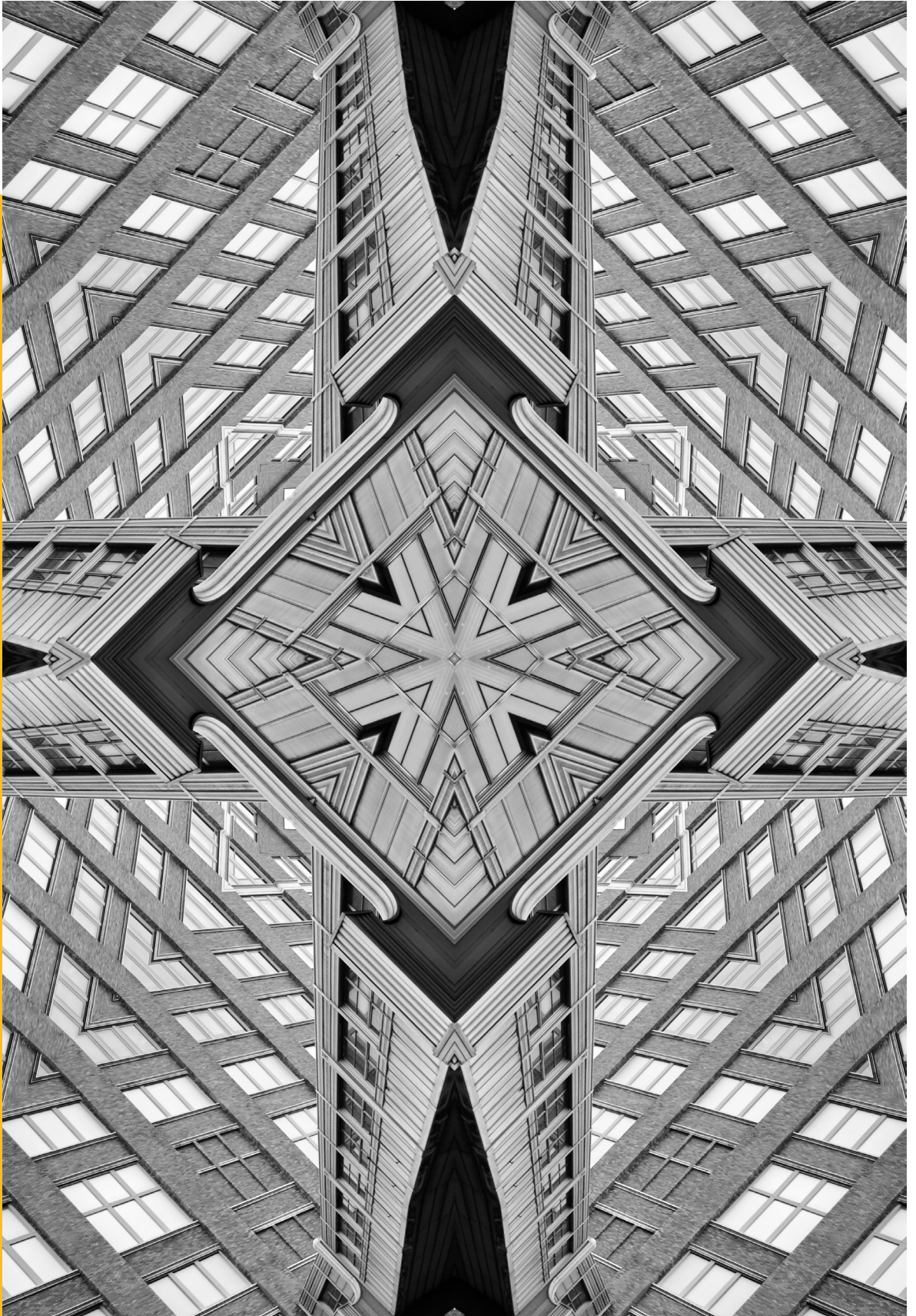


# Occasional Paper



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# Assessing the Merger of Delhi's Municipal Corporations

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## Abstract

In April, the Delhi Municipal Corporation (Amendment) Act, 2022, merged the North, South, and East Delhi municipal corporations into a single urban local body (ULB) called the Delhi Municipal Corporation. The unification is expected to lead to better service delivery, greater financial strength, economies of scale, and eliminate administrative duplication. However, the Act does not outline the functional and financial domains of ULBs and aspects of democratic decentralisation envisaged by the 74<sup>th</sup> Constitutional Amendment Act. This paper assesses the decision to merge the three municipal bodies and its consequences.

In April 2022, the Indian parliament passed the Delhi Municipal Corporation (Amendment) Act to merge the North, South, and East Delhi municipal agencies into a single unified body, the Municipal Corporation of Delhi (MCD).<sup>1</sup> This effectively undid the trifurcation of the municipal bodies introduced by the Delhi Municipal Corporation (Amendment) Act, 2011.<sup>2</sup> The unified urban local body (ULB) emerged on 22 May 2022.<sup>3</sup> However, redrawing the boundaries of the municipal wards; reducing the number of electoral wards; and integrating the deployment of staff, finances, services, and a common taxation rate will likely be a time-consuming affair. Given this, the Delhi State Election Commission has postponed announcing the dates for the municipal elections, which were initially to be held in April or May.<sup>4</sup> In the meantime, as stipulated by the Act, the Central government has appointed a special officer and a commissioner to oversee the affairs of the MCD.<sup>5</sup>

Although several political parties questioned the legality and timing of the unification,<sup>6</sup> given as it came just ahead of the expected municipal elections, the central government stated that the merger was in the best interests of the city as it would improve governance and municipal finances,<sup>7</sup> and address the resentment among civic employees due to inequalities in service conditions in the three municipal bodies.<sup>8</sup>

This paper looks beyond politics to analyse the decision to merge the three ULBs and its consequences. It assesses the Delhi Municipal Corporation (Amendment) Act, 2011, which trifurcated the erstwhile MCD, other instances of mergers in India and around the world and the reasons for such decisions. The paper also examines if the 2022 merger Act satisfies the principles of good urban governance and recommends ways to address the weaknesses emerging from such mergers.

# Trifurcation and Unification of Delhi's Municipal Bodies

**B**efore 2011, the MCD was one of three municipal entities in the National Capital Territory of Delhi, covering an area of 1,397.3 sq. km and a population of 11,007,835.<sup>9</sup> The other two bodies were the New Delhi Municipal Council, with an area of 42.7 sq. km. and a population of 257,803,<sup>10</sup> and the Delhi Cantonment Board, with an area of 33.92 sq. km and a population of 116,352.<sup>11</sup> The 2011 Delhi Municipal Corporation (Amendment) Act trifurcated the MCD into the North Delhi Municipal Corporation, South Delhi Municipal Corporation, and East Delhi Municipal Corporation, while the New Delhi Municipal Council and the Delhi Cantonment Board were left untouched.

The trifurcation was said to be due to concerns about Delhi's deteriorating state of essential civic services. Over the years, several committees, such as the Balakrishnan Committee (1989),<sup>12</sup> have studied the issue and advised that the monolithic MCD be abolished and replaced by several compact municipalities.<sup>13</sup> The Virendra Prakash Committee (2001)<sup>14</sup> recommended that the MCD be split into four corporations and two councils, while the Group of Ministers suggested breaking it into five.<sup>15</sup> Although the committees differed on the number of corporations that should be created from the split, their recommendations to divide the MCD was to ensure efficiency gains.

As per the financial memorandum accompanying the 2011 Act, no additional funding from the Consolidated Fund of the National Capital Territory of Delhi was needed.<sup>16</sup> Similarly, no new buildings, other infrastructure, and staff were needed, barring the additional posts of commissioners and other statutory roles (such as municipal engineer, health officer, education officer, chief accountant, municipal secretary, and chief auditor) mandatorily required under section 89 of the 2011 Act.<sup>17</sup>

Over a decade after the split of the MCD, the 2022 Act presented arguments against the trifurcation and offered reasons for a merger. In its assessment, the principal objective of splitting up the MCD was to improve the delivery of civic services through three compact

# Trifurcation and Unification of Delhi's Municipal Bodies

municipal entities,<sup>18</sup> but this goal was arguably not achieved. It noted the split of Delhi's municipal functioning was “uneven in terms of territorial divisions and revenue-generating potential. As a result, there was a huge gap in the resources available to the three corporations compared to their obligations”.<sup>19</sup> Moreover, the gap continued to widen over time, and the three corporations faced financial constraints that hindered them from performing their contractual and statutory obligations, including paying salaries and providing retirement benefits to municipal employees, which became critical obstacles to the maintenance of civic services.<sup>20</sup>

As a result, the 2022 Act sought to (i) unify the three municipal corporations into a single, integrated, well-equipped entity; (ii) ensure a robust mechanism for synergised and strategic planning and optimal utilisation of resources; and (iii) bring about greater transparency, improved governance, and more efficient delivery of civic services. Importantly, given Delhi's status as the national capital, the Act noted that “it cannot be subjected to vagaries of financial hardship and functional uncertainties”.<sup>21</sup>

“The main objective of splitting up the municipal bodies in 2011 was to improve the delivery of civic services, but this was not achieved due to a wide resource gap between the three corporations.”

# Understanding Municipal Mergers

**M**ergers can typically be of two kinds. First is the union into municipal bodies of those peripheral villages that have rapidly urbanised and acquired distinct urban characteristics. The unification of such peri-urban areas is a part of the process of urbanisation,<sup>22</sup> especially since rural laws cannot shape urban growth in a sustainable manner. The primary objective is to apply to the peripheral villages the same developmental benchmarks as the neighbouring municipality so the entire settlement can emerge as a homogeneous entity.

In the last decade, many cities—such as Prayagraj in Uttar Pradesh; Mangalgi in Andhra Pradesh;<sup>23</sup> Ahmedabad, Vadodara, and Surat in Gujarat; Coimbatore and Chennai in Tamil Nadu; and Pune and Satara in Maharashtra—merged villages into their municipal boundaries.<sup>24</sup> These mergers were generally unpopular and sometimes met with opposition from villagers, village leaders, and even the municipal administration and municipal councillors.<sup>25</sup> The villagers fear additional taxation without an improved delivery of services and the loss of administrative approachability due to centralisation; the village leaders see the merger as resulting in a loss of political power and weakened control over constituents of the ULB; the municipal administrations dread the increased responsibility on the municipal entity without a commensurate inflow of revenue; and the councillors fear having a smaller slice of municipal finances since it must be shared with the newly created wards from the merged villages. However, notably, the need for integrated urban planning and sustainability has triumphed in such mergers.<sup>26</sup>

The second kind of merger is of contiguous municipal entities into a larger single municipality (as in the case of the MCD). India has seen a few instances of such mergers. For example, in 2006, 10 municipal councils—Vejalpur, Memnagar, Chandlodia, Sharkej-Okaf, Kali, Jodhpur, Ghatlodia, Vastral, Ranip, and Ramol—were merged into the Ahmedabad Municipal Corporation (AMC) in Gujarat, and in 2020, the municipality of Bopal Ghuma was merged into the

# Understanding Municipal Mergers

AMC.<sup>27</sup> Other instances include the merger of three municipalities into the Coimbatore Municipal Corporation (Tamil Nadu) in 2010;<sup>28</sup> of the Pethapur municipality with the Gandhinagar Municipal Corporation (Gujarat) in 2020; and of the Pimpri Chinchwad New Town Development Authority with the Pune Metropolitan Region Development Authority (Maharashtra) in 2021.<sup>29</sup> In April 2022, the Bally Municipality in West Bengal was merged with the Howrah Municipal Corporation to render better civic amenities, speedy development work, and get funds from international agencies such as the World Bank.<sup>30</sup>

## Global examples

The merger of municipal bodies is not unique to India. The second half of the 20<sup>th</sup> century saw a spate of territorial reforms centred on the amalgamation of local governments worldwide.<sup>31</sup> This trend was visible in Canada, Japan, Australia, New Zealand, Israel, and multiple Western European countries.<sup>32</sup>

In Canada, for instance, Bill 170 merged Montreal's 28 municipalities into a single city in December 2000.<sup>33</sup> The Bill also included mergers in Longueuil, Quebec City, Lévis, and Hull-Gatineau. However, these mergers were not universally supported and were put to the vote in 2003. The vote resulted in the demerger of some municipalities, such as Westmount, Pointe-Claire, and Côte-St-Luc.<sup>34</sup>

There are several other examples. In 1830, at its emergence as the country as it exists today, Belgium had 2,739 municipal entities. However, in 1975, an extensive exercise of municipal mergers reduced this number to 589.<sup>35</sup> In South Africa, the boundaries of Cape Town were redrawn by the Municipal Demarcation Board in 2000 to merge the former black and white authorities, with the objective of redistributing financial resources from rich and white to poor and black local authorities.<sup>36</sup> In China, the independent cities of Hankou and Wuchang and the county of Hanyang were merged into one named Wuhan in 1949.<sup>37</sup> In 1898, the Bronx, Brooklyn, Staten Island, and Queens joined under one centralised city government to form

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the consolidated New York City in the US.<sup>38</sup> In 2008, the Queensland government of Australia took up a significant amalgamation exercise and cut the number of local councils from 157 to 73.<sup>39</sup>

## Is bigger better?

Does merging two or more municipal bodies into a single larger entity translate into more significant governance gains, or does it create a larger city that is difficult to govern? According to a 2009 study in the US,<sup>40</sup> there was no compelling evidence that favoured municipal consolidation and the results were mixed as municipal mergers were not consistently beneficial in terms of long-term financial gain. The mergers resulted in substantial costs related to transition, salary, service harmonisation, additional facilities, equipment, and physical and administrative infrastructure.<sup>41</sup> At the same time, the benefits included reducing the workforce and eliminating some administrative duplication. It also led to gains in uniform land use planning, economic development, equity of service delivery, and a larger tax base to support infrastructure.<sup>42</sup> However, local elected representatives, employees, and citizens perceived such mergers as losing local control.

In 2018, an analysis of empirical literature on municipal mergers from the 20 years prior was conducted, and the results were organised into three categories—economic efficiency and cost savings, managerial implications, and democratic outcomes.<sup>43</sup> Regarding economic efficiency and spending, there were indications of some cost savings, primarily in general administrative functions, but even these were likely to be offset by additional spending in other service categories, such as coordination and management costs on account of a more convoluted bureaucratic architecture. Hence, any significant economies of scale were unlikely to be achieved.<sup>44</sup> While amalgamations were likely to indicate some improvement in the quality of local service delivery to citizens, these gains were partly offset by the fact that enhanced local government bureaucracies were costlier to run.<sup>45</sup> The review concluded that mergers adversely impacted local democracy, with depressed voter turnout rates, a lower number of



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candidates in local elections, reduced internal political efficacy, and weaker community attachment among residents. Mergers lead to a trade-off between efficiency and democracy.<sup>46</sup>

In a 2013 paper that included a case study on the unification of six municipalities in Toronto, Canada, the authors reviewed the impact of consolidation on municipal costs, local taxes, governance, and citizen participation.<sup>47</sup> They concluded that the merger solved none of the problems related to efficiency but led to ‘bureaucratic congestion’—the propensity of local bureaucracy to proliferate. However, there was a larger presence in economic development, a fairer tax-sharing between rich and poor municipalities, and the likelihood of equalising local services so that all citizens could access a standardised level of services.<sup>48</sup>

While the debate on the merits of municipal mergers continues, the question remains whether there is an optimum size for a municipal entity in terms of governance gains. Most studies have found it challenging to determine a municipality’s ideal population or physical size. One study proposes a population size of between 25,000–250,000, beyond which the efficiency of urban local bodies is thought to decline.<sup>49</sup> However, the author acknowledged that theoretically, there is no ideal size for a municipality and the search for an optimal administrative territorial division is an unsolvable task.<sup>50</sup> There appears to be greater agreement on the U-shaped relationship between population size and per capita expenditure—the costs of local government units fall at the beginning and rise after a certain size of local government units is achieved. This result, therefore, shows that the costs of medium-sized units are the lowest and that there is some optimal size of local government units.<sup>51</sup> However, since ULBs are the third tier of governance in most countries, local factors are highly significant. Since these factors differ from country to country, and region to region in each country, local denominators will make it hard to establish a standardised global template for municipal mergers.

# Understanding Municipal Mergers

Despite the difficulty in standardisation, some positives could emerge from a merger:

- A larger municipal entity is more likely to achieve economies of scale. Duplication of certain municipal jobs statutorily mandated in each unit can be avoided, and a considerable reduction in the workforce can be achieved. In addition, lower administrative overheads, lower per unit costs, sharing infrastructure, and a reduction in annual operating costs can bring down the costs.
- Larger municipal bodies command greater financial and technical ability to handle complex and multiple services they deliver. There can, therefore, be greater specialisation among the municipal personnel, which can, in turn, help in the management of megacities. The consolidation of tax bases enables municipalities to build infrastructure as needed. The ability of large municipal entities to go out in the market and raise debt increases manifold, and they can attract financial institutions to invest in them.
- It has been the experience in many countries that larger municipalities are equipped for better service delivery. This is because of more money and technical and planning ability. Additionally, mergers lead to the selection of the best benchmark of service delivery among the unified units. Those with the best service delivery levels will not want them to be lowered, and those with a lower level of service delivery will want to improve their standards. Therefore, mergers lead to adopting the best prevailing yardstick among the merged units in the search for equity.

Several negative impacts may also arise from mergers:

- Smaller municipalities achieve greater decentralisation, a key hallmark of good governance. There is also a larger voice for the citizens and greater accountability towards them. Moreover, citizens will find it easier to give input and impact decisions since the scene of decision-making is closer to them. Indeed, the further the centre of decision-making, the less impactful the individual

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citizen becomes. In some sense, therefore, larger municipal bodies may negatively impact democracy or local self-empowerment, as the Indian Constitution seeks to achieve. Additionally, larger municipal entities have less incentive to be responsive to local needs.

- Smaller municipalities are less likely to suffer from ‘bureaucratic congestion’. Evidence shows<sup>52</sup> that, over time, municipal bureaucracies tend to multiply, seeking upward mobility in service through avenues of rank and promotion. On account of the small size of the ULBs, employees of smaller municipalities have less opportunity to indulge in such self-service.

Reducing the number of municipalities reduces competitiveness. After a merger, the competitive spirit amongst ULBs tends to fade, adversely impacting the quality of services rendered and accountability.

“Mergers can be of two kinds: the union into municipal bodies of those peripheral villages that have rapidly urbanised and acquired distinct urban characteristics; and of contiguous municipal entities into a larger single municipality.”

# Recommendations and the Way Ahead

The advantages and disadvantages of mergers also apply to the Indian context. In the case of Delhi, it is pertinent to remember that the three erstwhile municipal corporations were still a part of the same megacity. Notably, the administrative divisions did not impact citizens' behaviour, who used transportation networks and availed of services across the three ULBs. Moreover, a unified architecture and operation are feasible since certain services are provided from common sources. For instance, major transportation routes (such as highways and trunk roads), public transport (such as metro and bus services), critical infrastructure (such as water supply), economic activities (such as industries, business districts, and markets), and common environment elements (such as water bodies, rivers, public open spaces, and forests) must be planned in unison.

However, multiple independent governance units with autonomous functioning and service delivery in the same contiguous settlement can mean that their plans are driven by their perceived needs and priorities, possibly countering each other's plans. It is, therefore, vital from the overall planning perspective that the units constitute one planning authority with common developmental control regulations. It is also important that these ULBs have the same land use, transportation, and infrastructural plans. Furthermore, contiguous but independent governance units produce governance complications due to cross-cutting responsibilities. They would, for instance, share the same sources for water supply and only manage internal distribution. In many cases, economies of scale do not advise the creation of administrative machinery to look after a shared municipal function exclusively.

Apart from planning, any financial investment required to be made in any major infrastructure will be better served by large ULBs as they are more successful borrowers than smaller corporations.

# Recommendations and the Way Ahead

Since it is the national capital, the central government is bound to play a critical role in Delhi. Given the sensitivities surrounding the seat of central government and defence, certain functions may overlap (for instance, unauthorised development, a local function that may lead to issues of law and order, which in turn is a central function in Delhi). These will, therefore, require mutual understanding and cooperation between the central and the state governments to avoid dissonance. Collaboration and teamwork are needed to tackle emerging issues such as blue-green infrastructure development,<sup>53</sup> climate change, and city goals and targets under the UN Sustainable Development Goals.

Nevertheless, as multiple studies have established, the drawback of very large ULBs is that they often work against democratic decentralisation, disempower citizens, and reduce municipal accountability. The challenge, therefore, is to incorporate the advantages of democratic decentralisation into the fabric of a large municipal body, which is true for the newly unified MCD.

This is possible by arranging decision-making at three levels—city, zone, and electoral ward. All matters that have a city-wide import need to be decided in the town hall, all issues that will have zone-wise relevance should be decided at the zonal level, and all matters that are unlikely to have any impact beyond the electoral ward need to be decided at that level. Such complete and logical decentralisation of municipal functions combines the advantages of unification with rewards reaped through small-sized ULBs. It allows uniform urban planning, equitable and quality delivery of services, economies of scale, and the avoidance of duplication. A well-considered decentralised governance template also gives the city greater citizen control and municipal accountability. Indeed, the Indian Constitution prescribes ward committees be established in cities with populations of three lakh or more,<sup>54</sup> indicating that the Constitution envisages decentralisation at the zonal level.

# Recommendations and the Way Ahead

Such decentralisation could go further down to each electoral ward, as envisaged by the Indian government’s Model Nagara Raj Bill, 2005.<sup>55</sup> The Bill recommended that at the lowest consultative level, an area *sabha* (assembly) should be set up, defined as “the body of all persons registered in the electoral rolls pertaining to every polling booth in the area of a municipality”.<sup>56</sup> Each area *sabha* would comprise all voting members of five contiguous polling booths, represented by an area *sabha* assignee.<sup>57</sup> However, no state in India has taken the measures required to institutionalise the area *sabha* as a part of the municipal democratic architecture.

While the Nagara Raj Bill envisioned area *sabhas* as advisory bodies, the Maharashtra government’s Committee on Transparency, Efficiency and Accountability in 2017 recommended an alternative—the composition of a *jan sabha* (people’s assembly) at the electoral ward level through popular vote.<sup>58</sup> Unlike the area *sabha*, the *jan sabha*’s decisions were to be binding on the wards committee concerning local works and money allocation to them within the finances provided to the ward. The *jan sabha* was also to be empowered to carry out ‘social audit’ of works within its boundaries.<sup>59</sup> Notably, despite setting up the committee of its own volition, the Maharashtra government has not expressed any opinion on the suggested reforms or its readiness to implement some of the radical recommendations.

“Large urban local bodies (such as the new Delhi Municipal Corporation) often work against democratic decentralisation, disempower citizens, and reduce municipal accountability. The challenge, therefore, is to incorporate the advantages of democratic decentralisation into their fabric.”

The 2022 MCD merger Act must be assessed in relation to the constitutional spirit of crafting empowered local institutions through well-demarcated functional and financial domains, reinforced by robust democratic decentralisation that gives citizens a voice in the decision-making process. The merger of the MCD appears to have focused solely on the unification of the three municipal corporations while overlooking the key aspects of functionalities, finance, and decentralisation. As a result, while the merger benefits Delhi, the government has missed establishing a more comprehensive exercise that can be emulated in other Indian states.

The merger provided an opportunity to configure a governance structure that could address the challenges that huge megapolises like Delhi face, such as the issues of crowd management, unauthorised construction, waste disposal, floods, and air pollution. Although the current governance structure sets specific metropolitan governance mechanisms in place, they are likely to prove inadequate for a big city like Delhi. Many other megacities around the country are likely to encounter similar issues, and Delhi's reconfigured governance structure could have shown the way to tackle such challenges. Ultimately, a golden opportunity for the revival of ULBs around the country has been missed, and the goal of strong and vibrant municipal bodies, as envisaged by the Constitution, remains a distant dream. [ORF](#)

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