillor fund amounts up to Rs. 6.5 lakhs per councillor. There is an additional limit of Rs. 10 lakh for standing committee members. Besides, this, there is also a provision of commissioner's discretionary fund which is roughly around Rs. 10 lakhs. But, while interviewing the local councillors, it came out that almost every councillor knows the size of the annual budget for the last and the current financial year. Also, none of the councillors are aware about either Millennium development goals or Service Level Benchmarks. Therefore, in spite of the devolved funds to all executionary and political representatives, yet there are many cases where funds are not spent on the primary problems identified by the councillors. The discretionary funding arrangement through councillors has majorly aimed short term goals/ issues.

Municipal autonomy

As per Oates (1985, pp.749), the amount of independent decision making power in the provision of public services at different levels of government can be reasonably measured by fiscal decentralisation measures i.e. local spending as a percentage of total (state and local) spending and local government's own revenue as a percentage total revenue of the state and local government. An analysis of KDMC budgets reveals an increase in income and expenditure of almost 6 times during 2002-03 to 2011-12. While income rose up to Rs. 1135 Crore from roughly 171 Crore, expenditure went up from Rs. 178 Crore to Rs. 1261 Crore during the same period. The per capita income and expenditure of the KDMC also during the same duration reveals that the per capita income has increased almost 4.5 times from Rs. 1,612 per capita in 2002-03 to Rs. 9,110 per capita in 2011-2012. Likewise, per capita expenditure has increased almost 5 times from Rs. 1678 per capita in 2002-03 to Rs. 10121 per capita in 2011-12. Hence there has been a positive trend as per the total budget of the corporation is concerned. But, the significant role played by grants in influencing income and expenditure side of the KDMC is a matter of concern. In particular, soon after 2007-08, a sharp increase in income with a simultaneous increase in expenditure can be noticed in the annual budgets owing to the rising share of JNNURM grants. On the revenue side, apart from its contribution through grants, JNNURM programme has also been associated with an increase in revenue effort by the KDMC through user charges and fee. It shows a steady progress after 2008-09 with almost doubling of figures in the next two years. But, what needs attention is the decreased contribution of taxes in total income, from 55 percent in 2002-03 to 25 percent in 2011-12. On the contrary, the contribution of grants has increased from 3 percent in 2002-03 to 35 percent in 2011-12. Although in real terms, both tax revenue and grant revenue have increased, but in relation with the total income, proportion of tax revenue has decreased and proportion of grant revenue increased dramatically, particularly after 2007-08. More interesting is the fact that the combined contribution of taxes and grants decreased from 60-65 percent range to less than 40 percent in 2010-11. This phenomenal change can be attributed to an increase in revenue from user charges and fee which reflects increased revenue effort by the KDMC (KDMC Budgetary analysis). Further, the share of own source income in the total income of KDMC has decreased drastically from 95 percent in 2002-03 to 55 percent in 2011-12.

On the expenditure side, the share of revenue expenditure of ULB in total developmental expenditures of local, state and central governments shows a steady progress after 2008-09 values. But, revenue dependency of

the KDMC (share of grants in total income) over a period of past 10 years has increased from 3 percent in 2002-03 to 35 percent in 2011-12 and is expected to be around 25 percent for the current year, 2012-13. This revenue dependency of KDMC on grants however does not indicate whether the grant is conditional or unconditional in nature. Even though the share of capital expenditure in total expenditure has increased from the 2002-2003 level of 16 percent to 46 percent, the share of revenue expenditure in total has decreased from 84 percent in 2002-03 to 54 percent in 2011-12 highlighting the important role played by JNNURM grants in total grants (comprising 32 percent in 2008-09 and 45 percent in the following year). The promising aspect of the revenue expenditure analysis is the decline in share of administrative expenses in the total revenue expenditure, highlighting efficiency gains. A further probe into the source and purpose of grant indicate a sharp decrease in the share of unconditional grants in total grants from around 31% in 2002-03 to around 8% in 2011-12. Hence, there has been an increase in own source revenues at the local body end and increase in grants from the higher level governments for revenue works. Therefore, although over the years, KDMC has become more decentralised with its relatively higher share in composite local, state and central revenues and expenditures, but however, revenue autonomy has decreased in KDMC. This decrease in revenue autonomy has been associated with a sharp increase in revenue dependency of KDMC on higher level governments. Analysing the trend for past 10 years budget reveals that the share of basic services for the poor in the total expenditure has increased drastically. At 0.6 percent in 2002-03, the share of basic services for the urban poor including slum dwellers has increased up to 19 percent of the total expenditure by KDMC in 2011-12. This phenomenal increase in share of investment on basic services highlights inclusiveness of the local investments. However, a closer look at these investments reveals that the share has been influenced by the JNNURM grants and likewise, the trend in investment is more visible after 2007-08.

Conclusions from Indian Case Studies

It is evident from the Indian case study cities of Chennai, Delhi and Kalyan-Dombivili that the dependency on higher levels of government for funding capital and revenue expenditure are high. It is also seen that political influence on budget investment as well as outcome are high. Political participation (elected representatives) occurs at the budget making because of Constitutional requirements, other wise there is not much of consultation process with the people. Peoples' requirements/demand for infrastructure are different from that of budget targets both in terms of sectors as well as its spatial distribution. It is also evident that the elected representatives are not aware of any of the National and International Goals such as MDGs, or Bench Mark for services or inclusive budgeting.

Over all Conclusions from the field studies (WP-6)

Brazil case studies brought the political influence in organising the people for participatory budgeting and how the ethnicity and CSOs influence the budget making process at neighbourhood and city level. It also highlighted the policy influencing space that participatory process has brought in to the political arena. Compared to this in Peru, there were political constraints that prevented decentralization though there is participatory budgetary process at the lower levels of the government. Peru and India emerges alike in terms of participatory budgeting process, in which elected representatives participates in the budget making process more elaborately than the people themselves. In contrast, in the case of South Africa, there are strong decentralisation processes that have emerged but participatory budgeting is restricted again to political participation than people's participation at the lowest levels of decision-making and budgeting process. However, in all these selected case study countries, there is a strong Fiscal Responsibility or Budget oversight mechanism present at the country level and in some countries like Brazil, and India it operates effectively at the local level through audits. Brazil and Peru has come out with publishing the budgets and expenditure on web pages of each of the department. Similar attempts are being made in Indian cities as well. In India, there is a strong Central to State and State to Local fiscal transfer mechanism present with varying levels of innovation including budgeting for inclusive development. Similar environment is emerging in South African cities as well. Detailed individual city reports will high light these issues later in this project.

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