

Challenges to Fiscal Decentralisation in India

Meenakshi ¹, Dr. Shalini Saxena ²

¹ *PhD Scholar, Amity Institute of Social Sciences, Amity University,
Noida, Uttar Pradesh, India.*

² *Associate Professor, Amity Institute of Social Sciences, Amity University,
Noida, Uttar Pradesh, India.*

Email: ¹ saroha.meenakshi@gmail.com

Abstract

There has been a trend towards decentralisation throughout the world with the heated discussions about its advantages, mainly from the last five decades. Perceived advantages of decentralisation are ranging from better public service delivery to public involvement in the governance process to mobilisation of revenue resources. Most of the countries throughout the world are strengthening their local governments as priority is given on their development policy framework. India is also become a highly decentralised country after the passage of 73rd and 74th Constitutional Amendment Acts. Decentralisation in India can be seen in three different aspects- political, administrative and fiscal, but still needs to do more to meet all its objectives. Even after empowering the local governments with taxing powers, however, it is still lagging behind in terms of fiscal decentralisation. This paper is an attempt to highlight some challenges to fiscal decentralisation to Panchayats in India.

Key Words: Decentralisation, Fiscal, Panchayats, Local governments, State Finance Commissions.

I. INTRODUCTION

In the last five decades, a trend has been recognised in the several developing nations, in the increasing direction of decentralisation. Decentralisation is being recognised as an effective tool for the development process as it helps in building and improving institutional capacity at the local level and upgrades public service delivery at the grassroots level. Decentralisation is based on many assumptions, its economic rationale is based on the high cost of decision making process and relatively very limited geographic area of improved public service delivery. A equitable degree of fiscal autonomy is sine qua non for grassroots governments to function more efficiently as institutions of local self government. Here fiscal autonomy means that the local governments should have powers of taxing and borrowing as well as a fair share in the state revenues and grants from higher level of government.

India is also moving forward in the direction of decentralisation with special focus on Cooperative Federalism from last two decades. With the introduction of 73rd and 74th constitutional amendments, Panchayats and Municipalities got their respective place in the Indian Constitution. These constitutional amendments provided a constitutional recognition to the local governments as designated as third tier of the government in India. The authority to allocate roles/ functions to the respective local governments is well endowed to the state legislatures. These functions and roles are clearly listed in the eleventh and twelfth Schedule of Indian Constitution. It is mandatory for the State governments to transfer the required authority to the local governments as to enable them to perform responsibilities and duties conferred upon them. In order to make them institutions of local self -governments , the state governments are required to empower the both

local governments (i.e rural and urban) in the area of finance. Resulting from the Constitutional Amendment Acts, The Number of Municipalities as on 20th May 2022 stood at 4772 in all states. And the Panchayats at the

same time numbered 2,62,655 of which 2,55,310 are Gram Panchayats, 6,683 are intermediate/block panchayats and 662 are District Panchayats (Table 1.1).

S.No.	State / UT Name	District Panchayats	Block Panchayat	Village Panchayat	Urban Bodies
1	Andaman and Nicobar Islands	<u>2</u>	7	70	<u>1</u>
2	Andhra Pradesh	<u>13</u>	660	13367	<u>121</u>
3	Arunachal Pradesh	<u>25</u>	N.A	2108	<u>35</u>
4	Assam	<u>26</u>	192	2197	<u>102</u>
5	Bihar	<u>38</u>	534	8150	<u>251</u>
6	Chandigarh	N.A	N.A	N.A	<u>1</u>
7	Chhattisgarh	<u>27</u>	146	11658	<u>170</u>
8	Delhi	N.A	N.A	N.A	<u>4</u>
9	Goa	<u>2</u>	N.A	191	<u>14</u>
10	Gujarat	<u>33</u>	248	14327	<u>165</u>
11	Haryana	<u>22</u>	142	6225	<u>92</u>
12	Himachal Pradesh	<u>12</u>	81	3615	<u>61</u>
13	Jammu and Kashmir	<u>20</u>	275	4291	<u>78</u>
14	Jharkhand	<u>24</u>	263	4351	<u>50</u>
15	Karnataka	<u>31</u>	233	5965	<u>314</u>
16	Kerala	<u>14</u>	152	941	<u>93</u>
17	Ladakh	<u>2</u>	31	193	<u>2</u>
18	Lakshadweep	<u>1</u>	N.A	10	N.A
19	Madhya Pradesh	<u>51</u>	313	22714	<u>409</u>
20	Maharashtra	<u>34</u>	351	27903	<u>399</u>
21	Manipur	<u>6</u>	N.A	161	<u>27</u>
22	Meghalaya	N.A	N.A	N.A	<u>11</u>
23	Mizoram	N.A	N.A	N.A	<u>23</u>
24	Nagaland	N.A	N.A	N.A	<u>39</u>
25	Odisha	<u>30</u>	314	6798	<u>114</u>
26	Puducherry	N.A	<u>10</u>	108	<u>5</u>
27	Punjab	<u>22</u>	151	13241	<u>166</u>
28	Rajasthan	<u>33</u>	352	11304	<u>216</u>
29	Sikkim	<u>4</u>	N.A	185	<u>7</u>
30	Tamil Nadu	<u>37</u>	388	12525	<u>659</u>

31	Telangana	32	540	12769	142
32	The Dadra and Nagar Haveli and Daman and Diu	3	N.A	38	3
33	Tripura	8	35	591	20
34	Uttar Pradesh	75	826	58184	750
35	Uttarakhand	13	95	7791	102
36	West Bengal	22	344	3339	126

Table 1.1

II. SIGNIFICANCE OF FISCAL DECENTRALISATION:

The entire idea of decentralisation is based on few key aspects like participation of people in the governance, accountability, transparency and fiscal transfers. According to Oommen, Fiscal decentralisation is an integral subset of decentralisation assumes significance because without its proper functioning decentralisation becomes inoperative and meaningless. Without proper fiscal resources any type of decentralised system of governance is meaningless. Fiscal decentralisation's theoretical literature has attempt to answer the very basic question- 'who should do what' to make sure the fair and effective allocation and distribution of resources in accordance with the preferences of the people. These kind of question about fiscal balance have a specific significance in a country like India with notable disparities in endowment of resources, income level, development stages and fiscal disabilities.

III. CHALLENGES TO FISCAL DECENTRALISATION:

India is moving forward in the direction of decentralisation. Gradual efforts have been made to improve the state and local fiscal relations and in order to ensure efficient public service delivery, the efforts are made to streamline fund flow to local governments. The Panchayats in majority of the states in India have failed to realised the potential of revenue generation, due to dependency on higher level of governments and wide capacity gaps. The

major challenges to fiscal decentralisation to Panchayats are highlighted as :

Issues in Power Devolution:

The key factor that ruined the fiscal autonomy to Panchayats in India is the incomplete and inequitable process of power devolution to Panchayats by different state governments in their respective states. State like Kerala, Karnataka, West Bengal, has devolved desired powers to Panchayats, at the same time, States like Jharkhand, Odisha legging behind in the process. Many studies conducted across different states in India also highlighted that most states granted large functional responsibilities but forgot to assign adequate powers, staff and financial resources.

Role of State Finance Commissions:

The recommendations of state finance commissions (SFC's) are not taken into account in most of the states. Experiences of state governments in the area of tax decentralisation (i.e. local government own source revenues) shows that the local governments own tax revenues are declining continuously in most of states in India. It is also argued that, the government should focus on empowering Panchayats in the direction of tax decentralisation.

Fiscal Dependency:

In terms of finances, the Panchayati Raj Institutions in India are highly dependent on state and union government. This kind of

scenario is leading towards fiscal inefficiency of Panchayats by reducing their role to implementing agency of the government schemes and programmes. Panchayats are mainly dependent on grant-in-aid by state and centre governments in the form of state sponsored schemes, central sponsor schemes respectively and these are tied grants, there is no autonomy to Panchayats to spend these granted funds. So in this way Panchayats seems to work like an implementing agency.

Lack of Coordination:

In order to have an efficient fiscal decentralisation, there is a need of clear allocation of assignments. In case of overlapping, there should be proper mechanism and institutions to address it. But a huge gap in intra and inter institutional coordination is seen in case of fund transfer to Panchayats, which forms another grey area in fiscal decentralisation. Fund flow from higher level of government to local level of government become a very clumsy affair due to unwanted delay and incompetency in technology.

Policy Considerations:

To make Panchayati Raj Institutions truly effective institutions of local self government, We need a higher degree of fiscal devolution and political will. Following point needs due consideration:

- It is necessary to assign more powers to Panchayats for raising revenues from the local sources i.e. both tax & non-tax revenue for enhancing their fiscal viability. This urged a fresh analysis of fiscal relationship between the States & Panchayats.
- Fiscal devolution to Panchayats should be realistic based on current development needs & priorities. It should be rationalise on the basis on assigned development programs to Panchayats & extent of fiscal position.
- Financial allocation to Panchayats should be based on certain minimum criteria like Developmental Needs of the people & areas. A clear cut mechanism needs to be devised

for determining the Budgetary Allocations for the Panchayats.

- PRIs need more orientation regarding Functional Duties & Fiscal Matters. Revenue generation should not be treated as non-obligatory function of Panchayats & the States finance commissions ' recommendation should be taken into consideration.
- The Fiscal Disbursement process should be free from bureaucratic incompetency and political control. The process should be done timely with maintaining utmost transparency.

IV. CONCLUSION:

The effectiveness of decentralisation requires the calibration of the political, administrative and fiscal dimensions. Without political decentralisation , people's participation in decision making is not possible. Administrative decentralisation is must condition to implement policy decisions and also a precondition to fiscal decentralisation. India is moving forward in the direction of decentralisation but, we are still lagging behind in terms of fiscal decentralisation. It has put the grassroot level of governments in place but not empowered enough to deliver results.

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