

Basic Services for Urban Poor (BSUP) Fund in Urban Local Bodies (ULBs)

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1. Urban Poverty and Its Reduction

Urban poverty is the term used with the poor living in urban areas – cities, towns and transitory urban areas. Urban poverty has been on rapid rise and assumed importance in the recent past. While poverty in rural area is homogenous, urban poverty is heterogeneous and has multidimensional character. Urban poverty not only refers the dimensions of income and food security, but also availability of and access to basic services, shelter and livelihoods. Identifying appropriate means for poverty reduction has assumed importance and the municipal bodies have to become inclusive and pro-poor in their approach and functioning, and thereby achieve significant enhancement in service delivery.

Urban poverty issues are being addressed since 1980s through various central programmes like

- Urban Basic Services (UBS)
- Urban Basic Services for Poor (UBSP)
- Nehru Rozgar Yojana (NRY)
- Prime Minister's Integrated Urban Poverty Eradication Programme (PMIUPEP)
- Swana Jayanti Shahari Rozgar Yojana (SJSRY)
- Basic Services for Urban Poor (BSUP) and Integrated Housing & Slum Development Programme (IHSDP) under Jawaharlal Nehru National Urban Renewal Mission (JNNURM)
- National Urban Livelihood Mission (NULM)

Apart from various central programmes, States also had their programmes to address urban poverty issues.

The BSUP and IHSDP under JNNURM aim at integrated provision of the following seven basic amenities and services to the urban poor, especially slum dwellers in identified cities.

- (i) Security of tenure
- (ii) Improved housing
- (iii) Water supply
- (iv) Sanitation
- (v) Education
- (vi) Health, and
- (vii) Social security

The BSUP and IHSDP of JNNURM contemplate certain key reforms in pro-poor governance. The prominent pro-poor initiatives under JNNURM, among others, include internal earmarking within urban local budgets for providing basic services to the urban poor so that adequate funds are made available for undertaking development programmes for the poor.

2. ULBs and Poverty alleviation activities

ULBs have not traditionally dealt with urban poverty alleviation, as neither was it mandated nor funds/functionaries were provided for that in respective municipal legislations of the States. The 74th Constitutional Amendment Act has, however, added urban 'poverty alleviation' to the list of ULB functions.

Although ULBs have not been implementing any income supplement or social uplift measures to urban poor, they were attending for basic civic services in poorer areas of the towns/cities. The extent of spending by ULBs on these services for the urban poor was unknown, as the expenditure linked to the slum settlements was not recorded.

3. Fund based approach

A Fund is a segregation of resources established to control and monitor resources and to help and demonstrate compliance with legal/administrative requirements. Based on the purpose for which they are established, they are often distinguished as General Fund, Capital Fund, Program Fund, and Grant Fund etc. However, in practice, Funds are designed and/or developed for some specific purposes and with the objectives laid down to achieve those purposes.

In an accounting framework, a Fund is defined as a fiscal and accounting entity for which income, expenses, assets and liabilities are separately recorded and is capable of being presented as an independent financial statement. In fact, Fund based approach in municipal accounting system has been recommended in the National Municipal Accounting Manual (NMAM).

4. ULB and BSUP Fund

Integrating ULB budget with poverty reduction plans is very important for attaining the objective of poverty alleviation. In order to ensure the earmarking of urban local body funds to the urban poor and to spend them in the provision of basic services to the urban poor, a BSUP Fund needs to be established within the administrative system of the ULB. Municipal spending on the services for urban poor through budget and other resources needs to be better channelised and well targeted for achieving the desired results. It is here that the creation of a separate fund for catering to the delivery of Basic Services for Urban Poor (BSUP) can make a difference and improve the fund allocation for the benefit of urban poor.

BSUP Fund may act as a pool of funds available with ULB for the purpose of providing services to the urban poor, including the budgetary resources of urban local governments. Internal resource earmarking provides an important channel that can be supplemented by other funds.

The entire process of BSUP Fund - constitution, internal earmarking, management and operational issues are discussed in this paper.

5. Internal Earmarking

For developing BSUP Fund, ULB needs to ensure that a mechanism for fund flow is firmly established. Some municipal bodies do already earmark certain amount or proportion of their budget expenditure towards poor/slum households. Central government already has programmes under which support is given to ULBs for targeting poverty reduction. State governments may also have such schemes for the benefit of urban poor that are implemented by the ULBs. Redirection of the funds from central or state government sponsored schemes to the BSUP Fund can be made effective.

Internal earmarking has to be done with reference to the following accounting principles.

- i. Total expenditure (revenue and capital)
- ii. Revenue expenditure
- iii. Committed expenditure
- iv. Operating surplus
- v. Development/Capital expenditure

Earmarking of budgetary resources should be such that it does not come into conflict with other operating principles of budget. And earmarking also needs to be on all sides of accounts, ie., receipts as well as expenses.

6. Constitution of BSUP Fund

As a first step ULB should constitute BSUP Fund internally, by making a provision for it in their accounting systems. In case, there is any other Fund with similar objective/purpose in place, then the same may be converted/subsumed into BSUP Fund by changing nomenclature. ULB receives funds for poverty alleviation from both Central and State governments. The BSUP Fund can be formed as an umbrella of all such funds within the reach of ULB, both own resources and external resources for better channelisation of funds and for efficient and effective fund utilization.

To create BSUP Fund, an appropriate legal framework is required. The legal framework comes from either the Municipal Act, Rules, Government instructions or regulations/byelaws of municipal body.

The concerned legislation has to suggest operational principle/mechanism to be used for creating BSUP Fund, including the size of earmarking of municipal budget that meets the objectives of BSUP Fund.

7. Management and Operation of BSUP Fund

An important component of BSUP Fund is management and operation arrangements of the Fund. The municipal body should spell out who will primarily oversee the Fund administration, accounting, and audit. As executive authority, the Municipal Commissioner would oversee it, but the regular operations be delegated to Finance Manager or Finance Officer, who supervises the finance operations of the municipal body. For better management and operation of BSUP Fund, it is important to set out the operating principles. The operating principles should relate to:

- (a) Authorization to draw and manage the fund
- (b) Maintenance of its accounts and auditing
- (c) Access criteria for utilization of the fund

Authorization: Withdrawal of funds from the BSUP Fund needs to be authorized by Municipal Commissioner.

Accounting: The BSUP Fund accounts need to be operated by the Finance Officer of the municipal body. The accounting procedures shall be the same as that followed in the case of municipal general accounts in order to avoid any kind of conflict between the two.

Access criteria: It should be ensured that the funds are utilized for furthering the objective/purpose of the poverty alleviation. It should not be utilised for any other purpose like general salary payments, debt repayment etc. Further, access to BSUP Fund may be linked to the preparation of city level poverty alleviation strategy and action plan as well as micro-plan at slum level for poverty alleviation.

8. BSUP Fund Utilisation Planning

Utilising the funds available under BSUP Fund needs to be backed up by a comprehensive strategy and action plan for poverty alleviation and corresponding fiscal framework and plan. The cities/towns need to first make an assessment of urban poverty in terms of the extent of urban poor and the key issues that need to be addressed towards poverty alleviation.

An urban poverty alleviation action plan is an important component that comprises identifying poverty levels, service deficiencies, identification of projects and prioritization of investment. The cost estimates of the actions identified under the poverty alleviation action plan need to be worked out, so that the fund requirements under BSUP Fund would be known.

9. Earmarking Municipal Funds

Municipal resources are classified as (i) taxes (ii) non taxes (iii) assigned revenues (iv) grants and (vi) borrowings. While taxes and non taxes are considered as internal sources, the others are external sources. The other classification is (a) revenue/ordinary income; and (b) capital income. While revenue income can be spent for all ordinary and regular activities in ULB, capital income has to be spent for creating assets. While items (i), (ii) and (iii) of resources come under revenue income, grants and borrowings are considered as capital income. The grants and borrowings have to be spent for the purpose for which they are given or taken. The internal earmarking of municipal funds for the urban poor is to be limited to the revenue resources of the ULBs, ie., taxes, non taxes and assigned revenues. The proportion of earmarking may be decided with respect to the expenditure needs of service delivery and other actions for urban poor.

Further, internal earmarking has to be done after ensuring that adequate resources to meet the committed expenditure are provided for. In other words, earmarking can be done with respect to the net available pool of resources with ULBs. Internal earmarking of municipal budgets is practiced differently in different settings of the ULBs and States.

Andhra Pradesh - ULBs to allocate 40% of net funds for spending in slum areas (GO Ms.No.265 dated 19-7-2004)

West Bengal - ULBs to allocate at least 25% of annual expenditure to be used for the poor/slum areas and to make use of own revenue sources in meeting the allocation (Govt. Letter No.1249/MA/C-10/3S-61/07 dated 26-10-2007)

Orissa - ULBs to allocate at least 25% of annual expenditure to be used for the poor/slum areas (Office Order No.Tax-10/2007 (Part III)/2552/ HUD dated 7-11-2007)

Madhya Pradesh - ULBs to allocate 25% of municipal budgetary expenditure from own municipal revenue towards the urban poor living in slums (Govt. letter No. F364/18-2/2007 dated 13-4-2007)

Uttar Pradesh - ULBs to allocate certain proportion of municipal budgetary expenditure from own municipal revenue towards urban poor living in slums. (Govt. letter No. 2655/9-65-2006-172C/06 dated 6-5-2006)

In addition to the internal own sources, grants/scheme funds provided by State and Central governments should also be added to BSUP Fund.

Estimation of 'Net' or 'Surplus' Revenue of ULB

Internal earmarking needs to be made with reference to the 'net revenue' but not 'gross revenue' of the ULB. The meaning of net revenue is:

Net municipal funds = Revenue receipts (–) Compulsory/Committed expenditure

Revenue receipts include own revenue sources (tax revenue and non tax revenue) plus assigned revenue sources (shared revenue/assigned revenue).

Inter-governmental transfers (central government grants and state government grants) and borrowings (HUDCO, LIC, Banks or External agencies) are not revenue related. They are considered as capital receipt.

Compulsory expenditure includes establishment expenditure (staff salaries, wages, pensions and other benefits), operation and maintenance expenditure (services, power, repairs, maintenance etc), and debt servicing/loan repayment expenditure.

After arriving at the 'net' municipal funds available, a proportion of them, not less than 25% or as instructed by State governments, may be earmarked for spending on the poor living in slums.

10. Subsuming Funds under National, State & Other Schemes

Once the net surplus funds from revenue sources are estimated, the quantum of resources available from various poverty alleviation schemes of central and state governments can be subsumed into BSUP Fund. The following is an indicative list of such schemes (some of which may require ULB share):

- Swarna Jayanti Shahari Rojgar Yojana (SJSRY)
- Jawaharlal Nehru National Urban Renewal Mission (JNNURM)
- Prime Minister's Employment Generation Programme (PMEGP)
- Urban Basic Services Programme
- Skill Development Initiative
- Sarva Siksha Abhiyan
- Mid-day Meal Scheme
- Integrated Child Development Scheme (ICDS)
- Antyodaya Anna Yojana
- National Old Age Pensions Programme
- Integrated Low Cost Sanitation (ILCS)
- Slum Rehabilitation Scheme
- Kudumbashree programme (Kerala State)
- Indira Kranthi Patham and Pavala Vaddi Schemes (AP and Telangana States)
- Any other poverty alleviation programmes undertaken with the support of agencies like DFID, World Bank, ADB and others

Contributions from individuals and organizations for this purpose may also be added.

11. Instituting poverty alleviation plans to access BSUP fund

The BSUP Fund can be effective and efficient when there is a strong action plan of poverty alleviation at the ward/sub-unit level and when there are structures for integrating them at ULB level. Also, for effective targeting of the funds, identification of the urban poor needs to precede the action plan implementation. Essentially, the following have to be in place for better achievement of the target:

- Identification of the urban poor
- Poverty alleviation action plan/ sub-plan preparation
- Pro-poor expenditure identification

12. Identification of Urban Poor

Identification of urban poor is a starting point of planning poverty alleviation initiative. Below poverty line (BLB) survey and identification of poor on the basis of the survey is an established model in the country. In spite of limitations in the model, below poverty line (BPL) measurement is considered acceptable to identify the poor.

13. Ranking of poor settlements for improvement

Based on the household survey of various slums and poorer settlement areas of the city, prioritization has to be done to cover the most deserving ones for first preference of execution. Poor settlements in the town are ranked through a combination of poverty and infrastructure deficiency. Under Andhra Pradesh model (APUSP), poverty-infrastructure deficiency matrices were prepared and, based on them, the vulnerable poor settlements were prioritised. The poverty criteria included (a) BPL Population and (b) SC/ST Population, whereas infrastructure deficiency criteria included deficiency in terms of (a) Water supply (b) Roads, and (c) Drains.

14. Urban Poverty Alleviation Action Plan

After identifying the urban poor i.e., target beneficiaries, and after identifying the poorer settlements that require immediate attention, expenditure requirements need be worked out. An urban poverty alleviation action plan is an important component that comprises identifying the poverty levels, service deficiencies, identification of projects and prioritization of investment. The cost of the plan proposals shall determine how they will be undertaken in a phased manner with the amount available by the municipal budget allocation for poverty alleviation or the programme budget of the donor/sponsor agency. The preparation of a poverty alleviation action plan or strategy would involve two-step implementation process:

First, a rigorous door-to-door household survey has to be conducted in the city to understand the service deficit, poverty levels and the skills that are in demand. For this, slum survey, household survey and skill needs survey need to be carried out.

Second, identification of infrastructure and development needs of urban poor in consultation with them. This can be carried out in the form of 3-tiered plans:

- Mini-plan at neighbourhood level
- Micro-plan at community level
- City plan at city level

Few States have undertaken initiatives with respect to the preparation of poverty alleviation action plans at neighbourhood and community levels with an active participation of the community and other civil society organizations. They have been done under poverty alleviation programmes funded by donor agencies and the results achieved may be looked upon as the models to be emulated by other States. Some of them include:

- Andhra Pradesh Urban Services for the Poor
- Kudumbashree Programme of Kerala

15. Poverty alleviation budget (P-budget)

The preparation of poverty alleviation plan has to be followed by budgetary allocations in the municipal budget, which leads to the poverty alleviation budget (P-budget). As the revenue aspect is already covered under the establishment of BSUP Fund, it is important to identify and book expenditure as laid down under urban poverty action plan, so that the funds are utilized for the planned and intended purposes.

Currently, there are few frameworks, methods and guidelines for undertaking this task. There are three major strands taken towards the identification of pro-poor expenditure in municipal budgets:

- Area-based approach
- Sector-specific approach
- Beneficiary-oriented approach

Area-based approach

Under this approach, the expenditure is incurred/planned in all notified/non-notified slums in the ULB. These area development plans have specific proposals for the development of slum areas i.e., basic civic infrastructure, livelihoods and support services.

Sector-specific approach

In a sector-specific approach, the pro-poor expenditure is identified by means of type of service on which expenditure is made by the ULB. The services to slums may be categorized into two types:

(i) Internal infrastructure in slums/Low-income settlements – This is primarily meant for the in-situ servicing of slum settlements and it includes both basic infrastructure as well as support services. The infrastructure services include water supply, drainage, internal roads, toilets, street lighting, parks, playgrounds, and community halls etc.

(ii) External infrastructure of slums (Connectivity infrastructure) – The external infrastructure is also important to slum settlements so as to relate them to the city. The external infrastructure services may include approach roads, water supply connectivity, storm-water drainage connectivity and electrical installations etc.

Beneficiary-oriented approach

Under this approach, pro-poor expenditure is identified in terms of beneficiary categories and expenditures are identified with respect to separate sub-plans or special component plans prepared for the group. The beneficiary groups may include schedule castes (SC), scheduled tribes (ST), differently-abled, poor women and vulnerable groups.

16. P- Budget: Integration of Poverty Alleviation Planning & Budget

Poverty alleviation programmes and plans/strategies cannot be effective if the systems of implementation, monitoring, reporting and evaluation at the ULB level are not well designed. The conceptual plans under poverty alleviation strategy and action plan need to be translated into fiscal plan in terms of the expenditure needs of those activities, which need to be further recast into the budget under a separate head of Poverty alleviation Budget (or P-Budget). P- Budget is an approach for integrating planning and budgeting. Poverty reduction using pro-poor budgeting will be based on the strategy and action plan and earmarking of municipal funds discussed in the previous paragraphs.

The P-Budget can be developed in two stages:

First, as a programme budget, on the basis of urban poverty alleviation strategy prepared for the city, which also gives direction to the development of an annual rolling plan. The estimates made under it may be over a time span varying from 3-5 or even 5-10 years.

Second, as annual budget, using the framework of line item estimates under conventional budget process based on urban poverty alleviation action plan. The expenditure estimates may also be some kind of calculations based on the unit costs or any other thumb rules as the case may be, when detailed action plans do not prevail.

17. Creation of Budget Heads

Once BSUP Fund is created as laid down in the previous paragraphs, it is important to prepare a budgetary framework for utilizing resources under the Fund through annual budget. It is also important to ensure that the budget heads are created for utilizing annual allocations for spending on the urban poor from the Fund.

Budget heads for the transfer of earmarked funds and that of the schemes/grants subsumed may be identified and sub-heads may be created further. The guidelines laid down under the National Municipal Accounting Manual (NMAM) need to be kept in view while preparing the budget heads and sub-heads.

18. Accounting for P-Budget

Accounting for the P-Budget needs to be carried out in the same way as it is done in the case of Municipal Budget or as it is done in the case of other Funds within the Municipal Budget. BSUP Fund would become a minor Fund within the major Funds of the municipal body. Municipal accounting has to follow the procedure laid down under the National Municipal Accounting Manual (NMAM) or the State Municipal Accounting Manual with a detailed list of major, minor and detailed account heads.

Day-to-day checks of the P-Budget provisions may be made by Municipal Commissioner and periodic examination of the same may be made by the State Municipal Administration Department or a Specially Constituted Poverty Alleviation Authority. The ULBs may provide budget documents and accounting statements to the State Municipal Administration Departments at a frequency of once in every 6 to 12 months.

19. Summary

To fulfil the above objectives by creating a Fund at ULB level through internal earmarking, the following points may be taken in to account:

- Constitution of BSUP Fund within the budgetary and accounting system through amendments to Municipal Act and/or Rules
- Earmarking of the municipal budgetary (revenue receipts) resources for the urban poor and using other funds (e.g., from grants and donor agencies or citizens) to supplement the same
- Making arrangements for management of the Fund especially for drawing of funds and maintaining of the accounts
- Identifying the urban poor using credible methods, especially those that lead to better targeting, and preparing poverty alleviation action plans starting from neighbourhood level to community level to city level

- Identifying pro-poor expenditure using an integrated approach across wards and functions (sectors), and preparing P-budget by integrating poverty alleviation plan as well as municipal budget, and,
- Promoting budget advocacy and public participation in budget making and analysis, and mobilizing municipal financial resources using both conventional and non-conventional methods.
