



“शिक्षा मानव को बन्धनों से मुक्त करती है और आज के युग में तो यह लोकतन्त्र की भावना का आधार भी है। जन्म तथा अन्य कारणों से उत्पन्न जाति एवं वर्गगत विषमताओं को दूर करते हुए मनुष्य को इन सबसे ऊपर उठाती है।”

— इन्दिरा गाँधी

“Education is a liberating force, and in our age it is also a democratising force, cutting across the barriers of caste and class, smoothing out inequalities imposed by birth and other circumstances.”

— Indira Gandhi

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3

DECENTRALIZED PLANNING AND DEVELOPMENT

UNIT 1

Decentralised Planning: An Overview	5
--	----------

UNIT 2

Decentralised Planning Process	20
---------------------------------------	-----------

UNIT 3

Models in Decentralized Planning	36
---	-----------

UNIT 4

Fiscal Decentralisation-A Global Overview	54
--	-----------

UNIT 5

Fiscal Decentralisation in India: An Overview	71
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BLOCK 3 DECENTRALIZED PLANNING AND DEVELOPMENT

Decentralization and decentralized planning is a worldwide phenomenon in recent years. According to Hanumantha Rao, decentralization through the involvement of local level representative's institutions in the formulation of planning for development as well as their implementation is being advocated in the interest of efficient utilization of resources and for ensuring more equitable sharing of benefits from development. Decentralized planning is a strategy suggested over a period of time to prepare perspective development plan from the lowest unit of governance and administration with an objective of meeting the felt needs of all sections and all regions of a country with vast variations in terms of socio economic conditions and wider cultural diversity.

Unit 1, **Decentralized Planning: An Overview**, focuses on building our understanding on the meaning and concepts of decentralized planning, people's participation in the local self governance in development. This unit is designed to make us understand the context, the objectives, the goals, the reasons for involving stakeholders (people) in the process of planning and the approaches adopted in decentralized planning. It also explains why there is need for adopting decentralized planning and explains the role of the stakeholders in the process of decentralized bottom up process.

Unit 2, **Decentralized Planning Process**, describes the steps in decentralized planning, general principles to be followed and steps to be taken and followed in the preparation of a perspective participatory decentralized planning from below.

Unit 3, **Models in Decentralized Planning**, discusses the suitability various available models in decentralized planning. The three models described in this unit are the Kerala model of district planning; the BRGF and NREGA model of district planning and the C-DAP model of district planning.

Unit 4, **Fiscal Decentralization: A Global Overview** discusses the world wide fiscal decentralisation situation, their differences and similarities and its significance in today's context. It also brings out the broad policy framework which has been adopted by different countries. It also analyses the structural adjustments, and the world wide open economy, which is the basis for policy similarities all over the world. Due to the opening of market economy, the sub national governments (municipalities) cannot restrict the movements of goods and services as well as it cannot control the labour and capital, and so this situation changes the fiscal policy of sub national government is well depicted here.

Unit 5, **Fiscal Decentralization in India: An Overview**, describes the devolution of functions, functionaries and funds from the Central Government to the provincial and local government in India, as a step for the effectiveness of decentralisation. It also analyses, how the customarily decentralisation is termed as delegation of decision making power to the lower levels of governments. It is an established fact now that the decentralisation improves accessibility, promotes responsibility and accountability and effectiveness of the government. Dispersal of financial responsibility is an important component of decentralisation, how the devolution of funds to the local governments closer to the people believed to promote faster development both in rural as well urban areas in India.

UNIT 1 DECENTRALISED PLANNING: AN OVERVIEW

Structure

- 1.1 Introduction
- 1.2 Meaning and Concept
- 1.3 Principles of Decentralised Planning
- 1.4 Meaning of Popular Participation
- 1.5 Goals of Decentralised Planning
- 1.6 Actions Needed for Decentralised Planning
- 1.7 Ways of Practicing Decentralised Planning
- 1.8 Let Us Sum Up
- 1.9 Keywords
- 1.10 References and Suggested Readings
- 1.11 Check Your Progress - Possible Answers

1.1 INTRODUCTION

Multilevel planning, planning from below, decentralised planning, peoples planning, participatory planning, district level planning, integrated district planning and planning at the grassroots are being used interchangeably by the practitioners and policy makers. Broadly speaking they are one and the same and they are not new to India. The moment the centralized planning was initiated, decentralised planning was also thought of from the first five year plan period itself. The whole discussion emanated from the arguments initiated by Mahatma Gandhi on Panchayati Raj. He is the author of decentralisation and bottom up approach of planning and development. He was responsible for a major debate on Panchayati Raj in Indian National Congress during the freedom struggle which ultimately extended to constituent assembly first and planning commission subsequently. Methodology, approach strategy, institutional mechanism may vary from period to period. The basic objectives and broader meaning are the same. But the new exercise started in many of the states under the new dispensation 'decentralisation' is due to the creation of 'District Planning Committee' constitutionally in each and every district in India. It is to be remembered here that the planning commission at the centre and the planning boards at the states are not the creations of the constitution of India. In order to make it clear to every one that it is a constitutional mandate to prepare plan below from the lowest unit of governance and administration namely gram panchayat or town panchayat. District Planning Committee is created in the constitution of India.

This unit will make you to understand the context, the objectives, the goals, the reasons for involving stakeholders (people) in the process of planning and the approaches adopted in decentralised planning.

Objectives

After going through this unit, you should be able to:

- explain the meaning of decentralized planning
- describe the principles of decentralized planning
- judge the need for decentralized participatory multi level planning
- discuss the role of the stakeholders (people more particularly the poor) participation in the process of decentralised planning
- and discuss the ways of practicing decentralized planning

1.2 DECENTRALIZED PLANNING: MEANING AND CONCEPT

Decentralised planning is a strategy suggested over a period of time to prepare perspective development plan from the lowest unit of governance and administration with an objective of meeting the felt needs of all sections and all regions of a country with vast variations in terms of socio economic conditions and wider cultural diversity. Decentralization and decentralized planning is a worldwide phenomenon in recent years. According to Hanumantha Rao, decentralization through the involvement of local level representatives institutions in the formulation of planning for development as well as their implementation is being advocated in the interest of efficient utilization of resources and for ensuring more equitable sharing of benefits from development. As opined by Arvind Kumar, decentralization is referred to as a process of sharing of powers by the central ruling groups with other groups, each having authority within the specific area or the state. Though it had been discussed, debated and argued and justifications were given, from the first five year plan period onwards, real impetus was given throughout the country only after incorporating a provision in article 243ZD in the Constitution of India. The debate was also on among the academics and policy makers for sometime whether the planning unit can be created for decentralised planning activities either at block level or at district level. Now it is created at the district level constitutionally and it is recognized as a mandatory process by which people have to be involved in the preparation of plan from the village panchayat constitutionally.

1.2.1 Historical Background

Even before the dawn of independence, micro level planning or decentralised planning was thought of and discussed after the publication of a document “District Development Scheme: Economic progress by Forced Marches” in 1939 by M. Visvesvaraya. It was the first attempt made in this country to evolve methodology for decentralised planning. In his attempt Visvesvaraya chalked out an action programme for the economic development of the rural areas. His aim was to engage people to ensure security to the people for food, clothing recreation, amusement and to work for their skills. To achieve the above he suggested a few steps namely, a) people to work systematically and scientifically to increase production in close cooperation with the community; b) conducting a survey to assess the economic conditions of the people and identify the problems and suggest avocation which gives profit; c) every district should have institutional structure to promote such a kind of development activities; d) spread elementary

education among adults to create informed citizenry and thereby efficiency, improvement and prosperity could be achieved. To perform the above he suggested creation of a council called District Economic Council, a plan, budget and schedule of activities. This was the first visualization of decentralized planning in India before achieving independence.

The first two five year plan documents had unequivocally and emphatically argued for decentralised planning but they did not put into practice as the two plan documents had not spelt out the needed mechanism to prepare decentralised plan. The third Five Year Plan though took some initiatives to prepare district and block plans, in some of the states, they were not integrated in to the state plan. Only in the fourth Five Year Plan guidelines have been evolved for the preparation of district plan. Based on the guidelines several states have prepared their district plans but they could not integrate them with the annual plan of the states barring Maharashtra, Gujarat and Karnataka. The Fifth Five Year Plan talked much about block level planning. In this regard a working group was constituted in the central planning commission to suggest ways and modalities for planning from below. Based on the guidelines issued by the Planning Commission some of the states have prepared block plans with the help of private agencies. During this period another land mark event took place for strengthening of Panchayati Raj. A committee on Panchayati Raj popularly called Ashok Mehta Committee was constituted to review the progress of Panchayati Raj Institutions. The committee submitted its report in the year 1978. The committee also recommended that unit for planning should be at the district level.

Sixth plan document also reiterates the importance of local level planning. For the first time in planning, recognition was accorded to reliable, updated, timely, Scientific data for micro level planning. Thus data generation at the micro level gained importance. It also stressed the need of strengthening Panchayati Raj Institutions and of involving people in the process of implementation of development programmes. During the same period, a working group was set up in planning commission on district planning and the same submitted its report in the year 1984. The working group provided a detailed guideline and methodology for the preparation of plan at the district level. This working group unequivocally reiterated the need of such a plan at the district level. The Seventh Five Year Plan also reiterates the need of decentralised district plan as recommended by the working group of the commission. It is also recommended that the decentralised planning has to move from district to block. The Eighth Five Year Plan emphasized the need and relevance of the decentralised planning along with peoples participation through peoples institution. Ninth Five Year Plan document made it as an objective to promote and develop peoples participation in planning through democratic institution like Panchayati Raj Institutions. The district development plans will have to be prepared through the institutions of the District Planning Committee which is the creation of the Indian Constitution. 243ZD of the constitution enables for creation of District Planning Committee. Yet much progress was not achieved. Tenth and Eleventh Five Year Plans are pushing the concept of decentralised planning through a centralized drive. Thus decentralised planning was much discussed and debated subject over a period of time but less practiced at the ground. It is to be registered here that Kerala is a model the whole country for pushing decentralised planning through its powerful campaign approach.

Decentralised Planning: Chronology of Events and Committee Reports

S. No.	Year	Item	Ideas and Concepts
1.	First Plan 1951-56	Community Development Blocks	To break up the planning exercise into national, state, district, block and local community levels
2.	Second Plan 1956-61	District Development Councils	Drawing up of village plans and popular participation in planning through the process of democratic decentralisation
3.	1957	Balwant Raj Mehta Committee	Village, Block, District Panchayat institutions established
4.	1967	Administrative Reforms Commission	Resources to be given / local variations accommodated, purposeful plan for area
5.	1969	Planning Commission	Formulated Guidelines; detailed the concept of the district plan and methodology of drawing up such a plan in the framework of annual plans, medium – terms plans and perspective plans
6.	1978	Prof. M.L. Dantwala	Block level planning to form link between village and district level planning
7.	1983-84	CSS/Reserve Bank of India	Strengthen district plan / district credit plan
8.	1984	Hanumantha Rao Committee	Decentralisation of Functions, powers, finances; setting up of district planning bodies and district planning cells
9.	1985	GVK Rao Committee	Administrative arrangements for rural development; district panchayat to manage all development programmes

Source: Report of the Expert Group; **Planning at the Grassroots Level: An Action**

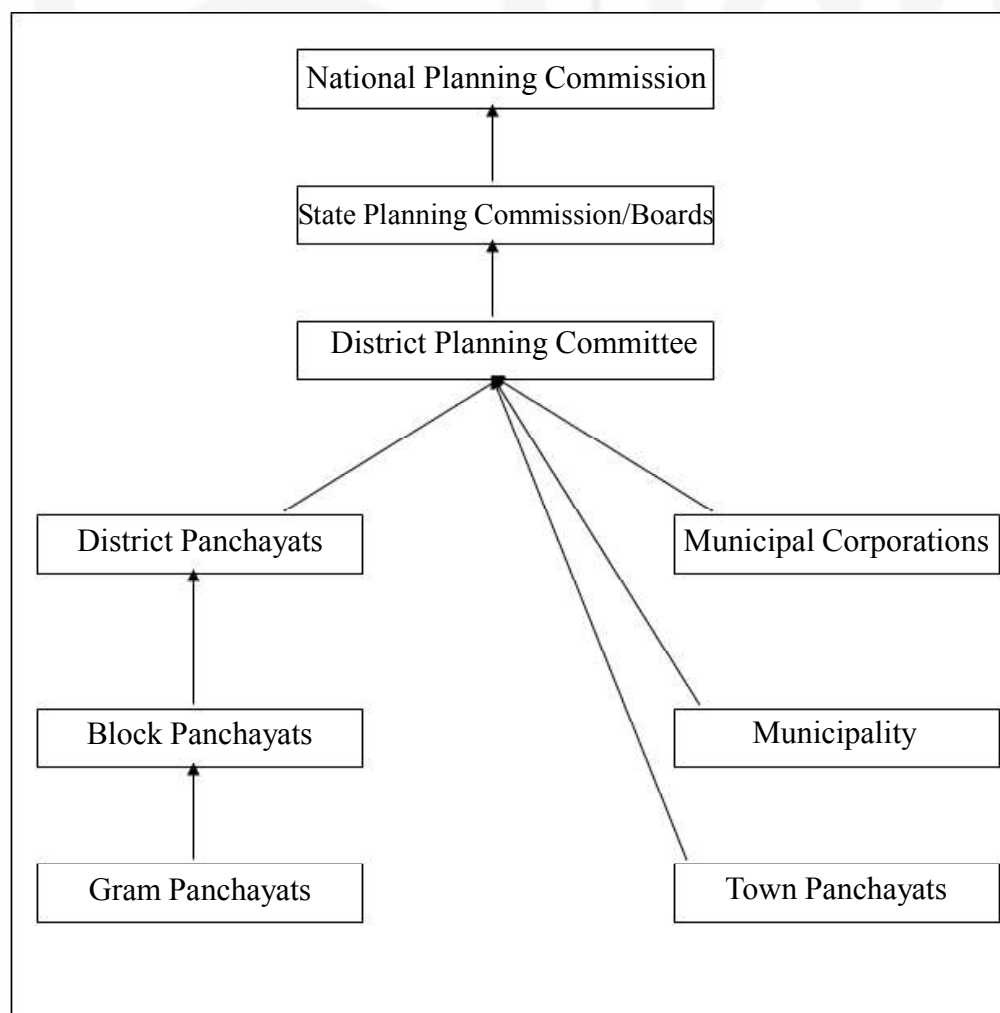
One has to understand why decentralised planning is brought to practice constitutionally. What are all the merits we find in decentralised planning have to be explained. Before coming to the merits of decentralised planning we have to understand the demerits of the centralized planning. Though 'decentralised planning' as a concept is in discussion from the dawn of independence, we practice in India is centralized planning.

In the centralized planning process macro targets for socio- economic development had been fixed periodically and strategies and programmes had been evolved and implemented and yet unmet needs are increased, inequality increased, regional imbalance has grown, gap between the people and governance is increased and peoples skill and knowledge are not utilized properly and profitably. To overcome all those problems decentralisation is through off. One has to understand the advantages and merits of decentralised planning.

1.2.3 Institutional involvement in Decentralized Planning

In this context in India 73rd and 74th Amendments to the Constitution were passed and provided opportunity for the people to participate in the process of preparing micro plan from the villages to the District level. The institutions at the grassroots are created with a provision to include women and the other deprived sections. Thus the plan has to be prepared from the lowest unit of governance to highest level. It is explained through an organ gram below:

Governance Units involved in Planning



1.2.4 Merits of Decentralised Planning

Decentralized planning enjoys strategic advantages over that of centralized planning. According to Rondinell(1983) true decentralization could reduce bureaucratic red-tape, reduce delays, overcome administrations indifferences towards their clientele; improve quality of service, act as effective channels of communication between national government and local communities, promote greater participation of people in planning and decisionmaking. Some of the merits of decentralized planning are discussed below:

- 1) Spatial level specific requirements and needs of the people will be met through the decentralised planning;
- 2) Efficiently resources will be utilized and wastages could be reduced and thereby the gap between the supply and demand can be narrowed down;
- 3) Greater sustainability can be achieved through the decentralised planning;
- 4) Decentralised planning is cost effective as solutions are found out locally with the involvement of the stakeholders;
- 5) Elite capture of the programmes will be eliminated;
- 6) Corruption in Rural Development and Poverty Alleviation programmes can be reduced;
- 7) Poor can emerge from livelihood to achieve economic development;
- 8) Poor can build vision for their development;
- 9) Resources and skills available locally will be utilized profitably for the advantage of the stakeholders;
- 10) Natural resources will be protected preserved and nurtured;
- 11) People capacity will be enhanced;
- 12) Possibility for matching the needs of the people and schemes of the governments;
- 13) People's felt need will be met;
- 14) It will bridge the gap between people and bureaucracy and thereby government is brought closer to the people;
- 15) Regional imbalance will be reduced;
- 16) People's talents will emerge and they will be utilized for community development;
- 17) Productivity will be increased;
- 18) Development will be made people centric;
- 19) Greater mobilization of resources internally;
- 20) Partnership will be achieved between the people and development agencies.

All the above are the advantages and merits of the decentralized planning. They are drawn from the limited experience of decentralized planning prepared in different places. From the above one could visualize the potentials of decentralized planning. But to realize the potentials of decentralized planning lot of efforts are needed from the state governments and local bodies and more particularly the civil society. It could be possible when movement is built up from below for

mobilizing the people for participation in the development process. According to Narayana (2000), the success of decentralized planning depends on following factors: (i) the degrees of willingness of political leaders and bureaucracies to support decentralization and transfer responsibilities; (ii) degree of dominant behavior, attitudes and culture conducive to decentralized decision making and administration mechanism; (iii) proper designing of policies and programmes; and (iv) adequacies of financial, human and physical resources.

After reading and understanding the concept of decentralized planning, now attempt the question given in check your progress-1.

Check Your Progress 1

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

1) Evaluate the merits of decentralised planning

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1.3 PRINCIPLES OF DECENTRALIZED PLANNING

There are certain principles which are imperative for the success of decentralized planning. They are: a, principle of functional clarity; b, principle of financial availability and autonomy; c, principle of decentralized administration; d, principle of public participation; and e, principle of integration.

1.3.1 Principle of Functional Clarity

Decentralised planning would be effective only when all the institutions and organizations involved in planning process are clear about their roles and responsibilities. Planning process involves multiplicity of institutions and they are to work with each other and enable each other. It is possible in the government sector only when adequate clarity is given to the role every institution has to play. It not only involves government but also civil society and other agencies. Having trained in narrow specialization and compartmentalization bringing synergy among the institutions is not so easy. There should not be any conflict or overlapping among the institutions and organizations and they should be mutually helpful and harmonious. Precision and clarity are needed for all involved in the preparation of plan.

1.3.2 Principle of Financial Availability and Autonomy

Institution which are having earmarked responsibilities should have adequate resources and autonomy to spend the resources to discharge their responsibilities. Activities which are earmarked as per the plan document to the units should

have financial autonomy to spend the resources on earmarked activities. At every level untied funds and autonomy to spend the money are imperative for the preparation of implementation of decentralised and participatory planning.

1.3.3 Principle of Decentralised Administration

To perform the decentralized function, adequate administrative powers have to be devolved to achieve efficiency. Many of the occasions even for a small scheme to be implemented at a lower level all nighty gritty will be worked out at the point where the schemes are evolved and resources are allocated. When the conditions are different at the ground, they could not implement properly and as a result one will find wastage of money and another is corruption. Hence no rules can be laid down at the higher level for operation at a lower level. Rules can be evolved at the appropriate level for operation of project and activities. In such a way administrative flexibility should be given to different units of governance.

1.3.4 Principle of Public Participation

For achieving success and efficiency in decentralised planning public participation is an imperative. Even this public participation has to be achieved through the process of empowerment as the marginalized and deprived sections could be involved in decision making. The public participation should not be a mobilized participation but an empowerment participation. Normally in the mobilized participation the participation will raise voice. But it is not their voice. It is a voice of somebody who mobilized them. In empowered participation, the individuals at their will participate and reflect their voice. Problems of the poor, excluded and marginalized could be reflected only through empowered participation.

1.3.5 Principle of integration

Hallmark of decentralised planning lies in integrating and harmonizing the plan documents of different sectors and units at all levels. It requires appropriate framework and skill to integrate the plans from the lowest level. To make the plan document operation able only through the process of harmonizing and synthesizing the plan documents. Village level plans are integrated at the blocks and block plans are to be integrated with District plans. While integrating plans of different units both urban and rural sectoral plans of different units will be harmonized with district plan.

After reading and understanding the principles of decentralized planning, now attempt the question given in check your progress-2.

Check Your Progress 2

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

1) Explain the basic principles of decentralised planning

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1.4 MEANING OF POPULAR PARTICIPATION

The whole exercise of decentralised planning has to be done only through the participation of people and more particularly the poor. Here it is necessary to understand the meaning of popular participation. Popular participation in the development process first noticed in the developed societies as they had high literacy rate, increased democratic institutions from the top to bottom and the increased spread of communication. Popularly it has been described that modern societies are participatory and traditional societies are non participatory. Because it was a well established truth and fact that in the developed countries more number of people involved in decision making process whereas in the developing countries only elites involved in decision making process. But the concept and practice have been changed in the Third World Countries after 1990's. The concept 'Popular Participation' gained currency in the academic circle and literature towards the end of 1960s and 1970s. It is in response to a dominant top-down, blue print development paradigm, arguments emerged for the importance of a development process which began with the needs and knowledge of the people themselves. The seed for the new thinking on participation was sown by Paulo Freire through the book 'Pedagogy of the oppressed' projecting an argument that development process is not a gift received from outside but is a process of transformation gained through critical reflection and action by the people themselves. Paulau's approach was picked up and shared by not only development activists, new generation academics but also the national leaders. They argued that knowledge and skill of the people have to be used for the development of the community. The demand for popular participation was strengthened by popular movements in the south. Thus popular participation was seen as a process through which those who had been excluded from the decision making process affecting their lives asserted their demands for inclusion. It is defined as 'the organized efforts to increase control over resources and regulatory institutions on the part of groups and movements hitherto excluded from such control.

The above definition and explanation are about challenging the existing order in decision making power. But in the 1980's arguments had been slowly changed in the development discourse and practice and popular participation was considered as a form of involvement by the beneficiaries who could help large development actors better achieve their goals. The conventional argument for participation is that with the active participation of the beneficiaries or stakeholders projects would be better targeted and made more appropriate to needs of the local population, ownership would be built, resource contributed, and programmes would become more sustainable over time. Though space is created for peoples knowledge and involvement in development planning and implementation, this beneficiary approach still maintained.

During the 1990s with the mainstreaming of participation in large scale development programmes terms like the 'excluded' or 'beneficiary' began to give way in mainstream development discourse to use neutral terms as 'stakeholders'. Thus the World Bank has defined the concept participation is a process through which stakeholders influence and share control over development initiatives and the decisions and resources which affect them. Subsequently the same concept 'Participation' is being perceived deliberately not as an opportunity to be beneficiaries but as a right of the citizens. A renewed emphasis has been

added to include the so far marginalized groups in the process of development and governance. Many aid agencies have made it clear that it is enabling people to realize their rights to participate in, and access information relating to, the decision making processes which affect their lives. But it has some pre-requisites. They are:

- a) the presence of democratic institutions which have got the representation for the poor;
- b) the institutions should have the inclusive character based on values of equality and non-discrimination
- c) the institutions should have accountability mechanism to ensure and promote rights.

In the same line of argument UNDP report in the year 2000 argues that the fulfillment of human rights requires democracy that is inclusive in character and nature. When the participation is conceived as a right, the argument moves from rights of beneficiaries and rights of stakeholders to rights of citizens. It is more of political ideas stems from the argument that citizens have not only rights they have responsibilities also. Participation of poor and marginalized as citizen has several problems and challenges in the societies where inequality and discriminations, and patriarchy are high.

1.4.1 Advantages of Participatory Plans

- 1) Participatory planning gives ownership to the stakeholders and hence the project or development initiative is taken off the ground immediately.
- 2) It provides the needed exact information about the problems and issues from the stakeholders with the active participation of them, for the planners.
- 3) It makes the stakeholders to accept the change willingly to transform themselves and transform the community and society at large.
- 4) It reduces the cost as it uses local manpower with local skill and local knowledge and most often unused resources. Hence it is cost effective.
- 5) It reduces the time also as the stakeholders involve consciously in the whole exercise of development programme and completion of the programme and project will be quick. Because stakeholders are interested in seeing the results and implications.
- 6) It increases efficiency and effectiveness. Because the stakeholders have the perception that they are going to get benefits out of the programme, people want to maximize the benefits and hence they want to maximize the efficiency.
- 7) It envisages a self mentioning mechanism which reduces the cost. Stakeholders are getting benefits and hence monitoring is integral and continuous. It is the most efficient way of monitoring the progress and process of the project.
- 8) It not only achieves the target outcome but also educates the people. Thus participatory planning is an educative process. It contributes to human resource development.

1.5 GOALS OF DECENTRALIZED PLANNING

Decentralised participatory planning has got some fundamentals and they are popularly called as goals. The goals are the referral points and lens to look at the whole process of decentralised participatory micro plans in the backdrop. They are; a. economic development b. social justice, c. welfare d. environmental protection e. coordination f. peoples involvement.

1.5.1 Economic Development

The plan should be developed in such a way that it has to achieve economic development by increasing the production in agriculture, land reforms, small irrigation system, animal husbandry, dairy and poultry and fisheries. Economic development is the key in this process. To achieve economic development, the whole process should rely on peoples knowledge, skill and integrated use of appropriate technologies.

1.5.2 Social Justice

The benefits of economic development should reach the various categories of the community, particularly, it should reach the poor and the socially weaker and marginalized sections. Further, the plans should facilitate increased income by providing employment opportunities to the socially disadvantaged and the marginalized. At every level components for women and Dalits could be integrated into the plan or sub-plans could be created for Dalits and women.

1.5.3 Welfare

The plan should incorporate schemes for providing infrastructural facilities like road, water supply, housing, street lights, waste disposal, and also social welfare schemes like education, welfare of women, children and cultural activities. In the neo liberal framework, state moves away from the basic welfare activities and hence in order to overcome that deficiency, welfare activities should be made integral of the decentralised plan.

1.5.4 Environmental Protection

The plans should have the component to protect nature and environment. It should not cause damage to the eco-system, flora and fauna. It should have devices to manage natural resources. It should aim for creating green, clean and thus eco-friendly villages.

1.5.5 Coordination

The plan should ensure the total development and growth of the entire unit by incorporating all the development plans of the concerned area, plans of the respective departments, schemes for individual benefits, schemes that are implemented by the government departments, schemes that are implemented by banks, NGOs and other development agencies.

1.5.6 People's Involvement

The plan should be on the basis of collection of data, confirmation of the same, assessing the needs, evolving activities and prioritizing the same with the active involvement of the citizens. At every level people have to be involved and people

should own the plan. For this purpose people have to be mobilized and more particularly the poor and other marginalized sections. When they are mobilized for participation, it should reflect opinion and voice of the poor and not the voice of others. Hence mobilization of people should be on empowerment mode and not as beneficiaries. This process of mobilization is different from that of political mobilization. Often political mobilization reflects the voice of the mobilizers not the mobilized.

1.6 ACTIONS AND WAYS NEEDED FOR DECENTRALISED PLANNING

Following are the imperative activities needed to initiate vibrant decentralised planning:

- a) There should be an organic linkage among the three layers of planning units namely District Planning Committee, State Planning Commission and Central Planning Commission.
- b) Planning units must be created at different levels of governance down below the District and District Planning Committee is only the integrating and consolidating unit.
- c) Data generation mechanism, data updation and data validation process have to be done at all levels up to the level of the District Administration.
- d) Capacity Building for the Elected Representatives and the officials involved in planning has to be conducted periodically.
- e) Enabling information flow from the lowest unit to the highest unit of planning and vice versa has to be done.
- f) Planning machinery has to be created at every level where planning executive is done.
- g) Decentralised planning module has to be prepared and it is to be followed at every level.

1.7 WAYS OF PRACTISING DECENTRALISED PLANNING

For effective decentralised participatory planning civil society organizations, retired government officials and academic institutions can support the Gram Panchayats and other layers of local governance for the preparation of participatory micro plan in the following ways:

- To generate data from the field
- To conduct PRA exercise for prioritizing the activities based on the needs of the people.
- To draft the plan document
- To organize development seminar at the grassroots level
- To Mobilise people for participation in plan preparation
- To train Local Body Leaders and Functionaries in Decentralised plan preparation

- To implement the plan activities
- To monitor the implementation of the planned activities
- To evaluate the plan activities through social audit.

1.8 LET US SUM UP

In this unit we have discussed the meaning and importance of the concepts ‘decentralised planning’ and ‘popular participation’ in the new concept of globalisation of economy and decentralisation of powers. What are the principles, goals and merits of decentralised planning, have also been seen in this unit. So also the importance and advantages of participatory planning have been discussed. We have seen totally the general background and principles of decentralised participatory planning.

1.9 KEYWORDS

Decentralisation: Decentralisation refers to transfer of authority to plan, make decision and manage public functions from the national level to any organization or agency at the sub-national level. This would mean assigning both powers and responsibilities for activities.

Decentralised Planning: It is a strategy to prepare perspective development plan with an objective of meeting the felt needs of all sections and all regions of a country with vast variations in terms of socio economic conditions and wider cultural diversity.

Participation : Participation is a process through which stakeholders influence and share control over development initiatives decisions and resources which affect them.

Participatory Decentralised Planning : It is a process of involving stakeholders in the preparation, design, implementation and evaluation of the plan inclusive of programmes and battery of schemes. The initiatives start from below and they are integrated with National plan.

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1.11 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

1) Evaluate the merits of decentralised planning

Ans. Some of the merits of decentralized planning are discussed below:

21. Spatial level specific requirements and needs of the people will be met through the decentralised planning;
22. Efficiently resources will be utilized and wastages could be reduced and thereby the gap between the supply and demand can be narrowed down;
23. Greater sustainability can be achieved through the decentralised planning;
24. Decentralised planning is cost effective as solutions are found out locally with the involvement of the stakeholders;
25. Elite capture of the programmes will be eliminated;
26. Corruption in Rural Development and Poverty Alleviation programmes can be reduced;
27. Poor can emerge from livelihood to achieve economic development;
28. Poor can build vision for their development;
29. Resources and skills available locally will be utilized profitably for the advantage of the stakeholders;
30. Natural resources will be protected preserved and nurtured;
31. People capacity will be enhanced;
32. Possibility for matching the needs of the people and schemes of the governments;
33. People's felt need will be met;
34. It will bridge the gap between people and bureaucracy and thereby government is brought closer to the people;

35. Regional imbalance will be reduced;
36. People's talents will emerge and they will be utilized for community development;
37. Productivity will be increased;
38. Development will be made people centric;
39. Greater mobilization of resources internally;
40. Partnership will be achieved between the people and development agencies.

Check Your Progress 2

- 1) Explain the basic principles of decentralised planning

Ans. Some of the basic principles are outlined below:

- 1) Principle of Functional Clarity
- 2) Principle of Financial Availability and Autonomy
- 3) Principle of Decentralised Administration
- 4) Principle of Public Participation
- 5) Principle of integration



UNIT 2 DECENTRALISED PLANNING PROCESS

Structure

- 2.1 Introduction
- 2.2 Decentralized Planning Process: Meaning and Importance
- 2.3 Guidelines in Decentralized Planning Process
- 2.4 Software Available for Decentralised Planning
- 2.5 Steps in Preparation of Decentralised District Plan
- 2.6 Steps in Preparation of a Village Panchayat Plan
- 2.7 Steps to be Followed in the Preparation of a Urban Local Bodies Plan
- 2.8 Consolidation of District Plan
- 2.9 Let Us Sum Up
- 2.10 References and Suggested Readings
- 2.11 Check Your Progress - Possible Answers

2.1 INTRODUCTION

One cannot find adequate literature on decentralised planning in India. Although, the discussions and deliberations were on even before the days of independence and subsequently after independence in all Five Year Plans, sporadically and sparingly it was put into practice at the ground and of course there were isolated experiments. Hence, inadequate literature on this area. After passing of the 73rd and the 74th Amendments to the constitution of India, decentralised planning gained much currency among the policy makers and administrators. Kerala emerged as model for decentralised planning and the experiences of Kerala were given in a separate unit. In the previous unit we have seen the need for decentralised planning contextually and the importance of peoples participation in the planning process at the grassroots and the approaches of decentralized planning. In this unit of principles and steps in decentralised planning you will understand the general principles to be followed and steps to be taken and followed in the preparation of a perspective participatory decentralised planning from below.

After reading this unit, you should be able to:

- Explain the meaning and importance of decentralized planning and process involved
- Discuss various guidelines of decentralized planning
- Explain steps in decentralized district planning
- Describe steps to be followed in the preparation of village plan, urban local bodies plan and integrated district plan

2.2 DECENTRALIZED PLANNING PROCESS: MEANING AND IMPORTANCE

Decentralised participatory district planning involves people of all sections through an appropriate device mechanism and strategy in gathering relevant data, analyzing it to set priorities, matching the set priorities with available budget and schemes and programmes of the state and central government. It involves in defining process of implementation and the setting and monitoring of targets. This plan comprises what different planning units within a district can achieve by envisioning collectively, operating their targets, exercising their skills and leveraging their initiative. In this planning process each planning unit namely panchayats at gram level, intermediate and district levels, municipalities of different categories, line departments and parastatals would prepare a plan for implementation of each of their functions and responsibilities after consultations with people. While collaborating and coordinating with each other, they would not trespass into each other's area of responsibility, unless there are definite gains to be had and with mutual consent. The final plan would result from a buckling together of these unit plans through a consultative process of consolidation. It is the design of government of India.

Box 1

Planning Unit

A planning unit is a body that is entrusted with responsibility of planning. In a logically organized system of local government the panchayats and municipalities are easily recognizable as distinct, self contained planning units. In India the position, status, responsibilities, powers, functions, finance, functionaries of Local Bodies vary from state to state. Planning exercises are being done not only by the local bodies but also government line departments and community organizations by making use of the schemes and programmes of the state and central governments. In the same way the donor agencies operate projects through NGOs and they also plan for activities. Keeping all variations the district planning committee has to accommodate all without trespassing the others domain.

Source: Planning Commission, Government of India, **Manual for Integrated District:** Planning New Delhi: Planning Commission, 2008.

India is at a critical and unique juncture where participatory decentralised planning is felt imperative and it receives much attention from all segments of the society. It gains currency at all levels. To operationalise this exercise more scientifically and in scale and mobilize people of all segments of the society, the innovations in information and communication technology help is inevitable and essential. In every sense the time is ripe for preparation of participatory decentralised plan from below. Local institutions, needed technology, man power and resources are available now along with the guidelines for preparation of plan from every local institution and to consolidate the same at the district level through the District Planning Committee. By making use of the opportunity, people's felt needs could be fulfilled and better outcome and results could be achieved in terms of human development indicators. In the whole process, people will be mobilized for development tasks and level of awareness and capacity of the

people could be enhanced. Participatory district planning is multi dimensional in nature and hence it calls for adoption of sequence of steps to achieve meaningful targets.

2.3 GUIDELINES IN DECENTRALIZED PLANNING PROCESS

i) The decentralized planning process follows certain guidelines which are delineated below:

There are certain key principles to be followed in the whole process of planning at the grass root level. They are non negotiable principles. A new mind set is needed for every one who is involved in the process of decentralized planning. Following are the principles;

- i) Ensuring the participation of stakeholders
- ii) Bridging regional disparities
- iii) Keeping ecology and environment in the backdrop
- iv) strengthening the planning machinery at all levels
- v) Building the capacity of the functionaries
- vi) Transforming a vertical planning process in to a horizontal process
- vii) Using the ICT effectively for participatory planning
- viii) Global vision and local action
- ix) Proper assessment of resources
- x) Law of subsidiary
- xi) Downward accountability

ii) Ensuring the participation of stakeholders

The prime objective of this plan is to make the unreached, neglected and marginalized to participate in the process of planning. The poor do not find time to take up responsibilities and they concentrate more on their livelihood. Hence, it is necessary to mobilize the marginalized for development action. By involving them in the process of decision making and planning confidence is instilled in the minds of the poor that they are also being considered as a factor to reckon with and by doing so the whole process is made inclusive. It requires new mind set and special skill for the leaders and the functionaries of the local bodies to bring them to the new exercise for inclusion.

iii) Bridging Regional Disparities

With in a district, wide variations are noticed among the regions. While seeing the blocks from the perspective of human development indicators, one will find the wide variations among the blocks within the district and variations among the districts within a state and among the states within a country. Removing such variations within the district should be one of the key principles and perspectives of decentralized participatory district

planning. The district planning committee has to look into the disparities among the regions, while micro plan is developed. Allocation has to be ensured according to the needs of the region.

iv) Keeping Ecology, Environment in the Backdrop

You should know that we are living in a context where ecology and environment are in peril. Global warming and climate change will affect food production and disturb the eco system. Against this back ground, when decentralised rural planning is initiated, it should be done in the backdrop of ecology and environment. Natural resource conservation, protection and enrichment are key elements to be considered for decentralised participatory planning. While planning is initiated in the context of globalization liberalization and privatization, activities have to be chalked out on the available new opportunities with the aim of achieving economic development and prosperity. While doing so care has to be taken to protect ecology, biodiversity and environment. Optimum utilization of natural resources has to be kept in mind.

v) Strengthening the planning machinery at all levels

Since planning at grassroots has been made mandatory, planning units at every level right from Gram Panchayat to District Panchayat, and Town Panchayat to municipal corporation have to be created and strengthened. Planning, monitoring and evaluation are to be done continuously and for which the units have to be equipped with staff, needed technology and resource support. Unless otherwise planning at grassroots will be adhoc and irregular and not people centric participatory planning.

vi) Building Capacity of the Functionaries

Capacity building is an imperative need for effective functioning of the planning units. The key functionaries both elected representatives and officials have to be trained and oriented periodically in the new process and principles of evolving decentralised micro plan for poverty alleviation and development of the poor and marginalized sections. For collection and analysis of data and prioritization of activities at grassroots, they need perspective, understanding and vision. In order to make the functionaries capable, capacity building exercise is an imperative need.

vii) Transforming a vertical planning into horizontal process

Planning exercises have to done both horizontally and vertically. So far the line departments, mission units, donor projects and local bodies act in their own orbit without bringing any synergy. Now the weaknesses of the process is realized and synergy is the missing link and the need for such a link is felt and hence institutions working in a given geographical space have to work together keeping their autonomy intact. This is crucial for the success of the micro plan. By doing this synergization, every unit gets advantage. In a village, gram panchayat health committee is functioning, health mission unit is also working, a small NGO getting funds from a donor agency is also working in the same area and health department personnel is also functioning. All are working on the health issues. But

they are all working not together but separately and they are accountable to their departments. But now in the planning exercise, all the units are brought together and work together by keeping their autonomy intact and towards acting the target and goals. So the vertical processes have to be transformed into a horizontal process.

viii) Using ICT effectively for participatory planning

At present information is power. People can be empowered through information. Information are essential need for planning. Data generation, validation, maintenance, updation should be done in a scientific way and for which the new technologies are needed. Every planning unit be it a Gram Panchayat or a small town panchayat, they are to be connected with newer technologies for transfer of information, generation of data and analysis of data. ICT can be used effectively not only to collect, collate, transfer and analysis of data but also for updation, maintenance and validation of the same. Moreover information dissemination has to be done in an effective way for wider mobilization of people for development activities and for which it helps immensely. Moreover it helps to maintain transparency.

ix) Global Vision and Local Action

We have millennium development goals. They are to be achieved. Countries have to work for it through their policies, programmes and resources allocation. But activities have to be carried out only in the society. So work has to be done only at the grassroots. Macro issues have to be tackled through micro actions. Be it literacy, poverty reduction, malnutrition or anemia or HIV, they are to be tackled massively by the involvement of people locally. If macro issues are broken and disaggregated it is easily manageable at the micro level. If each gram panchayat is empowered functionally and financially to tackle issues of health and education many of the MDG targets can be achieved at ease. Vibrant local actions are necessary. The beneficiary syndrome has to be changed and it is the look out of the people to participate in the process of development and act on the issues.

x) Proper Assessment of Resources

Local units are traditionally spending units. Now it has to be changed. Available local resources have to be assessed and mobilized. Natural resources, human resources, and material resources available within the jurisdiction of the local governance units have to be assessed and accordingly decisions have to be taken for resource mobilization. The whole planning exercise will yield result only if resource planning is done properly. Fund flow mechanism has to be tracked and assess the resources available at the unit. Resources identification and tracking is the basic works in the process of planning at the grassroots.

xi) Law of Subsidiarity

Every unit is autonomous and hence things that could be done at the lowest level could be allowed to be done at the lowest level. It should not be replicated or duplicated at the next level. From that perspective, planning exercise has to be carried out at the grassroots. We find overlapping of

activities among the institutions and they are to be avoided. By doing so resources and time can be saved. Over a period of time capacity, skill and capability will be increased.

xii) Downward Accountability

In a traditional sense, in our governance and administration, accountability is built upwards. Every unit is accountable to the higher level unit and in the same way every official is accountable to his / her superior official in terms of his / her roles and responsibilities. Now it has been reversed and accountability is built towards the stakeholders. They are empowered to evaluate the activities through the process of social audit. All units working at the ground are autonomous in their functional jurisdiction. Hence the units can work together without trespassing into the jurisdiction of the other. So far we have seen the basic principles that one has to follow while preparing the micro plan. Now we will move on to the next aspect the available software for preparation of micro plan.

After reading and understanding the concept of decentralized planning process, now attempt the question given in check your progress-1.

Check Your Progress 1

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

1) Bring out the basic principles in decentralised participatory planning

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2.4 SOFTWARE AVAILABLE FOR DECENTRALISED PLANNING

For planning exercise data generation, data validation and data analysis tools are so important and imperative needs. For continuous exercises, data storage, retrieval, validation and updating modern tools are imperative as it will reduce the wastage of time, resources and manpower. Hence using modern technology is unavoidable and necessary also.

For the preparation of decentralised participatory planning, government and other agencies have developed software and many of them are in use and they are listed hereunder:

i) “**Plan plus**” is software developed by the NIC for the Ministry of Panchayati Raj Government of India to simplify and strengthen the decentralised planning process. It is well developed interactive local language software. It is suitable software for both the local bodies and line departments of the government.

- ii) **“National Panchayat Portal”** <http://panchayat.gov.in>. This is also developed by the NIC for the Ministry of Panchayati Raj, Government of India. It is a dynamic website for all panchayats. It provides data pertaining to panchayats. The whole responsibility of managing the content can be undertaken by the panchayats themselves.
- iii) **“Gram ++”** is a software developed by the IIT of Mumbai and it enables integration of numerical data on to a global information system for spatial display.
- iv) **“Riddhi Soft”**. This software is developed by a private company and it provides a cost effective and versatile GIS platform for local planning.
- v) **“DISNIC”**. It is also a software initiative aimed at collecting extensive data on local resources in a detailed village wise data base.
- vi) **“NIC’sGIS”**. The NIC has an in house GIS system that accesses data from remote sensing sources and provides detailed topography, soil; land use and water cover details which is ideal for watershed and agricultural planning.
- vii) **“PRIASOFT”**: It is a yet another software developed by the NIC taking into account the accounting formats developed by the CAG for panchayats accounts. It can be customized for meeting the requirements of state specific systems of accounting for panchayats.
- viii) **“CDAC”**: It is software specifically designed to provide Indian language interfaces that can be adopted and interlinked with other software for easy multi language use.
- ix) **“Performance Tracking System”**: It is developed by the centre for Good Governance, Hyderabad for easy monitoring of implementation targets on a user friendly MIS platform. It is useful for monitoring plan implementation and it permits feedback to flow back in to the planning process.
- x) **“District Information and Planning System”**. It is developed by a private vendor and it integrates GIS applications with data and permits resource allocation to preferences indicated by the people.
- xi) **“NRDMS”**: The Natural Resources Data Management System is a three decade old initiative of the Ministry of Science and Technology to provide natural resource data gathered from remote sensing source for local planning. The data is available on GIS maps in districts covered by the system.

2.5 STEPS IN PREPARATION OF DECENTRALISED DISTRICT PLAN

- i) **Stock Taking**: Preparation of a district stock taking report for presentation in the district planning committee is the first step. This becomes the basis for vision building exercise for the whole district. Where is the district in terms of poverty, employment, health, education, productivity and where it wants to reach have to be understood. Once the existing reality is perceived and understood and from where target can be fixed and strategy can be

worked out. To build vision for the district, the existing conditions have to be projected through scientific data. So this is the first exercise in the preparation of the decentralized district plan.

- ii) **SWOT Analysis:** In the vision building exercise a SWOT analysis has to be made. Based on the SWOT analysis vision for development has to be developed in the backdrop of the national and state goals. The distance between the current status and the goals fixed can be assessed and accordingly strategy could be worked out to bridge the gap between the two.
- iii) **Vision Building:** The District Planning Committee based on the existing conditions in human development indicators and the report of the SWOT analysis visioning exercise has to be done for the whole district. The vision should indicate the target to be reached and the approach to be followed based on the National and State Governments vision and approaches. MDG should be in the backdrop of the visioning exercise.
- iv) **Vision Dissemination:** Communicating the district vision to different planning units functioning down below the district planning committee is the prime task of the District Planning Committee and making them to fix their vision and target to realize the vision of the district is the next task. Each and every unit of planning should have clarity on the vision of the district. To achieve the vision each and every unit has to fix their target in the form of vision.
- v) **Finance Tracking:** Simultaneously communicating the resources available for development action to different units is crucial for planning. It is not a mere document. It is set of implement able targets and reachable goals. Hence available resources have to be communicated to different agencies. There are multiplicities of agencies involved in development action. The total amount spent by various agencies in a specific geographical location should be communicated to the different units of planning.
- vi) **Enabling the Planning Units:** Enabling the planning units at different levels namely gram panchayat level to District panchayat, town panchayats to municipal corporations, village mission units to district mission, field office at the grassroots to district office of line departments to collect data pertinent to the needs of the people based on the participation of stakeholders.
- vii) **Preparing the Plan:** At every unit the collected data have to be analysed, prioritization has to be done through a wider consultation by conducting development seminar and match the needs with the available resources come through various agencies.
- viii) **Plan Integration:** Integrating the plan documents of the different units of planning and creating a district plan document. At a gram panchayat level plan of the field office of the line departments, mission units of the scheme mission and donor agencies have to be integrated. In the same way block panchayat plan has to be created through the process of integration. Likewise integration of plans has to be done both for rural and urban planning units at different levels.

- ix) **Monitoring and Evaluation:** Establishment of monitoring systems and social audit mechanisms to ensure effective implementation of the district plan is the final step in the process of decentralised district planning. So far we have seen the steps to be followed for the preparation of district plan.

After reading and understanding the various steps in preparation of decentralized planning, now attempt the question given in check your progress-2.

Check Your Progress 2

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

Q1) Explain the steps to be followed in preparing the decentralised district plan

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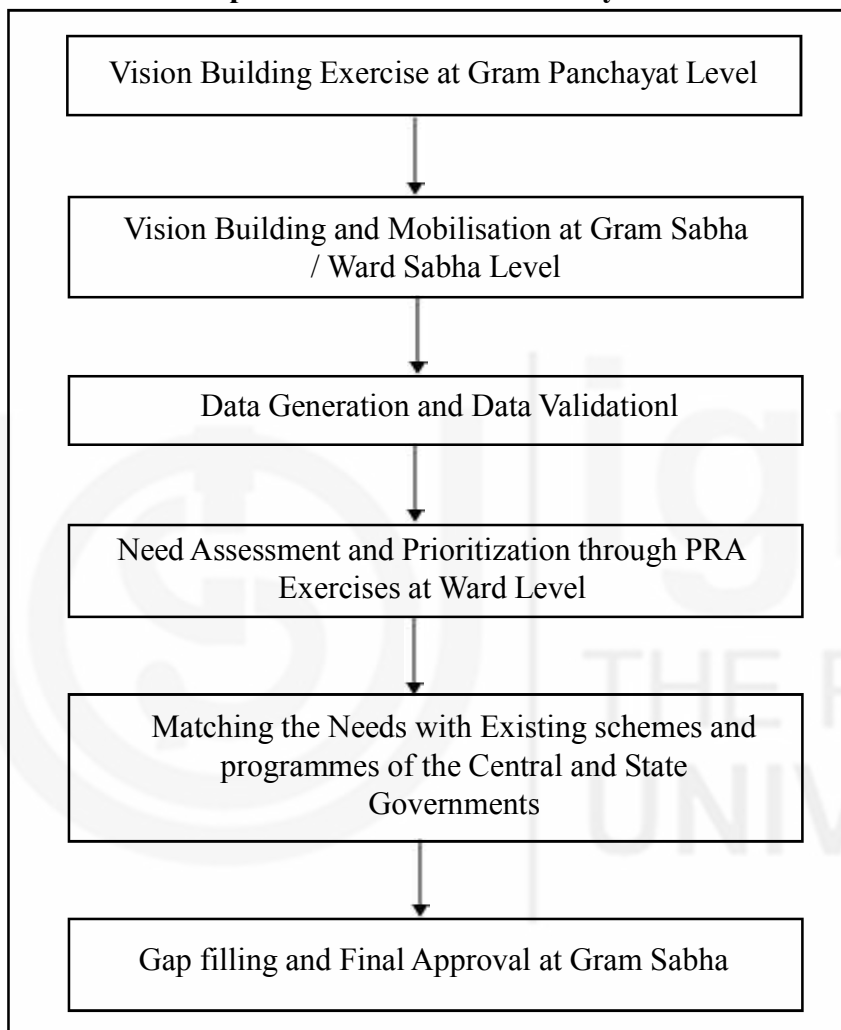
2.6 STEPS IN PREPARATION OF A VILLAGE PANCHAYAT PLAN

The village panchayat planning process comprises the following steps:

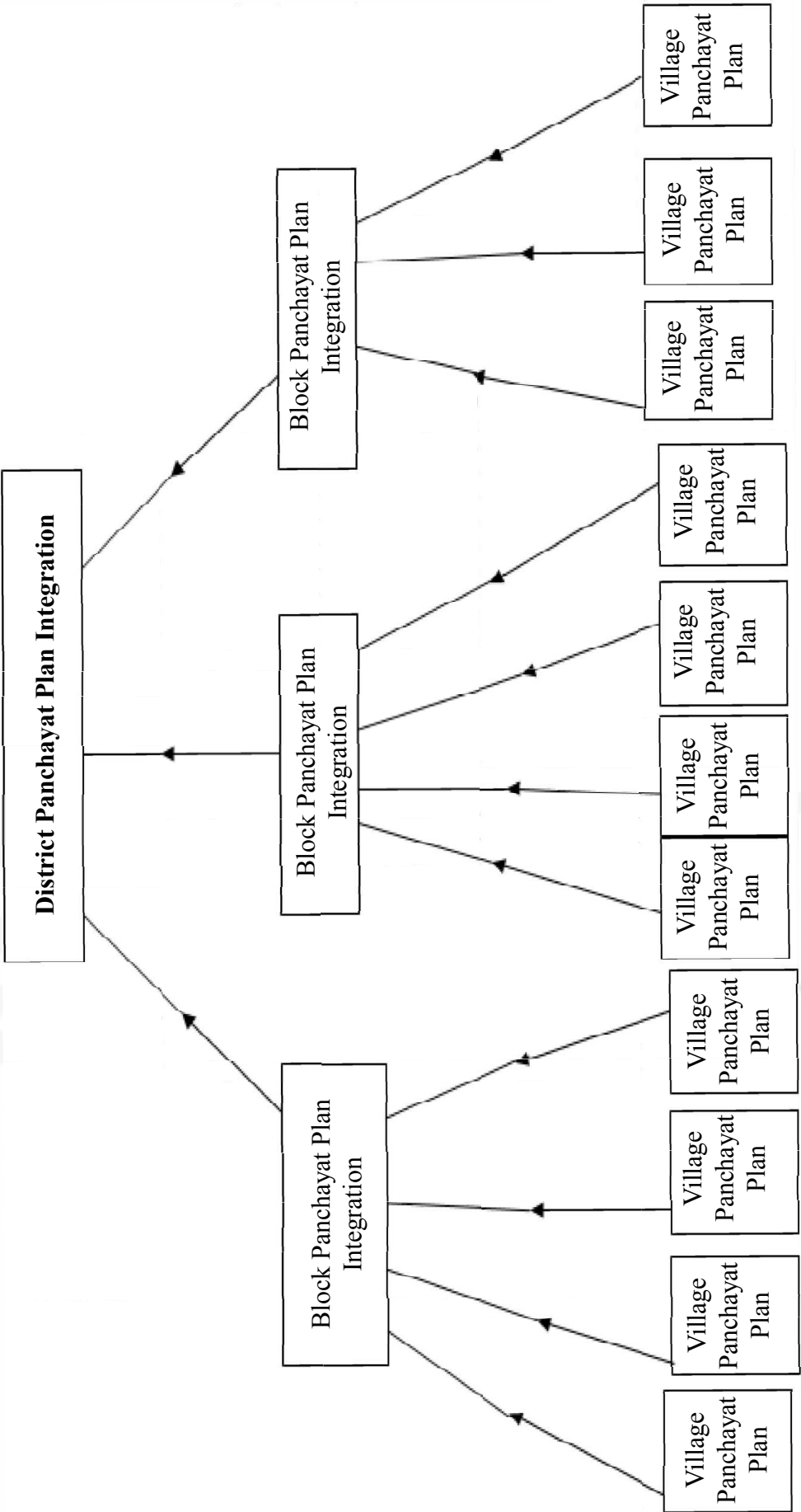
- i) **Vision Building Exercise:** Having got the district vision, the village panchayat has to take stock of the existing conditions of the people in terms of human development indicators. Where is the Gram Panchayat in terms of poverty reduction, education, health, agriculture productivity, employment and so on has to be captured. On each goal the panchayat has to fix the target based on the district vision. Thus the vision of the panchayat has to be stated.
- ii) **Gram Sabha Discussion:** Vision of the panchayat has to be discussed with the people in the Gram Sabha. People have to be mobilized and sensitized to think of the development issues. Through a process of discussion in the Gram Sabha the major issues to be tackled will be listed and they are the targets.
- iii) **Data Generation and Data Validation:** Relevant data have to be generated from the community and borrowed from the line departments and other agencies from their data bank for the purpose of preparation of village plan. The collected data have to be scrutinized and validated.
- iv) **Need Assessment and Prioritization:** Through participatory Rural Appraisal method needs have to be assessed and the prioritization has to be done. Major issues have to be tackled will be identified and fixed as targets. The whole exercise has to be done through organizing a development seminar in each Gram Panchayat.

- v) **Matching Exercise:** The Gram Panchayat has to identify the available resources through various institutions and match them with the needs of the people.
- vi) **Gap Filling Exercises:** After matching the available resources and the felt needs of the people, the gaps have to be filled up where the role of the panchayat is crucial. Schemes and programmes can be easily linked to achieve target. The gap has to be filled up with the own resources or to borrow the same.
- vii) **Draft Plan Approval:** After completing the above steps, the plan document has to be placed before the Gram Sabha for discussion and approval. Once it is approved it is a legal plan document of the Gram Panchayat.

Preparation of a Gram Panchayat Plan



Once village plans are approved, the approved village plans are consolidated at the block level. The approved plans of the blocks are integrated and consolidated at the district panchayat level. They are shown in the form of an organogram below:



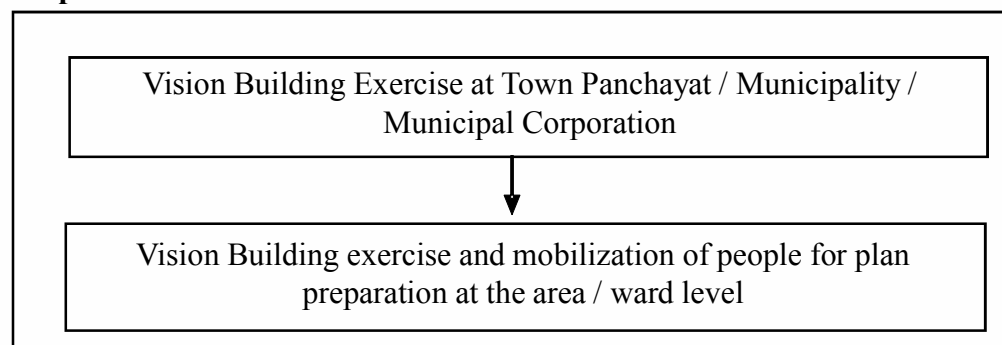
2.7 STEPS TO BE FOLLOWED IN THE PREPARATION OF A URBAN LOCAL BODIES PLAN

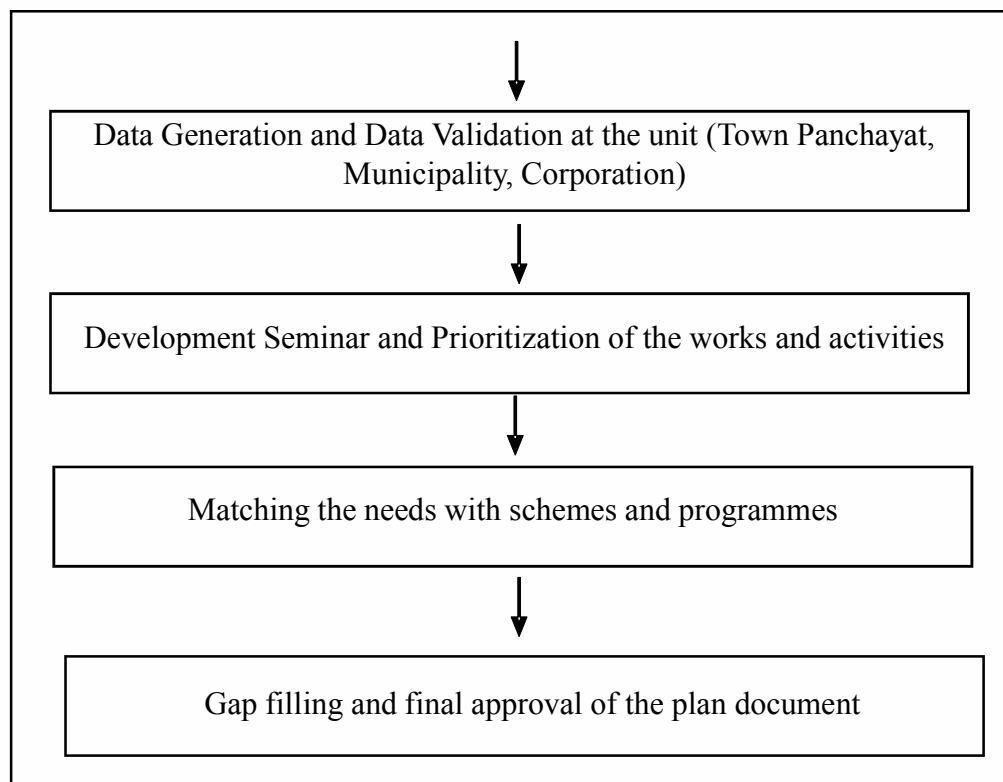
Unlike the rural planning process, urban planning exercise has to be done separately for each unit whether it is a town panchayat, or a small municipality or a big municipal corporation. They are all separate entities and they are not linked with each other functionally. The plan prepared by these institutions will be integrated separately at the district level. They are consolidated only at the district level in the District Planning Committee. Whereas in the case of rural local bodies they are integrated and consolidated every next level as they are in a continuum. But urban local bodies are functioning separately. Following are the steps to be followed in plan preparation in urban local bodies:

- i) **Vision Building:** Vision building exercise has to be done in every Town Panchayat, every municipality and in every corporation based on the district vision document. For the vision building exercise yet another document is necessary. The existing conditions of the people in terms of the development indicators. By doing this exercise every Town Panchayat, Municipality and City Corporation should have a vision document.
- ii) **Mobilization of People:** Vision building exercise has to be done in every ward and every area with the active participation of the people of all sections. Poor people's presence and voices are important. The vision of the institution and the district has to be shared with the people through an exercise. It is a process by which people have to be mobilized and sensitized on the issues of development.
- iii) **Plan Preparation:** Data generation, data validation and data analysis have to be done for the whole unit. For prioritization, development seminar has to be conducted at the institutional level (Town panchayat, Municipality and corporation). Once development seminar is over, the needs have to be matched with the schemes and programme of the central and state governments and with available local resources.
- iv) **Gap Filling Exercise:** It has to be done by the institution itself and finally the plan document has to be approved by the competent body in the respective institutions and all the plan documents will be consolidated and integrated at the district planning committee level.

The above process is explained through an organogram.

Preparation of an Urban Plan

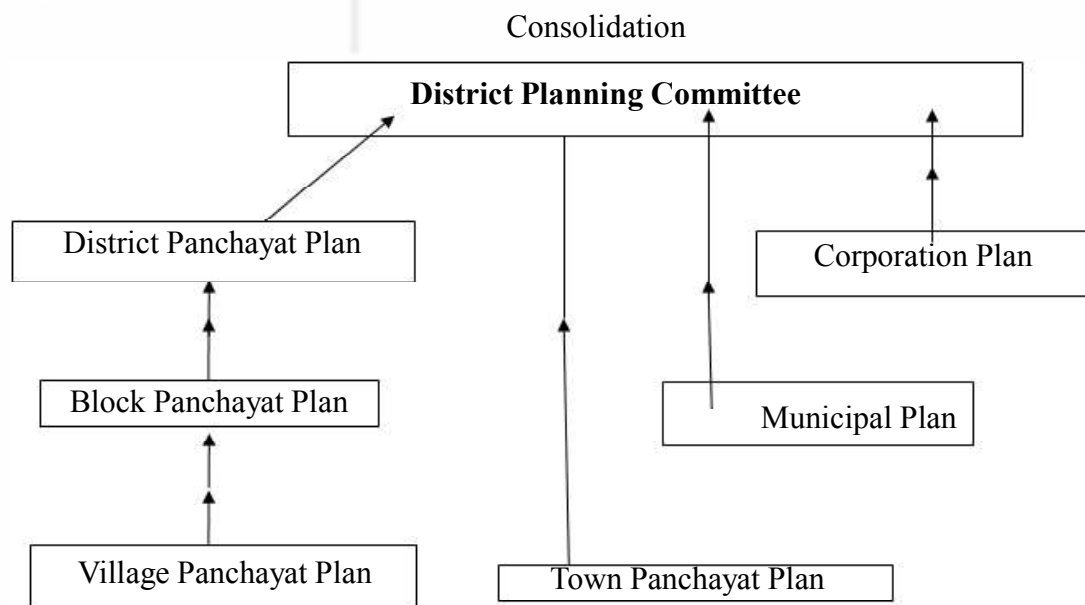




Urban local bodies whether it is town panchayat, or a municipality, or a city corporation, they are independent of each other. There is no linkage among these units. So the plans of these local bodies are consolidated only at the district planning committee. The rural plans consolidated through the district panchayat and the plans of the town panchayat, municipality and city corporation will be consolidated and integrated only at the District Planning Committee.

2.8 CONSOLIDATION OF DISTRICT PLAN

The District Planning Committee has to integrate the rural plan document from the District Panchayat and the urban plan documents from town panchayat, municipalities and corporations. Once they are integrated and they are to be formally approved by the District planning committee after the development seminar conducted at the district level. It is explained in the following organogram:



Here it is to be noted that the mission units, line department units and civil society initiatives are to be integrated in the respective level of the planning units wherever the units are functioning.

After reading and understanding the steps to be followed in the preparation of a urban local bodies plan, now attempt the question given in check your progress-3.

Check Your Progress 3

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

- 1) How a urban local body for instance a municipality prepares a participatory decentralised perspective development plan?

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2.9 LET US SUM UP

In this unit we have discussed the meaning and importance of decentralised planning and the process involved in it. What are the guidelines of decentralised planning, have also been seen in this unit. So also the steps to be followed in decentralised district planning, village plan and urban local bodies plan have been discussed.

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2.11 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

Q1) Bring out the basic principles in decentralised participatory planning.

Ans. The basic principles in decentralised participatory planning are:

- i) Ensuring the participation of stakeholders
- ii) Bridging regional disparities
- iii) Keeping ecology and environment in the backdrop
- iv) strengthening the planning machinery at all levels
- v) Building the capacity of the functionaries
- vi) Transforming a vertical planning process in to a horizontal process
- vii) Using the ICT effectively for participatory planning
- viii) Global vision and local action
- ix) Proper assessment of resources
- x) Law of subsidiary
- xi) Downward accountability

Check Your Progress 2

- 1) Explain the steps to be followed in preparing the decentralised district plan.

Ans. the steps to be followed in preparing the decentralised district plan are:

- i) Stock Taking
- ii) SWOT Analysis
- iii) Vision Building
- iv) Vision Dissemination Finance Tracking
- v) Enabling the Planning Units
- vi) Preparing the Plan
- vii) Plan Integration
- viii) Monitoring and Evaluation:

- 1) How a urban local body for instance a municipality prepares a participatory decentralised perspective development plan?

Ans. Following are the steps to be followed in plan preparation in urban local bodies:

- i) **Vision Building:** Vision building exercise has to be done in every Town Panchayat, every municipality and in every corporation based on the district vision document. For the vision building exercise yet another document is necessary. The existing conditions of the people in terms of the development indicators. By doing this exercise every Town Panchayat, Municipality and City Corporation should have a vision document.
- ii) **Mobilization of People:** Vision building exercise has to be done in every ward and every area with the active participation of the people of all sections. Poor people's presence and voices are important. The vision of the institution and the district has to be shared with the people through an exercise. It is a process by which people have to be mobilized and sensitized on the issues of development.
- iii) **Plan Preparation:** Data generation, data validation and data analysis have to be done for the whole unit. For prioritization, development seminar has to be conducted at the institutional level (Town panchayat, Municipality and corporation). Once development seminar is over, the needs have to be matched with the schemes and programme of the central and state governments and with available local resources.
- iv) **Gap Filling Exercise:** It has to be done by the institution itself and finally the plan document has to be approved by the competent body in the respective institutions and all the plan documents will be consolidated and integrated at the district planning committee level.

UNIT 3 MODELS IN DECENTRALIZED PLANNING

Structure

- 3.1 Introduction
- 3.2 Kerala Model of Decentralized Planning
- 3.3 Backward Region Grant Fund (BRGF)
- 3.4 Nrega Model of District Planning
- 3.5 Comprehensive District Agricultural Plan- C-DAP
- 3.6 Let Us Sum Up
- 3.7 References and Suggested Readings
- 3.8 Check Your Progress - Possible Answers

3.1 INTRODUCTION

The 73rd and 74th amendment of the constitution gave constitutional status to local self governments and provided a new platform for decentralized planning. Participatory planning in the process of development implies participation of people at all stages such as planning, decision making, monitoring and evaluation. In the post amendment scenario there are state level variations in the functioning of panchayati raj institutions. But states like Kerala took the lead in initiating greater decentralization by devolving functions, functionaries and finances to the local self governments. The Kerala experience described in the unit focuses on decentralized planning and the involvement of the people at every stages of plan formulation.

The constitution also makes it clear that the responsibility of the district planning committee is to prepare a draft development plan for the district as a whole. The object of the district planning is to arrive an integrated, participatory coordinated idea of the development of a district. Envisioning district plan, the unit highlights the methodology adopted for the preparation of district plan under BRGF, C-DAP and NREGA. This unit discusses three decentralized planning, these are:

- i) Kerala Model
- ii) BRGF Model
- iii) NREGA Model
- iv) C-DAP Model

After reading this, unit, you would be able to

- i) Explain Kerala model of district planning.
- ii) Describe BRGF and NREGA model of district planning.
- iii) Discuss C-DAP model of district planning.

3.2 KERALA MODEL OF DECENTRALIZED PLANNING

Government of Kerala thought of democratic decentralization immediately after the State was formed in 1956. The Administrative Reforms Committee appointed by the Government made detailed recommendations in 1958. Despite enactment of laws, nothing significant in decentralized development was done for over three decades. As in the case of the rest of India with the formation of a large number of State-level Boards/Corporations/Authorities for almost all areas, even the existing village and urban local bodies were weakened over the years since many of their functions were taken over by such para statals. There was a short-lived attempt to form District Councils in 1990, following a comprehensive Report on Decentralization. However, with the passage of the 73rd and 74th amendments to the Constitution of India in 1992, Kerala carried out pioneering reforms and embarked a path of Comprehensive decentralization since 1995.

Kerala has provided a model for consolidation of the institutional framework of panchayat raj system through strengthening the democratic decentralization process. This was the result of a strong political will and commitment of the state political system by devolving 30-40 percentage of state plan funds directly to the local bodies. The traditional concept of decentralization as a tool for political reform has been transformed and a new concept of social mobilization for empowering local governments was successfully practiced in Kerala as part of democratic decentralization. In order to strengthen the PRIs as grass root level democratic institutions, it was realized that community participation in local planning could be used as a catalyst for action.

To operationalize decentralization, Kerala chose the path of participatory local level planning as the entry point. This succeeded to a considerable extent in harnessing public action in favour of decentralization. In order to push the system and force the process a campaign approach was followed for decentralized planning- known as the 'People's Planning Campaign'. This campaign created a powerful demand factor for decentralization to be guided along the right path. To a large degree the campaign succeeded in setting the agenda for decentralization.

3.2.1 Steps in Decentralized Planning

Various steps followed during the process of decentralized planning of Kerala are as follows:

- i) **Needs identification:** Through a meeting of Grama Sabha/Ward Sabha, i.e., the ward or the electoral constituency of a village panchayat or municipality, the felt needs of the community are identified. There is a period of environment creation to mobilize maximum participation in grama sabha/ward sabha. Statistics reveal that about 10-12% of the rural population has participated. The meetings are held in a semi-structured manner with plenary sessions and sub group sessions dealing with specific developmental issues. The decisions are minuted and forwarded to the local governments. Each meeting is chaired by the elected member and has an official as its co-ordinator.

- ii) **Situation analysis:** Based on the demands emanating from the first special grama sabha/ward sabha and based on developmental data, both primary and secondary, exhaustive development reports have been prepared and printed in the case of every local government in the State. These reports describe the status in each sector of development with reference to available data, analyses the problems and point out the directions for further development. This is a one time exercise for a plan period and reports were revised before tenth and eleventh plans.
- iii) **Strategy setting:** Based on the grama sabha/ward sabha feed back and the development report, a one day seminar is held at the local government level in which participation of experts, elected members, representatives nominated by the sabhas, practitioners from among the public is ensured. The development seminars suggest the board priorities and general strategies of developmental projects to be taken for a particular year.
- iv) **Projectisation:** The ideas thrown up by the above three stages are translated in the form of projects by working groups at the local government level. For each local government there are about eight working groups dealing with different sectors of development. Each working group is headed by an elected member and is contended by the concerned government official. The vice chairman of working group is normally a non-government expert in the sector. The projects are prepared in the suggested format outlining the objectives, describing the benefits, explaining the funding and detailing the mode of execution and phasing of the project.
- v) **Plan finalization:** From among the projects, based on the allocation communicated, the concerned local government finalizes its plan for the year and this plan is submitted to the district planning committees (DPCs) through the technical advisory committees. The panchayat is free to take up any project, irrespective of its cost, subject of course to the resources actually available and within the sectoral limits.
- vi) **Plan vetting:** The technical advisory committees at the block or the district level consisting of official and non-official experts vet the projects for their technical viability and conformity with the mandatory government guidelines on planning and costing and forward them to the DPC. They cannot change priorities or projects; they can only ask for rectification.
- vii) **Plan approval:** The DPC gives the formal approval to the plans after which the local government can start implementation. It is to be noted that the DPC also cannot change the priority of a local government. It can only ensure that government guidelines are followed. Administrative approval for implementation is given project-wise by the local government. Every local government has unlimited powers of administrative sanctions subject only to the limits of its financial resources. Decentralization planning cycle of Kerala is given in fig.1



3.2.2 Salient features of Decentralized Planning of Kerala

i) Transparency and Accountability

Since substantial responsibilities have been passed on to local governments' accountability systems acquire special importance. In harmony with local government functioning and participatory budgeting, in addition to traditional systems of checks and balances, new forms of downward accountability to the people has also been structured in. The key accountability systems are given below:

ii) Committee System of decision making.

All decisions of local governments are to be taken by it through consensus or by voting. Power is not concentrated in individuals.

iii) Right to Information.

The right to information is a democratic right which ensures accessibility to information and this is one of the best indicators of democratization of a society. This is one of the offshoots of the process of democratic decentralization in Kerala. The powerlessness of the people and the mystification of administration by the bureaucracy never deliver the fruits of democratic decentralization. The provision of right to information empowers the people to have access to any information on development decisions and expenditure of public funds. The opportunities of public scrutiny lead to greater accountability and responsiveness. It is ensured that all documents of the panchayat should be made available to the public for scrutiny, note taking and copying. Penal provisions have also been

included in the act itself for unreasonable denial of this important right of the citizens.

iv) Participatory Budgeting.

The evolution of a budget particularly for development works is through the comprehensive stage planning process which allows space for citizen interaction and intervention, expert involvement and final budgeting before approval by elected bodies. This provides adequate protection against arbitrary decision making.

v) Due process in selection of beneficiaries.

This is ensured through the following steps:

- a) Clear enunciation of eligibility criteria and prioritization criteria at the time of scheme formulation.
- b) Assigning weightages to each prioritization criterion.
- c) Calling of application in writing.
- d) Enquiry process into applications with awarding of marks to each criterion.
- e) Reading out of marks in grama sabha/ward sabha.
- f) Opportunity to each applicant to see all records including application forms of others.

vi) Technical Sanction.

The process of giving technical sanction has been taken out of the departmental technical hierarchy. Technical committees have been constituted at the block/municipal/corporation/district levels consisting of engineering experts drawn from governmental, academic and nongovernmental sources. This gives some protection against inflation of estimates and dilution of technical standards.

vii) Audit System.

The traditional audit system through local fund audit department has been strengthened with the technical support of the accountant general. A special concurrent audit system has been designed, manned by surplus staff from the panchayat and urban affairs departments headed by an officer of the Indian audit and accounts service. This system called performance audit acts as an online corrective mechanism helping local governments to put their systems in proper place. Performance- audit is conducted twice a year in all the local governments. Since the minimum grant-in-aid to a grama panchayat is Rs.25 lakhs, the accountant general also carries out grant-in-aid audit including village panchayats. A technical audit team has been put in place at the state level consisting of senior engineers mostly from outside government who are selected for their integrity. This team looks into complaints regarding execution of public works.

viii) Social Audit.

Social audit can be viewed as an instrument of control exercised by the community to oversee the functions of the local governments and the manner

of spending public money. Grama sabhas are used as an effective system for social auditing. In the system of social auditing the performance and the utilization of financial resources can be assessed by the citizens' representatives and it can be reported to Grama Sabha meetings and in case of lapses suggestions for corrective measures can be given to the LSGIs. The experience in some of the Panchayats proves that it is a powerful instrument of accountability and community control over LSGIs by the people.

ix) Citizens' Charter.

In order to ensure an assured standard of service to the people and to lead the LSGIs towards performance betterment, a provision has been included in the Kerala panchayat raj act for citizens' charter. Accordingly, every panchayat shall proclaim a citizens charter stating the standards of service which it guarantees to every citizen. The operational value of this provision is that this will enhance the degree of transparency and is the best guarantee against corruption and nepotism. The local governments can very well assess the performance of different transferred institutions with this instrument. This will also be helpful to increase the accountability of officials to the local government and the public.

x) Ombudsman.

The Ombudsman is a cost-effective mechanism to check malfeasance in local governments in the discharge of administrative and development functions. Even the government can be assign investigation to the ombudsman on the complaints received against LSGIs. The ombudsman system goes beyond the judicial process and ensures grievance redressal in a speedy manner and suggests improvement in the system. Ombudsman will focus on the process of administration continuously and will be empowered to check wrong doing at the initial stage (Report of the committee on decentralization of powers, 1997). Originally there was a seven-member team and in 2001 the act was amended and the strength of ombudsman was reduced to one. It has been proving that ombudsman is one of the speedy and cost-effective and authoritative grievance redressal mechanisms and is effective to ensure responsible administration at the local level.

xi) Appellate Tribunals.

This is another instrument useful for the people to curb the arbitrary decision of local governments. The citizens can make appeal against the decisions of the local governments in exercising their regulatory powers, like issue of license, permit and certificate. The appellate tribunal is a judicial official in the rank of district judge. The appellate tribunal hears the appeals against the decisions of the LSGIs and also revision petitions. The citizens themselves can appear before the tribunal to ensure informality and reduce cost both for the Panchayat and the citizens.

After reading and understanding the Kerala model of decentralized planning, now attempt the question given in check your progress-1.

Check your Progress- 1

- 1) Write three stages (what you think most important) of participatory planning in Kerala?

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- 2) What is Ombudsman? Describe its functions.

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3.3 BACKWARD REGION GRANT FUND (BRGF)

The mid term appraisal of Ninth Five Year Plan drew attention to the wide disparities among states and among districts within the state. Pockets of high poverty, low growth, lower human development and poor governance were identified as the key areas slowing down the growth and development of the country. In this backdrop, the Tenth Plan marked a shift in approach with reference to the earlier plans. The new approach signaled the need for complete change in the ethos of governance and scheme implementation with efficiency and flexibility as key words. In this context, the Rashtriya Sam Vikas Yojana (RSVY) was introduced in 147 districts in the country. Later, in 2004-05, the National Common Minimum Programme (NCMP) spoke of the creation of a Backward Region Grant Fund (BRGF) to redress the growing regional imbalances among as well as within the states. The basic ethos of the programme was to carry forward the participatory approach and to provide more and more say to Panchayats in deciding what they actually need for their development. The adopted method led to a paradigm shift of the prevailing development approach, viz., top down approach to bottom to top approach. To ensure that the approach is followed in its true spirit, it was made mandatory to constitute district planning committee (DPC), and it was also made prerequisite to get the approval of the plan culminated from the Panchayats and consolidated by the DPC. To avoid duplication, it was also ensured that while preparing the district plan works undertaken under different centrally sponsored schemes should be taken into account. The existing structural and institutional deficiencies in RSVY, which covers 147 districts, have been subsumed into the BRGF programme. The fund provides financial resources for supplementing and converging existing developmental inflows into 250 identified districts, so as to:

- a) Bridge critical gaps in local infrastructure and other development requirements that are not being adequately met through existing inflows,
- b) Strengthen, to this end Panchayat and Municipality level governance with more appropriate capacity building, to facilitate participatory planning, decision making, implementation and monitoring, to reflect local felt needs,
- c) Provide professional support to local bodies for planning, implementation and monitoring their plans,
- d) Improve the performance and delivery of critical functions assigned to Panchayats, and counter possible efficiency and equity losses on account of inadequate local capacity,

This plan is intended to multiple programmes that are in the operation in the district concerned and therefore address backwardness through a combination of resources that flow to the district. Programmes identified for implementation under the fund are selected through people's participation, particularly through gram and ward sabhas in the rural areas and areas sabhas and ward committees in the urban areas. Participatory plans are to be prepared in each panchayat and municipality, which would take into account at the existing fund flows.

The participatory plans prepared by each Panchayat and Municipality would be consolidated into the district plan by the District Planning Committee (Article 243 ZD of the Constitution). This would reflect all the financial resources available in the districts, and ensure their optimal use, without delay, diversion, duplication and leakage. It is anticipated that the initiative on the Backward Region Grant Fund would mitigate regional imbalances, contribute towards poverty alleviation in backward districts, and promote accountable and responsive Panchayats and Municipalities. Each Panchayat or Municipality within the backward district concerned is the unit for planning under RGF. The implementation of the works should be by the Panchayats and Municipalities at each level, in accordance with the respective activity mapping exercise undertaken. In case the works are outside the domain of the panchayats and municipalities, the DPC can decide the implementing department/agency and get the works executed through them with clear powers of monitoring and supervision with the panchayats concerned.

BRGF consists of two funding windows i.e. capacity building fund and united grant for development activities. The allocation of those funds to the local bodies is to be guided by transparency norms of the DPC. Clear guidelines on social audit by gram or ward sabhas in rural areas and area sabhas and ward committees in urban areas are issued by states. The gram sabhas authorize the issuance of utilization certificates of funds allocated for the plans, projects or programmes of the panchayat. Transparency has to be maintained. So boards shall be displayed at worksites indicating names of the schemes and the source from which these are being funded to enable the local people to know about the schemes. Each Panchayat publically details of all schemes approved as on date and their expected commencements/completion dates.

Activity: 3

Meet the Pardhan/Chairman of your village panchayat/municipality and discuss the critical gaps in the development of that area. Propose a list of the development works.

3.3.1 Steps for Preparing Plans for BRGF

- 1) All states will be required to constitute DPCs in conformity with the provisions of Article 243 ZD of the Constitution. As constitutionally mandated, each tier of the panchayati raj system- gram panchayat, block and district- and each Municipality shall prepare the five year perspective plan and annual plans for their respective jurisdiction.
- 2) Panchayats will prepare these plans through implementation of programmes selected through people’s participation.
- 3) These plans will put together resources channelized to these Panchayats from all resources including:
 - a) Sectoral and district segments of the state plan,
 - b) Centrally sponsored schemes, particularly flagship programmes
 - c) Fund inflows on account of the National Employment Guarantee programmes,
 - d) Tied and untied grants from Central and State Finance Commissions
 - e) Fund flow on account of Bharat Nirman Programme.
- 4) BRGF funds will be used by the Panchayats for gap filling, to converge and to add value to other programmes, which provide much larger resources to the same districts. The funds can be also be used to plan for innovative works for which there is no provision under any scheme or programme.
- 5) For simplifying and strengthening the planning process software namely Plan Plus has been designed and developed. It is a very simple with local language interface that facilitates generation of district plans through interactive work flows.

After reading and understanding about the backward region grant fund relating to decentralized planning, now attempt the question given in check your progress-

Check Your Progress 2

- 1) Write three objectives of BRGF.
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- 2) Based on the details described in the unit. Write about the transparency system in BRGF.
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3.4 NREGA MODEL OF DISTRICT PLANNING

The Indian parliament enacted the National Rural Employment Guarantee Act (NREGA) in 2005 expressing the consensus of the state to use fiscal and legal instrument to address the challenges of unemployment and poverty. This was the first time a country had passed the law of this nature and scale, guaranteeing livelihood security to rural households. The rationale for such legislation was based on the need to provide social safety net to rural households as well as to create assets that rejuvenate the natural resource base of their livelihood.

National Rural Employment Guarantee Act (NREGA) aims at enhancing the livelihood security of the households in rural area of the country by providing at least one hundred days of guaranteed wage-employment in every financial year to every household whose adult members volunteer to do unskilled manual work. The objective of the Act is to create durable assets and strengthen the livelihood resource base of the rural poor. Each district has to prepare a shelf of projects from the list of permissible works such as water conservation, drought proofing (including plantation and afforestation), irrigation canals including micro and minor irrigation works, horticulture and land development on lands of schedule caste and tribe population and land reform beneficiaries, renovation of traditional water bodies, land developments, flood protection and rural connectivity. The choice of the work suggested in the act addresses causes of chronic poverty like drought, deforestation and soil erosion, so that the process of employment generation is maintained on a sustainable basis.

The salient features of the Act are summarized below:

- a) Adult members of a rural household may apply for employment if they are willing to do unskilled manual work
- b) Such a household will have to apply for registration to the local Gram Panchayat in writing or orally
- c) The Gram Panchayat, after due verification, will issue a Job Card to the household as a whole. The Job Card will bear the photograph of all adult members of the household willing to work under NREGA. The job card with photography is free of cost
- d) A Job Card-holding household may submit a written application for employment to the Gram Panchayat, stating the time and duration when work is sought. The application for work must be for at least fourteen days of continuous work
- e) The Gram Panchayat will issue a dated receipt of the written application for employment, against which the fifteen-day guarantee to provide employment operates
- f) Employment will be given within 15 days of submitting the application for work or from the date when work is sought by an employment seeker
- g) If employment is not provided within 15 days, a daily unemployment allowance in cash has to be paid. Liability of payment of Unemployment Allowance is on the States
- h) At least one-third of persons to whom work is allotted have to be women
- i) Wages are to be paid according to minimum wages as prescribed under the

Minimum Wages Act 1948 for agricultural labourers in the State, unless the Centre notifies a minimum wage rate which in any case shall not be less than Rs 60 per day

- j) Disbursement of wages has to be done on a weekly basis and not beyond a fortnight
- k) Panchayat Raj Institutions (PRIs) have a principal role in planning and implementation
- l) Each district has to prepare a shelf of projects. The instruments for providing employment are to be works selection from the list of permissible works. The shelf of projects has to be prepared on the basis of priority assigned by the gram sabha. At least 50% of works have to be allotted to gram panchayats for execution. A ratio 60:40 between wages and materials has to be maintained. Contractors and use of labour-displacing machinery are prohibited. It is stipulated that work should ordinarily be provided within a 5 km radius of the village or else extra wages of 10% are payable. Worksite facilities such as crèche, drinking water and shade have to be provided at the worksite. Moreover social audit has to be done by the gram sabha or other agencies entrusted. The state should put in place appropriate grievance redressal mechanism for ensuring a responsive implementation process. All accounts and records relating to the Scheme are to be made available to any person desirous of obtaining a copy of such records on demand and after paying a specified fee. The convergence of inter-sectoral programmes with NREGA brings a synergy between different government programmes and schemes in terms of their planning, process and implementation; creates conditions for sustainable development; enhances economic opportunities; strengthens democratic processes; and mitigates the effects of climate change. The objective of convergence is to optimize public investments made under existing schemes through suggested linking and steering towards a common end, thus avoiding duplication. The current areas of convergence initiatives are water, forests, agriculture and technology.

The district perspective plan for NREGS will have the following features:

- i) Village based: with the village as the unit for planning. The perspective plan shall be prepared through actual survey of every village to facilitate the Gram Sabha and GP to assess local needs.
- ii) Holistic: attempt has to be made to cover all aspects of natural resource management along with socio-economic infrastructure requirements as to identify all critical aspects of development in the local area.
- iii) Diagnostic: Need to include a causal analysis of poverty. This will identify gaps and needs and indicate the nature of interventions required.
- iv) Finalize: The works that can be included under the NREGA.
- v) Indicate outcome-based strategies.
- vi) Indicate methods of measurement of outcomes.
- vii) Identify the existing programmes and financial resources and assess the additional resources required.

The district perspective plan then will enable the adoption of a project approach to works rather than just an activity approach. It will also facilitate an inter-

sectoral approach so that Districts can address certain fundamental causes of poverty in the area. The Development plan will have three key components.

- i) Assessment of labour demand.
- ii) Identification of works to meet the estimated labour demand.
- iii) Estimated cost of works and wages.

The various steps to be followed in the preparation of NREGS plan are follows:

Step-1: Preparation of Panchayat Plan: A detailed exercise to assess Panchayat wise total quantum of resource inflow, identification of missing infrastructure, activities to be taken up with estimated cost and expected employment generation under all ongoing programmes meant for infrastructure development and employment generation have to be carried out other five year period on priority bases as a first step. Then a village plan will be prepared

Step-2: Preparation of Block Plan: The above Panchayat wise exercise will be followed by a block wise consolidation of information, in order to give a clear-cut picture of how any activities will be taken up in the concerned block.

Step-3: District Plan: Finally the information of all the blocks will be consolidated into one statement which presents the picture of the entire district. This will give the picture of activities to be taken up under the NREGA during five year. This is called the district perspective plan for NREGS.

After reading and understanding the NREGA model of district planning, now attempt the question given in check your progress-3.

Check Your Progress- 3

- 1) Write five permissible works under NREGA.

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- 2) What is the most important aim of NREGA?

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3.5 COMPREHENSIVE DISTRICT AGRICULTURAL PLAN- C-DAP

The National Development Council (NDC) decided to rejuvenate agriculture during XI plan. It made agriculture growth as an essential element of the strategy to make growth more inclusive and fixed the growth rate target for this sector at 4 percent per annum. The NDC in its resolution advised State Government to prepare District Agriculture Development Plan (DADP) that will fully utilize available resources and will include livestock and fishing, and be integrated with minor irrigation projects, rural development works and schemes for water harvesting and conservation.

The Comprehensive District Agricultural Plan (C-DAP) has been defined a documentation for development of agriculture and allied sectors, both in physical and financial terms with an objective to achieve continuous and sustainable growth in agriculture during the Eleventh five year plan period. It is further stated that this plan will address all the major issues related to the agriculture and allied sectors, identify and plan for filling gaps, converge various programmes of state and central government, involve all the agencies with the ultimate objective of increasing farmer's income besides increasing agricultural production and achieving national goal of food security.

Agricultural Planning requires much of technical support from experts in agriculture and allied sectors. Therefore agriculture planning units at different levels of local bodies need to be constituted involving a group of experts from various disciplines relevant to the needs of the area. Such units will be named as agriculture planning units. Accordingly, district agriculture planning unit (DAPU), at zilla parishad level should be constituted at the District level. Similar units should be constituted at the Block/Taluka Panchayat level (BAPU/TAPU) and Village Panchayat level (VAPU). These units should work inclose contact with Panchayati Raj Institutions.

Activity: 6

Meet agricultural officer of your locality and discuss agriculture related issues. Prepare a note on the strategy to overcome the problem.

The planning processes have to go through the following stages:-

Stage I: Formulation of Vision Statement

The vision would primarily be articulated to address three important aspects of development namely human, infrastructure and production leading to better productivity and employment. The vision statement, incorporating the envisioned state of the community through optimum utilisation of the resources should be clearly detailed in the beginning.

In this stage the aspiration and developmental needs of the districts will be broadly spelt out keeping a specific timeframe for achievement. This vision prepared at the district level in consultation with all stakeholders will act as a guide to all concerned in the preparation of the plan. Vision should be approved by the District Planning Committee.

It is necessary to compile the indices which will tell present the current status of the district in various spheres of development. All the basic statistics of the district may be used for working out the indices, like the population density, average land holding, health coverage etc. These can be compared to the state's/country's averages. Based on SWOT (Strength Weakness Opportunity and Threats) analysis, the needs and core sectors may be identified to focus on, for further development. These indices will be made public in consultative meetings with the panchayats so that development strategies could be decided collectively.

Stage III: Discussion on the Vision

It is important that all the planning units in the district follow the participative methodology so that a feeling of ownership is created. The vision details should be given to all the panchayats and they should discuss this in their meeting. The outcome of these discussions should be given publicity in each village. Simultaneously, the block level plan coordinators who have been trained at the district level should provide training to the village/panchayat data enumerators and planners.

Stage IV: Preparation of Participatory Panchayat Plans

Panchayat/Village level planning will be the most important exercise in the preparation of C-Dap. Panchayat/village level agriculture planning unit (PAPU/VAPU) shall ensure the participation of all the sections of the people, specifically women and the disadvantaged sections of the society.

Stage V: Integration of Village Panchayat Plans into a Block/Taluk Plan-Intermediate Level

The main activity at Block/ Taluk level is to consolidate the village level plans prepared by PAPU/VAPU. The Block Development Officer (BDO) coordinates the compilation and aggregation of panchayat/village level plans at block level. This plan will also ensure the inclusion of initiatives required for development at Taluk/Block Level, which are not captured at Panchayat/Village Level. The Intermediate level should also assist in various of planning at the panchayat/village level.

Stage VI: Integration of Taluk/Block Plans into a District Plan

At the district level the District Planning Committee has to constitute technical advisory groups in each sector to analyse the data and coordinate with experts so as to prepare the plan for each sector. This group will consist of line department officials, locally available technical experts (either in service or retired), NGO etc. finally this group will consolidate the plan for the district.

Stage VII: Approval by DPC

The District Planning Committee will have to ensure that in the interest of efficient use of resources there has to be only one district plan prepared through a common planning process and not a set of separate plans prepared in accordance with the guidelines of each programme. The draft plan has to be approved by the DPC.

Stage VIII: Submission of District Plan to State Government and Feedback to the District/Panchayats

Since the district plan will have sector wise components, it is necessary to involve the line departments at the state level for compilation at state level. The planning process can also be improved in the subsequent years by comparing with other districts of the state.

Stage IX: Monitoring

Once the plan is approved and taken for implementation, it will be necessary to closely monitor the progress. For this, quarterly review of the physical and financial progress is necessary at all levels. The discussions should be made public for everyone to know the progress.

After reading and understanding the comprehensive district agricultural plan, now attempt the question given in check your progress- 4.

Check Your Progress- 4

- 1) What necessitates the preparation of C-DAP?

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- 2) Preparation of the vision document of the district is the basis for C-DAP. Name the stakeholders to be involved in this activity.

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3.6 LET US SUM UP

The state of Kerala has devolved finances, functions and functionaries to the local self institutions (LSGIs) according to the activity mapping of each tier of panchayat and municipality. This has tremendously enhanced the confidence of people in local governance. The innovative methodology for participatory planning helped the LSGIs to mobilize people and make use of the human capital in local development and public management of local governments. This was a deliberate attempt to make local governments accessible to people and their

informal organizations. The constant support rendered by the state government to democratic decentralization greatly changed the mindset of bureaucrats and they were forced to open up new patterns of elected representative- official interactions. The democratic decentralization process provided space for a large number of new platforms and this has significantly contributed towards consolidating the mass base of PRIs and has ushered in a new era in local governance. Democratic decentralization created a new political culture and an enabling environment for qualitative participation in Kerala.

In fact, participatory planning is the core of the innovative approach adopted for the preparation of plan for BRGF and C-DAP. In NREGA projects are to be prepared on the basis of the priority assigned by gram Sabha. Panchayati raj institutions in general and the people in particular have a central role in planning and implementation of various projects under this scheme.

3.7 REFERENCES AND SUGGESTED READINGS

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3.8 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

- 1) Write three stages (what you think most important) of participatory planning in Kerala?

Ans. Three important stages of participatory planning are:

- a) Need identification by convening the gram Sabha
 - b) Situation analysis and the preparation of development report
 - c) Protestation by working groups
- 2) What is Ombudsman? Describe its functions.

Ans. The functions of Ombudsman are audit Systems:

- a) Local fund audit
- b) Performance audit
- c) Social audit
- d) Accounts General's audit

Check Your Progress- 2

- 1) Write three objectives of BRGF.

Ans. The Three objectives of BRGF:

- a) Bridge critical gaps in local infrastructure and other development requirements that are not being adequately met through existing inflows,
 - b) Strengthen, to this end Panchayat and municipality level governance with more appropriate capacity building, to facilitate participatory planning, decision making, implementation and monitoring, to reflect local felt needs,
 - c) Provide professional support to local bodies for planning, implementation and monitoring their plans
- 2) Based on the details described in the unit. Write about the transparency system in BRGF

Ans. Boards shall be displayed at work sites indicating names of the schemes and details of the funds. Social audit will be conducted after the completion of each work

Check Your Progress 3

- 1) Write five permissible works under NREGA.

Ans. Permissible works under NREGA

- i) Water Conservation
 - ii) Drought Proofing (including plantation and afforestation)
 - iii) Irrigation canals including micro and minor irrigation works
 - iv) Minor Irrigation, horticulture and land development of lands of SC/ST/ BPL/IAY and Land Reform beneficiaries
 - v) Renovation of traditional water bodies
- 2) What is the most important aim of NREGA?

Ans. National Rural Employment Guarantee Act (NREGA) aims at enhancing the livelihood security of the households in rural area of the country by providing at least one hundred days of guaranteed wage-employment in every financial

year to every household whose adult members volunteer to do unskilled manual work. The main objective of the Act is to create durable assets and strengthen the livelihood resource base of the rural poor.

Check Your Progress 4

1) What necessitates the preparation of C-DAP?

Ans. The National Development Council (NDC) decided to rejuvenate agriculture during XI plan. It made agriculture growth as an essential element of the strategy to make growth more inclusive and fixed the growth rate target for this sector at 4 percent per annum. The NDC in its resolution advised State Government to prepare District Agriculture Development Plan (DADP) that will fully utilize available resources and will include livestock and fishing, and be integrated with minor irrigation projects, rural development works and schemes for water harvesting and conservation for sustainable development.

2) Preparation of the vision document of the district is the basis for C-DAP. Name the stakeholders to be involved in this activity.

Ans. Stakeholders of the vision document are Members of Gram Sabha, Agriculture Plan Units, District, Block and Village level elected representatives and officials, social actives and NGOs. Preparation of draft District Plan is the most important activity of DPC. It is expected that at the District Planning Committee will constitute technical advisory groups in each sector to analyse the data and coordinate with experts so as to prepare the plan for each sector. This group consists of line department officials, locally available technical experts (either in service or retired), NGO etc. finally this group consolidate the plan for the district. The District Planning Committee will have to ensure that in the interest of efficient use of resources there has to be only one district plan prepared through a common planning process and not a set of separate plans prepared in accordance with the guidelines of each programme. In addition, DPCs vet the plans of the lower tier of Panchayats and municipality.

UNIT 4 FISCAL DECENTRALISATION- A GLOBAL OVERVIEW

Structure

- 4.1 Introduction
- 4.2 Fiscal Decentralisation: Exigencies and Dimensions
- 4.3 Municipal Borrowing
- 4.4 Fiscal Decentralisation in Developed Countries
- 4.5 Fiscal Decentralisation in Developing Countries
- 4.6 Let Us Sum Up
- 4.7 References and Suggested Readings

4.1 INTRODUCTION

Financial responsibility is a core component of decentralisation. If local governments and private organisations are to carry out decentralised functions effectively, they must have an adequate level of revenues –either raised locally or transferred from the Central Government– as well as the authority to make decisions about expenditures. Fiscal decentralisation can take many forms, including:

- a) Self-financing or cost recovery through user charges,
- b) Co-financing or co-production arrangements through which the users participate in providing services and infrastructure through monetary or labour contributions;
- c) Expansion of local revenues through property or sales taxes, or indirect charges;
- d) Intergovernmental transfers that shift general revenues from taxes collected by the central government to local governments for general or specific uses; and
- e) Authorisation of municipal borrowing and the mobilisation of either national or local government resources through loan guarantees.

In many developing countries local governments or administrative units possess the legal authority to impose taxes, but the tax base is so weak and the dependence on central government subsidies so ingrained that no attempt is made to exercise that authority.

Developing and transition countries with population over five millions have adopted some form of transfer of fiscal level from Central to Sub-national government (local government). Even highly centralised countries like Kingdoms of Jordan and Morocco have also inherited fiscal decentralisation. As Robert D Ebel opined, the issues that each decentralising country faces are at the same time very different and very similar. The differences arise from the diversity in national economic and demographic structure, institutions, traditions, geography and access to new technologies. As for instance, while designing local property tax systems, Middle Eastern policymakers often take into consideration a complex

combination of national, colonial and local tribal law. But the concept of markets as a basis for land valuation is relatively straightforward. In contrast in (some) countries property rights are well organised, however, the market concept is yet to be sufficiently accepted so that it can serve as a guide for wide spread adoption of *add valorem* taxation. When we look into the world wide fiscal decentralisation, differences and similarities are there. But similarities provide broad policy framework and also it will address the policy options of different countries which will help us to learn from each others experiences. The structural adjustments and the world wide open economy is the basis for policy similarities all over the world. Due to the opening of market economy, the sub national governments (municipalities) cannot restrict the movements of goods and services as well as it cannot control the labour and capital. So this situation changes the fiscal policy of sub national government.

In this Unit, we will learn about different countries (both developing and developed countries) experience of fiscal decentralisation as case analysis.

After studying this Unit you should be able to:

- Describe the need for fiscal decentralisation;
- Explain the different models of decentralisation with suitable examples; and
- Analyse the cases of fiscal decentralisation in developed, developing and transition countries

4.2 FISCAL DECENTRALISATION: EXIGENCIES AND DIMENSIONS

4.2.1 Exigencies of Fiscal Decentralisation

In the entire world, fiscal decentralisation is associated with issues ranging from the broad issues of achieving a desired degree of both vertical and horizontal balance, to more narrow (but not less important) concerns of expenditure impacts of unfunded mandates imposed by “higher levels of government” and restrictions, economic and political, and on the choice of local revenue sources. In this regard it should be noted that western countries that have relatively long traditions of fiscal decentralisation have much to gain from fiscal decentralisation debate-and research – that is newly emerging in the transition economy (Hegebus and Tosics, Peteric). Apart from this reason the following reasons have also likely to be contributed:

- The reactions from the below to long years of extensive central control.
- The fiscal expediency where the central governments to ease their own strained finances by reducing transfers and shifting responsibilities down often with little or more regard to the ability of sub national government to pay for their new responsibilities.

With the following assumption the fiscal decentralization has emerged:

- The establishment of performing inter governmental system will execute the economic reforms adopted by the national government.

- To strengthen the economic reforms at the local level, developing and strengthening autonomous local governments is essential and rationalizing the inter-governmental fiscal relationship is also essential.
- The fiscal reform will bring comprehensive changes thus bringing reforms is not difficult politically.

4.2.2 Dimensions of Fiscal Decentralisation

There are three basic dimensions for fiscal decentralization.

- i) Devolution
- ii) De-concentration
- iii) Delegation

i) Devolution

Independently established sub national governments are given the responsibility for delivery of public services. The authority will impose fees and taxes for those services. The sub national governments have flexibility to select the services to provide to their citizens. The sub national governments will get some types of financial support from the national government. The following is an example of this model:

Box No:4.1 Water supply in Hungary

In Hungary, the law on Local Municipalities Act No.33 of 1990 made the drinking water supply as the obligatory duty of the municipalities. The law authorised municipalities to establish municipality institutions or companies to operate public utility services. The managers of these companies were also assigned by the municipalities. Furthermore, the law declares that the public utilities belong to the basic property of the municipalities. The municipalities had to create a new structure of public utility water service in accordance with the changed conditions. The most visible change in the Hungarian public utility water service was the fragmentation of the service provider companies and their numbers increased from 28-350. The mechanism of the specification of water and sewage fees also changed fundamentally. The representative body of the municipalities become the price authority of the municipality owned water works companies.

Reference: MRI, Budapest, 1999 and Inter Governmental Fiscal Relations and Local financial Management, Distance learning module, Central European University, Summer University Programme.

ii) De-concentration

De-concentration is the establishment of Central Government offices at the regional level with some autonomy in decision making but the centre should approve all deviations from normal practice. You will learn the above definition by applying the following country example from Poland:

Box No 4.2 Polish Decentralisation in the 1980s

In the 1980s Poland was divided into 49 Voivodships, and, at the local level 2365 Gminy. The imposition of Martial Law in December 1981 (in effect until July 1983) shifted the balance of power between central and local

administrative branches. By the end of 1980s Voivodships had achieved a considerable independence from the central government, with central intervention circumscribed by constraints on information to access political activities. Voivodships were responsible for numerous public services, including health, welfare and transportation, while Gminy were mainly responsible for local services, including garbage collection and public housing maintenance. Although the Gminy had some autonomy, it was not clearly delineated or guaranteed. De-concentration reforms, though accompanied by some devolution of power, essentially transferred authority within an integrated administrative system. Lower administrative levels remained subject to central control.

Bird-Ebel-Wallich: Decentralisation of the Socialist State, World Bank 1995

iii) Delegation

Delegation is an intermediary between devolution and de-concentration. In this, sub national governments are given responsibility to deliver certain services but the Central Government will supervise and provide some forms of finance. All these types may fit in between centralisation and decentralisation. But federalism is different in which public sector decisions can be taken at various levels of government. But in unitary system sub national government act as an administrative unit of national government. You can understand this concept by reading the following case study:

Box 4.3 Social Services in Estonia

In Estonia the health care regulation law leaves only special medical services to be handled at state level, which means that providing health care should basically be the task of local authorities, and most of the hospitals should be placed under state government administration. Considering the small size of Estonia's local authorities, the individual authorities should form hospital alliances (in most cases one for each county) for the administration of hospitals, through which the communal, construction and remodelling expenses could be financed. Treatment expenses will be covered through the system of health insurance. In practice, the Ministry of Social Welfare has financed the communal and remodelling expenses for all hospitals, up until now.

A similar problem exists with nursing homes, which are financed primarily by the Ministry of Social Welfare, even though, according to law, nursing homes, as a rule, should be in the possession of local governments and financed out of local budgets.

Source: <http://www.ceec-logon.net>

4.3 MUNICIPAL FINANCE

To strengthen the fiscal domain of municipalities there are different ways. Municipal development funds and intermediaries is one such. The municipal development fund is defined as a pool of money operated at a level above the individual local government primarily for investment in infrastructure. Municipal development intermediaries are the institutions which manages the municipal

development fund such as banks or government agencies.

At the global level, municipal finance is broadly categorized into three types:

- i) Institutional Borrowing
- ii) Municipal Development Fund
- iii) Municipal Bunds

In the fiscal decentralisation the municipal governments are augmenting the resources from different sources like borrowing from financial institutions, user charges, transfers, issuing of bonds, loans from financial institutions etc. The banks which finances the municipalities was first started in the United States (US) and later European countries adopted. The following case study will explain you further:

4.3.1 Borrowing from Financial Institutions

Box 4.4 The Municipal Bank in Slovakia

The First Communal Bank in Slovakia was established by several municipalities as a specialized bank for the municipal sector in 1993. In 1996 the bank obtained a universal banking license allowing it to operate as a regular commercial bank. Currently, 367 municipalities have 19.62% share in the bank. The majority stakeholder in the bank is Dexia Kommunalkredit holding with a 78.4% stake. This group took over the bank in 2000 as part of its strategy to become the key bank for the municipal sector in Central and Eastern Europe.

During its ten year history the bank focused on the municipal financing sector, as well as the retail and corporate sectors. After the entry of the Dexia group, the bank decreased its activities in the corporate sector and focused primarily on the municipal sector and utilities. According to the bank, the municipal sector is less risky to do business than with corporations. The overall volume of credit funds provided to municipalities is around 3.5 billion Sk. Of this total, about one percent of the loans have repayment problems. Starting in 2000, the bank decreased the volume of credits provided to the private sector and increased its credit involvement in the municipal sector. In the course of the last five years over 75% of all credit funds provided to municipalities has come from the bank. Further areas of service to the municipal sector are deposits and consultancy in municipal and project financing. The bank accounts for 40 to 50% of total municipal deposits in the Slovak banking sector.

The bank also engages in the financing of environmental and investment projects supported by special state funds. The bank is an administrator for the financial funds of the State Environmental Fund and the State Fund for Housing Development. Additional activities of the bank include: mobilisation of sources and funds of municipalities; municipal bond issues; funding activities directed to renewal of municipalities; separate care of the municipal financial funds; depository activity for the first-owners' associations; leasing and consultancy.

Source: Local Government Borrowing, Open Society Institute (OSI), Budapest, Hungary, 2004

4.3.2 Municipal Development Fund

A “Municipal Development Fund” (MDF) is defined as a pool of money operated at a level above the individual local government primarily for investment in infrastructure. The MDFs are managed by different institutions such as banks or government agencies. These are the “Municipal Development Intermediaries” (MDIs).

With very few exceptions, Western European countries as well as Japan have had for decades a well established MDI channelling investment credit to local governments. In many European countries these institutions were established also to provide a reliable outlet for private savings. Over the past several decades MDFs have spread rapidly through Asia, Latin America, and Africa. In many of these countries the financing of capital infrastructure has been combined with objectives for longer term institutional development.

The main objective of development funds is to mobilise resources from private lenders, central government, donor agencies, and local governments themselves, and make them available for investment in urban infrastructure. A second objective is to strengthen the operation capacity and efficiency of local governments by assisting them in the design, appraisal, and execution of investment programmes, rationalisation of programmes moving away from ad hoc investment practices, and injecting rational criteria in the geographical and sectoral distribution of funds. Development funds are best suited to address the needs of smaller cities which tend to lack skilled administrators and lack access to capital markets. Development funds also provide a way to adopt larger projects.

The most common approach in Western Europe has been to introduce an autonomous institution with a legal and financial identity separate from the Central Government. However there is great variance in the real degree of autonomy and the precise nature of the institution. The examples are as follows:

Municipal development banks which are primarily concerned with financing municipal investment. These include Belgium and Danish Municipal Credit Associations, Bank for The Netherlands Municipalities, and the Municipal Bank of Norway. In all these cases municipal government representatives control the management board.

Municipal or local government windows within institutions established to manage state controlled pensions and insurance funds. This is the case in France, Italy, and Spain. In these cases, management is appointed by the central government but municipal governments are represented in the decisions. The British Public Works Loan Board is 100 percent controlled by the Central Government, but half of the board draws membership from local governments.

Direct administration by the central government is the mode adopted by many developing countries. The central agency is the Ministry of Local Development or the Interior or, in some cases, the Ministry of Finance. Problems with some of these new funds included lack of capacity for sustained assistance, under-capitalisation, poor loan repayment discipline.

In Western Europe and Japan most of the activities of MDFs are funded by direct access to financial markets. However, the initial subscription of shared capital

by either central or local governments, though not representing any significant resources for lending, has been important in establishing credibility and control. Additional resources are tapped by competing for private savings deposits. Other financial institutions (banks, insurance companies and pension funds) have been major sources of funds either through the purchase of bond issues or through directly negotiated deposits. In contrast, developing country MDIs have been largely financed with public funds. Even though most of these institutions have the power to issue bonds, most of them do not.

MDFs lend money to local governments for long-term investment at preferential rates which cover interest and administration costs. In some cases there are elements of grant or subsidised interest. These take different forms, such as matching grants attached to loans that vary with the repayment capacity of the local government or with the type of the project. Most often eligibility is unrestricted in which the allocation of funds depends on the bids of individual authorities. In some cases, local governments, especially large units, are given a maximum quota.

Assessing debt service capacity of local governments is one of the most difficult aspects of managing a MDF. In most cases the policy is to rely on the statutory limitations established in the law, stating a maximum ratio of debt or debt service for local government revenues. However, in the case of self-liquidating investment, as for public utilities, the limitation depends on the internal financing viability of the enterprise and not the local government per se. There are exceptions to this rule. For example, the French Caisse de Depots bases its lending to local governments on financial forecasts, not on debt service ratios.

(Adapted from “Latvia: Local Government Expenditures and Resource Transfers” The World Bank, Report No. 14470-LV, July 20, 1995 and based on “Municipal Development Funds and Intermediaries,” by Kenneth Davey, Background Paper for the 1988 World Development Report, The World Bank, July 1988.)

4.3.3 Municipal Bonds

The USAID and the World Bank introduced municipal bonds in transition and European countries based on American experience. Unlike other borrowing there are two reasons which restrict the development of bonds in transition and developing countries.

- i) There is no tax exemption for the citizens purchasing bonds in transition and developing countries which restricts the interest of the citizens. But tax exemption is given in US, and Central and Eastern European countries.
- ii) Reforms in bond market will encourage the citizens to invest.

The following(Box-4.5) is the best practice in US with regard to bond market:

Box 4.5 Diversification in the US local bond market

In most transition countries local bond markets are still largely dominated by general obligation bonds, issued against the full faith and credit of the issuer. As markets develop, however, local governments will tend to diversify their borrowing instruments and rely more on structured bond instruments.

The US bond market provides a vivid illustration of the wide diversification of instruments. Beyond the general obligation bonds, the US local bond market offers a wide range of revenue bonds that are issued for project or enterprise financings, in which the security for the bond is the revenue generated from the financed projects. For example water revenue bonds are issued to finance the development of water treatment plans, pumping stations, distribution systems etc., with revenues from connection fees and water charges paid by users. The so called tax allocation bonds are used in the construction sector, secured by additional property taxes collected from new or improved property.

In addition to these various bond structures and instruments, the US market has been characterized by the emergence of a wide array of internal and external credit enhancement structures for municipal bonds, such as refunded bonds, insured bonds, bonds backed by letters of credit etc.

Source: Building Sub-national Debt Markets in Developing and Transition Economies. A Framework for Analysis, Policy Reform and Assistance Strategy. Michel Noel, World Bank Policy Research Working Paper 2339, May 2000

In this session you read about the importance of financial decentralisation and now answer the questions given in Check Your Progress-1

Check Your Progress 1

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

1) Differentiate between Devolution, De-concentration and Delegation.

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2) Define Municipal borrowing and what are the different types of Municipal borrowing?

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4.4 FISCAL DECENTRALISATION IN DEVELOPED COUNTRIES

The fiscal decentralisation of a few developed and transition countries are narrated below.

4.4.1 United States

The United States has a loose and flexible structure of fiscal federalism. The key point of the US local government finance system is the absence of too many specifications. State governments assign local governments taxes and their maximum rates. Rules are clear on whether local governments may seek voter referenda on fiscal decisions such as tax rates, new borrowings and so on. They can formulate their own user charges. On the whole, local government revenues finance about 40 to 70 percent of the expenditure.

Some of the important sources of fiscal earnings of the local governments are:

i) Property tax

Property tax amounts to 70-75 percent of all local tax revenues in USA. The tax is based on capital value of property (often at a rate exceeding 1 percent). It gives a stable source of local funds to local government. It provides a degree of independence to the local bodies from the state and federal governments.

ii) Local option Income tax

State like Alabama, Arkansas, Delaware, Georgia, Kentucky, Indiana, Maryland, Michigan, Missouri, New York and Pennsylvania authorise their municipal authorities to levy local income tax. Some states like Georgia mandate a local choice of either an income tax or a general sales tax. While local jurisdictions usually collect the local option income tax themselves, some states like Indiana and Maryland collect it on behalf of their local governments by piggy-backing onto state income taxes.

iii) General Sales tax

This tax is generally popular among taxpayers because it is collected in small amounts with many transactions. Local rates of this tax ranged from 0.25% to 6% in the United States in 1993.

iv) Excise Taxes

Excise taxes are sales taxes imposed on specific goods and services and are most commonly assessed on lodging, alcoholic beverages and tobacco products, utilities and motor fuel (local option gasoline tax). Some local jurisdictions levy an excise tax on new construction.

v) User Charges and Fees

User fees and fees pay for the cost of operating and maintaining public facilities and services, as well as repay outstanding debts. Road tolls, park admission fees and water and sewer charges are representative user fees in the United States.

vi) Revenue Bonds

Revenue Bonds are designed to finance revenue-generating facilities, backed by a stream of revenues pledged from user charges for services like water supply, sewerage, drainage, toll roads etc.

4.4.2 Canada

The main sources of municipal finance in Canada include: property tax, business tax, special taxes to raise revenue to pay for a specific service or purpose and local improvement taxes. Some of the services taxes imposed by the local governments are waterworks tax, sewer tax, boulevard tax, dust treatment tax, paving tax, ambulance service tax, fire protection area tax, drainage ditch tax, tax to provide water supply for the residence of a hamlet and recreational service tax.

Local improvement taxes in Canada are generally in the form of betterment levies linked to benefits accruing to specific local areas due to the provision of infrastructure as a result of implementation of local improvement plans.

4.4.3 United Kingdom

The fiscal decentralisation in UK is more systematic and well decentralization. The finance regimes of local authorities in England includes, as follows:

- i) A system of non-domestic rates, being a property tax levied on industrial and commercial property- set by the Secretary of State for Environment for England and Wales, collected into the national pool and then distributed among the local jurisdictions based on adult population,
- ii) A system of exchequer grants to local authorities, principally the Revenue Support Grant (RSG) designed to compensate local authorities are also able to participate in partnerships with the private sector under the Private finance Initiative and
- iii) A system of local domestic taxation, known as the Council tax.

4.4.4 Hungary

Hungary is the most decentralised country in the central and eastern European. In the year 1990, the local government act of Hungary brought fundamental changes in financing Hungarian local governments. The act regulates the scope of mandatory services that local governments can supplement with other services according to their needs. The act regulates the structure, service financing, assets and revenues of local governments. The act also gives more local autonomy. In this process actors like businesses, banks, investors are considered to be important partners in the budget process. The act also considers local citizens are important in decision making process and this will strengthen the democracy. This act also delegated broad economic and political authority to local government making region.

The four year programme “Modernising Municipal Financial Management” in Hungary was launched in 1996 with the following objectives:

- Include revenue and expenditure breakdowns of municipal activities that provides a clear picture of how much the municipality spend on various items.

- Documents should be suited in identifying and pursuing the strategic sectoral and programme goals of the municipality.
- Monitoring should be ongoing focused on issues and outcomes.
- Format and content should be comprehensible and informative to specialist citizens and other participants in municipal financial management.

The notion of programme budgeting was applied during the project period. The programme budgeting approach transform the local budget from a simple accounting, control oriented into a tool for promoting effective and accountable management of city resources. The programme budgeting relates revenues and expenditures to municipal goals, objectives, strategies and anticipated outcomes.

4.5 FISCAL DECENTRALISATION IN DEVELOPING COUNTRIES

The fiscal decentralisation in a few developing countries narrated below are

- i) China
- ii) Brazil
- iii) South Africa

4.5.1 China

China's fiscal system is highly decentralized among the 31 provincial, 331 prefecture, 2,109 county and 44,741 township-level units. Nearly 70 percent of total public expenditure in China takes place at the sub- national (that is provincial, prefecture, county and township) level of which more than 55 percent takes place at sub-provincial levels. Key sub-national expenditure responsibilities in China include sub-national administration, local capital construction, basic local services, maintenance, repair and operation of urban infrastructure, primary and secondary schooling, health and hospitals, support for agricultural production, price subsidies, poverty alleviation, cultural and heritage protection, environmental conservation, local and regional development and physical planning.

The revenue assignment between Central and Sub-national Governments after 1994 reforms stands as follows.

- Central revenues in China comprise import tariffs, consumption taxes, income taxes, import-related consumption taxes and VATs, taxes imposed on banks, non-bank financial institutions and insurance companies (including business taxes, income taxes and the urban maintenance and development tax) and taxes on railroads.
- Sub-national revenues consist of business taxes(excepting taxes imposed on banks ,non-bank financial institutions, insurance companies and railroads), company income tax(excluding local banks, foreign banks and non-bank financial companies), personal income tax, urban land use tax, urban maintenance and development tax (excluding banks, non-bank financial institutions, insurance companies and rail roads), fixed asset capital gains tax, house property taxes, stamp taxes, agriculture and related taxes, tax on contracts and land-value increment taxes.

- Shared revenues include VATs (75 percent central and 25 percent, sub-national governments), stamp taxes on security exchange (50:50 sharing) and resource taxes.

4.5.2 Brazil

In Brazil, municipalities are granted full autonomy. The consumption and production taxes are assigned to all three levels of government. The main municipal taxes in Brazil are those on services (ISS) and urban property (IPTU). ISS rates are set by the municipalities, subject to ceilings introduced by the federal government. IPTU is levied on the capital value of land and buildings.

Based on Constitutionally mandated revenue sharing, the municipalities are entitled to

- 25 percent of the revenue from state Value Added tax (ICMS) ,
- 50 percent of revenue from the state tax on motor vehicles registration (IPVA)
- 22.5 percent from the federal Value Added Tax (IPI) and income Tax (IR),
- All revenue from the income tax held at source (IRPF) and paid by the municipalities or by their decentralized agencies,
- 70 percent of revenue from the federal financial-transactions tax levied on transactions with gold (IOF-Quro)
- 50 percent of revenue from the federal rural-property tax (ITR). Municipalities also receive compensatory transfers and transfers related to healthcare and investment programmes.

4.5.3 South Africa

The using of application called measuring expenditure needs approach in South Africa transfer fiscal resources equitably to the provinces (South Africa 2006). The equitable share formula applicable for 2006–08 focuses almost entirely on need factors, with only a 1 percent weight given to negative needs (per capita GDP). The formula uses the following shares:

- A basic share (14 percent weight) is derived from each province's share of the national population.
- An education share (51 percent) is based on the size of the school-age population (5–17) and the average number of learners (grades R–12) enrolled in public ordinary schools over the past three years.
- A health share (26 percent) is based on the proportion of the population with and without access to medical aid.
- An institutional component (5 percent) is divided equally among the provinces.
- A poverty component (3 percent) is based on incidence of poverty.
- An economic output component (1 percent) is based on data on GDP by region.

4.5.4 Commonwealth Countries

There are two models that are typical for local government revenues in developing countries of the Commonwealth:

- i) Local government rely very much on their own sources of revenues especially taxes user charges/ fees (i.e. Zambia & Swaziland);
- ii) Local governments are heavily depended on transfers from central government &/ or donor contribution (i.e. Ghana).

The source of revenue of local self governments of different Common Wealth Countries are given in table below:

Country	Source of local government revenue
Australia	Grants and general or special purpose payments of federal and state governments comprise 23 per cent of local government revenues. Other sources included tax on immovable property, fees and fines, net operating surplus of trading enterprises and interest.
Bangladesh	Taxes, rates, fees and charges levied by local bodies, rents and profits accrued from their properties and money received through its services. Government grants, international project funding and loans raised by local bodies are additional sources of income. Taxes are the most important source of income, while loans and voluntary contribution are rare.
Cameroon	Council taxes, business levy and licenses.
Cyprus	Municipal taxes, duties and fees.
Fiji Islands	Revenues from land tax (town tax) and other local incomes such as grants-in-lieu, rental fees, market and bus station fees, business license fees, building fees and parking fees. Most councils also loans from the local capital market. Grants from central government are rare.
Ghana	Taxes, user fees and charges.
India	Tax revenue- properties, <i>octroi</i> , professions and vehicles, non-tax revenue- licenses and service charges, grants-in aid and state/Central Governments loans and borrowings.
Kenya	Fees and charges, water and sewerage fees, local property taxes and business permits.
New Zealand	Property rates, user charges, fees, fuel taxes and returns on investments. Some central governments financial assistance. The rating and charging powers have been provided for in law since 1988 and are important sources of local tax revenue.

Malaysia	Local taxation (assessment rate, rents and fees for services, grants/ subsidies given by state or central government. Some local authorities receive grants-in-lieu of rates. Other sources include miscellaneous forms of charges and fees (licenses, payment for various forms of services, rental penalties and compounds and interest).
Pakistan	Tax and <i>octroi</i> (comprising 60 per cent of local governments' revenues) and non-tax sources. Property related taxes (such as local rates or leases on all land assessable to either rent, land revenue or use). Tax on the transfer of property and <i>octroi</i> are the largest sources of revenue.
Sri Lanka	Rates, taxes duties, fees, fines, penalties and other charges as well as money from sales, leases or other transactions, revenues derived from properties and grants from other governments' spheres.

Source: Kevin Sproasts, Local Government in Asia an the Pacific: A comparative analysis of fifteen countries; and CLGF (2005)

In this session you read about the financial decentralisation in various countries and now answer the questions given in Check Your Progress-2

Check Your Progress 2

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

1) Discuss Fiscal Decentralization in Canada.

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2) Discuss the Measuring Expenditure needs approach in South Africa to transfer fiscal resources equitably to the provinces.

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4.6 LET US SUM UP

In this we have discussed the different experiences of fiscal decentralization in different countries. Decentralisation has to be looked from different perspectives like political, social and economic perspective. In this Unit fiscal decentralisation was explained from economic perspective. The transition countries are vigorously implementing fiscal decentralization. Developed countries like US and Canada have evolved fiscal decentralized structure. In worldwide fiscal decentralisation is considered as a viable option to address socio economic political issues. But due to lack of political will and untrained man power made developing countries to implement fiscal decentralisation unsuccessfully.

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4.8 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: In devolution, independently established sub national governments are given the responsibility for delivery of public services. The authority will impose fees and taxes for those services. The sub national government have flexibility to select the services to provide to their citizens. Whereas de-concentration is the establishment of central government offices at the regional level with some autonomy in decision making but the centre should approve all deviations from normal practice. Delegation is an intermediary between devolution and de-concentration. In this, sub national governments are given responsibility to deliver certain services but the central government will supervise and provide some forms of finance.

Answer 2: In the fiscal decentralisation the municipal governments are augmenting the resources from different sources like borrowing from financial institutions, user charges, transfers, issuing of bonds, loans from financial institutions etc. To strengthen the fiscal domain of municipalities there are different kinds of municipal borrowings which are discussed as follows:

- a) **Municipal Development Fund:** A “Municipal Development Fund” (MDF) is defined as a pool of money operated at a level above the individual local government primarily for investment in infrastructure. The MDFs are managed by different institutions such as banks or government agencies. These are the “Municipal Development Intermediaries” (MDIs).
- b) **Municipal Bonds:** The USAID and the World Bank introduced municipal bonds in transition and European countries based on American experience.

Check Your Progress 2

Answer 1: The main sources of municipal finance in Canada include: property tax, business tax, special taxes to raise revenue to pay for a specific service or purpose and local improvement taxes. Some of the services taxes imposed by the local governments are waterworks tax, sewer tax, boulevard tax, dust treatment tax, paving tax, ambulance service tax, fire protection area tax, drainage ditch tax, tax to provide water supply for the residence of a hamlet and recreational service tax.

Local improvement taxes in Canada are generally in the form of betterment levies linked to benefits accruing to specific local areas due to the provision of infrastructure as a result of implementation of local improvement plans.

Answer 2: The using of application called measuring expenditure needs approach in South Africa transfer fiscal resources equitably to the provinces (South Africa 2006). The equitable share formula applicable for 2006–08 focuses almost entirely on need factors, with only a 1 percent weight given to negative needs (per capita GDP). The formula uses the following shares:

- A basic share (14 percent weight) is derived from each province’s share of the national population.

Decentralized Planning and Development

- An education share (51 percent) is based on the size of the school-age population (5–17) and the average number of learners (grades R–12) enrolled in public ordinary schools over the past three years.
- A health share (26 percent) is based on the proportion of the population with and without access to medical aid.
- An institutional component (5 percent) is divided equally among the provinces.
- A poverty component (3 percent) is based on incidence of poverty.
- An economic output component (1 percent) is based on data on GDP by region.



UNIT 5 FISCAL DECENTRALISATION IN INDIA: AN OVERVIEW

Structure

- 5.1 Introduction
- 5.2 Fiscal Decentralisation-Meaning and Importance
- 5.3 Fiscal Decentralisation in India
- 5.4 Sources of Local Government Revenue
- 5.5 Sources of Revenue of Urban Local Bodies in India
- 5.6 Sources of Revenues of *Panchayati* Raj Institutions in India
- 5.7 Criteria for Fiscal Devolution
- 5.8 Measures for Strengthening Fiscal Decentralisation
- 5.9 Let Us Sum Up
- 5.10 References and Suggested Readings
- 5.11 Check Your Progress - Possible Answer

5.1 INTRODUCTION

Decentralisation has become one of the important dimensions of governance of modern democracy. The devolution of functions, functionaries and funds from the Central Government to the provincial and local government is propagated as a step for the effectiveness of decentralisation. Customarily decentralisation is termed as delegation of decision making power to the lower levels of governments. It is studied that decentralisation improves accessibility, promotes responsibility and accountability and effectiveness of the government. Thus decentralisation intends to disperse decision-making governance closer to people. Dispersal of financial responsibility is an important component of decentralisation. Devolution of funds to the local governments closer to the people believed to promote faster development both in rural as well urban areas. After reading this unit you should be able to:

- Explain the meaning and importance of fiscal decentralisation
- Describe the sources of local government revenue
- Discuss the fiscal decentralisation in India
- Analyse the criteria of fiscal decentralisation and measures for strengthening fiscal decentralisation.

5.2 FISCAL DECENTRALISATION: MEANING AND IMPORTANCE

5.2.1 Meaning of Fiscal Decentralisation

The Central Government is increasingly finding difficulty to meet all of the numerous competing needs of their various constituencies at the regional and local levels. Its therefore attempting to build local capacity by delegating responsibilities downwards to their regional governments and local governments.

At the same time, the local governments are also demanding more functional and financial autonomy. As a result two things have happened:

- i) Firstly, Central Government is looking towards local and regional government to assist them on devising economic development strategies;
- ii) Secondly, regional and local political leaders are demanding more autonomy and want the taxation powers that comensurates with their expenditure responsibility.

According to Kenneth Davey, fiscal decentralisation comprises the financial aspects of devolution to regional and local government and it covers two interrelated issues:

- a) First is the division of spending; and
- b) The amount of discretion to be given to regional and local governments to determine their expenditures and revenues.

The concept, fiscal decentralisation caught attention of the various countries only after 1990. However, there are evidences that show that countries like Brazil, Peru and Mexico introduced a system of fiscal decentralisation in their economy in the 1990s. Fiscal decentralisation has become worldwide reform agenda supported by the World Bank, USAID, Asian Development Bank and many other bilateral and international agencies. World Bank perceives fiscal decentralisation and the devolution of power as an important engine for shaping governance and development. James Edwin Kee opines that 'Fiscal decentralisation' is the devolution by the Central Government to local governments such as states, region and municipalities of specific functions with the administrative authority and fiscal revenues to perform those functions. Chio states that, fiscal decentralisation means that the authority of tax collection or expenditure is transferred from superior to subordinate offices. He advocates that fiscal decentralisation has two aspects that is qualitative and quantitative. The qualitative aspect of fiscal decentralisation analyses finance held by a local government, where as the quantitative aspect estimates the presence of autonomy authority in finance. According to N. Feruglio, fiscal decentralisation is a process of shifting decision making power on the composition of expenditure responsibilities and on the composition and level of revenues from the Central Government to elected sub national governments. M. A. Oommen opined that fiscal decentralisation means fiscal empowerment of local governments. More specifically it means devolution of taxing and spending powers to lower levels of government. According to World Bank, fiscal decentralisation accords substantial revenue and expenditure authority to intermediate and local government.

Thus fiscal decentralisation is not only the allocation of resources by the Centre to the regional and local governments but also generation of resources by the regional and local governments. One of the purposes of the fiscal decentralisation in China is to grant the provinces and localities greater flexibility in collecting revenues and making expenditure decisions. The Government of India also made Constitutional provisions for fiscal decentralisation to state and local government.

5.2.2 Importance of Fiscal Decentralisation

The fiscal decentralisation hold merits for several reasons and some of the reasons are as follows::

- i) Fiscal decentralisation promotes economic value. The fiscal federalism like the political concept of democracy is considered to be an optimal institutional arrangement. It has the provision of public services with cost minimisation and welfare maximisation. It also combines the advantages of decentralisation with the benefits from economies of scale.
- ii) Fiscal decentralisation leads to good governance, by ensuring fiscal responsibility to the lower level of government that is. local self government. Governance values include responsiveness and accountability, diversity and political participation. Decentralisation places allocation decision making close to the people. As a result, this places greater responsiveness to local officials and greater accountability to citizens.
- iii) Fiscal decentralisation would enhance political participation at the local level. This has the potential to enhance democratic value and political stability at the local level. It provides a forum for local debate about local priorities and can be a proving ground for future political leaders. It imparts financial education to the local leaders at the grassroots levels.
- iv) The fiscal decentralisation is supposed to reduce poverty through the need-based and demand-driven approach of utilisation of resources through participation of locals at the grassroots. The countries like China and India are very much in the favour of fiscal decentralisation for poverty reduction.
- v) With fiscal decentralisation, funds are effectively used as
 - a) they are demand-driven and there is high degree of local involvement;
 - b) their operations are transparent and accountable;
 - c) they are carefully targeted to low income group; and
 - d) free from official red tapism.
- vi) According to Stigler, fiscal decentralisation brings government closer to the people. However a representative government functions in better manner, when it is close to the people. The theoretical perceptive of this argument goes like this “each public service should be provided by the jurisdiction having control over the minimum geographical area that would internalise benefits and costs of such provision.”
- vii) In a fiscally decentralised system where citizens’ participation in decision making is encouraged, locally elected governments have the power to pursue the agenda mandated by voters.

After reading this section, you might have gained idea about the meaning and importance of fiscal decentralisation. Now you would be able to answer the questions given in Check Your Progress-1

Check Your Progress 1

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

- 1) What do you mean by fiscal decentralisation?

- 2) Discuss a few merits of fiscal decentralisation

5.3 FISCAL DECENTRALISATION IN INDIA

In India, fiscal decentralisation assumed importance after 73rd and 74th Constitutional Amendments, which envisaged the devolution of functions, functionaries and funds to the local self government institutions. Before 1992, that is prior to the passing of the 73rd and 74th Constitutional Amendment, several committees and commission recommended for the fiscal decentralisation. Let us discuss in detail the recommendations of various committees and constitutional measures undertaken for fiscal decentralisation in India.

5.3.1 Committees

Various committees and commissions were constituted for suggesting measures for establishing financial autonomy of the *Panchayats* and municipalities. In the light of these suggestions, the States have made appropriate provisions in their *Panchayat Raj* Acts. Let us now review the recommendations of various committees appointed from time to time about decentralisation of finances to local self government institutions.

i) Finance enquiry committee

In 1951, the Local Finance Enquiry Committee studied this problem and recommended unconditional assignment of 15% of land revenue to be raised in the *panchayat* area and the proceeds of surcharge levied on the transfer of immovable property to the *Panchayats*. *Panchayats* were also to be empowered to raise their own resources by levying certain taxes in their territories.

ii) Taxation enquiry committee

In 1954, the Taxation Enquiry Committee recommended for reserving certain taxes such as tax on land and building, *octroi*, tax on non-mechanical

transport, tax on property, tax on profession, tax on advertisement other than newspapers, theatre tax, and duty on transfer of property, etc. for *Panchayats*.

iii) Santhanan Committee

The Santhanan Committee formed in 1963 strongly recommended that it was essential for stability and growth of local institutions to have substantial and growing resources, which were entirely within their power to exploit and to develop.

iv) Ashok Mehta committee

In 1978, the Ashok Mehta Committee recommended that besides government support, *panchayats* should mobilise enough resources of their own, as no democratic institution can continue to maintain its operational viability by depending upon external resources.

v) Singhvi Committee

In 1966, the Singhvi Committee among others, suggested pattern of compulsory and optional levies. The State Governments shall levy and collect taxes and fees on behalf of PRIs and shall disburse to them based on the recommendation of the Finance Commission in each State. In order to ensure and safeguard the financial autonomy of the PRIs, they should be freed from relying on the “Untied Funds”. But encouraged instead to take to innovative resource mobilisation such as generation of income from entrepreneurial activities, projected loans, public contribution, tax-sharing, tax-assignments and matching grant incentives for tax collection.

5.3.2 Commissions

The 73rd Constitutional Amendment provides for devolution of functions and transfer of functionaries and funds to the three tiers of Panchayati Raj Institutions. The article 243G of the Constitution states, “Subject to the provisions of the Constitution, the legislature of a state, by law, may endow the *panchayats* with such powers and authority as may be necessary to enable them to function as institutions of self-government. Such laws may contain provisions for the devolution of powers and responsibilities upon *panchayats* at the appropriate level, subject to such conditions as may be specified therein, with respect to:

- a) The preparation of plans for economic development and social justice; and
- b) The implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to matters listed in the Eleventh Schedule.

Article 243A of the Constitution of India embodies the spirit of the democratic decentralisation.

While 280 (3) (bb) of the Constitution enjoins the Central Finance Commission to suggest measures needed to augment the consolidated fund of a state to supplement the resources of the *panchayats* and municipalities on the basis of the recommendations made by the Finance Commission of the State.

Article 243-H of the Constitution, empowers the state legislatures to enact laws:

- a) To authorise a *panchayat* to levy, collect and appropriate such taxes, duties, tolls and fees;
- b) To assign to a *panchayat*, certain taxes, duties, tolls levied and collected by the state government;
- c) To provide for making grants-in-aid to the *panchayats* from the consolidated fund of the state; and
- d) To provide for the constitution of such funds for *panchayats* and also the withdrawal of such money there from; as may be specified by law.

Article 243-I of the Constitution envisages for the setting up of the State Finance Commission (SFC) once in every five years to review the financial position of the *panchayats* and to make recommendations to the Governor as to:

- i) The principles which should govern-
 - a) The distribution between the state and the *panchayats* of the net proceeds of the taxes, duties, tolls and fees levied by the state. It may be divided between them under this part and the allocation between the *panchayats* at all levels of their respective shares of such proceeds;
 - b) The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the *panchayats*;
 - c) The grants-in-aid to the *panchayats* from the consolidated fund of the state
 - I) The measures needed to improve the financial position of the *panchayats*;
 - II) Any other matter referred to the finance commission by the Governor in the interests of sound finance of the *panchayats*.

The 74th Constitutional Amendment also states that the State Finance Commission to review the financial position of the urban local bodies, their revenue and capital account requirements. It recommended devolution of taxes, charges, fees, tolls, duties, shared revenues, inter-government transfers and grants from the state to the municipalities. It suggested measures for the mobilisation of municipal resources.

5.3.3 The Central Finance Commission

Direct devolution by CFCs to ULBs began with the Xth CFC after insertion of clause 280(c) in the Constitution and entailed an allocation of Rs.1,000 crore for 1995-2000. It was calculated on the basis of:

- ii) Slum population;
- iii) Matching contribution by municipalities;
- iv) Funds to be used for the non-establishment segment of O&M.

CFC has also suggested a reform agenda at the state and municipal level to enable full devolution (2.5% of divisible funds) after the first year (2010-11) of the five-year period of 2010-15. This includes a 1% share of divisible pool on taking up the reform agenda of the XIIIth CFC covering:

- Introduction of double entry municipal accounting system based on the Government of India National Municipal Accounting Manual. It will bring transparency in accounts and enhanced efficiency in the mobilization of assets.
- Improved auditing through assignment of technical guidance and supervision (T&GS) to CAG (Comptroller and Auditor General), Government of India, which will induce fiscal discipline.
- Appointment of Independent Local Body Ombudsman to check corruption and malpractices.
- Grants to be transferred electronically to ensure transparency and timely disbursement.
- Laying out qualifications for the members of state finance commission to improve equality and competence of SFC.
- Property tax should be levied on all properties, including central/state government properties.
- States should constitute a Property Tax Board that will lay down norms for the PT system to ensure complete coverage and revenue enhancement.
- States/ULBs should set out service standards (as 31st March) to be accomplished during the next financial year, particularly in relation to core municipal services such as water supply, sewerage, storm water drainage and solid waste management.

All towns with a population above one million should have their own fire fighting service.

5.3.4 The State Finance Commissions

Chapters 243-I and Y of the 73th and 74th Constitutional Amendment Acts, respectively, made it mandatory for state governments to constitute state finance commissions (SFCs) every five years to review the financial position of the *panchayats* and urban local governments, and to make recommendations for the subsequent five-year period on:

- a) the principles to govern the distribution and allocation of the taxes, duties, tolls and fees levied by the state, and the allocation between the *panchayats* /local governments of such proceeds;
- b) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the *panchayats* /local governments;
- c) the grants-in-aid to the *panchayats* /local governments from the Consolidated Fund of the state;
- d) the measures needed to improve the financial position of the *panchayats* / municipalities; and
- e) any other matter referred to the SFC by the governor in the interests of sound finance of the *panchayats* /local governments.

5.4 SOURCES OF LOCAL GOVERNMENT REVENUE

The various sources of local government can broadly be categorized into four heads:

- i) Local Taxation
- ii) User Charges
- iii) Inter Governmental Transfers
- iv) Capital Finance

i) Local Taxation:- The local self government in different countries used to impose local taxes as a source of revenue. However, it varies from state to state and region to region depending on decision of the

concerned state government. Local taxes are generally divided into three categories such as taxes on property, income and sale of goods and services. Generally it is observed that highly progressive and mobile tax bases are assigned to the centre. While, user charges and fee are found to be vested with the local governments. Therefore, decentralized (local) levels of government rely mainly on taxes like property tax, user charges and fees.

ii) User charges:- The local governments charges user fee for the services which they provide to the citizen of the municipal areas. Now day local governments are under increasing pressure to increase tariffs to meet the full cost of services which they provide.

Intergovernmental Transfers: - The intergovernmental transfer are of two types:

- i) Share of national taxes distributed either by formula (i.e. per capital) or by origin (i.e. to the local government where they are located).
- ii) The second is the grants/ subversions which are either targeted to support specific expenditure (i.e. social benefit, education, etc.) or untargeted and used at discretion of local government (often know as block grants).

Targeted grants are usually intended to stimulate a specific type of expenditure which is favoured or mandated by national government. The untagged or untied grants the other hand can be used by the local governments based on local needs.

Box: Delegation of financial powers to urban local bodies: 74th Constitutional Amendment:

The State may, by law:

- Authorise a municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedures and subject to such limits;
- Assign to a municipality such taxes, duties and tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;
- Provide or make such grants-in-aid to the municipalities from the consolidated fund of the State; and
- Provide for constitution of such fund for crediting all moneys received, respectively, by or on behalf of the Municipalities and also for the withdrawal of such moneys therefrom.

iii) **Capital Finance:-** Capital expenditure is normally financed from one or more of the following sources:

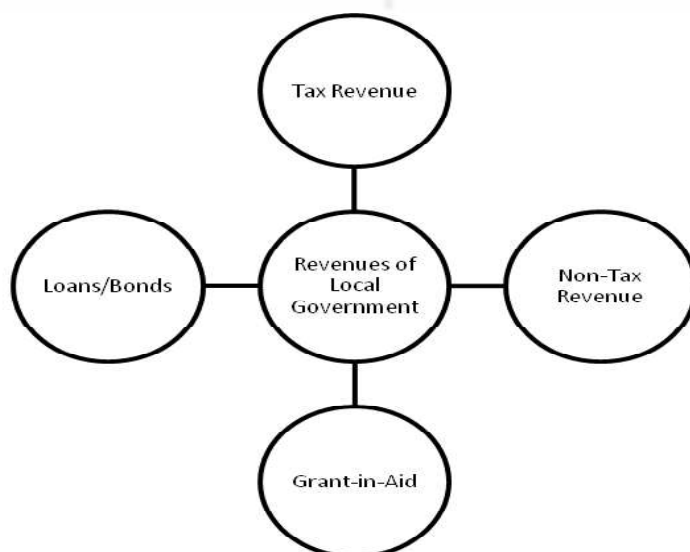
- i) Grant from the state budget or national funds;
- ii) Operating surplus representing excess of current revenue over current expenditure
- iii) Sale of assets;
- iv) Credit (loans and bonds) grants from the state is a common phenomenon.

5.5 SOURCES OF REVENUE OF URBAN LOCAL BODIES IN INDIA

Some of the important sources of revenues of the urban local bodies in India are as follows:

- i) **Tax Revenue:-** Urban local bodies levy a few taxes in their area such as *octroi*, property tax, profession tax, entertainment tax, advertisement tax, animal tax, market tax, water tax, pilgrim tax, toll on new bridges, etc. Now- a- days most of the states have abolished *octroi* tax, which was a major source of revenue for the urban local bodies. Besides, the urban local bodies also get a percentage of tax revenue from stamp duty, electricity tax and motor vehicle tax imposed by the state government.
- ii) **Non-Tax Revenue:-** It consists of fees, receipts, fines or income from remunerative activities of urban local bodies. The fees is collected through various forms and processing fees. Besides, fees are collected from park and exhibition ground, halting places, public market, etc.
 - a) **Grant-in-Aid:-** The State Government gives grants-in-aid to the urban local body. It varies from state to state depending on the recommendations of the concern state finance commission.
 - b) **Loans & Bonds:** Under the respective Municipal Acts, the Urban Local bodies are entitled to raise loans from the state governments. The loans are to be paid back within prescribed time limit along with the interest. Besides, the now a days many municipalities and municipal corporations are sailing bonds to enhance their revenue base.

Revenue of ULBs



The progress of implementation of accounting reforms by the ULBs in India is very slow. Only a few states have introduced the measures for raising finance as per the recommendation of the Central Finance Commission.

The Central Finance Commission has suggested several measures to augment the consolidated fund of the state for municipal resource mobilisation. These include land taxes, surcharged cess on state taxes, and property tax. It was also suggested for enhancing of local resources through property tax and fixation of user charges in such a way that the full cost of operation and maintenance is recovered. However, all these suggestions have not been dutifully implemented by various states. Even the state government does not release the funds received on the recommendation of the Central Finance Commission.

The JNNURM (Jawaharlal Nehru National Urban Renewal Mission) has included following mandatory and optional reforms with the objectives to improve pricing and cost recovery of user charges.

- i) Mandatory reforms:
 - a) Levy of reasonable user charges by ULBs with the objective that full cost of O & M is collected within next five years.
 - b) Internal earmarking within local body budget for basic services to the urban poor.
 - c) Provision of basic services to urban poor including water supply, sanitation, etc.
- ii) Optional reforms:
 - a) Revision of by-laws to make rain water harvesting mandatory in all building to come up in future and for adoption of water conservation measures.
 - b) By-laws on re-use of reclaimed water.
 - c) Encouraging public-private partnership.

In this section, you read about various sources of local government revenue. Now answer the questions given in Check Your Progress-2

Check Your Progress 2

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

- 1) What are the various sources of local revenue?

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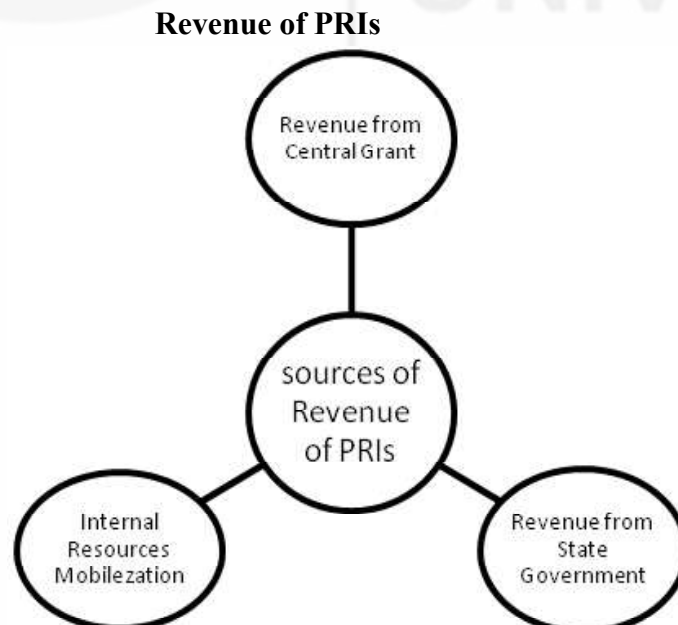
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5.6 SOURCES OF REVENUES OF PANCHAYATI RAJ INSTITUTIONS IN INDIA

Panchayati Raj Institutions (PRIs) receives revenues from various sources. The important sources of revenue of the PRIs in India are as follows:

- i) **Revenue from the Central Government:** Every state gets revenue from the Central Government as per the recommendations of the Central Finance Commission. This is based on the criteria fixed by the Central Finance Commission. The PRIs of states also get grant from the National Planning Commission.
- ii) **Revenue from the State Government:** The two main sources of revenue from the state government to the PRIs are:
 - a) Allocation as per the recommendation of the State Finance Commission;
 - b) Scheme specific grant from the State Planning commission.
- iii) **Internal resources of Revenue:** The PRIs in different state applies various mechanisms for internal resources mobilisation. The important sources are
 - a) Taxable income and fees
 - b) Non-taxable income like income from the common property resources, sales of goods and services, borrowings, income from live stocks, etc.

The revenue sources of *Panchayati Raj* Institutions is given in the form of a diagram below



The PRIs in Kerala, Karnataka and Gujarat enjoy greater financial autonomy. In Kerala, 40 per cent of plan funds go directly to *panchayats*. In Karnataka, each *panchayat* get Rs.3,00,000 annually directly from the state government and in Madhya Pradesh each *panchayat* gets a grant of rupees Rs.1,00,000 every year from the state government. These are untied funds to be spent according to the need and requirement of each *panchayat*.

For example, the sources of income of village *panchayats* in Karnataka include:

- i) Statutory grant (Rs 5 lakhs) from the state government
- ii) Property tax, water tax, professional tax, fair and exhibition tax and professional tax. These taxes constitute nearly 17 per cent of the total revenue and
- iii) Grants from the Central Finance Commission and Central Plan.

In Kerala, a village *panchayat* levies and collects taxes from the local people. Taxes levied by the village *panchayats* are property tax, profession tax, entertainment tax, advertisement tax, service tax, show tax including surcharge, cess on conversion of land use and surcharges. The government devolves 40 per cent of plan budget directly to village *panchayats* in Kerala.

In Madhya Pradesh, in order to make every village self-reliant (*gram swaraj*) a provision has been made that every village needs to have a gram *kosh* (village fund). The fund comprises funds collected in the form of taxes, Central and State Government grants and funds given by the district *panchayat*. Any other income of the village *panchayat* shall also be deposited in the gram *kosh*. The gram *kosh* shall have four components such as:

- Food *Kosh*
- Commodity *Kosh*
- Labour *Kosh*; and
- Cash *Kosh*.

The sources of income of the village *panchayat* in Madhya Pradesh are:

- Taxes: house tax, sanitation tax, lighting tax, business tax
- Income from minerals
- Income from fishery
- Grant-in-aids from Central and State government
- Income from common property
- Income from livestock

5.7 CRITERIA FOR FISCAL DEVOLUTION

The following criteria may be suggested for the effective transfer of resources to the local self governments by the central government.

- i) **Autonomy:** The essence of decentralisation is self-rule and autonomy. The transfer mechanism in no way should result in a dependency syndrome. Fiscal discipline and own resource mobilisation are the key to autonomy.

Therefore, the local self government institutions creativity in mobilisation of resources must be encouraged.

- ii) **Equity:** The well-known dictum of equity, namely, 'from each according to one's ability and to each according to one's needs' is relevant in considering resource mobilisation and intergovernmental resource transfers as well. It should be noted that *Panchayats* at all levels are very unequal in size, resources and development attainments. Given the extreme regional disparities, decentralisation in such conditions can produce the desirable results.
- iii) **Predictability:** The PRIs should know the amount and timing of the transfers to make provision for planning, budgeting and implementation of their activities. Irregular payments are not conducive to efficiency. Quite often it happens that allocations may not even be paid, resulting in overdue, which eventually may be permanently lost to them.
- iv) **Efficiency:** The resource transfer should be so designed as to facilitate efficient management and discourage inefficient and uneconomic practices. The transfer mechanism should not turn out to be a "gap-filling" approach.
- v) **Absorptive Capacity:** The resource transfer should be in the tune with the utilisation ability of the receiving Panchayat or municipal ward. In other words, principle should be each according to its need. The allocation of fund to the panchayat and municipal ward must be free from bias.
- vi) **Simplicity:** The formula for transfer the inter-governmental resources should be simple and transparent. Besides formula formulated by the Central Finance Commission, the state government must device its own formula based on its socio-economic, geographical and population composition for allocation of resources to panchayat and municipalities and also among the different levels of panchayat and urban local bodies.
- vii) **Promotion of Incentives:** There should be adequate built-in arrangements for encouraging resource mobilisation and penalising wasteful and uneconomic practices. The panchayat which mobilize and generate their own local resources must be given additional matching grant, which will create competitiveness among the local self government institutions.
- viii) **Poverty Reduction:** Removal of poverty should be the main aim the fiscal decentralization. Panchayats and municipalities taking proactive measures in poverty reduction must be given incentives for their initiatives.
- ix) **Reduction of Disparities:** Socio-economic disparities are one of the main concerns of the governments. The local self government can play a vital role in narrowing disparities at the grassroots. This must be a basis for the allocation of revenue among various local self government institutions.

The formula recommended by the 11th Central Finance Commission for the inter se share of the states in tax devolution is given in Table-1.

Table-1: Criteria and Relative weights for determining inter se shares of states

S.No.	Criterion	Relative weight (percent)
1	Population	10.0
2	Income	62.5
3	Area	7.5
4	Index & Infrastructure	7.5
5	Tax effort	5.0
6	Fiscal discipline	7.5

Source: Report of Eleventh Finance Commission

The percent share of different states according to the formula is given in Table-2

Table-2 Inter se share of states

States	Share (percent)
Andhra Pradesh	7.701
Bihar	14.59
Gujarat	2.82
Haryana	0.94
Jammu & Kashmir	1.29
Karnataka	4.93
Kerala	3.05
Madhya Pradesh	8.83
Maharashtra	4.63
Orissa	5.05
Punjab	1.14
Rajasthan	5.4
Tamil Nadu	5.38
Uttar Pradesh	19.79
West Bengal	8.11

Source: Report of Eleventh Finance Commission

5.8 MEASURES FOR STRENGTHENING FISCAL DECENTRALISATION

Fiscal decentralisation can be strengthened by various ways:

- Deciding institutional system to strengthen inter-governmental economic relations. The economic relation among the centre, state and local

governments must be cordial and healthy. Besides, the basis of financial devolution among the different tiers of local self government must be clearly defined, this will lead to fiscal collaboration rather confrontation.

- ii) Planning fiscal transfers to assure regional fiscal equality and to build an effective environment for advanced and competitive service delivery.
- iii) Restructure tax responsibility to allow local revenue autonomy, efficiency and accountability. Delegation of responsibility to the local government to collect and spend their taxes according to the local needs will strengthen the fiscal decentralisation.
- iv) Determining the functionary funds of different levels of government on the criteria of equality and efficiency.
- v) Providing sub-national government an access to responsible credit market. However, with the globalization, the local self government institutions must have access to capital market.
- vi) According to Bahl, a measure of fiscal decentralisation should reflect the key characterises of a fiscally decentralised system, such as existence of elected local council, approved budget, local government to collect taxes.
- vii) Institutional reforms that minimize adverse incentives and promote transparency, accountability and predictably should be executed to have an effective fiscal decentralization.

In these sections, you read about fiscal decentralisation in India, criteria of fiscal decentralisation and measures to strengthen fiscal decentralisation. Now answer the questions given in Check Your Progress-3

Check Your Progress 3

Note: a) Write your answer in about 50 words

b) Check your answer with possible answers given at the end of the unit

- 1) What are the various sources of revenue of PRIs in India?

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- 2) Explain three criterions for fiscal decentralization?

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5.9 LET US SUM UP

In this unit you read about the fiscal decentralisation. Fiscal decentralisation is an important component of democratic decentralization. The fiscal decentralization process started since 1990 and in India it was geared up after 1992 with the implementation of 73rd and 74th constitution amendment. In common parlance fiscal decentralization aims at shifting of financial responsibilities from the central to the lower level of governments. As the financial responsibilities become closer to the people, it is believed that it will lead to good governance, transparency and accountability. Besides, meaning and importance of fiscal decentralization, this unit also covers sources of local government revenue in general and of local self government institutions in India in particular. Lastly, this unit also covers criteria for fiscal decentralization and measures to strengthen fiscal decentralization.

5.10 REFERENCES AND SUGGESTED READINGS

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5.11 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: Fiscal decentralisation means decentralisation of financial power to the lower levels of governments. According to N. Feruglio fiscal decentralisation is a process of shifting decision making power on the composition of expenditure responsibilities and on the composition and level of revenues from the central government to elected sub national governments. M. A. Oommen opined that fiscal decentralisation means fiscal empowerment of local governments. More specifically it means devolution of taxing and spending powers to lower levels of government.

Answer 2: Two important merits of fiscal decentralisation are:

- i) Fiscal decentralisation promotes economic value. The fiscal federalism like the political concept of democracy is considered to be an optimal institutional arrangement for the provision of public services with cost minimisation and welfare maximisation;

- ii) Secondly, fiscal decentralisation leads to good governance, by ensuring fiscal responsibility to the lower level of government i.e. local self government. Governance values include responsiveness and accountability, diversity and political participation.

Check Your Progress 2

Answer 1: The various sources of local government can broadly be categorized into four heads:

- iii) Local Taxation
- iv) User Charges
- v) Inter governmental Transfers
- vi) Capital Finance

Answer 2: The local taxes are important sources revenue for the local self government. Higher the local taxes imposed by the local self government institutions, lower will be their dependence on the central and state governments for grant. However, it is seen that the local self government are reluctant to impose taxes on the people because their very closer to the people.

Check Your Progress 3

Answer 1: The important sources of revenue of the panchayati raj institutions in India are as follows:

Revenue from the Central Government: Every state gets revenue from the central government as per the recommendations of the Central Finance commission;

- ii) Revenue from the state government: The two main sources of revenue from the state government to the PRIs are:
 - a) Allocation as per the recommendation of the State Finance Commission; and
 - b) Scheme specific grant from the State Planning commission and
- iii) Internal resources of Revenue: The PRIs in different state applies various mechanism for internal resources mobilization. Two important sources are
 - i) Taxable income and fees
 - ii) Non-taxable income like income from the common property resources, sales of goods and services, borrowings, income from live stocks, etc.

Answer 1: The three important criteria for fiscal decentralization are

- i) **Autonomy:** The essence of decentralisation is self-rule and autonomy;
- ii) **Equity:** The well-known dictum of equity, viz. 'from each according to one's ability and to each according to one's needs' is relevant;

Predictability: The PRIs should know the amount and timing of the transfers to make provision for planning, budgeting and implementation of their activities.

MDV-111: LOCAL SELF GOVERNANCE AND DEVELOPMENT

BLOCK 1 DEMOCRATIC DECENTRALIZATION

- Unit 1 Decentralisation: An Overview
- Unit 2 Local Self Government and Panchayati Raj Institutions
- Unit 3 Local Self Government and Urban Local Bodies
- Unit 4 PESA and its Implementation

BLOCK 2 LOCAL GOVERNANCE AND LOCAL ORGANIZATIONS

- Unit 1 Formal and Informal Organizations and Local Self Governance
- Unit 2 Public Private Partnership and Local Self Governance
- Unit 3 Parallel Bodies and Local Self Governance

BLOCK 3 DECENTRALIZED PLANNING AND DEVELOPMENT

- Unit 1 Decentralised Planning: An Overview
- Unit 2 Decentralised Planning Process
- Unit 3 Models in Decentralized Planning
- Unit 4 Fiscal Decentralisation-A Global Overview
- Unit 5 Fiscal Decentralisation in India: An Overview

BLOCK 4 PEOPLES PARTICIPATION

- Unit 1 Peoples Participation in Governance and Development
- Unit 2 Participatory Tools and Methods

BLOCK 5 EMPOWERMENT OF LOCAL BODIES

- Unit 1 Empowerment of Marginalized
- Unit 2 Capacity Building
- Unit 3 Leadership
- Unit 4 Resource Mobilization

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