Fiscal Decentralization in India: A Lesson for Thailand’s Fiscal Decentralization

Jitprapat Saisopa*

Abstract

This study presents an analysis of fiscal decentralization in India as a possible model for fiscal decentralization in Thailand. Thailand can benefit from India’s experience in the following: a) the decision of the Indian central government and state government to deal with the fiscal decentralization program; b) the structure and impact of the local autonomous governance bodies concerning the fiscal decentralization program; and c) the examination of the policy impact and role of the Panchayati Raj Institutions and local Panchayats in dealing with the fiscal decentralization program.

This study attempts to: understand the decision to implement fiscal decentralization and its impact in India, obtain insights into the cooperation of multi-layered governance in coping with fiscal decentralization in India, suggest ideas for implementing fiscal decentralization in Thailand, study

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examples of fiscal decentralization in multicultural societies and their relevance to potential problems in Thailand.

The major findings can be summarized as follows: - Strong mechanisms of accountability will improve the distribution of benefits to groups that are traditionally marginalized in local political processes. The problems most commonly associated with a lack of decentralization in India are: federal constraints, a resistant bureaucracy, and local elite capture. Many States in India have tended to retain powers of appointment, transfer, revenue generation, spending, etc. at the expense of the Panchayats. The power on which citizens can counterbalance the power of public officials may be based on the hierarchical authority of the bureaucratic state (upward accountability) or on the general consent of the citizenry (downward accountability), or on a combination of the two. In its most ideal form, accountability should be based on strong norms of communication and consultation between public officials and citizens. We have developed five general propositions regarding the conditions under which decentralization can lead to improved accountability for poor and marginal groups in society:

1) active participation among broad elements of society, involving activities such as voting, campaigning, attending meetings, running for office, lobbying representatives, etc.;

2) fiscal and political support from higher level authorities within government;

3) the existence of competitive political parties whose legitimacy depends at least in part on the support of the poor;

4) deeper economic transformations, which embolden traditionally subordinate groups to challenge local authority structures;

5) balance fiscal decentralization between the expenditure assignment and revenue assignment with the voice and exit processes.

Thus, the political structures created by the decentralization processes in India are sufficiently different to generate an interesting comparison
of the ways in which formal processes of decentralization can affect accountability and participation at the local level. Our principal unit of analysis is the Gram Panchayat and within it the Gram Sabha. Additionally, the regional variation will help us to understand the ways in which the regional political economy has influenced patterns of political mobilization and thus participation and accountability in the Gram Sabha and Gram Panchayats. The policy recommendation has been to mobilize the financial resource of Panchayats and to enable them to function and govern smoothly. The local government and development priorities should be based on local needs and requirements.

**Keywords:** Fiscal Decentralization, Local Government, Panchayati Raj Institution, Accountability
การกระจายอำนาจการคลังในประเทศอินเดีย: บทเรียนสำหรับการกระจายอำนาจการคลังในประเทศไทย

จัดประเภทน สายโสภา*

บทคัดย่อ

การศึกษานี้ได้เสนอการวิเคราะห์ถึงการกระจายอำนาจการคลังในประเทศอินเดีย เพื่อการศึกษาความรุนแรงของโครงสร้างการคลังในประเทศไทย ประเทศไทยสามารถได้รับประโยชน์จากประสบการณ์ในประเทศอินเดีย ดังนี้ ก) การตัดสินใจของรัฐบาลกลางอินเดียและรัฐบาลแต่ละรัฐในการดำเนินการเกี่ยวกับการกระจายอำนาจการคลัง ข) โครงสร้างและการกระทำของการปกครองท้องถิ่นเกี่ยวกับองค์กรการกระจายอำนาจการคลัง และ ค) การตรวจสอบผลของกองทุนเงินทุนและบทบาทของสถาบันปัญญาภิรักษ์ (Panchayati Raj Institution) ซึ่งเป็นองค์กรการปกครองท้องถิ่น ด้านการกระจายอำนาจการคลัง การศึกษาของยุทธศาสตร์ เข้าใจการตัดสินใจและการกระทำเกี่ยวกับการกระจายอำนาจการคลังของประเทศอินเดีย โดยการสังเกตการณ์ความรุนแรงของการปกครองส่วนกลาง และการกระทำของส่วนท้องถิ่น ด้านการดำเนินการเกี่ยวกับการกระจายอำนาจการคลัง การให้คำแนะนำ ความคิดเห็นเกี่ยวกับประเทศ สถานภาพ ด้านการกระจายอำนาจและการกระทำในประเทศไทย บทเรียนจากการปกครองท้องถิ่นสู่การกระจายอำนาจการคลังในประเทศอินเดียที่มีแนวทางการกระจายอำนาจการคลังในประเทศไทยอย่างหนึ่ง

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สรุปข้อค้นพบสำคัญ ด้านความมั่นคงของกลไกความรับผิดชอบ (Accountability) จะบรรลุเป้าหมายการกระจายผลประโยชน์ลูกหลานต่าง ๆ ที่สืบทอดมาในประเทศนี้ แต่ดูเหมือนไม่ให้ สำคัญในกระบวนการการเมืองทองถิ่นจากนั้น ปัญหาสำคัญพื้นฐาน ที่เกี่ยวข้องกับการ การกระจายอำนาจที่บกพร่องในประเทศไทยเดิม จากแรงผลักดันในรูปต่าง ๆ การต่อต้านจาก ระบบราชการและกลุ่มขั้นนำท้องถิ่น รัฐบาลฯ รัฐบาลใหม่ยังคงไม่สามารถขจัดปัญหาอ้างอิงจาก การแต่งตั้งจากส่วนกลางไว้ การถ่ายโอน การก่อให้เกิดรายได้ คำว่าจ่าย และการใช้ง่ายของ การปกครองท้องถิ่นในบทบาท ฯลฯ

อำนาจของประชาชนเพียงสามารถอย่างเดียวอาจเจ้าหน้าที่ของรัฐ บุคคลฐาน อำนาจสำหรับการบังคับบัญชาของรัฐราชการ (ความรับผิดชอบจากบุคคลส่วน) หรือจากความ กฎหมายที่มีของประชาชน (ความรับผิดชอบจากองค์กรสังคม) หรือการผสมผสานทั้งสองทาง ในรูปแบบความคิดความรับผิดชอบการตัดสินใจฐานปัจจุบันข้างต่างของภูมิภาค ระหว่างการรับการรับหรือกระบวนการเจ้าหน้าที่ของรัฐและประชาชน ผู้พิทักษ์ได้ข้อเสนอแนะเกี่ยวกับ เรื่องในการกระจายอำนาจสามารถน่าการปรับปรุงความรับผิดชอบต่อการกระจายโอกาส ในลักษณะ ดังนี้

1) การมีส่วนร่วมอย่างมีศักยภาพของประชาชน องค์ประกอบในสังคมอย่าง ควรเริ่มต้น ให้ข้อมูลปัจจุบันหรือต่าง ๆ อาทิ การใช้สิทธิ์เลือกตั้ง การบริหารจัดการเลือกตั้ง การเข้าร่วมประชุมการดำเนินการบริการ การแสดงความเห็นกับผู้แทน ฯลฯ

2) การลดชั่วโมงและการสนับสนุนทางการเมืองจากผู้มีอำนาจระดับสูงภายในรัฐบาล

3) การต่างข้อต้องการแข่งขันเพื่อรักษาความต่าง ๆ ซึ่งเป็นผู้ดำเนินการออก กฎหมายอย่างน้อยควรขึ้นอยู่กับภาคส่วนการสนับสนุนของคน คู่ค้าของโอกาส

4) การเปลี่ยนแปลงทางเศรษฐกิจอย่างยั่งยืน ซึ่งทำให้กลุ่มต่าง ๆ ตามจริง ประณีต ที่มีความสามารถผ่านมันในระหว่างการปกครองปกครองพื้นฐานท้องถิ่น

5) การกระจายอำนาจการลดความมุ่งมั่นระหว่างการกำหนดรายจ่าย (Expenditure Assignment) และการกำหนดรายรับ (Revenue Assignment) ด้วยกระบวนการเรียกร้อง และการดำเนินผู้ต่อไป (Voice and Exit Processes)

ดังนั้น การสร้างสรรค์โครงสร้างทางการเมือง โดยการกระจายอำนาจในประเทศ ยังต้องมีความต้องการของแต่ละการดำเนินแบบตัวคิด ๆ การเตรียมเพื่อผลประโยชน์ของ แนวทางกระบวนการกระจายอำนาจอย่างเป็นทางการ สามารถส่งผลต่อความรับผิดชอบและ การมีส่วนร่วมระดับท้องถิ่น หญิงภูมิภาคในที่ หลักการปกครองท้องถิ่นในประเทศ และ สถานที่บ้าน นอกจากนี้ จำนวนองค์กรการปกครองท้องถิ่นที่หลากหลายจะช่วยให้เข้าใจ แนวทางการเมืองท้องถิ่น ซึ่งเศรษฐกิจมีทิศทางต่อแบบและเกิดเคลื่อนไหวทางการเมือง
การภาษีและหน่วยงานปกครองในรัฐบาลและรัฐวิสาหกิจ

คำสำคัญ: การกระจายอำนาจการคลัง การปกครองท้องถิ่น สถาบันปัญญาธิราช หลักความรับผิดชอบ
Fiscal Decentralization in Thailand

Under the Decentralization Law 1999, Thailand commenced implementation of fiscal decentralization more than 10 years ago. The program’s major objective is to delegate fiscal authority from national administration to local administration. It is the first time in Thai history to have a law specifying a framework, direction, and most importantly; timing for fiscal decentralization. As the law accelerates the fiscal decentralization process, many weaknesses have become apparent at both policy and implementation levels of the program. Some leading Thai political and academic figures from different fields have suggested that a kind of fiscal decentralization status should be included in the government’s agenda. While the government itself sends the signal that the proposed measure should be viable, the problem remains of how and in what form and degree fiscal decentralization can be granted.

There is increasing pressure for the Thai government to launch a new fiscal reform. There are several reasons for this. Firstly, the need to allocate higher budget amounts for entitlements and welfare programs so as to be consistent with the will of the Constitution. Secondly, the demand for decentralization and the need to adjust revenue assignment for local government, specifically, local revenue will be raised from the current 25 percent to 35 percent in the near future. The Decentralization Law 1999 stipulated that the revenue assignment to local governments be raised to 20 percent by 2001 and 35 percent by 2006. The targeted figure of 35 percent has, since then, been taken as a benchmark and expectation, at least among those who support decentralization. It is expected that the government will propose new laws (the Property Tax and Environment Tax) in the near future to enhance revenue for both central and local governments in order to finance public service programs in the areas of education, health, and social welfare.

Property tax gained intense public attention in 2009 when the Abhisit Government announced a plan to propose a new law entitled the “Land and Construction Tax Act”. In essence, the new act would drastically change the ways in which land and buildings are taxed. At present, local governments levy two
types of taxation on land and buildings but they are not based on property value. The tax structure is commonly criticized as regressive and containing loopholes as roughly 75 percent of land and buildings are exempted. Land and housing for residential purposes, regardless of the financial status of the purchaser, are practically tax exempt. Similarly millions of plots of agricultural land that are not actively utilized are, de facto, exempted as they do not earn income for the owners. Social scientists and economists earlier recommended property tax for two reasons, one, the tax revenue can be increased substantially (in the order of 3-4 times), and two, the income redistributive effects from the rich to the poor. In this connection, this study investigates the effects of the simulated fiscal reform package using data from a household survey administered in 2006 as a basis for calculation. The topics of study include who will bear the tax burden, who benefits from government spending, and welfare analysis.

The fiscal policy package will comprise: a) the property tax to be levied on agricultural lands and land buildings differentiated according to residential use or commercial use, b) government spending in the form of transfer income targeted for poor households and a matching grant to motivate informal workers to save and to create a new form of social safety net, households as taxpayers including those who own agricultural lands, residential dwellings, and commercial buildings. The property tax which is still in draft form (formally referred to as the Land and Construction Act) will specify how tax will be levied on property value, the tax rates (expected to be 3 different rates), the condition that the vacant land be taxed at a higher rate in order to discourage land speculation, and the agencies involved including municipalities, Tambon Administrative Organizations, and the Central Estate Valuation Authority, etc. In this study we use the term “household sector” in a broad sense that includes ordinary households and legal entities (including corporations) that possess farm land, residential dwellings, shop houses, hotels and restaurants, factories and others. It should be remembered that ordinary households may own more than one type of property.

Government spending, according to this concept, will be exclusively in the form of transfer income with two primary objectives: First, transfer income is to assist informal workers, who are at present deprived of a social safety net and
considered underprivileged. To promote social equity, a new program of social security will be initiated and informal workers will be invited to join. Two possible forms of organization are the contractual saving group (expected to be more popular in rural areas) and the occupational pension group (expected to be more popular in urban areas). Members are obliged to pay the defined contribution (DC) on a monthly, quarterly or yearly basis and they are entitled to receive the defined benefits (DB) that include old-age pensions as well as other benefits according to the rules. The government will contribute into the fund according to agreed terms on behalf of every member. – this may be interpreted as a “partnership saving”, a demo grant to encourage forced saving while working for the right to receive an old-age pension. Second, the transfer can be either in cash or in-kind depending on the discretion of the poverty-reduction management fund (Kaplow, 2008). And the program can be operated by local government agencies, by communities, or by a non-profit organization.

Objectives

1. To study the decision of the Indian central government and state governments to implement a fiscal decentralization program.
2. To study the structure and impact of the Indian local autonomous governance bodies on the fiscal decentralization program.
3. To examine the policy impact and role of the Panchayati Raj Institutions and local panchayats in dealing with the fiscal decentralization program.

Methodology

This research is based on document research of the history of the region and adopted policies, together with field research on the work of councils and local government units, as well as policy results. Field research focuses on local panchayats in cities where government offices are located and where the two communities reside. Field interviews will also play a central role in collecting data on many and diverse opinions and perspectives.

We would also be interested in contacting faculty and accessing research materials at the Panchayati Raj Institutions which are of direct relevance to this
research. The research will be undertaken in three stages; a comprehensive literature review, semi-structured interviews, and cluster analysis. The study employs the following techniques.

Table 1: of Techniques, Types of Data / Tool, and Purposes

<table>
<thead>
<tr>
<th>Techniques</th>
<th>Types of Data / Tool</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documentation analysis of journals, newsletters, projects reports, published statistical results, Panchayati Raj Institutions and local panchayat documents, web sites, local newspapers, local government meeting agendas etc.</td>
<td>Secondary / notes</td>
<td>To obtain documentary evidence</td>
</tr>
<tr>
<td>Observation and informal conservation with local panchayats and Panchayati Raj Institutions</td>
<td>Primary / photographs and notes</td>
<td>To identify on-site problems and actual practices</td>
</tr>
<tr>
<td>Semi-structured interview and discussion with local panchayats offices and Panchayati Raj Institute offices</td>
<td>Primary / notes and audio recordings</td>
<td>To record their experiences and opinions about the decision to implement fiscal decentralization and its impact.</td>
</tr>
<tr>
<td>Semi-structured interview and discussion with experts/researchers</td>
<td>Primary / notes and audio recordings</td>
<td>To learn more about the decision to implement fiscal decentralization and its impact.</td>
</tr>
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Source: by Author

Fiscal Decentralization in India

India, like most federal countries, has a formal system of fiscal federalism put in place. It also has been moving towards a greater degree of decentralization through the introduction of the third tier of administration. The creation and strengthening of the Panchayati Raj Institutions and empowered Urban Local Bodies.
A key feature of all project/scheme design which directly impacts the outcome is the level of centralization in planning, implementing and monitoring, and evaluation of the schemes. Among the various factors which are responsible for problems in non-achievement of scheme targets or incorrect targeting of schemes, the centralization inherent in the top-down administrative system prevalent in countries such as India is usually to blame. In federal structures of governance the level of centralization/decentralization can be at three levels - central (federal or state), provincial or municipal, and local. In the absence of clear planning, implementation, monitoring and evaluation of the project; the project design itself may lead to inefficient or even negative outcomes. In order to understand this concept of level of centralization/decentralization, it is important to see it as a continuum ranging from total centralization on one end to a totally decentralized state at the other end. While the former is feasible and a reality in some countries, the latter has to be appreciated as a conceptual construct towards which countries may move but which is practically impossible in the real world (Jha S.N., 1999).

Having seen the continuum stretching from complete centralization to its opposite, one can appreciate the concept of degree of centralization or decentralization as the stage at which a country is placed on the continuum. This stage could be a function of various factors – historical, political, administrative, social, cultural and economic. It needs to be borne in mind that it is a complex function and that a mere tinkering in one aspect of the function cannot bring about uniform or equal changes in different contexts.

The decentralization itself would also need to be evaluated. There are three broad types of decentralization: political, fiscal and administrative. The federal nations and even some non-federal nations may have differing levels of these three types of decentralization which would form the overall decentralization picture of a country. Moreover, decentralization is such a broad concept that it is useful to include in any definition the components of devolution and deconcentration. While devolution refers to the political, fiscal and administrative assignment and allocation of revenues and responsibilities with an implicit degree of autonomy, deconcentration denotes mere replication of a central authority’s revenues and responsibilities across different locations, without any degree of autonomy at these
levels (Jha S.N., 2000).

For the past two and a half decades, there has been an increasing trend towards decentralization and further, there is a tremendous demand and clamor for decentralization among all nations - both developed and developing. The detailed decentralization theorem and its arguments are set out in a further section but it is pertinent to state here that the concept of decentralization is considered an ideal for various reasons. Chief among the considerations favoring decentralization are:

- **Efficiency considerations**, the more efficient way of providing public service is by a local government rather than a central government when all other parameters of service provision including quality, are constant. Being closer to the population to be served, a local government should be more efficient in procuring and delivering services to the local people.

- **Effectiveness considerations**, the other advantage of decentralization is perceived as the fact that local governments can gauge the preferences of the population and provide for them far more effectively than a remote central authority. The perception of the twin objectives of efficiency and effectiveness are really what has made decentralization such an attractive bonanza.

- **Equity considerations**, in addition to the efficiency and effectiveness objectives, one of the advantages of decentralization is that by taking governance down to lower levels, it makes decision making more participatory, inclusive and thus achieves the equity objective as well. Thus decentralization is clearly seen to lead to all three desirable objectives of Efficiency, Effectiveness and Equity (in that order).

- **Fiscal considerations**, apart from the objectives of Efficiency, Effectiveness and Equity, a significant benefit perceived from decentralization is that it fosters and promotes fiscal benefits as part of fiscal decentralization. It is due to the entire range of benefits accruing from decentralization that it has been so widely accepted that decentralization would promote development, inculcate accountability, reduce corruption, prevent policy capture, lead to more participative decision making in terms of both the downtrodden and women
being actively involved in policy formulation and service delivery (Oommen, 2004).

India focuses largely on the recent trends in decentralization which has had a hoary tradition in Gandhian philosophy of an independent India but has also been a very recent phenomenon. The administrative pyramid of India focuses primarily only on the top two tiers of the Centre and the States without even realizing the magnitude of the third tier of local governance which has in turn been divided into three layers of district, sub-district and village levels in terms of the 73rd Constitutional amendment. Even a cursory look at the numbers at each level reveals how there has been too much concentration of political, fiscal and administrative power at the centre leaving a vast slice of the country out of the planning and decision making processes. While the Indian constitution through its Seventh Schedule allocated the powers and responsibilities among the Centre and the States, the 73rd and the 74th Amendment required the introduction of the Eleventh and the Twelfth Schedules specifying the powers, authority and responsibilities of the Panchayats and the Municipalities respectively (Mathur P.C., 1999).

This study examines how this creation of the third tier has enhanced the effectiveness of schemes and aided decentralization of administration to cover a comprehensive devolution of powers and autonomy and not mere deconcentration of administrative and political power without the attendant autonomy. Furthermore, whether the constitutionally enshrined political local bodies have provided what they were set up for in terms of improved accountability to the people, more participatory decision making, reduction in delays and corruption exemplified by the centralized bureaucracy, better targeting of scheme beneficiaries and an overall efficient, effective and equitable development at the local level. While there have been many studies examining one or more of these aspects either at a theoretical or performance level, we attempt to see the practical correlation between the level of centralization / decentralization and the effectiveness of schemes and the attendant changes in the bureaucratic framework for promoting this effectiveness.
Fiscal Decentralization through Panchayati Raj Institutions

It may be observed that the efforts for rejuvenating Panchayats were inadequate until recently. With the 73\textsuperscript{rd} and 74\textsuperscript{th} Constitutional Amendments, the democratic base of decentralized governance has widened and the scope for functional and financial devolution to Panchayats has been ensured through mandatory provisions. The re-emergence of the Panchayati Raj system is an organized response to the changed development paradigms and there is a strong case for people’s participation through Panchayati Raj in developmental activities. The Panchayats have been empowered to raise their resources in order to enable them to discharge the function assigned to them.

It has been observed that the powers and functions which have been assigned to Panchayati Raj Institutions are overlapping in areas, functions and responsibilities between the three tiers of Panchayati Raj Institutions. The type of functions assigned to any tier of Panchayati Raj Institutions is ambiguous. Often the same function is performed by two or three different tiers of Panchayati Raj Institutions. With the exception of Haryana, Himachal Pradesh, and Madhya Pradesh, none of the states have assigned the functions or allocated the power to different tiers of Panchayati Raj Institutions based on clear principles. Secondly, there exists an overlap in functions between different official agencies; for example the District Rural Development Agency (DRDA), District Development Council (DDC), District Planning Committee (DPC) etc. which are assigned the same functions under the schemes of rural development. Another serious weakness in the structure of Panchayati Raj Institutions is appropriateness of functions / areas of criteria adopted for the assignment of responsibilities to the different tiers of Panchayats.

It was also observed that although planning of the development process was an essential function of the Panchayati Raj Institutions, these bodies have often being subjected to sever criticism on the grounds of economic viability and delivery of quality services to the people at the grass roots level. In any system of financial administration, the mechanism of decision making is essentially influenced by three important players; namely the political leader, the bureaucrat
and the common man. Political leaders in our country behave like political producers and entrepreneurs and always aim at maximizing votes. Despite political elections in different states in India, the Panchayati Raj Institutions at different levels continue to reflect a pathetic condition helplessly clamoring for an expanding base of resources with a view to fulfilling the enshrined objectives. Political commitments regarding the election manifesto are hardly ever carried out on the excuse of paucity of resources and absence of readymade administrative mechanisms.

It may be observed that the nature of a political system of administration is more or less the same all over the globe. Interestingly, India constitutes the single most important example of making promises of delivering qualitative goods and services but miserably failing in carrying out the laid down objectives. The worst possible situation exists in India; within the land of its origin the performance of Panchayati Raj Institutions across the states represents widespread variations. The notable examples are Karnataka, Kerala, West Bengal and Uttar Pradesh (Mathew, G., 2001).

The fundamental principles of a financial administrative system are primarily governed and determined by the political administrative system. For effective and smooth functioning of the system of financial administration, a proper co-ordination between the economic and political ideologies is essential. The budgetary process directly emanates from the government officials because they have adequate staff and information needed to arrive at suitable fiscal decisions.

The administrators in planning departments who initiated the system of decentralized planning at the behest of an enlightened head of government did not have the foresight to strengthen the department in a concomitant manner so that the new system would be guided and nurtured by a single authority with unequivocal powers. Although the concept of budget at district level is nonexistent at the moment, conceptualization of the same can very well be visualized. Constitutionally, districts are not sovereign governmental units and therefore, no compulsion to frame a district budget prevails. However, in the changed character of decentralized governance, the rationale for presenting a separate district budget is paramount.
It is worth mentioning here, that the budget of a nation is of paramount significance in reflecting the specific types of decisions taken by the government authorities while formulating different alternative budgetary proposals. The administrative budget tends to serve the purpose of legislation or financial accountability. It has been observed that the conventional administrative budget has failed to provide relevant information to the fiscal analyst for assessing the macro economic impact of the operation of the government budget of the real economic variables of the nation.

There is no uniform pattern for levying taxes and user charges by Panchayati Raj Institutions in India. Therefore, the income of Panchayati Raj Institutions varies from state to state. It is interesting to note here that most of the taxes and user charges are being levied only at Gram Panchayat level and very few taxes and user charges are being levied at Panchayat Samiti / Zila Parishad level. It can also be observed here that despite the functional / financial devolution after the 73rd Amendment Act and under the State Panchayat Acts at Gram Panchayat and Panchayat Samiti / Zila Parishad levels, most of the taxation powers are still not exercised. It is evident from the Panchayat Acts that the taxation powers given to different tiers in different states are not uniform. By and large, tax assignment is not liberal and the majority of taxes assigned are of traditional types. Moreover, people’s reluctance to pay taxes/user charges for civic amenities has caused a serious concern for the local bodies.

It may be observed by the trend analysis of Income and Expenditure of Panchayati Raj Institutions that there is a huge variation in the composition of own revenue sources of Panchayati Raj Institutions across the states in India. The analysis of growth rates for income and expenditure of Panchayati Raj Institutions shows that there is a significant variation in Income and expenditure growth. The growth of expenditure has been found comparatively higher than the growth of income. Panchayats have to depend upon state government for financial devolution to meet out the emerging fiscal needs and fulfilling the committed liabilities.

The analysis of total expenditure and total revenue shows the pattern of expenditure at Gram Panchayat, Panchayat Samiti and Zila Parishad levels to
depend less on revenue generation. This is highest at Gram Panchayat level i.e. 94% of total expenditure is unexplained. While at the Panchayat Samiti and Zila Parishad levels, it is 70% and 38% respectively (i.e. expenditure of a Panchayat does not depend on its income). Tentatively, it can be said that total revenue of Panchayats only meet around 6%, 30% and 62% of total expenditure of local bodies at Gram Panchayat, Samiti and Zila Panchayat levels respectively. It may also be observed here that despite the huge expenditure, which is carried out Gram Panchayat, Panchayat Samiti and Zila Panchayats are not being empowered to finance development projects and programs (Mukarji, N., 1999).

It may be observed here that in the changed environment of democratic governance, there is a need of developing micro-enterprises and industrial activities to ensure sustainable self employment opportunities. In this task the role of Panchayats should be enhanced with a view to increasing institutional financing to micro enterprises and other industrial activities. The strategy of micro finance must also be matched by a strategy for raising industrial and agricultural productivity.

There is a huge mismatch between functional and financial devolution to the Panchayati Raj Institutions by the different states. States like Chandigarh, Haryana, Andhra Pradesh, Kerala, Madhya Pradesh, Orissa, Rajasthan and Tamil Nadu have a high mismatch between the funds, functions and functionaries. With the advent of the process of decentralized planning, or “Planning from Below”, the focus has shifted from regulation to deregulation, concentration to de-concentration. Moreover, the term autonomy may give the clearest possible recognition to local bodies without having any legislative and political restrictions. The district and local bodies are the best suited to perform the volume of activities as decided by the process of local planning.

The poor performances of the Planning Commission in India in financing the plans as well as administrative constraints have resulted in a situation where we could not achieve the stipulated target. It has been very frequently advocated that Indian plans have been found very good on paper but rarely good in implementation. This proposition implies that while Indian plans are a desired state of affairs with some precision and accuracy, they may also succeed in indicating directional changes that may be required in consonance with the objectives but
they seldom pay adequate attention to issues of feasibility and accountability.

Another important interpretation of the above proposition could be that plans are feasible and consistent on a very high level of aggregation but are unfortunately non-operational, not merely because of a lack of consistency or feasibility but because of the involvement of a large number of actors whose decisions cannot be influenced in the desired direction by the planners and policymakers themselves. Whatever be the interpretation, it is abundantly clear that plans in our country in the ultimate analysis failed to attain the desired objectives on account of either the mechanism of coordination, which is conspicuously absent, or operations which were faulty.

The fiscal mismatch between total revenue and total expenditure of Panchayats has been computed to be high in most of the states even after the devolution of funds by the Eleventh Finance Commission and States Finance Commissions. Most of the states’ Panchayats are facing high deficits and they are highly dependent on state governments for grants-in-aid. The existing criteria for the assessment of the fiscal needs of the states / districts / villages are not appropriate. Generally, the Finance Commission measures the comprehensive assessment of fiscal needs by linking up financial and real manifestation of needs and means. If it is the character of need assessment, what comprehensiveness is to be identified and extended, the practice so far has been to arrive at non-plan revenue gaps by applying items of forecasted rates of growth. The innovations of the Finance Commission have been nothing better than the choices between the liberal and restrictive rate of growth, and an assumed rate of return from investments of the state government. All these finally lead to an advancement of non-substantial needs as far as the measurement of comprehensive needs is concerned (Rao, G.B., 2000).

There is a provision relating to State Finance Commissions rationalizing state and sub-state level fiscal relations and making periodical fiscal corrections, and carrying out fiscal management and fiscal control. Their report along with the recommendations will have to set norms, conventions and practices relating to fiscal federalism and local governance. It can also be stated that the existing criteria for the assessment of the fiscal needs of the states / districts / panchayats,
as we have already discussed are not appropriate. Therefore, a composite index ofbackwardness statistically computed may be adopted for fiscal devolution. The composite criteria for inter-district horizontal devolution at the state level may give higher weightage to the composite index of backwardness and population scenario.

In addition to this, in conformity with state legislatures, the state governments appointed a Finance Commission to assess fiscal resources and evolve criteria for fiscal devolution in accordance to the devolution of functions and authority to the local bodies. As per the information available up to July 2000, out of 22 states, only 9 state governments have accepted the recommendations of the State Finance Commissions with a few modifications in policy points. Interestingly, the principles that govern the process of resource transfer and functional devolution are: (i) efficiency, (ii) economy, (iii) suitability, (iv) adequacy, and (v) independence. The national minimum principle basically guides the transference. Under the national minimum principle, spatial equity in a resource transfer is a basic consideration. Significantly, under the present federal structure, the strongest resource base has been assigned to the Union Government. State Governments have a comparatively weak resource base. Many of the states have been largely depending on central grants for their budgetary transactions. The local bodies were fiscally insignificant and almost entirely dependent on Central and State governments finances. However, the constitutional status of the local bodies has shown prospects for improving the fiscal status of these bodies. The local governments, even after the 73rd / 74th Constitutional Amendments do not enjoy any autonomy in the exercise of the taxing powers. They are legislated and regulated by the states. Even so, own source revenue (OSR) is important not only to ensure autonomy but also to induce better ‘fiscal responsibility’. As Richard Bird (2000) has pointed out the voter residents will hold local politicians and bureaucrats more accountable if public services are financed by taxes they pay.

**Conclusion and Recommendation**

Arguments in favor of decentralization are often defended as a means of strengthening accountability and improving the delivery of public services. In the
context of poverty reduction, access to the (myriad) resources and benefits that governments provide is associated with systems of governance that empower poor and vulnerable groups in Indian society. An underlying hypothesis here is that strong mechanisms of accountability will improve the distribution of benefits to groups that are traditionally marginalized in local political processes.

A package of policy recommendations has been suggested to mobilize financial resources of Panchayats and to enable smooth functioning and governance. It is hoped that such recommendations will be highly useful for plan formulation and operations. It is believed, both in academic and policy-making circles, that planning techniques in India should necessarily recognize the paramount importance of decentralization. There is an imperative need for introducing the concept of planning in rural development programs more vigorously. The local policies and development priorities should be based on local needs and requirements.

The power on which citizens can counterbalance the power of public officials may be based on the hierarchical authority of the bureaucratic state (upward accountability) or on the general consent of the citizenry (downward accountability), or on a combination of the two. In its most ideal form, accountability should be based on strong norms of communication and consultation between public officials and citizens. We have developed five general propositions about the conditions under which decentralization can lead to improved accountability for poor and marginal groups in society:

1) active participation among broad elements of society, involving activities such as voting, campaigning, attending meetings, running for office, lobbying representatives, etc.;
2) fiscal and political support from higher level authorities within government;
3) the existence of competitive political parties whose legitimacy depends, at least in part, on the support of the poor;
4) deeper economic transformations, which embolden traditionally subordinate groups to challenge local authority structures; and
5) balanced fiscal decentralization between the expenditure assignment and revenue assignment with the voice and exit processes.
Although we have addressed participation, political transformation and the role that political parties can play in improving the effectiveness and accountability of local government bodies, this paper has been primarily concerned with the extent to which Union and State governments have created an enabling environment for accountable local governance in India. This has involved a critical review of the 73rd Amendment, an assessment of the ways in which different states have followed or resisted the stipulations outlined in the 1993 reforms, and an analysis of the problems most commonly associated with a lack of decentralization in India: federal constraints, a resistant bureaucracy and local elite capture.

A general conclusion which we reach from this review is that many states in India have tended to retain powers of appointment, transfer, revenue generation, spending, etc. at the expense of the Panchayats. In all of these States, substantive efforts to devolve funds, functions and functionaries have followed periods of political contest among parties whose electoral support has been based in large part on the rural poor. In this context, decentralization has been interpreted as a means of supporting – or at least placating – the interests of these groups.

References


