



Administrative Decentralisation in India - The 3Fs

About Panchayat Briefs

In 1992, the Government of India passed the 73rd and 74th amendments to adopt a decentralised model of governance. The *Panchayat Briefs* series examines the impact of these reforms in the context of new research on decentralisation in India.

Vol. 1 No.2

The **second brief** in this series examines the **state of administrative decentralisation** in India and the extent to which states have devolved the 3F's (functions, funds and functionaries) to Panchayats.

Other Briefs in this Volume

No. 1: Decentralisation – The Path to Inclusive Governance?

No. 3: International Experiences with Decentralisation.

Summary

- *The progress of administrative decentralisation i.e. the assignment of functions, funds and functionaries (3Fs) to appropriate levels of local government, has been slow and uneven across the country;*
- *Functions: On average, states have only devolved 21.3 functions to PRIs out of the 29 listed functions under the Constitution. The activity mapping of functions has also been poor. Most states have carried out activity mapping for only 17.6 out of 29 functions;*
- *Funds: Funds have not followed the assignment of functions. PRIs lack the capacity to raise or collect internal revenues and taxes such that they are largely dependent on grants-in-aid from central and state governments;*
- *Functionaries: PRIs do not have adequate infrastructure and staff. As PRIs are unable to hire or fire their own staff, they are reliant on state governments to provide them with functionaries.*

Recommendations

- *The central government should define common criteria for activity mapping of functions across different levels of government. Activity mapping should also be extended to cover centrally sponsored schemes to understand how funds flow to lower tiers of government;*
- *Funds should match functions and should be untied and flexible. PRIs should be granted greater and more lucrative tax and non-powers such as land revenue, VAT, fees on special amenities, local business etc;*
- *Panchayats should be empowered to hire and fire staff at the local level. PRIs should be allowed to seek the expertise and assistance of qualified professionals, institutions and civil society groups outside of the government;*
- *The Devolution Index must be monitored on a regular basis to track the progress of administrative decentralisation across the country. In this context, civil society groups can play a lead monitoring and evaluation role.*

Administrative Decentralisation in India

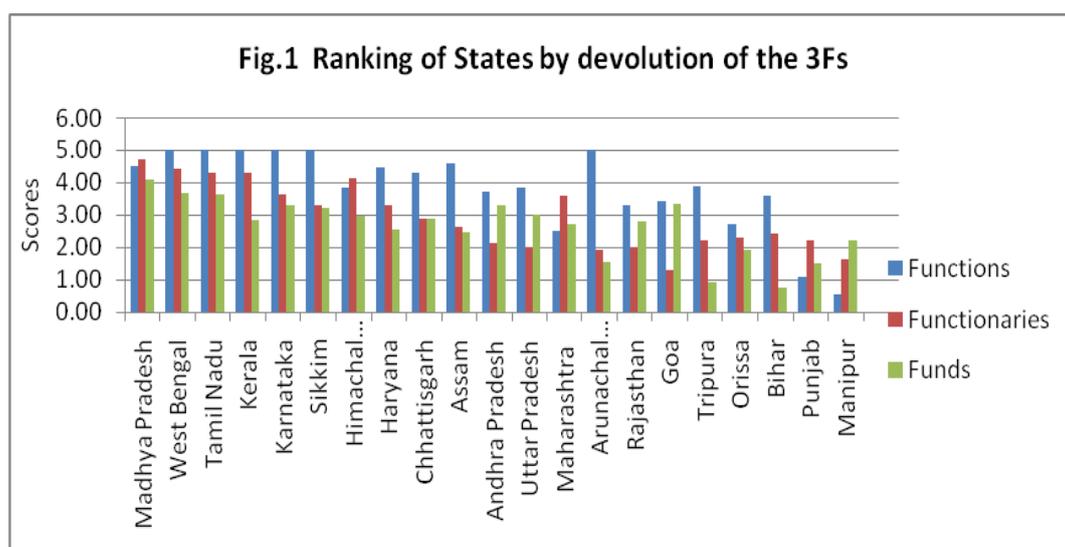
Effective decentralisation requires the clear delegation of roles and responsibilities (functions) at each level of government, backed by sufficient resources (funds) and staff (functionaries) needed to carry out assigned duties. The devolution of functions, funds and functionaries (the 3Fs) is critical to the design of any decentralised system. Devolution should follow the principle of “subsidiary”¹.

The 73rd Constitutional Amendment empowers state governments to devolve powers to Panchayati Raj Institutions (PRIs) with the objective of transforming them into institutions of self government. Article 243 G specifically mandates the devolution of administrative and fiscal powers to PRIs to enable them to plan and implement development activities at the local level.

“It is the effective empowerment of the disadvantaged through the effective devolution of Functions, Finances and Functionaries to representative institutions of local self-government such as Panchayats...that will pave the way to the effective implementation of other measures of inclusive growth”.

*Mani Shankar Aiyar
(Former Union Minister of
Panchayati Raj, Govt. of India)*

The Devolution Index (DI) 2008-9 provides us with a snapshot of the state of administrative decentralisation in the country. The Index is based on data collected through a survey of State Panchayati Raj Departments. It measures and scores the efforts of states to devolve the 3F's to PRIs. The DI 2008-09 reveals that on the whole administrative decentralisation has been uneven across the country. Even where states have devolved some powers, there has been little alignment of the 3Fs (see Fig 1). In the following sections, we take a closer look at the state of decentralisation in India.

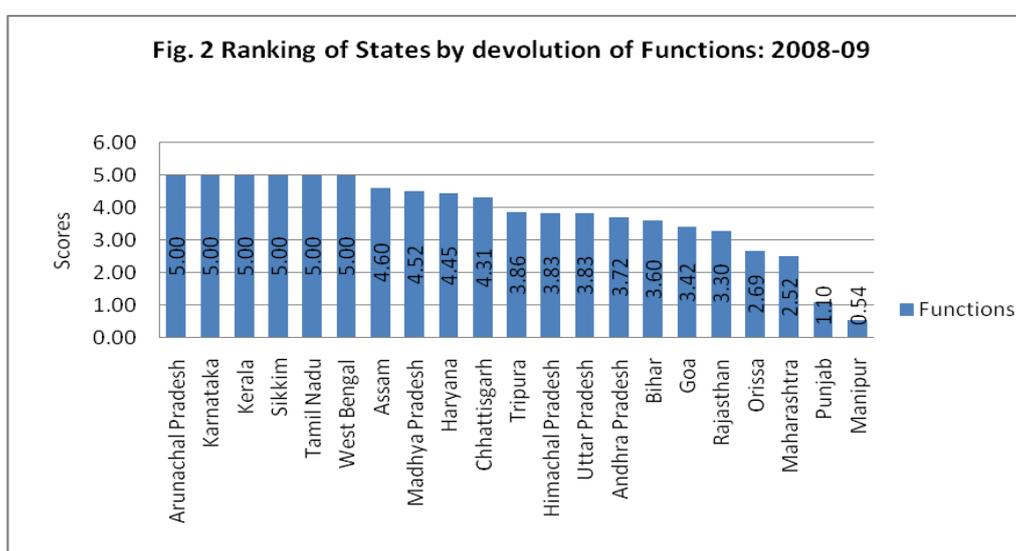


¹ The principle of “subsidiary” states that functions that can be best performed best at a lower level should be assigned to that level.

Source: NCAER (2009)

Functions

The 11th Schedule of the Constitution lists 29 activities or functions which may be devolved to PRIs. These include a range of development activities such as primary and secondary education, water, roads, health and sanitation. The devolution of functions has been limited and variable across states. Only 5 states - Arunachal Pradesh, Karnataka, Kerala, Sikkim, Tamil Nadu and West Bengal- have effectively devolved all functions to PRIs (see Fig 2). In other states though administrative orders have been passed to devolve functions, on average only 21.3 out of 29 functions have actually been devolved to PRIs (NCAER, 2009). The same holds true for the activity mapping of functions.



Source: NCAER (2009)

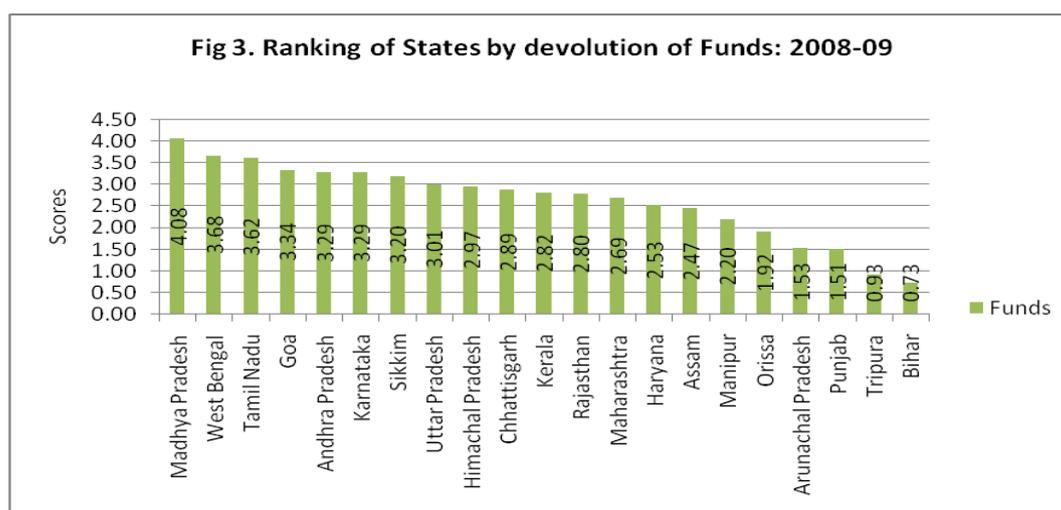
Activity mapping is a process whereby activities are broken down into smaller units and assigned to different tiers within the PRI system. This ensures that there is clarity about roles and responsibilities at each level of government. However, on average, states have carried out activity mapping for only 17.6 out of 29 listed functions (Ibid, 2009).

On the whole functional devolution to PRIs has been very poor. In many states, the transfer of functions to PRIs has been done through various schemes. For example, in Karnataka, the state government transferred 428 plan and 230 non - plan schemes along with functionaries to PRIs – giving the latter little say in how funds could be spent. Such scheme based transfers have divided responsibilities at the local level and hampered the autonomy of PRIs to design and implement assigned functions. This has also led to overlapping and duplication of roles and responsibilities at the local level (Rao, 2007). Overall, there has been little rational consideration of which functions should be devolved to which tier of government resulting in over-concentration of

functions at the higher tiers of government and little clarity about roles and responsibilities at lower levels (World Bank, 2006)

Funds

In the chain of administrative decentralisation, funds must follow functions. To ensure that PRIs have sufficient funds, state governments are obligated to assign taxation powers to PRIs and supplement their resources through grants-in-aid. To oversee and guide the process of fiscal decentralisation, states are also required to set up State Finance Commissions (SFCs). Of the 3Fs, funds have been the least devolved and most neglected by state governments (NCAER, 2009). A review of fiscal decentralisation in Kerala and Karnataka found that local governments are fundamentally unable to raise taxes, track their expenditures or deliver services at the local level (World Bank, 2004). This is true for the rest of the country. As we see in Figure 3, there are wide variations across States when it comes to the devolution of funds to PRIs. The volume of expenditure and revenues raised by PRIs at various levels has also been very poor. The 12th Finance Commission Reports that in 2002-03, expenditures by local governments amounted to only 5% of total government expenditure in the country (Rao, 2007).



Source: NCAER, 2009

When it comes to funds, PRIs are faced by three distinct problems:

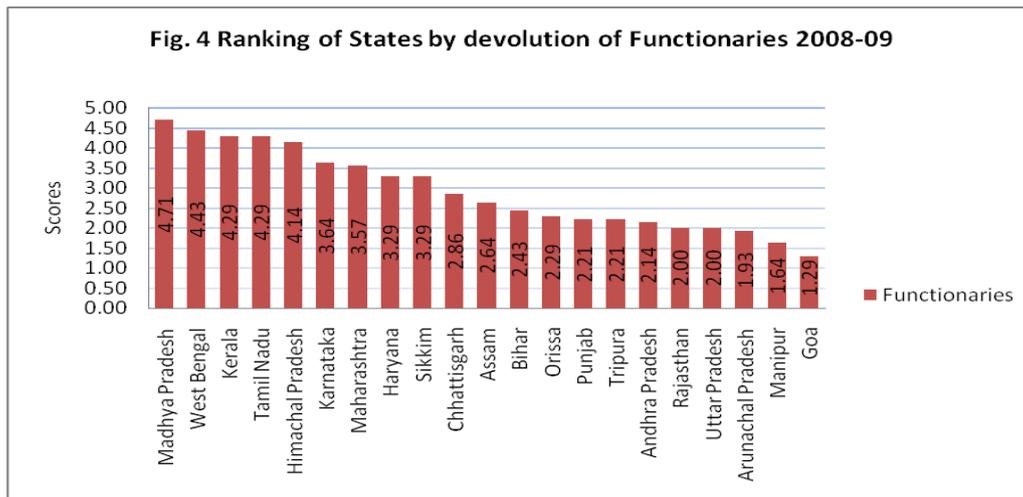
- a) **Lack of funds:** PRIs in most cases lack sufficient funds to carry on the activities assigned to them. States have been reluctant to devolve funds to PRIs due to their own fiscal constraints. Consequently, PRIs are heavily dependent on transfers and grants-in-aid from central and state governments. Most of these funds and transfers are tied to the implementation of particular schemes and programmes – giving PRIs little flexibility in their use. Figures on local government finances for the period 1976-77 to 2002-2003, show that PRIs have been dependent on grants to the extent of nearly 90% of aggregate income (Isaac and Shaheena, 2007). For example, in 1998-99 and 2002-03, grants-in-aid constituted over 50% of PRI revenues while “own revenues” constituted a meagre 6-7% (GOI, 2007). Currently, the National Rural Employment Guarantee Act (NREGA) is the largest centrally sponsored scheme channelling funds to PRIs.

Large sums are being pumped down to PRIs – who are the principle implementing agencies of the programme. However, we have very little information about how NREGA funds are being used by Panchayats.

- b) **Limited capacity to raise funds:** Internal resource generation by PRIs has also been weak. PRIs have been assigned over 66 kinds of taxes, charges and user fees. However, internal revenues constitute a negligible proportion of Panchayat revenues. From 1990-91 to 1997-98, internal revenue mobilisation by Panchayats at all levels was only 4.17% of total Panchayat revenues across 23 States (GOI, 2007). As a ratio of total revenues accruing to Panchayats during 1998-99 to 2002-03, the revenues raised by Panchayats constituted just 6.4% (Rao and Rao, 2008). Over time there has been an even decline in per capita own revenues of PRIs (Isaac & Shaheena, 2007). As a result though PRIs have been assigned a number of tax sources, the capacity of Panchayats to administer and collect taxes is extremely limited. For e.g. in 2000-01, the average per capita tax collected across 700 sample village Panchayats in Karnataka was only Rs 8.21 and almost 80 per cent of the Panchayats paid less than Rs 10 (Rao & Rao, 2008). In addition, with the exception of property tax none of the taxes assigned to PRIs are significant in terms of generating revenues (Rao, 2007).
- c) **Limited flexibility in using funds:** As local funds and grants are tied to centrally sponsored schemes, Panchayats have limited autonomy or flexibility when it comes to spending. This marginalises the local development role of PRIs and has reduced them to mere implementing and spending agencies of central and state governments. State Finance Commissions have also been largely ineffective and have failed to advance fiscal decentralisation to local governments (GOI, 2007). Overall, weak fiscal decentralisation and poor revenue collection has meant that Panchayats have largely unfunded mandates (Rao & Rao, 2008).

Functionaries

In general, PRIs in India do not have the power to recruit their own staff. In states where such provisions have been made, limited finances curb the autonomy of Panchayats to hire and fire. Consequently, PRIs are dependent on state governments to provide them with staff (GOI, 2007). Panchayats however have little control or administrative authority over these functionaries as they are accountable to state governments. The State of Panchayats Report 2007-8 notes that while a number of states have transferred general staff to local governments, Kerala is the only state to have also transferred administrative control over staff to PRIs (IRMA, 2008). In Figure 4, out of a total of 21 states, we see that the states of Madhya Pradesh, West Bengal, Kerala and Tamil Nadu and Himachal Pradesh have devolved the most functionaries to PRIs. Inadequate and skeletal staff at local levels is a major hindrance to effective decentralisation.



Source: NCAER, 2009

Conclusion

Today, “...PRIs exist as over-structured but under-empowered organisations – boasting of constitutional status but suffering from lack of effective devolution of powers and functions from State Governments” (GOI, 2007: 8). More than a decade after decentralisation was introduced to transform PRIs into institutions of empowered local government; devolution to local governments has been inconsistent and inadequate across the country. In effect “the weak alignment of funds, functions and functionaries has not created conditions for accountable governance” (World Bank, 2006: 69). Though PRIs have been assigned a range of development functions, they lack the finances and staff to carry out their mandates. Without the clear assignment and activity mapping of functions, sufficient funds and staff, PRIs have poorly defined and unfunded mandates.

As a first step, the Ministry of Panchayati Raj needs to develop a common criterion for the activity mapping of functions across different levels of government. In addition, activity mapping should be extended to cover centrally sponsored schemes to help understand how funds flow through these schemes to lower tiers of government. The Devolution Index must be monitored on a regular basis to monitor and track the progress of administrative decentralisation across the country. The DI 2008-9 clearly tells us that very little progress has been made towards effectively devolving the 3Fs to PRIs. This data can be constructively used by the Ministry of Panchayati Raj and civil society groups to lobby with state governments to improve their decentralisation track records. Last but not least, the Ministry of Panchayati Raj needs to seriously consider mechanisms to encourage and incentivise states to decentralise the 3Fs to PRIs.

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