

Complexities and Analytics of Decentralization in India.

This paper seeks to understand the concept of decentralization as it has played out in India. To achieve this, the paper has been divided into two parts. In Part I we present the important incidence of decentralization across multilevel government structure and the complexities that have characterised this experience during the course of the last 75 years since independence. In the Part II, we have set out a framework which provides guidance to citizens to ask relevant questions when analysing the desirability or extent of decentralization. The two parts are supplemented by two annexes. The first, linked to Part I, is a summary of two papers that have come out recently on the dynamics of federalism in India and a summary of a comment made on one of the papers. The second annex presents a table linked to Part II which presents a simple exercise for citizens to analyze CSS. It is intended that similar framework can be developed by any citizen to analyze any other subject where the present arrangements may need to be restructured to favour more local involvement or more central control.

Part I Experience in India

Any survey of decentralization in India will reveal the complexities of the interconnections and inter-relationships between levels, institutions and agencies. It makes it difficult to enable a citizen to conclude whether appropriate decentralization has taken place or not. The nation has witnessed multiple incidence of decentralization at different levels but nothing is what it seems to be as there are no discernible patterns or trends.

2. The Government of India Act of 1919 provided for establishment of local selfgoverning organisations initially in the British provinces. The princely states were excluded from the operation of the Act. Many provinces issued legislation, including the Panchayat Act in Punjab in 1922, the Village Panchayat Act in Madras, the Self Government Act in Bengal, and the Central Provinces in Berar and Uttar Pradesh in 1925. The 1935 Government of India Act granted provincial autonomy and elected governments. The institution of a District Board with jurisdiction over the whole district in which it was located developed as an interesting case of decentralization of powers and functions even during the British Raj. These were elected bodies, with elections through a limited franchise and vested with powers and functions on a wide ranging subjects including the construction, repair and maintenance of public roads and other means of communication; establishment, management, maintenance and visiting of public hospitals, dispensaries, sarais and schools, and the construction and repair of all buildings connected with these institutions; the training of teachers and the

establishment of scholarships; the supply, storage and preservation from pollution of water for drinking, cooking and bathing purposes; the planting and preservation of trees and many other functions commonly associated with local governments. They were given powers of raising revenues and supported by the provincial governments for transferred subjects.

3. The Constituent Assembly itself debated on the issue of incorporating a “panchayat raj” based bottom-up decentralized model of government as a separate part of the Constitution. Based on the ideals of Mahatma Gandhi, a very strong opinion was in favour of having village republics as the basis of the Constitution. There was an expectation among the proponents of this view that the provinces would be able to decentralize powers and functions to the villages to ensure some level of local self-sufficiency and “to witness the ancient glory in our villages that Mahatma Gandhi had advocated”*. There was an assumption that village panchayats were still like the “village republics” of the past. But was this assumption correct? Dr. B.R. Ambedkar advocated not to incorporate a separate part for the panchayats as for him the hamlet was “a den of ignorance, communalism and localism.” He feared that the landlord and higher castes would use the panchayats to oppress and exploit the weaker sections in rural society. As a compromise panchayat raj was kept as a Directive Principle in Part IV of the Constitution which is just an exhortation to the state to “take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government” (Article 40).

4. The importance of Local bodies was recognized by the Constitution in terms of the continuation of the provisions that allowed taxes on professions etc to be levied by the State governments of the local bodies. The parlous financial condition of the local bodies compared to the services expected from them saw a lively debate with near unanimity of views on the need to provide the additional source of taxation to them. (Constituent Assembly Debates Vol. IX, dated: August 9, 1949). Thus, we have a *non-obstante* clause in Article 276, “Notwithstanding anything in Article 246, no law of the Legislature of a State relating to taxes for the benefit of the State or of a municipality, district board, local board or other local authority therein in respect of professions, trades, callings or employments shall be invalid on the ground that it relates to a tax on income...” However, in the debate itself Dr. Ambedkar had put a limitation on the extent to which decentralization through the Local bodies would sustain in the new Constitution. To quote, “The question of distributing the resources

between the States and the local authorities is left to be done by law made by the State, because the local authority is purely a creation of the State. It has no plenary jurisdiction; it is created for certain purposes; it can be wound up by the State if those purposes are not properly carried out. This article, which I am proposing is really an exception to the general rule that there ought to be no provision in a Constitution dealing with the financial resources of what are called local authorities which are subordinate to the State.”

5. An Expert Committee constituted by the Central governmentⁱ identified five preconditions that ought to inform the design of decentralization, the planning process from the grass-root level and the implementation of the plans. These are:

- (i) a clear and unambiguous activity mapping for different levels of Panchayats based on the principle of subsidiarity;
- (ii) engagement of all stakeholders, particularly of historically discriminated and marginalized sections, including women in participatory planning implementation;
- (iii) devolution of adequate funds in an untied manner;
- (iv) streamlining and consolidation of schemes to ensure flexibility and a measure of autonomy;
- (v) assignment of significant revenue raising powers and building capacity of local governments to raise revenues from the sources assigned to them and
- (vi) maintenance of proper management and statistical information system to enable local governments to efficiently design and implement plans and raise resources and undertake evaluation of programmes.

6. In the two decades immediately after independence, and with the advent of central planning framework under the Planning Commission, there was a phase of centralization, especially in matters relating to finances, development planning and economic policy. Adoption of a planning process led by the public sector and assumption of power to regulate the development and location of industries, and reservation of most of the basic industries for the public sector with investments coming largely from the centre complemented the process of top-down planning and decision making, leaving the states and the lower levels to be agencies for implementation.

7. But as rural reconstruction gained priority, experiments with setting up Community Development(CD) Blocks started in First 5-Year Plan. A District was divided into blocks called

Development Blocks with about 100 odd villages. Initially the programme was financed by Union government but later states started sharing the cost. It was visualized that there will be people's participation in decision-making and implementation of development schemes.

8. Balwant Rai Mehta Committee Report (1957) on Panchayats called for village panchayats to be constituted with directly elected representatives, Panchayat Samiti and Zilla Parishad to be constituted with indirectly elected members, and entrustment of all planning and development activities to these bodies. The response of the States varied across the country. Some states followed the BR Mehta model, but many others implemented their own versions with no effective decentralization. The Planning Commission also did not notify any District level planning guidelines till 1969.

9. Fiscally, the First Finance Commission laid the ground rules for sharing of taxes between the Union and the States and for grants-in-aid. The 'golden rule' of all states having revenue balance (no revenue deficit) was the key objective which the First Commission enunciated and recommended with a mix of devolution and grants. It also clearly specified that the capital needs of both the Centre and the States had to be met largely from borrowed funds. The acceptance of the dissent note in the Third FC confined the FC's role to the nonplan account with plan grants falling in the domain of the Planning Commission (PC). This distorted the system of revenue balance, removed the cap on imprudence essential for maintaining revenue balance for stable public finance and thus diluted the role of subsequent FCs.

9. In the seventies and eighties there was a recognition of the need to go for a multilevel planning approach. In 1969 the Planning Commission came up with specific guidelines for District Plan. Some states adopted area-wise decentralized approach with district level planning process or clubbing districts into a larger contiguous geographical area. At the national level, Tribal Development (TD) programmes were initiated for tribal areas, Intensive Agricultural Development Programme (IADP), drought prone areas were addressed through a targeted approach (DPAP), irrigation through Command Area Development programme and DRDAs were constituted to implement rural development programmes. Separate agencies were new type of societies with combined ownership of Centre and States, funded from the budgets but operated outside budgetary regulations. The DRDAs, for example, were conceptualized to operate at the district level but acted as agencies for implementing centrally designed schemes for poverty alleviation and rural development.

10. The various attempts made to incorporate multi-level planning in the country is revealed in the table below:

Year	Item	Ideas and Concepts
First Plan 51-56	Community Development Blocks	The break up planning exercise into National, State, District and Local Community Levels.
Second Plan 56-61	District Development Councils	Drawing up of village plans and popular participation in planning through the process of democratic decentralisation.
1957	Balwant Rai Mehta Committee	Village, Block, District Panchayat institutions established.
1967	Administrative Reform Commission	Resources to be given/local variations accommodated, purposeful plan for Area.
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 term plans and perspective plans.
1978	Prof. M.L. Dantwala	Block level planning to form a link between village and district level planning.
1983-84	Centrally sponsored Scheme/Reserve Bank of India	Strengthen district Plan/District Credit Plan
1984	Hanumantha Rao Committee	Decentralisation of function, powers and finances, setting up of district planning bodies and district planning cells.
1985	G.V.K. Rao Committee	Administrative arrangements for rural development; district panchayat to manage all development programmes.

11. This period also witnessed the extension of public sector dominance following the nationalization of insurance, major commercial banks, coal mines, aviation etc. Even as the centralization of economic policy making did not show up in any reduction in the share of the states in total government expenditure, it was influenced heavily by the centre as States were required to draw up their plans to subserve the objective of the central plan and have their five-year and annual plans approved by the PC. The State departments, districts, blocks and local bodies mainly performed agency function under these programmes

12. The reforms of 1991 were carried out entirely at the central level. With increasing role placed on the markets, the reforms fundamentally transformed the relative position of the

centre and the states in dealing with the private sector. A large number of powers wielded earlier by Central ministries and agencies were transferred to regulatory agencies with armslength approach, controls over location and setting up of industries and enterprise delicensed (barring a few sectors), private entrepreneurship encouraged, disinvestment policy introduced for PSEs and increase in the role of financial markets. With the States responsible for most of the public goods and factors of production - land, labour laws, power, police and law and order – the dependence of the private sector on dispensation of the States increased relative to the Centre. This change in relative position imparted a level of dynamism to the economy. There are also experiments with public-private partnerships (PPP) where both public and private sector combine to participate in jointly discharging public functions at central as well as state level.

13. The 73rd and 74th Amendments to the Constitution in 1993 gave constitutional status to local self-governments and was designed to provide a new, more politically underpinned, universalized platform for decentralized planning from below. Panchayats and Municipalities were expected to emerge as institutions of self-government with the XI Schedule to the Constitution listing 29 broad areas for the rural local bodies and the XII Schedule listing 18 broad areas for the urban local bodies. However, the devolution of functions enumerated in the two schedules remained subject to the laws made by the State (Articles 243 G and 243 W). There has been progress in implementing some of the mandated provisions such as conduct of elections, the concept of development planning from below has still not taken root, even in the few States in which there is relatively larger devolution of powers and provision of untied funds to local governments. It has been noticed that functions, though enumerated in the XI and XII Schedules, have been segmented into various schemes and prioritising them has meant that the rural local bodies do not take any decisions, but simply implement the schemes designed by the State/Central governments. Second, State Governments did not constitute SFCs in time, and due importance was not given to strengthening this critical constitutional mechanism. Third, rural local governments do not have the incentive to raise revenues. Overwhelming proportion of the transfers is scheme based and the preoccupation is with implementing them - particularly those involving contractors.

14. There was a structural break in the transfer system with the abolition of the Planning Commission in 2014 and the award of the 14th FC, also continued by the 15th FC, with a compositional shift through a higher devolution to the states. A large part of plan revenue expenditure, hitherto controlled by the Planning Commission was included in the tax share of states, thereby increasing the unconditional formula-based transfers which gave the States the flexibility to calibrate their policies and expenditure needs. In respect of local bodies the 14th FC recognized them as per the legal and constitutional position as the responsibility of State governments. It gave local bodies completely untied grants and avoided advocacy of “centralized mechanisms to facilitate decentralization” through imposition of conditionalities. The grants were for duties and responsibilities for provision of basic services assigned as per state laws. Deviating from this, the 15th FC took a view that there were certain nationally determined requirements that the local bodies needed to perform and almost 60 percent of the resources transferred were conditional and tied to specific sectors determined by the FC and interventions and targets determined externally by Central ministries. The remaining transfers were untied to be spent by the local bodies.

15. The end of Planning Commission did not lead to reduction in CSS. They have crept-in through more schemes from Central Ministries each driven by certain prescribed guidelines for implementation, earmarked amounts for specific tasks with little scope for deviation from the plans and programmes that require approvals from central ministries. Thus, the Centre continues to retain a significant allocative role in public space despite the changes and the stated policy of fostering decentralization within the framework of cooperative federalism.

16. After extensive research and reviewing several empirical studies Martinez-Vazquez Jorge and McNab (2003; p. 1608) conclude, “.....(O)ur knowledge of how decentralization affects growth is too limited at the present time to allow us to proffer advice. (T)he dynamic superiority of decentralized over centralized public expenditures is by no means obvious.”ⁱⁱ To illustrate the complexities in analysing the measure of decentralization or centralization, their relative merits and steps to be taken for achieving an optimal outcome two studies and a comment on the current federal architecture in India are attached. These are summarized briefly in Annex I.

17. Prof. Suresh Babu’s paper argues for a harmonious inter-governmental policy interaction as a necessary pre-condition for a well-functioning ‘flexible federal’

structure with enough room for 'give and take' between the Centre and the states. To ensure accelerated economic growth it is important to sustain a harmonious federal relationship which “opens up avenues for win-win situations for both the Centre and the states.” Faced with increasing challenges to Centre’s dominance from the States in an era of coalition politics with strong regional parties, he analyses policies regarding institutional frameworks for governance, issues in regulatory approaches and a set of pre-emptive policies of the states to pre-empt some of the schemes/programs announced by the Centre. Several reform measures and steps to be taken by the States have been suggested with an urge to the Centre for constant engagements with the States to build an atmosphere of mutual trust which are prerequisites for a harmonious federal system

18. In his comments on the paper Prof. M. Govinda Rao has argued that ensuring “cooperation” through voluntary action can take place if all parties gain from cooperation. As he writes, “If some gain and others lose or if some gain more than others, the gainers will have to compensate the losers to agree to cooperate. In other words, ensuring ‘cooperation’ has challenges in a constitutional democracy, and even in areas where cooperation is feasible, you need an institutional mechanism to enable and promote intergovernmental coordination, bargaining and conflict resolution.” What is needed is an institutional mechanism for intergovernmental bargaining and dispute resolution, which India lacks. Most issues raised in the article by Prof. Suresh Babu can be resolved by revising the assignment system or institutional mechanisms or referring to the Courts. Prof. Rao also cites a remark made by his mentor Raja Chelliah, “Everyone wants decentralization, but only up to his level”.

19. The paper by Prof. Nirvikar Singh is a case specific study of India’s response to the handling of the Covid-19 pandemic in the context of federal dimension of Centre-State relations. Based on secondary studies and examples drawn from 24 countries, he emphasises the importance of intergovernmental cooperation in circumstances such as the pandemic, and the great variation in effectiveness of that cooperation. He concludes that many state, city, and even rural local governments made heroic efforts to manage the pandemic, instituting whatever measures they could manage in terms of contact tracing, local lockdowns, testing and so on taking care of the myriad details

of action and coordination among different levels of government. On the role of the central government, he finds that, “(it) did much of what it was supposed to in the first phase of the pandemic, seeking policies that would be beneficial at the national level, and acting where it had authority and comparative advantage, including managing emergency healthcare responses, production and procurement of personal protective equipment (PPEs) and medical supplies, and incentivizing development and production of vaccines. However, it tended to fail in aspects of detailed follow-up, especially when the states were involved.”

20. The items, examples and studies presented reveal the complexities in finding a true anchor to both measure the extent of decentralization as well as the benefits. The issue is to make an informed choice – a trade-off – between a centralized approach and a decentralized model through analysis and asking the right questions. In Part II a framework of issues have been set out that may help the citizen to assess and analyze the areas in which decentralized governance can lead to a win-win situation for all.

ⁱ PLANNING AT THE GRASSROOTS LEVEL: An Action Programme for the Eleventh Five Year Plan, Report of Expert Group, Ministry of Panchayat Raj New Delhi 2006 (Chairman V. Ramachandran)

ⁱⁱ Quoted in M. Govinda Rao and T.R. Raghunandan, Panchayats and Economic Development, Working Paper No. 2011-86, NIPFP, March 2011