The mission creep problem in panchayat finances

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OVER the last year, several Sarpanches in Guntur district of Andhra Pradesh have been protesting against the failure of the state to release the 15th Finance Commission (FC) grants and other funds to them. Amongst other concerns is the inability of the panchayat to get even day-to-day civic maintenance works done in the village including drinking water supply and sanitation.[1]

The question of limited finances for panchayat is not a new phenomenon. Despite the promulgation of the 73rd Amendment to the Constitution wherein states were mandated (wholly or partly) to constitute three levels of panchayats in rural areas and assign funds, functions, and functionaries to them, even today the status of devolution for even basic civic functions remains weak. As per the latest publicly available data on the status of devolution and fiscal and functional assignments to panchayats by the Ministry of Panchayati Raj (MoPR), of the 29 functions to be devolved to rural local bodies (RLBs), only five states reported devolution of all 29.[2] Even in terms of expenditure responsibility, local government in India account for only 3% of total expenditures; in countries like China and the United States it is 51% and 27% respectively.[3]

1. V. Raghavendra, 'Sarpanches Stage Protest Seeking Release of 15th Finance Commission Funds', *The Hindu*, 7 October 2022, sec. Andhra Pradesh. https://www.thehindu.com/news/national/andhra-pradesh/andhra-pradesh-sarpanches-stage-protest-seeking-release-of-15th-finance-commission-funds/article65981720.ece

2. Ministry of Panchayati Raj, Devolution Index 2015-16. Available online at: https://www.panchayat.gov.in/documents/448457/0/29+Subject+Devolution+Study+report.docx/89ebee93-510a-10f8-2ec1-c9d77edb1a56?t=1633330422950

3. Devesh Kapur, 'Why Does the Indian State Both Fail and Succeed?' *Journal of Economic Perspectives* 34(1), 2020, pp. 31-54. Available online at: https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.34.1.31

The acceptance of the recommendation of the 14th FC was said to be a game changer in strengthening fiscal decentralisation. As a major departure from previous commissions, the 14th FC provided an unprecedented Rs 2,87,436 crore over five years directly to local bodies. For Gram Panchayats alone, Rs 2,00,292.2 crore was recommended.[4] To put this into perspective, the figure was three times the recommendations of the 13th FC, which had recommended Rs 87,519 crore. The yearly quantum of funds was fixed to ensure greater predictability of finances and safeguard against buoyancy of revenues collected.

The grants had two other key features. First, they were given solely for Gram Panchayats with the view that they were the most directly responsible for the provision of core basic services such as water supply, sanitation including septage management, storm water drainage, sewerage and solid waste management, maintenance of community assets, roads, footpaths and street-lighting, and burial and cremation grounds. Second, recognizing the need to 'trust and have respect for local bodies as institutions of local self-government'[5] the Commission provided 90% of the grant as untied and only 10% as a performance incentive. The performance incentive itself was limited to meeting only two criteria: (*a*) making reliable data on receipt and expenditures of local bodies available through audited accounts; and (*b*) improvement in own revenues of the panchayats. It further recommended, that no other conditions or directions should be imposed by either the Union or state government.

Despite this, unfortunately, the true spirit of autonomous, local self-government was never fully realised. While the Union government accepted the recommendations of the 14th FC, including that of not imposing more conditionalities, the period that followed undid the attempt to provide untied grants to panchayats. Using the case study of the events following the 14th FC, this article will argue that there remains a deep centralization in India's fiscal architecture and a trust deficit with local governments that are often manifested in the countries default of 'Mission Creep'.

Usually used in a military context, Mission Creep here refers to two things. First, like the original definition, it refers to the gradual addition of new tasks or activities leading to a dilution of the original purpose or idea. Second, it refers to the inherent centralization in India's welfare delivery architecture which has seen a proliferation of missions and schemes launched by the Union government. These schemes usually in the form of Centrally Sponsored Schemes (CSSs) tend to be nationally designed with rigid norms and guidelines and have often ventured into areas which are typically in the domain of sub-national governments.

Following the acceptance of the 14th FC recommendations, analysis of operative guidelines by the Ministry of Finance (MoF) and MoPR show the presence of several conditionalities imposed (other than those recommended by the 14th FC) on the receipt of funds by Gram Panchayats. For instance, while the 14th FC recommendations did not stipulate the preparation of Gram Panchayat level plans as a condition for the release of basic or performance grant, in an order dated 8.10.2015, the MoF suggested all Gram Panchayats prepare a Gram Panchayat Development Plan (GPDPs) to undertake expenditures.[6] This was followed by detailed guidelines by MoPR of a Model GPDP which laid down a framework for state governments and panchayats to operationalize village level planning. Key amongst it was the emphasis on convergence with other CSSs. Similarly, while 14th FC had not distinguished between Operations & Management (O&M) and capital expenditure within 'basic services', MoF recommended that administrative costs and technical support towards O&M and capital expenditure be limited to up to 10% of the allocation under any circumstance.[7]

Between 2015-2017, the Accountability Initiative team at the Centre for Policy Research found at least 12 orders and advisories that were issued by Union government ministries. These ranged from directing GPs to make investments on specific sectors or items such as drinking water supply, installing dustbins, construction of toilets in schools and anganwadi's, use of PlanPlus software to monitor GPDPs, and on fund utilization for O&M and capital expenses. The performance grant itself was linked to two additional conditionalities. These were, (*a*) completion of GPDP for the year of performance grant disbursal and upload on PlanPlus portal, and (*b*) display of the

4. Report of the Fourteenth Finance Commission. Government of India, New Delhi, 2015. Available online: https://fincomindia.nic.in/writereaddata/html_en_files/oldcommission_html/fincom14/others/14thFCReport.pdf

5. Ibid.

6. MoF order No. 13 (32) FFC/FCD/2015-16 by GOI, Ministry of Finance, Department of Expenditure dated 8 October 2015.

7. Accountability Initiative, Devolution of Union Finance Commission Grants to Panchayats: A Study for the Fifteenth Finance Commission. Centre for Policy Research, New Delhi, 2019. Available online at: https://accountabilityindia.in/publication/devolution-of-union-finance-commission-to-panchayats/

previous year's sector wise expenditure in a dashboard/website of MoPR.

In September 2017, MoPR also created a ranking system of Gram Panchayats that would be eligible for the release of performance grants based on three criteria; (*a*) increase in the quantum of own source revenues; (*b*) declaration of open defecation free status, and (*c*) status of immunization. There is no question that many of these are desirable outcomes. The need for strong planning and ensuring visibility of expenditures through availability of information publicly are key to ensuring transparency and accountability to citizens who access basic services. Moreover, several of the recommendations dealt with subjects that are core to the Gram Panchayat's responsibility such as drinking water and sanitation.

However, the problem of 'Mission Creep' reveals three key challenges which have been common across India's fiscal federal history. First, they signal a trust deficit and assume a need to handhold lower levels of government, in this case Gram Panchayats, in fulfilling their constitutional responsibilities. Ringfencing expenditures to certain activities including into existing CSSs undermined the autonomy and flexibility that was recommended by the FC. There was an underlying assumption that given the sheer quantum of money recommended, GPs would not know how best to utilize these funds appropriately. In reality, however, it is important to note that the quantum proposed was in line with some of the cost estimations conducted by us for Gram Panchayats to be able to fulfil their constitutional role in the provision of basic services.[8]

Second, some of the conditionalities imposed assume a level of functional devolution that still does not exist. Take the example of achieving full immunization as an indicator for receiving performance grants. In many states, the programmatic function related to achieving this target has still not been devolved to Gram Panchayats. The failure of most Gram Panchayats to meet this target thus led to very few of them being eligible for the performance grant in Financial Year 2017-18. In fact, in January 2019, MoPR modified its order on the scoring criteria citing 'implementation difficulties faced by some states to comply with all the additional conditions/evaluation criteria.'

The specific conditionalities aside, till date India even at higher levels of government has not seen much success of results-based financing. The 13th FC for instance had tried to give incentive grants for health and education. With respect to health for instance, the grants were conditional on states reducing their infant mortality rate. However, because of the design of the allocation formula and problems with the baseline data, the result was that a handful of states captured a large share of the transfers.[9] Several states that did see significant declines in IMR were not adequately compensated. The National Health Mission's attempts at a portion of their funds as incentive grants have also not been as successful as envisaged.

Last, but definitely not the least, instead of strengthening the existing constitutional vision of District Planning Committees, the detailed coordinating committees created at the intermediate, district and state level for GPDP in effect have created a centralised and parallel system.

The case of the period after the 14th FC is not unique. Instead, it points to the centralised nature of India's fiscal federalism leading scholars to refer to it as quasi-federal or federalism with a centripetal bias.[10] For local governments the failure to devolve and decentralize exists at both levels – the Union and the states. For instance, while constitutional framework under Article 243G envisages that planning for economic development and social justice and implementation of such plans should be the responsibility of RLBs and clearly states that 'the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.'[11] Yet, in practice the Union government and states implement several programmes that fall within the core mandate of RLBs through parallel means. A look at most scheme guidelines sees the creation of parastatals who are responsible for planning and executing development projects.

8. In a report submitted to the 14th FC based on data received from the Commission, we had estimated the gap in resources or delivering core services by the local body using benchmarks set by the state and in their absence the Union government, for the period 2015-2020. This costing exercise was then juxtaposed with empirical data on how much is actually spent by the local bodies and the source of these funds. The result was very similar to the final recommendations by the 14th FC.

9. See, for instance, Aiyar et al., Power to the States: Making Fiscal Transfers Work for Better Health. Centre for Global Development and Accountability Initiative, Centre for Policy Research, 2015. Available online at: https://www.cgdev.org/sites/default/files/India-fiscal-transfers-CGD-working-group-report.pdf

10. A. Kapur, 'Federalism and Social Policy', *Seminar* 717, 2019, pp. 23-27.

11. 'The Constitution (Seventy-Third Amendment) Act, 1992, National Portal of India'. Accessed 15 February 2023. https://www.india.gov.in/my-government/constitution-india/amendments/constitution-india-seventy-third-amendment-act-1992.

The existence and operation of parastatals has a significant impact on the functional ambit of local governments, particularly when functional areas overlap without sufficient integration of the functionaries. A common example was the setting up of independent, autonomous societies for the implementation of CSSs such as Sarva Shiksha Abhiyan (now subsumed under Samagra Shiksha) and the National Health Mission. The Union government mandated the creation of these autonomous structures to ensure greater accountability in implementation and non-diversion and non-lapsing of funds. They are considered 'parallel bodies' because they have a separate system of planning, decision making, resource allocation and implementation, which is independent of the RLB set up and different even from the state's own line departments. With stronger and better bureaucracies these parallel bodies thus compete with RLBs for legitimacy and implementation space.

While scheme guidelines do allow panchayats to be part of the implementing agencies, in practice these parallel structures are rarely and holistically integrated with them. Consequently, for larger schemes within each ministry, there is at least one if not more such parallel bodies in which funds are channelized. Other types of parallel bodies include temporary project management structures meant to be coterminous with projects and usually to implement externally assisted projects in areas such as Water Supply, Irrigation and Water Management and Review or 'Empowered' committees typically headed at the district level by the District Collector or the CEO of the District Panchayat, with departmental officers as members.

With the change in accounting system in FY 2014-15 wherein funds are no longer transferred directly to these autonomous implementing bodies but are routed through the state treasuries, there are no recent estimates on the quantum of money going through these parallel bodies. However, two examples provide some evidence of their quantum. First, in Budget Estimates for 2013-14 (prior to the change in the fund flow mechanism), there were 60 transfers made by 14 ministries with a total allocation of Rs 1.36 lakh crore. The top 10 schemes accounted for 91% of the funds transferred while 34 of the smallest schemes together accounted for 1%.[12]

Similarly, in a study of 30 gram panchayats in Mulbagal taluk of Kolar district in Karnataka conducted by us,[13] we found that of an average of Rs 6 crore of funds flowing through the panchayat jurisdiction, the panchayat had autonomous control over only Rs 20 lakh or 3% of the money (excluding the Mahatma Gandhi National Rural Employment Guarantee Scheme). In fact, not a single Gram Panchayat was aware of the nature or extent of expenditure made by other entities within its jurisdiction be it the state line departments, parastatals or even the district and taluk panchayats.

In line with its Terms of Reference, the 15th FC report sought to balance needs with performance in its allocation of grants to local bodies. In doing so, while it kept the total quantum of funds similar to the previous commission at Rs 2,36,805 crore for RLBs for the period 2021-26, it chose to ringfence these grants to certain sectors on the fulfilment of certain conditionalities. Thus, while 40% of the total grants to local bodies were untied and to be used under the 29 subjects enshrined in the 11th

TABLE 1

Ministries With Largest Outlays Going Through Parallel Bodies in 2013-14

Ministry	*Number of Schemes*	*Total Outlay 2013-14 (in Rs. Crore)*	*Some examples of parallel bodies*
Rural Development	10	80,961	District Rural Development Agency District Watershed Development Society State Rural Roads Agency
Human Resource Development	6	32,816	State Implementation Society, District Project Coordinators
Health and Family Welfare	20	16,053	State Health Society, District Health Society
Agriculture	12	6,520	District Horticultural Society
Total	48	1,36,350	

Source: Adapted from Accountability Initiative (2014) Rural Local Body Core Functions and Finances, A study for the 14th Finance Commission.

schedule (excluding salaries and establishment costs), the remaining 60% were tied (30% earmarked for drinking water, rainwater harvesting and water recycling and another 30% for sanitation and maintenance of Open Defecation Free status. Further, given that the commission period overlapped with the Covid-19 pandemic, it provided grants of Rs 70,051 crore to urban and rural local bodies to strengthen and plug the critical gaps in the health care system at the primary health care level. Preconditions for all grants except health grants were linked to the online submission of annual accounts for the previous year, and audited accounts for the year before.

How this unfolds for GP finances is still in question. However, past, and preliminary current evidence does not look promising. As noted even in the 15th FC report, the actual disbursement of funds in the past has fallen significantly short of the levels recommended, ranging from 18% during the 10th FC to 5% in the 12th FC, largely due to the failure of local governments to meet conditionalities attached to performance grants. (Table 2)

The period of the 15th FC appears to face a similar fund flow challenge. For the current fiscal year, i.e. FY 2022-23, of the total Rs 69,421 crore recommended as local body grants (including urban local bodies), only Rs 28,609 crore or 41% had been released till 22 November 2022, with a little more than four months left in the fiscal year.[14] The fate of health grants was even worse. Of the Rs 13,192 crore allocated for the year, only Rs 275 crore – amounting to only 2% had been released.

TABLE 2
Recommended and Released Finance Commission Grants

	Recommended Allocation	*Release*	*Shortfall (%)*
10th FC	4381	3576	18
11th FC	8000	6602	17
12th FC	20000	18927	5
13th FC	64408	58257	10
14th FC	200292	179491	10

Source: Adapted from the report of the 15th Finance Commission.

The existence of a strong legal framework for the assignment of functions to RLBs has thus not led to them being empowered and endowed with the necessary capacities to undertake these functions. As this article argues, this is primarily due to the inherent centralization in India's federal structure coupled with a trust deficit that still exists with local governments often manifested in Mission Creep and an undermining of the role of Gram Panchayats in the delivery of basic services. Until that is solved, India will not be able to truly uphold its commitment to local self-government.

So what can be done? There are broadly three things that are urgently needed. There remains significant dependency of Gram Panchayats on finances from the Union and state levels. In our study of eight sample states[15] for the 15th FC we found that on average between FY 2015-16 and FY 2017-18, own revenues accounted for only 7% of total receipts reaching a Gram Panchayat. The remaining 38% came from the Union FC, 19% via schemes and 14% via State FC and state grants in aid.[16] The only state with a relatively higher proportion of own revenues was Maharashtra at 22 per cent on average during the same period amounting to Rs 165 per capita, followed by Odisha (18% or Rs 121 per capita). For states such as Rajasthan, Himachal Pradesh, and Bihar, share of own revenues was less than 3% and ranged from Rs 29 per capita in the case of Rajasthan to only Rs 2 per capita for Bihar.

In such a scenario, delays in the release of funds as noted above have a direct bearing on the ability of the Gram Panchayats to fulfil their functions. One way in which Gram Panchayats could decrease this dependence is by increasing their tax base by collecting property tax and user fees. In our study for the 15th FC one Gram Panchayat in Odisha had an impressive track record of collecting Rs 25-35 lakh annually as taxes and user charges. This could not only give more fiscal room but also enable more bargaining power as money matters.

12. Accountability Initiative, Rural Local Body Core Functions and Finances: A Study for the Fourteenth Finance Commission. Centre for Policy Research, New Delhi, 2014. Available online at: https://accountabilityindia.in/wp-content/uploads/2019/03/rural_local_body.pdf

13. https://accountabilityindia.in/wp-content/uploads/2019/01/PAISA-for-Panchayats_Report-2016.pdf

14. Ministry of Finance, Economic Survey 2022-23, Chapter 3, Fiscal Developments: Revenue Relish. Government of India, 2023. Available online at: https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap03.pdf

15. The six states included Maharashtra, Odisha, Karnataka, Madhya Pradesh, Himachal Pradesh, Rajasthan, Assam and Bihar.

16. Accountability Initiative, Analysis of Fund Flows to Rural Local Bodies: A Study for the Fifteenth Finance Commission. Centre for Policy Research, New Delhi, 2019. Available online at: https://accountabilityindia.in/publication/devolution-of-union-finance-commission-to-panchayats/

Despite the increasing use of technology, there is lack of reliable data on the total quantum of allocations and expenditures at the local body level. It is indeed telling that the latest aggregate data available on revenue and expenditure assignments of local governments was in 2007-08. And here the panchayats have been remiss in building their own case. Each subsequent Commission has often struggled with quality panchayat data. The 11th FC had allocated Rs 200 crore for the creation of a database by local bodies. Yet only Rs 93 crore less than half had been utilized.[17] Similarly of the Rs. 483 crore for the maintenance of accounts, only Rs 113 crore was utilized.[18] Similar attempts by the 12th FC also did not see much progress.

In our own study for the 15th Finance Commission, there were significant differences in the data collected from the then PriaSoft portal and those directly collected from sample GPs. A proper accounting system can help facilitate a realistic assessment of the needs and the current gaps in providing basic services.

Recent innovations such as the eGramSwaraj – a web-based portal that tracks receipts, expenditures and allotment of money are promising, even as only 86% of GPs currently report their data and it is unclear as to the extent to which this information is accurately entered. But in the ultimate case, it would require Gram Panchayats to be on board in the maintenance of their accounting systems, so they have greater visibility of their own fiscal health. This could serve as both in bridging the trust deficit but also enable them to mobilise collectively for their needs.

This brings us to the last and final step. Current institutional mechanisms like the State Finance Commissions have largely been delayed both in their constitution as well as submission of reports. A study by Gupta and Chakraborty (2019) of 25 states found that on average it took around 32 months for an SFC to submit a report, resulting in an average delay of 16 months – leaving little time to implement its recommendations. State governments too have not always accepted the recommendations of SFCs. The result has been the lack of an effective institutional architecture to safeguard the interests of panchayats. In such a scenario where incentives of higher levels of governments tend to focus on ringfencing finances rather than on devolution, it is important for panchayats to band together. Examples like the one I started with – of panchayats protesting for their funds to be released – currently tend to be isolated, local events.

If Gram Panchayats are truly to have a voice in their self-governance, they will need to develop stronger networks across Gram Panchayats and mobilize for their rights. One such example (though still inter-state) is the setting up of the Kerala Grama Panchayatha Association which is responsible for organising research, conducting discussions, trainings on issues confronting panchayats in the state. More such examples and ideally an inter-state network of Gram Panchayats could go a long way to amplify the current challenges confronting our third tier.

17. Report of the Report of the Twelfth Finance Commission. Government of India, New Delhi, 2004. Available online: https://fincomindia.nic.in/writereaddata/html_en_files/oldcommission_html/fcreport/Report_of_12th_Finance_Commission/12fcreng.pdf

18. Ibid.