

Decentralisation: India's struggle with persistent challenges



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The latest census, conducted in 2011, suggests that 68.8 per cent of India's population lives in rural areas, while the rest reside in urban settlements. The increase in per capita income, along with a changing composition of economic activity in the country, indicates that the share of the urban

population is expected to rise to about 50 per cent by 2045. Commitments to sustainable development goals, alongside a steadily growing population, imply the need for creating adequate fiscal space to address these requirements.

Local bodies, both rural and urban, are expected to play a significant role in effective service delivery, especially for basic services such as drinking water supply, sewerage, sanitation, and solid waste management.

However, delivering on these commitments is dependent on local bodies having access to adequate resources. The first challenge in improving the fiscal capacities of local bodies lies in the fact that as a nation, we know very little about the receipts and expenditures of local bodies in India. Creating an accessible database of comparable data on local

body finances has been flagged as a priority by many central and state finance commissions (FCs). The Eleventh FC earmarked grants for this purpose. Subsequent finance commission reports flag concerns regarding the poor quality of available data. For taking the decentralisation project forward, creating a framework of local accountability is the first step, an integral part of which would be the creation and dissemination of information on the activities and finances of local bodies.

The second challenge in improving the functioning of local bodies relates to limited own-revenue collections by these agencies. While reliable information on the revenues collected by urban and rural local bodies is not available owing to the absence of a database, it is accepted that own revenues constitute a

very small fraction of the total revenues available to local bodies. Recommendations to augment their revenues — both tax and non-tax — have been a consistent part of the discourse on strengthening the service delivery capacities of local bodies. A look at the last five FC reports throws up a number of recommendations to expand the taxing powers of local bodies, improve collection of property taxes, and raise revenues from user charges.

The third challenge for effective decentralisation is adequate devolution of funds from the Centre and states, either in the form of shared taxes or grants. State FCs are mandated to be constituted to recommend the distribution of the net proceeds of the state between the state and local bodies, the inter-se allocation between different panchayats

and urban bodies, and the assignment of certain taxes and grants-in-aid. Studies on SFCs suggest that states have not been consistent in timely constituting the SFCs and even in effectively implementing the recommendations provided by them. Grants provided by the Union finance commissions too have often been subject to conditionalities resulting in incomplete utilisation of available resources.

The final challenge in this space is perceptions regarding the capacity of local bodies to absorb resources being made available, and deliver on the associated commitment. The institutionalisation of parastatals for more effective execution of some of the programmes for which the Union government provides resources throws light on such perceptions.

Effective decentralisation depends on local bodies having access to adequate resources as well as the autonomy for prioritisation in expenditure decisions. Many of the efforts towards decentralisation in the country focus on visualising the local bodies as executing agencies for a predefined set of functions with limited scope for re-orientation of priorities to suit local needs. The challenges to decentralisation outlined above also stem from a perceived urgency to execute rather than to empower local decision-making. Improving performance in generating own revenues — either through taxes or through non-tax revenues — could help in empowering these tiers of government.

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