Chapter 1

DESIGN OF THE STUDY

1.1 Introduction

Arguments in favour of decentralization have focused on the advantages of local decision-making. Though decentralization is an ideal in its own right, its instrumental significance depends up on the linkages with the larger socio-political context. Kerala has been following a unique trajectory of decentralization by devolving substantial development funds to local self government institution for the preparation and implementation of locally appropriate development projects and programmes. The people’s planning campaign has attempted to use planning as the entry point to achieve a high degree of democratic decentralization, ultimately moving towards the realization, in letter and spirit, of the constitutional goal of “genuine institution of local self government.” The campaign has succeeded to a large extent in setting the agenda of decentralization and pushing its pace. The decentralization efforts of Kerala have moved from the experimentation phase through a corrective phase into the institutional phase. Hence “apriori” the need of a study is felt. But a research problem can be systematically and scientifically formulated only after a review of the available literature.

1 Second State Finance commission, Kerala Report, January 2001, P. 1
1.2 Review of literature

Based on the available studies a brief review of literature regarding the Decentralisation, Panchayati Raj, and Fund Management in local bodies is attempted here in the order of International, National and Kerala level studies.

1.3 International Level

Gerardo Pigeon\(^2\) (2000) argues that the administrative decentralization in Mexico implies, the transfer of those resources and attributions that are the responsibility of the federal governments to the local governments. He concludes that the federalism programme (1995-2000) in Mexico was created on the basis of the necessity of enlarging the space of social participation and to promote transparency and civic responsibility.

Taking the case of Porto Alegre, Gianpaolo Baiocchi\(^3\) (2000) proposes a question of how participatory institutions ought to interface with organized civil society. He argues that Porto Alegre offers an example of rapid transformation and reconstruction of civil society through the intervention of participatory reforms.

Hassen Mohamed\(^4\) argues that in South Africa there exists a progressive constitution and a policy environment which is supportive of democratic values. However, they merely provide the space for the constructive engagement between state and society. The existence of community organizations is a pre-requisite to achieve development and

\(^2\) Gerardo Pigeon (2000), Decentralization in Mexico-Program for a New Federalism
\(^3\) Gianpaolo Baiocchi (2000), Synergising Civil Society ............The politics of democratic decentralization in Porto Alegre, Brazil.
\(^4\) Hassen Mohamed (2000), Capacity Developments at the local level as a plat form for Democratic Decentralization- The case of Diepsloot
deepen democracy. Unless communities are proactive in terms of their demands and possess the critical organizational and technical capabilities to assert their power over the allocation and distribution of resources and services, we will fail to establish a social context where the preference of the poor will be heard, addressed and met by government.

In the paper Francois Pierre-Louis\(^5\) analyses the factors that have prevented the Haitian government from implementing the decentralization programme that was voted in 1987. The inability of the parliament to adopt the new law on decentralization is a reflection of the continuing conflict which has existed in Haiti since its independence. The elite is not prepared to opening the political process to the majority of the population since an effective decentralization process in Haiti would severely undermine their interests.

The paper\(^6\) describes and evaluates Durban’s post-apartheid development strategy. Integrated development planning is in its infancy and means will have to be devised to integrate the provincial and national functions into local development planning and implementation, if the ambitions of the holistic planning are to be realized.

Markus Mayer\(^7\) opines that the centralized system of developmental planning as it operates in Sri Lanka is alienating the local population from development initiatives. The planning system has become an instrument of

\(^5\) Francois Pierre-Louis (2000), Decentralization and Democracy in Haiti
\(^6\) Gong Hindson and Borgani Ngqulunga (2000), The Reconstruction of Local Government and the Evolution of Development Policy in Durban
\(^7\) Markus Mayer (2000), Poverty, Local Planning and Youth Empowerment in Southern Sri Lanka.
control for the urban elite. The local layer of government authority with sufficient power and capacities to assist local planning efforts can work against the negative effects of a domineering planning culture in the country.

Caroline Kihato\(^8\) has outlined the historical legacy of democratic legal government in South Africa, after centuries of racial discrimination practised in various forms and in varying degrees of institutionalization. The paper argues that given the current context in which the local bodies are plagued by lack of capacity of human resources, financial security and skills, the emphasis on Integrated Development planning policy seems to be over ambitious. The capacity problem is compounded by an over reliance on procedural formalities at the expense of designing innovative developmental strategies. The fiscal dilemma as a central challenge to local government has been discussed in detail. It has also been argued that there is an unresolved tension between representative and participatory democracy as well as between various spheres of government.

Patric Heller\(^9\) argues that the grass root democratic impulses in Kerala and Porto Alegre were given life and successfully scaled up only because they were underwritten by a political initiative of a pilot agency that could successfully circumvent traditional power brokers and build direct political ties with local forces. In South Africa, Brazil and India the circumstances of democratic consolidation are quite similar and compared to their neighbours

quite favourable. Yet, subtle differences in political configurations have produced significant variations.

Recent years have witnessed a considerable flowering of efforts to decentralize decision-making and planning in the developing countries of Asia (Abdul Aziz, Davis D. Arnold10 1996) The range and diversity of these initiatives reflect the different historical, cultural and political conditions of the countries concerned. This volume which covers Six Asian Countries Viz, India, China, Bangladesh, Nepal, Philippines and Srilanka is a combination of theory and practice. The extent to which the positive values of democracy and development have been promoted in these countries have been assessed.

Robert Bennet11 argues that in post-iron curtain Europe, local government would assume unparalleled importance with in the European Community. The principle of subsidiarity emphasizes the local arena as the first appropriate level for decision making while in the former communist emergent democracies, systems of local administration have to be quickly and effectively introduced to replace the discredited hierarchical centralized systems of the past.

Decentralization and development of modern local governments systems were fundamental components of transition in Central Europe (Horv’ath 2001)12. During the first phase of demolishing centralized states and unifying public services, various local government models were designed.

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12 Tam’as M Horv’ath. (Ed) Decentralisation : Experiments and Reforms, Open Society Institute, Budapest, Hungary
Political mechanisms, economic systems, inherited institutions and management practices were restructured in these countries. Several shifts in objectives and modifications in the speed of changes characterized the long learning process of establishing new local governments. This work has attempted to assess the most important elements of local government systems and to present the similarities and differences in the existing models of eight countries of central and Eastern Europe. The focus is on the major components of decentralized and local government operation, viz, (1) legal and constitutional framework and structures of local governments; (2) local politics, decision making and internal organization, (3) local government administration and service delivery mechanisms and (4) Fiscal issues and financial management.

Chandler\textsuperscript{13} provides a comprehensive analysis of the structure, finance management and democratic framework for local government in Britain. This includes the changes made by Tony Blair's government and an evaluation in a comparative context of the value and effectiveness of the system and provides basic information on how local government operates in the European union and the U.S.A.

The comparative papers edited by Emilia Kandeva\textsuperscript{14} summarise several aspects of local government structure and operation. After a decade of gradual development of new political mechanisms, public administration and public services are high in the political agendas of public sector reform and

\begin{itemize}
  \item[\textsuperscript{14}] Emilia Kandeva (Ed) (2001), Stabilization of Local Governments, Open Society Institute, Budapest, Hungary
\end{itemize}
decentralization strategies in all the countries of South Eastern Europe. There are efforts to reform internal values of local government and the rules of operation and management. The local governments will be able to mobilise local civil society and will invent new forms of public services delivery thereby contributing to the stabilization of the countries and new nations of South eastern Europe.

Hicks\textsuperscript{15} suggests that when a country becomes self governing it will merely be exchanging one set of masters for another. Especially in these days of economic planning all initiatives should not come from the central government, local institutions controlled by local communities must have a place. This is the story of the efforts that have been made in that direction in British and formerly British territories.

Professor Oates\textsuperscript{16} provides an overview of fiscal federalism and analyses of specific problems in a collection of most important articles and papers. He concludes by saying that in the long run we should expect more egalitarian distribution of income under a unified fiscal structure than under the current system.

Gargan\textsuperscript{17} gives an overview of the principles and applications of local government administration and management practices in the local public sector. It considers the cultural, legal and organizational contexts of local government and discusses the array of organizational, fiscal and personnel

\textsuperscript{15} Urusula K. Hicks, (1961), Development from Below, Local Government and Finance in Developing Countries of the Commonwealth, Oxford University Press, London.
\textsuperscript{17} John J. Gargan (Ed) (1997), Handbook of Local Government Administration, Marcel Dekker Inc, New York.
approaches available to local officials. It surveys current developments in standard and innovative management practices including budgeting, personnel, strategic planning, total quality management and performance measurement. It emphasizes the critical role of local government as the conception and testing ground for state of the art innovations.

The authors\(^{18}\) integrate recent scholarship and current events to address the key policy issues facing the state and the local governments in the 21\(^{st}\) century and organize these issues around a unifying theme: "the increased capacity and responsibility of the state and local government" Extensive coverage of e-governance and the Internet have caused great increase in citizen participation.

The papers (Dethier 2000)\(^{19}\) deal with three critical aspects of governance in China, India and Russia, viz, political reforms at the local level, fiscal reforms in intergovernmental relations and legal reforms.

Distorted political and economic incentive structures, capture of the state by powerful elites and imperative legal systems are factors that have generally and greatly complicated the political economy of reform in these three countries with heterogeneous populations. Addressing these issues is essential for designing good and appropriate policies.

Peter John\(^{20}(2001)\) in "Local governance" provides a comprehensive introduction to local government in contemporary Western Europe. The


\(^{20}\) Peter John (2001), Local Governance in Western Europe, Sage Publications New Delhi
traditional structures and institutions of local government is introduced and shows how these have transformed in response to increase in economic and political competition, new ideas, institutional reform and the Europeanisation of public policy.

Johnson and Walzer\textsuperscript{21} in “Local government innovation” argue that privatization like many management trends before it is not a panacea for all government problems. Privatization as a service delivery approach has evolved to meet the ever growing and changing needs. Critics from both the pro-privatization and pro government sides disagree with different aspects of the latest trends. The ultimate test is whether citizens receive quality services at a cost effective price.

Regulski\textsuperscript{22} (2003) in Local Government Reform in Poland gives a chronological history of events from 1981 to 2000 mapping the evolution of local government legislation. He attempts to assess to what extent decentralization has been achieved in various areas and identify the mechanisms of transformations. He concludes that local government reforms are political processes should be evaluated in a political context.

Gerry Stocker\textsuperscript{23} in “The New Management of Local Governance” argues that the freedom given to self managed organizations, combined with an increasing competitive environment would generate major improvements in performance.

\textsuperscript{21} Robin A. Johnson & Norman Walzer, Local government innovation: Issues and Trends in Privatization and Managed Competition, Quorum Books, West port, U.S.A.
\textsuperscript{22} Jerzy Regulski (2003), Local Government Reform in Poland: An Insider’s Story, Open Society Institute, Budapest, Hungary
\textsuperscript{23} Gerry Stocker, The New Management of British Local Governance, Mc Millan Publishers Ltd.
Giles Mohan and Kristian Stokke argue that the paradoxical consensus over the role of ‘local participation’ in a globalising World is fraught with dangers. It can be used for different purposes by very different ideological stakeholders. They conclude that what is required is a ‘global sense of place’ rather than conceptualizations of the local as discrete communities, which has become especially clear with contemporary globalization processes.

1.4 National Level

Ramaswamy argues that in the Constitution of India there must be added a fifth list called “local list” in addition to the existing four lists, i.e., central list, state list, concurrent list and residuary list.

If democracy – political, economic and social is to be successful in India, it is important that a beginning is to be made to energise “the roots from which the siblings could grow”. (Kothari26, Dey 1969).

Jawaharlal Nehru did not like the phrase democratic decentralization. According to him, democracy means power springing from the people. The system could not be called Panchayat raj since panchayat constituted a territorial jurisdiction confined to the village. He christened it as panchayati raj because according to him what was being envisaged was not a territorial

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25 Ramaswamy A.S., “Decentralized Democracy or Despotic Democracy?
26 Rajani Kothari, Perspectives on Decentralisation
government or administration but rather an approach to administration guided by, and vested in, the people themselves. (Dey 1969)

Prabhat Patnaik (2000) argues that instead of complementing, the firm level decentralization and government level decentralization contradicts one another. The firm level decentralization emasculates decentralized planning and makes government decentralization vacuous.

Gandhiji believed that if India was to be a genuine democracy, people must be associated with the decision making at every step. In place of a centralized government he wanted that there be a system of concentric circles. This set up would ensure full freedom to the people to influence the decision making process at every level of the government (Sharma 1996, Mishra and Dadage 2002). Decentralization in real terms is possible only with appropriate institutions under an organizational and legislative framework responsive to the needs and aspirations of the people. The panchayat raj institutions are intended for the realization of objectives like democratic decentralization, politicization and modernization through democratically elected leadership in Indian Society. Therefore the fulfillment of these objectives depends to a large extent on the creative leadership of these institutions (Singh and Misra 1993, Dutta 1989 and Sudhakar 2002)

Meenakshisundaram argues that through the New Economic Policy and the process of decentralization, prima facie, result in transfer of power from the national and state governments to the people to whom it rightly belongs.

Institutionalizing panchayati raj in India is an exceptionally insightful account of the nation wide attempt at decentralization in India in the early 1950’s known as Community Development Programmes. Tracing the growth and decline of this programme Venkatesan identifies three factors responsible for blunting the effectiveness of decentralization—political factors, bureaucracy and international organizations and bilateral donors.

The decentralized planning is a part of the alternative strategy, whose success depends on the degree to which it progressively brings about a change in the balance of class forces. Decentralized planning must be the harbinger of a new social and economic order. The decentralization in Kerala stands out in themselves and relative to decentralization experiments else where, making it a truly historic exercise. (Patnaik, 2000, Chandrasekhar 2000)

In the emerging scenario both panchayats and voluntary agencies have a crucial role to play and can work together effectively if they view each other as partners rather than contenders in the process of decentralization and development. People’s organizations can play a catalytic role for social

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34 Meenakshisundaram SS, Impact of New Economic Policy on Rural Development
35 Venkatesan V (2002), Institutionalizing Panchayati Raj in India, Concept Publishing Co, New Delhi
36 Prabhat Patnaik (2000)
37 Chandrasekhar C.P. (2000), Democratic Decentralisation and the Planning Principle
change in the political process of democratic institution building (George Mathew 2000\textsuperscript{38})

Decentralized planning is a multilevel target planning system in which planning is attempted at different political, administrative and executive levels, so that there is greater integration between the development needs and priorities of smaller areas and different socio economic classes with the regional, district and state level. There is great need of revitalizing the efficiency at all levels for the proper functioning of the system. (Raphael\textsuperscript{39} 2000)

The basic premise of true democracy lies in the presumption that people are the masters of their destiny. People tend to perceive participation both as a means and an outcome. The inner dynamics of participation reinforces development. (Dutta\textsuperscript{40} 1994, Sastry\textsuperscript{41} 1991).

The economic reforms have to be integrated with planning and implementation through institutions of self government for utilizing the grass roots empowerment for development. Extra constitutional planning bodies must be dissolved and all arrangements made for constituting district planning committees and ensuring their functioning in uniformity with the provisions of Article 243 ZD (Aiyer\textsuperscript{42} 2003). Since independence greater emphasis has been laid on the socio economic planning policy of India for promoting an

\textsuperscript{38} George Mathew (2000), Decentralised Institutions : Government and Voluntary Sector, EPW Feb 27-March 5, Vol XXXIV No.9

\textsuperscript{39} Jos C Raphael (2000), Decentralised Planning in India, ANMOL Publications, New Delhi

\textsuperscript{40} Vijayaranjan Dutt (1994) Gram Sabha – base of Panchayati Raj, Kurukshetra


\textsuperscript{42} Mani Shankar Aiyer (2003), Panchayati Raj: The Way Forward, EPW August 3-9, Vol XXXVII No.31
appropriate rural infrastructure and promoting overall development (Biju\textsuperscript{43} 1998). Decentralization through involvement of local level representative institutions in the formulation of plans for development as well as their implementation is advocated in the interest of efficient utilization of resources and for ensuring more equitable sharing of benefits from development. (Mishra, Mishra and Pal\textsuperscript{44} 2000). The rich experiences of and lessons from experiments in decentralized government in two states in Karnataka and West Bengal, the pioneers and architects of political and economic decentralization in the post independent history of India are presented by R. Hedge and Ashin Das Gupta. Pranab Mukherjee has urged the necessity of switching to a three tier system of elected government backed by constitutional guarantees for any meaningful decentralisation. Malcom Adiseshiah has warned of the perils of political decentralization in the absence of agrarian reforms. The various dimensions of decentralization emphasizing the relevance of Lohia’s four pillar state model for constructing a new and better India today has also been discussed. (Seshaiah, Mukherjee et al\textsuperscript{45} 1994)

Abdul Aziz\textsuperscript{46} (2000) traces the evolution of rural local governance system in Karnataka, discusses its present structure and problems, and suggests a course of action for making these institutions more effective. His major suggestions are: provide technical personnel and adequate funds to

\textsuperscript{43} Biju M.R (1998), Dynamics o’ New Panchayati Raj System – Reflections and Restrospections, Kanishka Publications and Distributors, New Delhi
\textsuperscript{44} Mishra SN, Shweta Mishra and Chaitali Pal (2000), Decentralised Planning and Panchayati Raj, Mithel Publications, New Delhi.
\textsuperscript{46} Abdul Aziz (2000), Democratia: Decentralisation : Karnataka Experience, EPW, September 23-29, Vol XXXV No.9
grama panchayats, reduce the influence of MLA's and MP's on panchayats and promotion of working relationships between panchayats and people's organizations.

In the paper on "Rethinking Local Democracy" King and Stocker\(^47\)(1996) promote the efficiency value of local authorities as the strongest argument in favour of modern local government. They stretch the claim of efficiency to cover a range of roles:

i) as a coordinator of services, ii) a reconciler of community opinion, iii) consumer pressure group, iv) agent for responding to rising demand and, v) counter weight to incipient syndicalism.

By analyzing the political and social message underlying the 1991 economic reforms Banerjee and Chandrasekharan\(^48\) state that communities which were helpless against the onslaught of big government would have to summon the courage and resources to take on a list of services like roads, water supply, education, health, social conservation and environment protection.

The inadequacy of legislative drafting has created a regime of paper laws for panchayats. These laws do not respond to the spirit of the 73\(^{rd}\) Amendment and even where they do, they cannot be implemented because enabling rules and orders have not been framed. (Upadhay\(^49\) 2002)

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\(^47\) Desmond King & Gerry Stocker (1996), Rethinking Local Democracy, Mc Millan Press Ltd.
Village studies have long been done in India, either by British government personnel or by academics particularly economic historians and social anthropologists. Some are highly quantitative others rely more on verbal description. In a relatively few cases the same village or set of villages have been restudied. After briefly surveying some of the most useful of these longitudinal studies, Hockings\(^ \text{50}\) (1999) describes in some detail his own study of a set of four Badega villages in the Nilgiri Hills of Tamil Nadu.

The institutionalization of the panchayat raj system since the 1990’s had added greater momentum to the decentralization process. As isolation of villages is forever broken by in roads of media, technology and spatial mobility, the new panchayat system will only help weave the village into the broader social fabric. It is with increasing democratization and interventions of civil society institutions that concern for human rights will issue its rightful place along side a vibrant democracy. Several elections more to the local bodies are a necessary condition to create a culture of genuine democracy and political participation. Rural transformation undergoes a metamorphosis after the introduction of the new government at grass roots. Newly created institutions or governance have teething problems and yet they picked up momentum in their dynamics (Mathew\(^ \text{51}\) 2003, Palanithurai\(^ \text{52}\) 2002)


\(^{51}\) George Mathew (2003), Panchayati Raj Institutions and Human Rights, EPW Jan 11-17, Vol XXXVIII No.2

\(^{52}\) Palanithurai G (2002), Dynamics of New Panchayati Raj Systems in India, Vol I, Concept Publishing Company Ltd, New Delhi
Bhargava\textsuperscript{53} (1978) takes politico-administrative dynamics as a concept which deals with political and administrative roles in interacting situations in a given system. This study had made significant contributions with the primary data analysis especially in the context of Asoka Mehta Committee investigating the working of panchayati raj institutions.

The current debate is not on the desirability of the panchayat raj system but on strengthening it by identifying its weaknesses and taking care of the lacunae which are still there in spite of its constitutionalisation, (Joshy\textsuperscript{54} and Narwani 2002, Khanna\textsuperscript{55})

Panchayati Raj in West Bengal is considered as a successful model compared to many of the other states in India. Its greater drawback is its failure to ensure people's participation in the panchayat process. (Bhattacharya\textsuperscript{56} 2002)

Vinod Vyasulu\textsuperscript{57} explores the processes by which the 73\textsuperscript{rd} constitutional amendment is being implemented. Many did not realize the implications of a shift from one system of governance to another. With constitutional status being given to local governments, India is on the way to becoming a country governed at multiple levels. Adequate representation of scheduled castes, scheduled tribes and women was provided. Five year fixed

\textsuperscript{53} Bhargava B.S. (1978), Politico Administrative Dynamics in Panchayati Raj System, Ashish Publishing House, New Delhi
\textsuperscript{54} Joshi R.P. Narawani G.S. (2002), Panchayati Raj in India, Emerging Trends across the states, Rawat publications, New Delhi
\textsuperscript{55} Khanna B.S., Panchayati Raj in India, Rural Local Self Government: National Perspectives and State Studies, Deep & Deep Publications, New Delhi
\textsuperscript{56} Moitree Bhattacharya (2002), Panchayati Raj in West Bengal – Democratic Decentralisation or Democratic Centralism, Manak Publications, Pvt. Ltd, New Delhi
tenure, regular elections, financial allocations, finance commissions and assignment of defined functions from planning to execution of schemes for economic development have become the major achievements (Jain and Hochgesang58 1995)

Vithal59 in the paper on “Centre – state Financial Relations” suggests that considerations could be given to setting up of a state’s funding corporation which would raise funds at market related rates of interest and pass on the funds at fixed rates to states. Vithal quotes Prof: Prahlad who had raised the question as to whether development could be faster if individual states were allowed to pursue their developments on their own, presumably including attracting of foreign direct investments. “It is important to debate whether a country of India’s size and complexity can approach economic development as if India is a monolith; Should India accept the reality that some parts of India are likely to develop faster than others? Should India exploit this asymmetric development capacity to its advantage?”

Arora60 argues that the government will have to be a major actor in the building of modern physical and social infrastructure which holds the key to social and economic regeneration. This requires massive mobilization of resources and a major institutional renewal.

Henry Maddick61 highlights that there should be three broad objectives in the development of Panchayati raj finances. Firstly, there should be a

59 Vithal BPR, Centre –State Financial Relations – The issues
60 Arora G.K., Redefining the role of Government
marked addition through local contributions to the total tax revenue. Secondly, the preparation of budgets, the revision of financial procedures should aid the exercise of the management functions directed towards producing positive results. Thirdly, the system should aim at an educative and instructive audit practice, to produce local authorities actively seeking to get the maximum value for the money they are spending.

Fiscal decentralization lies at the heart of effective decentralization of governance. This is not merely a matter of transferring ever larger financial resources from higher level governments to local bodies. Fiscal decentralization calls for a feasible local fiscal domain to be identified and developed in a context-specific manner, linked to the assigned local functional domain. From an examination of the reports of the first round of State Finance Commissions the setting up of which in five yearly cycles is one of the mandatory provisions under the 1993 amendment to the Indian constitution, it is clear that there has been a general deficiency of attention to expansion of the local fiscal domain. (Indira Rajaraman62 1999).

The eleventh finance commission’s terms of reference included the responsibility to suggest measures to make panchayats functionally, financially and administratively viable institutions. However, while recommending financial devolution to the panchayats the commission has not visualized panchayats in the Gandhian concept of gram swaraj (Mahipal63 2000).

62 Indira Rajaraman (1999), Fiscal Features of Rural Local Government in India, National Institute of Public Finance and Policy, New Delhi
Intergovernmental transfers may be governed by such broad principles as adequacy, autonomy, fiscal prudence, predictability and transparency. Operationally, tax sharing, tax assignment and distribution of grants-in-aid inter se must be based on criteria which each State Financial Commission must evolve. (Oommen and Dutta 1995, Geetha Rani 1999).

The award of the eleventh finance commission in terms of the formula used for determining the inter se shares of the states is clearly more progressive than any of the earlier three finance commission awards with major redistribution away from the high and middle income states towards the low income states (Ravi Kumar 2001).

The eleventh finance commission mentioned that the state finance commission reports were non synchronized. The contents of the SFC reports are chaotic in nature. The eleventh finance commission also pointed out the need to construct a devolution index based on same common rational parameters. The SFC’s tend to ignore the non-monitory recommendations by the financial commissions. The financial reward and punishment for promoting the best performance as well as for scaling off the inefficiencies (Bandhyopadhyay 2003).

Article 243 must be further amended to make it sharp and effective in the light of the recommendations of the Justice Venkatachelliah Commission.

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to review the constitution. State governments are not taking the SFC recommendations with the importance they deserve (George Mathew, 2002).

An important factor which needs immediate attention is the management of panchayat finances. The panchayats are lacking expertise in handling cash and attending to the financial properties. They don’t have skilled manpower to deal with matters like budgeting, accounting etc. (Sarada, 1996). The present system of the process of audit is very unimaginative, rigid and rule-bound and follows the letter of instructions and not the spirit behind it. Interpretation by a bureaucrat, however bonafide it may be, are examined only in the light of rigid observance of the rules and also against an imaginary loss of public revenue (Deshmukh).

1.5 State Level

Kerala panchayati raj system has entered a new era of revival with the passing of Kerala Panchayat Raj Act 1994 and the launching of people’s campaign for decentralized planning, a unique model for the rest of the nation (Biju, 1998, Vijayanand and Issac, 2000, Thankappan, 2000).

Sham Bhat (1985) in one of the pioneering studies in panchayat finance points out that the transfer of resources should be based on per capita deficiency. He opines that long term planning is a must in panchayats. Arrears

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68 George Mathew (2002), Ten Years on, The Hindu, 27th December.
70 Deshmukh B.G ( ), Rethinking Civil Service System.
73 Thankappan V.J. (2000), Decentralisation Experiences of Kerala.
of taxes have been accumulated. Evasion and avoidance of building tax is common. Profession tax of trading business is not fully covered. There is lack of competent personnel to assess income from trade.

Participatory planning should be based on a dialogue among the different sections of society. There is no question of a harmonious approach to needs identification. Kerala's decentralized planning amounted to a command style implementation of participatory planning.

Participatory planning in itself need not lead to a strengthening of the panchayats, unless conscious efforts are made towards that end (Jos and John75 2002)

Justus Ritcher76 in his article on “state-local Fiscal Relations in contemporary India” points out that in adequacy of finances has been a major impediment in the effective functioning of the local bodies in India. Their financial position is being revamped through the mechanism of the State Finance Commissions which have been entrusted with the task of recommending allocation of resources to local bodies. But their task is complex as the state too continued to be financially starved. Development is a complex and uncertain process that cannot be easily planned and controlled by any central authority, especially in a country of the size of India.

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76 Justus Ritcher (1998), State – Local Fiscal Relations in Contemporary India, Manohar Publishers, New Delhi
In the paper on "State – Local Fiscal Relations in Tamil Nadu, An Analytical Review" Deivamani\textsuperscript{77} points out that a path breaking concept of global sharing has been proposed by the State Finance Commission as a major instrument in securing greater quantum of financial allocation to the local bodies from the state's resources; i.e., apart from assigned taxes, a share after pooling all the taxes with in the domain of the state government has been suggested. As a result, resources would flow from the state to the local bodies in an assured and predictable manner. While analyzing the financial resources of the panchayats in India, Bohra\textsuperscript{78} argues that tax assignments, sharing of taxes and grants-in-aid play a vital role. Keeping fiscal autonomy in view, the buoyant and income elastic sources should be assigned to the panchayati raj institutions. The state taxes having local base of collection need to be shared justly with the local bodies. Some appropriate distribution criteria should be evolved by the state Finance Commissions for distribution of grants-in-aid to the various levels of panchayati raj institutions.

Krishna Rao\textsuperscript{79} and Sarojini in their paper on "State-Local Fiscal Transfers: A suggested approach" emphasize the need for developing a rational approach for allocating the resources to the panchayats. They reiterate the view that there has to be a balance between the allocated functions and the financial resources. They argue that not much can be gained by transferring the power to levy and collect any of the state taxes to the local bodies. They

\textsuperscript{77} K. Deivamani (1998), State – Local Fiscal Relations in Tamil Nadu: An Analytical Review, Manohar Publishers, New Delhi
\textsuperscript{78} O.P Bohra (1998), Financial Resources of Panchayats in India, Manohar Publishers, New Delhi
argue that financial transfers among local bodies should be mainly based on carefully chosen criteria reflecting their relative fiscal needs.

Rajeev Sharma\textsuperscript{80} brings out the complexities involved in the allocation of resources to local bodies in view of the limited sources at the disposal of the State governments. He argues that more emphasis needs to be given to the effective utilization of resources at all levels. In this regard the author suggests that innovative ideas for private participation and investment need to be explored.

Subha Rao and Reddy\textsuperscript{81} illustrate with the help of empirical evidences from Andhra Pradesh the difficult financial position of the state. The allocation of resources to local bodies cannot ignore this point. In a situation where state's own resources is found inadequate to meet the non plan commitments on the revenue account, the task of allocating resources to local bodies is bound to be tough.

Abdul Aziz\textsuperscript{82} argues that a cardinal principle of the devolution of finances is that the lower level governments should enjoy full financial autonomy which should imply financial adequacy as well as freedom to spend. It is pointed out that in a federal system local governments have tight resources, and that they should have some comfortable level of free outlays.


\textsuperscript{81}Duvvuri Subharao & G.R. Reddy (1998), States and Finances of Local Bodies, Manohar Publishers, New Delhi.

\textsuperscript{82}Abdul Aziz (1998), State-Panchayat Fiscal Relations in Karnataka; Manohar Publishers, New Delhi.
Noorjahan Bava\textsuperscript{83} argues for the need to look at the entire issues of resource generation of the local bodies in an inter-disciplinary perspective by responding to the needs and parameters of democracy. She argues that the centre should devote more financial powers to the states to facilitate the latter to transfer adequate funds to the local bodies.

Analysing the inter state disparity in fiscal capacity, Bhagabata Patro\textsuperscript{84} argues that it is necessary to equalize the fiscal capacities of the states across the country and make them capable of sacrificing a share of their own revenue to the local government units. In this context, overlapping of functions between the states and the local governments is required to be avoided.

Gnaneshwar\textsuperscript{85} argues that a well articulated system of financial transfers could not emerge mainly due to reluctance on the part of the state governments to share financial resources. Therefore, he suggests that, a rational structure of grants-in-aid devised on certain standards and realistic needs is urgently required. It is equally important that the State Finance Commissions visualize the long-term implications while recommending the allocation of financial resources to local bodies.

Thimmaiah\textsuperscript{86} reiterates the need for evolving a frame work for devolving financial resources to the local bodies along with mechanism to generate internal resources. While taxation provides an easy solution to

\textsuperscript{83} Noorjahan Bava (1998), Resource Mobilization for Panchayati Raj institutions: Tax Assignments and Tax Transfers, Manohar Publishers, New Delhi
\textsuperscript{84} Bhagabata Patro & G.D. Prasad (1998), Inter-State Disparity in Fiscal Capacity and its Implications for State – Local Fiscal Relations in India, Manohar Publishers, New Delhi
\textsuperscript{85} V. Gnaneshwar (1998), Inter governmental Fiscal Transfers, the case of A.P., Manohar Publishers, New Delhi.
generate additional resources, practical methods of taxation need to be evolved. While finding a rationale for decentralization, the author opines that the process is rooted in the concept of fiscal federalism which ensures provision of public goods in accordance with the varying tastes and preferences of voter-tax payer.

Ranga Rao\textsuperscript{87} in his article on "State Finance Commissions. A study in Role Perception," opines that the attitude of state governments to the emerging role of the local bodies is one of indifference bordering hostility. The problem has been further compounded by the lack of meaningful and reliable information which can become basis for the development of recommendations of the State Finance Commissions. This is bound to create scope for maneuvering of the recommendations and will defeat the purpose of State Finance Commissions.

Sarma\textsuperscript{88} argues a case for service charges. The existing tax base is narrow and not very buoyant, and is not capable of bearing the increasing expenditure burden of various civic series. Past experiences are a testimony to the fact that attempts to widen the tax base have not yielded any result.

Bijoyini Mohanty\textsuperscript{89} develops a case for non tax revenue which at present forms a negligible portion of the internal finance of local bodies. The revaluation of resource base is of paramount importance in the age of privatization and structural adjustment programme of the new economic policy.

\textsuperscript{89} Bijoyini Mohanty 1998, Non-Tax Revenue Generation by Local Governments: Ideology and Prospects after the constitutional provisions.
Examining the issue of income generation by panchayats, Abdul Aziz\textsuperscript{90} presents the case of Karnataka. He concludes that the panchayats depended primarily on the developmental grants provided by the state. There was hardly any attempt to generate resources. Similar trends are noticed by Oommen John\textsuperscript{91} in the case of Kerala. He, however, finds that financial position of gram panchayats is stronger than the other two tiers since the taxation power lies only in the hands of the gram panchayats.

Bhargava and Venkatakrishnan\textsuperscript{92} present a unique case of Tamil Nadu where the Finance Commission could not complete its report as there are no elected representatives. This is an indication of the type of political hurdles which the State Finance Commission may face in the time to come.

Justus Ritcher\textsuperscript{93} points out that all taxes which do not have cascading effects and do not affect non-residents are ideal to be administered locally. Three productive taxes: property tax, Octroi and profession tax which need some reforms deserve to be considered. He observes that among the various taxes specified for the panchayati raj institutions in the relevant statutes, only the property tax and profession tax are considered to be important in terms of their revenue productivity. He emphasizes that in view of the limited elasticity of local taxes, greater attention to the mobilization of non-tax revenue needs to be paid. He suggests that the State Finance Commissions should be required to submit their report with in 2 years and the state governments

\textsuperscript{90} Abdul Aziz 1998, Income Structure of Rural Local Governments: The Karnataka Experience.
\textsuperscript{91} Oommen John 1998, Panchayati Raj Finances in Kerala: Tasks Ahead
\textsuperscript{93} Justus Ritcher 1998, Policy Options for Reforming the System of Local Government. Finances in India. Local Government Finances in India, Manohar Publishers, New Delhi
should similarly be required to complete their consideration of the SFC recommendations with in six months.

1.6 Research gap

Even though the area of study has been explored, analysed and explained by various official agencies such as state finance commissions, State Planning Board, local self government department and individual researchers and scholars earlier, they were not comprehensive, precise and specific. Centre for Development Studies had conducted many short studies on certain topics concerning local bodies. Kerala Institute of Local Administration had also initiated studies on various topics. It may be noted that these were not considered to be comprehensive and full-fledged research work. Further, not much work has been done to analyse the various sources of funds and items of expenditure in the post 73rd amendment to the constitution, the decentralized planning process and devolution of state plan funds to the panchayats in Kerala. Hence the study assumes relevance in the changing context of the new panchayati raj system and decentralized planning concept and was intended to bridge the gap.

1.7 Statement of the problem

In the decentralization of governance in India, the 73rd and 74th amendments to the constitution marked a significant milestone. After the amendments, elections to the local bodies got constitutional guarantee. Following these amendments, the government of Kerala passed amendments enabling changes to the state’s Acts available for fiscal and administrative decentralization. Decentralization necessitated a number of changes in
administrative structure, allocation of functions and powers and control of resources. Kerala enacted its panchayat raj act in 1994.

The average population of a grama panchayat in Kerala is 25000 and the average geographical area is 37.50sq.km. The own fund resources by way of taxation and grants is found to be inadequate to meet the expenditure responsibilities. The government of Kerala decided to devolve 35 to 40 percent of the plan funds to panchayats with specific guidelines to spend them in the production service and infrastructure sectors and launched participatory method of plan formulation called people's planning in 1996. The availability of plan grants enabled the panchayats to realize the functional responsibilities assigned to them to a good extent. But the resource mobilization efforts of panchayats are inadequate. The functions and responsibilities of panchayats have increased manifold, but there has not been a corresponding increase in their financial resources. The own revenue resources of grama panchayats in Kerala comprises taxes, non taxes, assigned taxes and grants. The major items on which panchayats depend for their resources are establishment costs, public works, water supply, street lighting, social welfare, health and sanitation. The gap between the finances necessary for maintaining an optimum level of services and actual resources at the disposal of the panchayats is found to be wide. This gap has not been bridged despite an increase in receipts. Against this background, this study is intended to analyse the various sources of funds and items of expenditure and to find out the avenues to increase the financial resources of panchayats with the following specific objectives.
1.8 Objectives of the study

The specific objectives of the study are

a. To examine the trends, pattern and composition of financial resources in selected grama panchayats in Kerala

b. To examine the trends, pattern and composition of expenditure in selected grama panchayats in Kerala.

c. To identify the financial resources gap between income and expenditure of selected grama panchayats.

d. To identify the factors responsible for the financial resources gap

1.9 Hypotheses

1. There is no significant difference in the pattern of income and expenditure for both lower grade and special grade panchayats.

2. Flow of funds from state government to panchayats by way of grants-in-aid and assigned taxes is decreasing over the years.

3. Resource mobilization efforts of panchayats are declining over the years.

4. Own fund of the panchayats is inadequate to meet expenditures pertaining to establishment cost and other essential civic services.

5. Panchayat functionaries are lacking in competency for the effective and efficient fund management of panchayats
1.10 Scope of the Study

The scope of the study is limited to the fund management in grama panchayats in Kerala for a four year period. The four year period was chosen mainly because of the availability of time series and consistent information only for a short period. Also, the scope was limited to four years since the purpose is to study the impact after decentralization and the new Panchayat Raj Act. Block panchayats and district panchayats are also not included in this study.

1.11 Methodology

The study mainly made use of the secondary data which were collected from the offices of grama panchayats. The researcher studied different acts, rules, government orders and related documents, articles, books and reports related to decentralization. Consultation with key functionaries was done to study the plan documents with a view to understand the proportion of funds earmarked for various sectors and projects. Documents relating to existing policies, guidelines, manuals, circulars and instructions were also reviewed. Publications from the state planning board, government of Kerala, planning commission, state finance commission, department of panchayats, census of India Reports, research papers, papers presented in seminars were also examined. Documents from Indian Institute of Public Administration, New Delhi, National Institute of Rural Development, Hyderabad, National Institute of Public Finance and Policy, New Delhi, were also made use of.

For the selection of samples from 991 grama panchayats we classified 651 lower grade panchayats as unit I and 340 special grade panchayats as unit
II for our study. The main two units were further divided into four strata namely hilly, midland, coastal and high ranges. The sample for each strata of unit I and unit II were taken as disproportional size. From each strata of unit I samples were selected by using simple random sampling method. Totally 20 sample panchayats were taken from unit-I similarly, 10 samples were taken from unit II. The selected panchayats are Arpookara, Ayyempuzha, Balal, Changaroth, Cheruthazham, Kadakarapally, Kadambure, Kinanoor Karinthalam, Kottiyoor, Mogralputhur, Paralam, Kuzhur, Poomangalam, Puliyoor, Rajekkad, Serapathy, Thiruvaniyoor, Thondernad, Thripprangattoor, Vengad, Cheranellur, Chokli, Edavanakkad, Kodessery, Mallappelly, Manjoor, Munnar, Noolpuzha, Rantiangadi, Venkitangu. Four years data for the period 1998-99 to 2001-02 were collected for the study. The collected data were classified and tabulated. The percentage analysis of various items of revenue and expenditure were done for each table and compared. In order to examine the relationship between the various items in the table correlation analysis was done. To test the significance of means between two samples the t-test were adopted. Line graphs, pi-diagrams and bar charts were also drawn for analysis.

1.12 Limitations of the study

Taking in to consideration the objectives of the study and its coverage in terms of time and resources at our disposal the study has many limitations.

1. Availability of sufficient, relevant and meaningful data was a major limitation. Different panchayats have different ways of keeping the records and maintaining accounts. Large amounts have been kept lump
sum under the heads called miscellaneous, others, etc. Therefore, during data collection extended discussion was needed with the staff and elected representatives to understand and classify the figures to different items. Sometimes, they could not explain their own records because the person who actually maintains it got transferred. Again, there was no uniformity between the documents of various panchayats and this created a lot of problems in getting comparable data. Time series consolidated data were not available after 2001-02.

2. The period of study was limited to four years between 1998-99 to 2001-02. The study period overlaps the period of administration of two panchayat boards, the terminal years of 1995-2000 board and beginning years of 2000-05 board. The former team was experienced well trained and hence more committed whereas the latter had only less exposure which was reflected in the preparation and implementation of projects.

3. The terminal year of the primary survey was 2001-02. The researcher was compelled to stop with 2001-02 because of the non availability of time series, consistent and reliable data.

1.13 Organisation of the Thesis

The present study is organized in seven chapters. Chapter one is an introductory chapter which gives the nature and objectives of the study, a review of literature on the issue and the methodology used. Chapter two provides the genesis and the evolution of panchayati raj system in India and Kerala. Third chapter presents a profile of the Kerala panchayat finance with
emphasis on various sources of funds and items of expenditure. The fourth chapter is based on the analysis of the nature and sources of funds. It also focuses on the problems faced for the resource mobilization. Chapter five gives analysis of the pattern of utilization of various items of expenditure. Chapter six presents a detailed study of the funds, expenditure and resources gap in three selected grama panchayats. It also emphasizes on the hurdles faced by panchayats in the form of guidelines, orders and circulars from government, during expenditure. The final chapter summerises the main findings and provides inferences drawn from the analysis with the policy implications thereof.