Chapter III

The Design of Decentralisation in Kerala

Decentralisation has different dimensions - functional, financial, administrative and planning. The local bodies are visualised as local self-government institutions in the constitution. The functional devolution among different layers of governments has an important bearing on the federal structure of a country. This requires considerable devolution of powers to the lower levels and creation of necessary legal framework to ensure optimal decentralisation in its various dimensions such as functional, financial, administrative and planning. Decentralisation theorem supports the principle of subsidiarity, which implies that no intervention at higher level is justified if activities undertaken at the lower level have no significant cross boarder spillover effects. (Cullis and Jones 1998). Those functions, which can be efficiently done at a particular level, shall be assigned to that layer of government. The functions, which cannot be effectively executed at the lower level, only need to be given to a higher level. There is a reversal of assigning of functions in which only the residual functions are assigned to higher levels from the bottom. This requires clear demarcation of functions among various tiers of government.

Functional efficiency necessitates fiscal devolution. Adequacy norm should be satisfied, which requires demarcation of financial resources among different tiers in such a manner to attain fiscal autonomy. Moreover, administrative decentralisation is essential to discharge the functions devolved, and for that, adequate personnel with necessary skill, technical expertise and managerial ability should be deployed at different levels along with dispersal of decision making power. Further, decentralisation of planning requires devolution of planning functions to the lower levels and creation of planning machinery so that a genuine bottom up planning is possible. Moreover, management of new centre-state-local relationship arising out of autonomous decision-making of local bodies is a major issue. It, in fact, presupposes a
well-built mechanism for horizontal and vertical integration among the different tiers of government. How exactly and on what principles are the responsibilities and powers with respect to functions, finance, administration and planning distributed across different tiers of government? How is harmony/integration achieved in each dimension of decentralisation across different tiers? These in fact are the central questions of design of decentralisation that we wish to address in the present study.

The design/architecture is articulated in various ways such as the constitution, state level legislation, government rules and orders, budget papers, finance commission awards etc. The architecture of governance articulated in all such complex ways cannot be seen as evolved or existing in vacuum. It is very much a product of the society, polity and economy that create and sustain it. Therefore, the architecture of decentralisation and its ramifications cannot be explained independently of the larger socio-political and economic factors.

There is no standard model of decentralisation; it varies among countries and states. The impact depends on the objectives and the design of decentralisation. In this chapter, our objective is to describe the design of decentralisation that has evolved in the context of Kerala state.

This chapter has six sections. In section I, the constitutional framework for decentralisation is described. Section II examines functional devolution and section III financial devolution. Section IV is devoted to the administrative decentralisation while section V takes up decentralisation of planning. Section VI analyses the provisions for integration and co-ordination of planning and accountability of the decentralised system.

SECTION - I

The Constitutional Framework

The 73rd and 74th Constitutional Amendments were a great leap forward in the direction of democratic decentralisation, which made the necessary legal framework
for the creation of a more responsive third tier of government. The Constitution (seventy third) Amendment Act 1992 begins with the following sentence. “Though the Panchayati Raj institutions have been in existence for a long time, it has been observed that these institutions have not been able to acquire the status and dignity of viable and responsive people’s bodies due to a number of reasons including absence of regular elections, prolonged suppressions, insufficient representation of weaker sections like scheduled caste, scheduled tribe and women, inadequate devolution of powers and lack of financial resources”.

The 73rd Constitutional Amendment (Article 243 A) created an institutional set-up for participatory democracy by the creation of grama sabha (village assembly) for village panchayats whose powers and functions are determined by the state legislature (ward committees have been visualised for municipalities in the 74th Constitutional Amendment). Three-tier panchayats were to be created at district, intermediate level and village level (Article 243 B). Article 243 D describes the reservation of seats for scheduled castes and scheduled tribes in proportion to their population, and reservation of one-third seats to women. These seats should be rotated. The amendments fixed five-year term for the panchayats and municipalities.

Article 243 G empowers the state governments to devolve power to the panchayats. The Article reads “......the Legislature of a state may, by law, endow authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities up on panchayats at the appropriate level, subject to such conditions as may be specified their in, with respect to-

a) the preparation of plans for economic development and social justice;

b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule”.
Eleventh Schedule contains twenty-nine subjects devolved to the panchayats (see Appendix 3.1) and the Twelfth Schedule lists eighteen subjects earmarked for the municipalities (see Appendix 3.2).

The powers to impose taxes, duties, tolls and fees have been incorporated in Article 243 H (a) and Article 243H(c) specify the provision for grants-in-aid to the panchayats from the consolidated fund of the state. Article 243 I is for the constitution of State Finance Commission (SFC) to review financial position of panchayats and to make recommendations as regards the principle, which should govern

(i) The distribution between the state and panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the state.

(ii) The determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the panchayats

(iii) The grants-in-aid to the panchayats from the consolidated fund of the state.

(iv) The measures needed to improve the financial position of panchayats.

The Act has a provision for an independent election commission to conduct the election of local bodies (Article 243 K). In Article 243 J, auditing of panchayats account has been discussed.

The constitution of District Planning Committee (DPC) has been described in Article 243 ZD of 74th Constitutional Amendment. The Article reads like this:

(1) There shall be constituted in every state at the district level a District Planning Committee to consolidate the plans prepared by the panchayats and the municipalities in the district and to prepare a draft development plan for the district as a whole.

(2) The legislature of a state may, by law, make provision with respect to-

(a) the composition of the District Planning Committees;
(b) the manner in which the seats in such committees shall be filled:
provided that not less than four-fifths of the total number of members
of such committee shall be elected by, and from amongst, the elected
members of the panchayats at the district level and of the
municipalities in the district in proportion to the ratio between the
population of the rural areas and of the urban areas in the district;

(c) the functions relating to district planning which may be assigned to
such committees;

(d) the manner in which the chairpersons of such committees shall be
chosen.

(3) Every District Planning Committee shall, in preparing the draft development
plan, -

(a) have regard to-

(i) matters of common interest between the panchayats and the
municipalities including spatial planning, sharing of water and
other physical and natural resources, the integrated
development of infrastructure and environmental conservation;

(ii) the extent and type of available resources whether financial or
otherwise;

(b) consult such institutions and organisations as the Governor may, by
order, specify.

(4) The chairperson of every District Planning Committee shall forward the
development plan, as recommended by such committee, to the government of
the state.
The Constitutional Amendments attempted to revitalise the Panchayati Raj system in India. It mandated regular elections. Moreover, it facilitated deepening democracy by way of creating ‘grama sabhas’ in which every voter can directly participate in decision-making. It also provided opportunities for empowerment of the scheduled castes and scheduled tribes and women by way of reservation of seats. Another feature of the amendment was to make the local bodies as an institution to undertake developmental and social welfare functions in addition to civic functions. Planning and implementation is made a function of the local body so that local bodies are transformed from implementation agencies of schemes made above to initiators of activities of their own. The DPC is to strengthen this process. The constitution of the State Finance Commission is intended to improve the financial position of local bodies.

Although, the 73rd and 74th Amendments were bold steps towards democratic decentralisation, there are some inherent limitations. One major issue is with regard to the discretionary power enjoyed by the state governments as regards devolution of functions to local bodies and powers to grama sabha. The Eleventh Schedule overlaps with the state list of the Seventh Schedule in many cases. There is no legislative power given to the local bodies and regulatory power is limited. The absence of clarity regarding functions of each tier of the panchayats, as we shall subsequently see in the present study, creates problems in operation, since there is only listing of subjects for different local bodies. Moreover, three-tier Panchayati Raj system was made compulsory for all states so that states, like Kerala, were forced to have the block panchayats, although everybody agrees that it is unnecessary. Separation of rural and urban local bodies into watertight compartments made it difficult for the district panchayat to function as a district government and plan for the whole district (Nagaraj 1999). In the case of fiscal devolution there is no specific direction. The quantum of vertical transfer and assigning of taxes were left to the discretion of the
state governments concerned. Moreover, there is lack of specificity in the matter of planning and implementation function devolved.

Every state government had to make conformity legislation following the 73rd and 74th Constitutional Amendments. The discretionary power enjoyed by the state governments created different designs of decentralisation in the states. This also explains to a great extent the noted inter-state difference in the performance of the Pachayati Raj institutions. The Kerala Panchayat Raj Act 1994 (KPA1994) as amended in 1999 and Kerala Municipality Act 1994 (KMA1994) as amended in 1999 shape the architecture of decentralisation in Kerala, which is examined below.

SECTION - II

Functional Architecture of Decentralisation

Defining the functional domain of each local body is the crucial aspect of democratic decentralisation, in which the demarcation of functions of each layer of government is specified. If the local bodies are to function as genuine local self-government institutions, functional autonomy is essential, which also requires precise definition of functions assigned. Functional co-ordination among different tiers of government is needed to avoid duplication and gaps.

The Kerala Panchayat Raj Act 1994 is far ahead of other states in the matter of devolution of functions. (World Bank 2004, World Bank 2005, Narayana2005). However, the amendment in 1999 (Act 13 of 1999) made it more comprehensive in terms of functional devolution, following the recommendation of Sen Committee (Committee on Decentralisation of Powers). The amendments enhanced the role of local bodies and brought more clarity in the functions of different tiers. The range of functions of local bodies can be classified as follows.

1. Regulatory functions like regulation of buildings, abatement of nuisance etc that are derived from the provisions of the Act.
2. Mandatory functions, which are to be performed by the panchayats concerned, the services related to which can be demanded as a matter of right by any citizen.

3. General functions, which are more of directive principles suggesting certain broad roles.

4. Promotional functions, which deal more with motivating groups of people, launching campaigns in certain areas etc.

5. Agency functions where the panchayat is an agent of the government as in the execution of certain works.

6. Managerial functions where the panchayat manages institutions and agencies transferred to it.

7. Shared developmental functions where for a particular development area both the state and the panchayat have different roles to be played together or separately.

8. Supportive development functions where the panchayat complements or fills up gaps in the development plans for the two tiers.

9. Autonomous development functions when the panchayat is solely responsible for performing such functions (GoK 1997).

The functions assigned to the grama panchayat, the block panchayat and the district panchayat are listed in schedule three, four, and five of the Act respectively. The grama panchayat has twenty-seven mandatory functions, in addition to fourteen general and seventy-six sector wise functions. The block panchayat has three general functions and twenty-eight sectoral functions and the district panchayat has three general functions and sixty-five sector wise functions. A general idea on the design of functional decentralisation can be gathered from Fig. 3.1.
Fig. 3.1: Functional Design of Decentralisation

Grama Panchayat Functions

The grama panchayat has been given prime importance in functional devolution. Mandatory functions are for grama panchayats only and many regulatory functions have been given. Many functions are civic functions or provision of local public goods such as roads, waterways, street lights, drainage, solid waste management, public markets, burial grounds, bathing places, ferries, parking places, waiting sheds etc. The regulatory functions assigned to the grama panchayats are regulating building construction, slaughtering of animals, sales of meat, fish and perishable articles, regulating eating places, prevention of adulteration, regulation of fairs and festivals, licensing of destructive and offensive trades. Environmental protection, registration of birth and death, immunisation, vector control, and management of stray dogs are also the mandatory functions. Interestingly, the allocation of functions appears to be in conformity with the subsidiarity principle outlined in the introduction. These activities do not have much cross-boarder spill over effects.

The general functions of the panchayat are mainly promotional in nature. They include collection of data, organising voluntary work, campaigning for thrift, neighbourhood groups and self help groups, ensure people's participation, generation of communal harmony and awareness building on civic duties.

The sectoral functions are mainly developmental, managerial and welfare oriented. Nineteen sectors have been listed in the Act. Cultivation of wasteland, optimum utilisation of land, soil protection, production of organic manure, establishment of nurseries are some of the developmental functions in the agriculture. Similar list has been given for each sector. Management of the institutions transferred to the local bodies such as Krishi Bhavan, veterinary hospitals, primary health centres, Anganwadies, primary schools, and nursery schools for SC and ST is the function of the grama panchayat. Obviously, sectoral and managerial functions mentioned here are unlikely to be watertight compartments. They will be dependent on activities taken
up by other tiers of government as well as the non-governmental sectors. As such overlaps, duplication etc, cannot be overlooked.

Many welfare functions have been assigned to the grama panchayat. Identification of the homeless and provision of dwellings, implementation of family welfare programmes, running of Anganwadies, sanctioning and distribution of various pension schemes for the poor, implementation of poverty alleviation programmes, protection of relief works are some of the welfare functions assigned. The promotional functions are the development of co-operatives, self help groups among farmers, planting of trees, promotion of cottage industries, handicrafts, traditional industries, encouragement of use of biogas etc. The implementation of various schemes of central and state governments is also the function of the local bodies so that it performs the agency function.

The grama panchayat is the lowest tier, which is closer to the people, hence, activities related to everyday life of the people need to be assigned to it. Many welfare functions have been given to the grama panchayat, such as, provision of houses, house sites, shelter up-gradation, running of Anganwadies, distribution of various pensions, employment schemes for poor and women. Assigning functions without providing sufficient finance will drain the credibility of these institutions. The State and Central governments have the responsibility to finance these programmes. Withdrawal of governments from the welfare functions placing the responsibility on the local bodies is not justifiable. A mechanism for flow of funds to the local bodies along with functions shall be ensured. Similar is the case with natural calamities. The function to compensate the damages is with the grama panchayat. The poor grama panchayats are unable to perform this function unless there is a financial devolution from the state and central governments. Allocation of welfare functions, without ensuring finance either through assigned taxation rights or through guaranteed grants-in-aid can lead to major developmental crisis in the future.
Some of the functions mentioned in the Eleventh Schedule have not been yet transferred to the panchayats. Rural electrification including distribution of electricity is included in the Eleventh Schedule; but has not been transferred to the lower level. What is transferred is the installation and maintenance of streetlights. But the grama panchayats cannot independently perform this, since; Kerala State Electricity Board (KSEB) has the authority to do this. Therefore, local bodies are to supply the spares and the maintenance is done by KSEB. In water supply also, similar is the situation, although, the Acts empower local bodies for distribution of water, lack of rules and orders stand in the way of actual operation. While commenting on the role of the local self-governments in such areas as distribution of electricity and drinking water, it is important to consider an important limitation of decentralisation we mentioned in the previous chapter. The inability to reap scale economies can turn out to be a debilitating factor. As such, care should be taken to make governmental intervention in such areas economically viable.

Functions of Block and District Panchayats

Only limited functions have been envisaged for block panchayat. The general functions mainly consist of providing technical advice to the grama panchayats, utilisation of technical expertise at block level and preparation of complementary schemes to that of grama panchayats.

In the sectoral functions, there are developmental, promotional, managerial, agency and welfare functions. The developmental functions include provision of agricultural inputs, management of watersheds, lift irrigation, development of fish landing centres, establishment of mini industrial estates, development of conventional energy sources etc. The managerial functions consist of the management of transferred institutions such as veterinary polyclinics and zonal artificial insemination centres, Industrial Training Institute (ITI), community health centres, taluk hospitals, pre-metric hostels etc. The promotional functions include popularisation of low cost
housing, housing co-operatives and co-operatives for SC/ST and strengthening co-operatives. The welfare functions mainly consist of planning and implementation of employment assurance schemes, skill up-gradation for the poor etc. In addition to that there are agency functions of the various state and central schemes.

The district panchayat is the apex of local bodies, but each layer is autonomous. The general functions of the district panchayat are similar to the block panchayat such as mobilisation of technical expertise and provision of technical advice to block and grama panchayats and municipalities and preparing complementary schemes for the programmes at lower levels.

The sector-wise functions can be classified as developmental, promotional, managerial, agency and welfare, as done for other tiers. The developmental function in agriculture consists of water-shed management, provision of agricultural input, soil testing, pest control, control of ornamental plants, conduct appropriate research and development etc. In the industrial sector a relatively important role has been assigned such as setting up of industrial estates, conduct of entrepreneur development programmes, marketing of product, imparting training, common facility centre, implementation of credit schemes for industrial development etc. Micro-hydel projects are also assigned to district panchayat. The promotional function consists of promotion of agricultural co-operatives, promotion of commercial crops, popularisation of innovative field trials and pilot projects, introduction of new technologies in fishery, promotion of fisherman co-operatives etc. The district panchayat has an important role in the management of institutions transferred. It consists of agricultural farms, district level veterinary hospitals and laboratories, dairy extension units, management of fish farm development agency (FFDA), pisci-culture centres, fishery schools, management of high schools, higher secondary schools, technical schools, vocational training centres and poly techniques, vocational higher secondary schools, district institute of education and training, management of district hospitals of all systems of medicine, management of post-metric hostels and training
centres for SC/ST. The welfare functions consist of provision of grants to orphanages and welfare centres for handicapped and destitute, infrastructure facilities for self-employment etc. It also has agency function in implementing and co-ordinating various central and state sponsored schemes.

The functional distribution appears to be relatively well-defined and clear in the case of mandatory functions. There is a fair degree of role clarity, which reduces probability of overlaps, conflicts, confusion and waste or loss. General functions, which are promotional in nature, need not also give rise to confusion and conflicts. However, this is not true of sectoral functions. The constitution and the act leave many open-ended questions regarding division of responsibilities and powers across different tiers of government. In Kerala, the government issued rules and orders to settle issues that arose on account of lack of role clarity. In spite of such timely intervention grey areas continue to exist creating problems such as overlaps, duplication etc.

In devolving functions, the grama panchayat is considered as the vital institution. Provision of local public goods and regulatory functions are with them. In the developmental role also grama panchayat is given primacy. The district panchayat has an important role in managing important institutions and co-ordinating various activities. Complementary activities to the lower tiers of government are assigned to the district panchayat. The block panchayat has a relatively insignificant role. Promotional and agency role have been given to it. The district panchayat is not endowed with powers to function as district government. Lack of clarity of functions among the three tiers of local government is a major lacunae in the functional devolution. Lack of co-ordination and consequent operational difficulties among the tiers may lead to inefficiency.

One way out could be assigning sectoral activities. It is important because practically it is not possible to assign a particular sector to a particular tier. Take the case of primary education that is assigned to grama panchayat in Kerala. But, the
syllabus is prepared at the state level. Appointment of the teachers and payment of salary are by the state government. It may not be fair to assign the function of syllabus-making to the grama panchayats, since; variation in syllabus across the panchayats might create problems.

In many cases, there are overlaps. For example, provision of agricultural inputs is the function of both block panchayat and district panchayat. But, establishment of nurseries and the protection of seeds are the function of the grama panchayat. Seed and seedlings are the inputs, which can be taken up at the higher level. Cultivation of ornamental plants has been assigned to the district panchayat, which can suitably be done at the grama panchayat level and the marketing can be left to the district panchayat. In the energy sector, identification of priority area for extension of electricity is assigned to the district panchayat, but this function can be conducted at the grama panchayat level. But, precise assigning of function is not easy at the outset, since, much can be learned only from experience.

Section - III

The Architecture of Fiscal Decentralisation

Strengthening local governance requires substantial fiscal devolution to local bodies. When the authority of a specific activity is transferred from the state to local government, the latter should have the prerogative of taking decisions in respect of planning and implementation of such activity. In fact, functions, funds and functionaries are complementary to one another in the process of devolution of responsibilities and powers up on panchayats (GoI 2001). Therefore, fiscal devolution is sine-qua-non of effective functional devolution. It has been argued that not only fiscal devolution but how substantial expenditure is financed also affects governance. Fiscal autonomy of the sub-national government is important. Decentralisation programmes that strengthen the own revenue base of the local body rather than on reliance on grants and transfers is more efficient (Stein 1998). The
picture in the Kerala context, however, is more complicated because lower tiers are assigned agency and managerial functions as well. In many such cases mobilisation of resources is best done at the state or central levels. Moreover, decentralisation may lead to allocative inefficiencies, as well as poor accountability and governance, if expenditure and revenue mobilisation functions are not clearly assigned across different levels of government (Fukasaku and De Mellow 1999). The principles of assigning taxes to different levels according to Musgrave (2000) are:

1. Taxes on mobile factor should be assigned to centre and taxes on immobile factors shall be assigned to regional or local government.
2. Progressive tax with redistribution effect shall be with the centre.
3. Benefit taxes and user charges shall be assigned at appropriate level.
4. Tax bases distributed highly unequally among sub-judicial bases must be with centre.

The revenue sources of the local body can be broadly classified into a) tax revenue b) non-tax revenue c) grants and d) loans. Tax revenue can again be classified into 1) own taxes, 2) assigned taxes and 3) shared taxes. Own taxes are assigned by state and levied and collected by the local body. Assigned taxes are those statutorily assigned to local bodies, but collected by state government and made over to local bodies. Shared taxes are assigned to the states and collected by them but a share of the proceeds is distributed among the local bodies. Non-tax revenue consists of income from property, markets, license fees, contributions etc. Grants-in-aid may be broadly divided into a) plan grant b) specific purpose grant, c) general purpose grant and d) central Finance Commission grant. Loans mainly consist of loans from government and other financial institutions (GoK 1996). The Kerala Panchayat Raj Act empowers the panchayats to raise loans (Section 197).

Fig. 3.2 depicts the sources of revenue of panchayats- Part A shows the sources of grama panchayat and Part B that of block and district panchayats.
own tax sources of grama panchayats, property tax/building tax is the major source. Professional and entertainment taxes are the other important sources. Show tax has been recently withdrawn by the government. Other taxes are not important sources of revenue. Land tax is an optional tax hence no local body is collecting it. Grama panchayat can impose a five per cent surcharge on any tax with the approval of the government (Section 199, Kerala Panchayat Raj Act 1994). The urban local bodies in Kerala are allowed to collect two more taxes in addition to those assigned to grama panchayats. They are: 1) Tax on animals, vessels and vehicles 2) Tax on timber. The assigned taxes are surcharges on duty on transfer of property and basic tax. Motor vehicle tax is shared between the state government and the grama panchayat/municipality.

Grants-in-aid, especially plan grant, have become a major source of revenue of the local bodies with the launching of the PPC. Government also provide tied and untied grants. The Eleventh Finance Commission provides grants to the local bodies. A part of the grant is for maintenance of accounts and audit. The remaining part is provided for maintenance of core civic services such as provision of primary education, primary health care, safe drinking water, sanitation and maintenance of common property resources. Since the core functions are done by the grama panchayats, municipalities and corporations, a lion share is assigned to these bodies. Only a very small portion has been assigned to the block panchayat. District panchayat has no share. But, district panchayats and block panchayats are given fund from Rural Infrastructure Development Fund (RIDF). The local bodies receive fund (grants-in-aid) from the Centrally Sponsored Schemes (CSS) and State Sponsored Schemes (SSS) as well.

The panchayats can raise loans from government financial institutions. Local bodies are given power to raise loans from other sources. The district panchayat can issue revenue bonds for raising revenue (Section 197 KPA 1994). Panchayats are allowed to collect fees from beneficiaries of the institutions run or financed by it (Section 198 KPA 1994).
Fig. 3.2: Revenue Sources of Panchayats

A

Taxes

Own tax

Assigned tax

Shared tax

Non-Tax

Grants

Loans

Income from property, market, Licence fee, Contributions

Government

Others

Financial institutions

Plan grant

Specific purpose grant

General purpose grant

Income from

1. Duty on transfer of property
2. Basic tax

1. Building tax/ Property tax
2. Professional tax
3. Entertainment tax
4. Service tax on sanitation water supply street lighting drainage.
5. Advertisement tax
6. Land tax, (optional)
7. Cess on conversion of land.
8. Surcharge on any tax not exceeding 5% on the approval of government.
B

BLOCK / DISTRICT PANCHAYAT

Non-Tax

Income from property / contributions

Grants

Plan grant

Specific purpose grant

General purpose grant

Rural Infrastructure Development Fund

Loans

Government

Others

Financial institutions
Only the grama panchayat (also for urban local bodies) has got the power to tax. The newly created block and district panchayat have no tax source. Only assigned tax is part of basic tax to these bodies, which is provided in the form of a grant. Hence, these bodies are almost fully relying on grants of the state government for its functioning. Reliance on external sources is against the principle of fiscal autonomy. Strengthening fiscal autonomy of these tiers of 'government' is an urgent matter to be taken into account.

The observation of the first State Finance Commission of Kerala is very relevant and valid today. The tax domain of the local bodies remains almost exactly the same as were available in the pre-1994 period and those resources were insufficient even for meeting their pre-1994 responsibilities. This sharply increases the already existing adverse mismatch between functional responsibility and financial resources, which need to be corrected by allocation of additional resources. The study on the functions and finances of panchayats in Kerala by Pillai (1986) revealed that the inter-panchayat differences in the level of income, resources and expenditure increased with the functioning of panchayats in Kerala during nearly a quarter of century. Gopi (1991) in his study on financial administration of panchayats concluded that the potential sources of revenue were not fully exploited by the local bodies. A study on fiscal devolution and resource mobilisation by Shaheena (2003) concluded that the higher devolution of un-tied grants to local bodies in Kerala had a negative impact on the own resource mobilisation of local bodies. Own tax effort declined in 1990's; whereas, non-tax revenue showed a positive response. The plan grant-in-aid devolved to the grama panchayat was almost twice the size of own resources (Chaudhari et al. 2004).

The financial condition of the local bodies in Kerala is very fragile. The World Bank study (2004) revealed that, in 1993-94, 88 per cent of the grama panchayats in Kerala did not have enough revenue from own source, to meet salary, office expenses and routine maintenance expenditures. If the assigned taxes
were also included with the own sources of revenue, percentage of ‘deficit panchayats’ was 48. In 1998-99, the percentage of panchayats with deficit was 56. Thus, more than half of the grama panchayats failed to meet their revenue expenditure even after accounting for assigned taxes.

The Plan Grant-in -Aid

In 1993-94, the revenue of village panchayats was Rs. 131.45 crores of which 33.4 per cent was own tax revenue, 23.8 per cent was assigned taxes collected by government, 5.8 per cent was shared taxes, non tax revenue was 12 per cent and grants constituted 25 per cent. But, in the case of urban local bodies, the total revenue receipt was Rs. 95.11 crores of which 58.6 per cent was own tax sources, 8.2 was per cent assigned taxes collected by government, 3.6 was per cent shared taxes, non tax revenue constituted 21.4 per cent and grants constituted 8.2 per cent (GoK 1996). But, with the launching of people’s campaign, the plan grant became the major component of financial resources of the local bodies accounting for more than three times the sum of all other receipts put together (Isaac 1999a; Harilal 2004). In 1997-98 Rs. 749 crores was given as plan funds to local bodies, in addition to Rs. 246 crores as state sponsored schemes. This needs to be compared with the un-tied grant given of Rs. 213 crores in the previous year, ie, 1996-97. The un-tied grant given to the local bodies in 1995-96 was only Rs.30 crores.

There was a quantum jump in the devolution of grants-in-aid (plan grant) to the local bodies. Table 3.1 shows the plan grant specified in the budget. In 1997-98, Rs. 749 crores was earmarked for the local bodies. (Appendix 4, Budget, Kerala State 1997-98). During the IXth plan period, Rs. 4130.25 crores were devolved to the local bodies and the total expenditure was Rs 3454.92 crore (83.65 per cent of the release) (Economic Review 2003, SPB, Kerala).
Table 3.1
Budgeted Plan Grant to Local Bodies

<table>
<thead>
<tr>
<th>Year</th>
<th>Budgeted Plan grant (Rs in Crores)</th>
</tr>
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<tbody>
<tr>
<td>1997-98</td>
<td>749</td>
</tr>
<tr>
<td>1998-99</td>
<td>950</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1020</td>
</tr>
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</tr>
<tr>
<td>2002-03</td>
<td>1342</td>
</tr>
<tr>
<td>2003-04</td>
<td>1317</td>
</tr>
<tr>
<td>2004-05</td>
<td>1350</td>
</tr>
</tbody>
</table>

Source: Budget Appendix IV – various years

The plan grant-in-aid made a big difference in the financial position of the local bodies, not only because of the size but also for the important reason that it was earmarked entirely for development / plan expenditure (Harilal 2004). The plan grant-in-aid devolved was almost twice the size of own resource sources of the grama panchayat (see Table 3.2)

Table 3.2
Comparison Between Own Revenue and Plan Grant-in-aid:
Village Panchayats (Rs.Crores)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Total own revenue</td>
<td>118.0</td>
<td>209.9</td>
<td>241.4</td>
<td>259.8</td>
</tr>
<tr>
<td>Plan grant-in-aid</td>
<td>-</td>
<td>100.0</td>
<td>420.5</td>
<td>549.5</td>
</tr>
</tbody>
</table>

Note: (1) In 1996-97 plan grant-in-aid was given as untied funds. (2) total own revenue includes own tax, assigned tax, shared tax, non-tax revenue and grant-in-aid (excluding plan-grant-in-aid) from government

Source: Second State Finance Commission, 2001

The percentage of grama panchayat expenditure to State Domestic Product rose from 0.8 per cent in 1993-94 to 1.44 per cent in 1998-99. The ratio of grama panchayat expenditure to state expenditure increased from 3.5 per cent in 1993-94 to 7.3 per cent in 1998-99 (World Bank 2004).

Plan fund has been allocated to different local bodies on the basis of criteria recommended by the working group constituted for the purpose of evolving
formula for interse distribution of plan grants to local bodies by the State Planning Board, from 1998-99 onwards\(^4\). Thus, there is no discretionary power to the state government in devolving plan grant among different local bodies. In 1997-98, allocation was made on the basis of population as the only criterion. Table 3.3 shows the different criteria for interse distribution of plan grant. Population and economic backwardness are the important criteria of devolution.

Table 3.3
The Criteria for Intra -Tier Distribution of Plan Grant-in-Aid

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Weightage (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GP</td>
</tr>
<tr>
<td>1. Population</td>
<td>65</td>
</tr>
<tr>
<td>2. Geographical area excluding area under forest</td>
<td>5</td>
</tr>
<tr>
<td>3. Area under paddy</td>
<td>5</td>
</tr>
<tr>
<td>4. Own income of grama panchayat</td>
<td>10</td>
</tr>
<tr>
<td>5. Composite index of agricultural labours, persons engaged in livestock, fisheries etc. and marginal workers</td>
<td>15</td>
</tr>
<tr>
<td>6. Composite index of backwardness/houses without latrine and houses without electricity</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: GP- Grama Panchayat; BP- Block Panchayat; DP- District Panchayat; M- Municipality; C- Corporation
Source: State Planning Board, Kerala 1998

All money received by the village panchayat (grama panchayat) shall constitute a fund called “Village Panchayat Fund” (Section 212, KPA 1994). This is similar to the consolidated fund of the state government. Similar fund is created for block and district panchayat. Urban local bodies also have similar funds.

These funds shall be kept in the Public Deposit account in the government treasury. The local bodies are permitted to constitute a special fund on the discretion of the panchayat from donations and contributions, which are collected locally for meeting expenses to be incurred by the president.

Section 186 of the Kerala Panchayat Act (1994) is with regard to the constitution of a finance commission. The Governor constitutes the commission. The number of members shall not exceed three persons and one shall be a person
having special knowledge and experience in financial matters and economics. The commission shall review the financial position of the panchayats and submit recommendations to the governor regarding:

a) (i) sharing of the net income of taxes, duties, cess and fees; (ii) fixing the taxes, duties, cess and fees, which may be earmarked for the panchayats; (iii) criteria regulating the financial aid etc. for the panchayats from the State Consolidated Fund,

b) steps necessary for improving the financial position of the panchayat.

The first finance commission was appointed in 1994 and the final report was submitted in 1996. The recommendations of the commission were valid from 1996-97 till 2000-2001. The Second Finance Commission submitted its report and government accepted the recommendations. Governor has recently constituted the third commission.

The plan grant has raised the resource base of the local bodies in Kerala. But, it has to be remembered that the fund transferred was earlier handled by the departments at the state level. The financial delegation is not commensurate with the functions delegated. The own resource base of the local bodies has not been expanded. No new taxes have been assigned so far. Local bodies have no power to impose new taxes. The rates of tax, fee, cess, fine etc. are determined by the government. There is no autonomy for the local bodies in raising revenue.

The overwhelming power enjoyed by the state government in devolving financial resources is a major weakness in our decentralisation effort. The state government takes unilateral decisions on the tax base of the local bodies. The withdrawal of show tax and reduction in the rate of entertainment tax by the government even without consulting the local bodies is an example of encroaching up on the financial autonomy of local bodies. Another case is the exemption given
by the state government to certain institutions from property tax without the consent of the local bodies.

Grants are the legal rights of the local bodies. Unfair practices of government such as, withholding of a part of the grant, cut in the grant allotted in the budget etc hamper the financial autonomy of local bodies. A disquieting feature we observe is the fall in per capita plan expenditure, which is primarily due to the cut imposed by the state government on plan grant. The local bodies are constrained to make expenditure due to treasury restrictions on plan fund utilisation. The state government apply the 'rule of lapse' and take away the unspent balance of the local bodies at the end of the financial year. Table 3.4 shows trend in plan expenditure. The per capita plan expenditure of the grama panchayat was Rs.221.9 in 1999-2000, which declined to Rs.102.4 in 2001-02.

Table 3.4
Per-capita Distribution of Total Expenditure by Major Sub-Categories in Rupees: Grama Panchayat

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Own-fund expenditure</td>
<td>110.7</td>
<td>114.8</td>
<td>134.9</td>
<td>99.9</td>
</tr>
<tr>
<td>Plan expenditure</td>
<td>135.5</td>
<td>221.9</td>
<td>180.2</td>
<td>102.4</td>
</tr>
<tr>
<td>Transferred institutions /schemes</td>
<td>50.5</td>
<td>43.8</td>
<td>47.9</td>
<td>40.1</td>
</tr>
<tr>
<td>Centrally sponsored schemes</td>
<td>15.2</td>
<td>13.6</td>
<td>12.7</td>
<td>17.6</td>
</tr>
<tr>
<td>Pension scheme</td>
<td>16.3</td>
<td>27.7</td>
<td>31.5</td>
<td>42.1</td>
</tr>
<tr>
<td>Total</td>
<td>328.2</td>
<td>421.3</td>
<td>407.2</td>
<td>302.1</td>
</tr>
</tbody>
</table>

Source: Adapted from World Bank (2004), p.119.

There are serious limitations in raising the tax base of the local bodies. Vertical transfer is therefore an important method of correcting the mismatch between functions and finance. One major source is the plan grant-in-aid. The budgeted plan grant shall be made available to the local bodies. There shall be no restriction in availing the fund. Penalising the local bodies for non-utilisation of fund due to delay in sanctioning the amount and treasury restrictions is against the
spirit of decentralisation. A given proportion of the total tax revenue of the state
government shall be made available to the local bodies as grants-in-aid. The
second state finance commission has made recommendations in this direction. The
grant shall be available to the local bodies on a monthly basis. Making
available the amount at the end of the financial year is not helpful. In addition to
this, local bodies shall be given freedom to raise loans from different sources
according to their financial capability.

SECTION - IV
Administrative Decentralisation in Kerala

Governance is related to the behaviour and performance including the
exercise of economic, administrative and political authority to manage the affairs
delegated by law. Decentralisation requires flow of power from political
executives and administrative executives to local bodies and through local bodies
to the people. Administering different matters and resources delegated by law is
the crucial aspect of decentralisation. This requires dispersal of the administrative
authority in matters of service delivery, support for developmental activities and
tax collection. Administrative decentralisation requires the deployment of staff
with necessary expertise and authority at appropriate levels to discharge the
functions devolved by law. Administrative decentralisation implies the autonomy
enjoyed by sub-national governments. The authority to tax is taken as a measure of
administrative power. Higher grants and loans reflect the low administrative
authority. But, as we have seen, the above measure is more suitable to assess
financial devolution than administrative devolution.

Administrative decentralisation enhances the accountability of the
bureaucracy. The bureaucracy becomes more accountable to the people and local
political executive, whereas, in a centralised system the bureaucracy is
accountable to the line department and answerable only to hierarchy in their
Department. Decentralisation necessitates more functional and less formal hierarchy, more professional guidance and less administrative control, more horizontal than vertical consolidation (GoK 2001).

Lesser number of personnel is now required at the state level due to decentralisation, since functions and finances were transferred. Hence, the surplus staff need to be deployed. Theoretical sequence of decentralisation requires the devolution of function and finance after creating the capacity at the local level. Adequate staff need to be deployed and trained. Rules, orders, procedures, circulars and guidelines for effective functioning should be made. Then, gradual transfer of functions and resources should be made in accordance with the development of the absorption capacity at the lower level. This kind of step-by-step approach towards decentralisation has been suggested by many as the ideal one towards decentralisation.

The main feature of Kerala's decentralisation process was the 'reversal sequencing' (Isaac and Franke 2000) in which power and resources were transferred at one go without creating capacity at the lower level. The logic behind this approach was that decentralisation after creating conditions will not be easy to realise and power and finance will never be devolved. Those wielding power are reluctant to devolve powers. But, once finance and functions are transferred, it becomes the duty of the government to ensure that the system works. Hence, necessary rules, orders, procedures, deployment of staff will follow.

Deployment alone will not be enough, since; their capability to undertake the new tasks is to be enhanced. Administrative decentralisation also necessitates an attitudinal change in the bureaucracy (GoK 1997). Awareness regarding the new role and responsibility of the bureaucracy and working under the political leadership of the local bodies necessitate training and orientation. Deployment to lower level is not easy, since the staff are concerned with the promotional
prospects. Moreover, the officials do not prefer a control close to them in the local body. In the centralised system the control is from a distance. In addition to this, there can be possibility of ‘ego clash’ between the officials and the political executive on the one hand and officials transferred to the local bodies and those existing in the local body on the other hand.

**Transfer of Institutions and Staff**

In accordance with the functional devolution as per the Kerala Panchayat Raj Act 1994 and Kerala Municipalities Act 1994, institutions and staff were transferred as per Government Order (G.O. (P) No. 189195 LAD, Sept. 18-1995) effective from October 2nd 1995, when the local bodies were first constituted after the Constitutional Amendments. The staff were also transferred along with institutions.

In agriculture, the *Krishibhavan* (Village Agricultural Office) has been transferred to the grama panchayat/municipality/corporation. Agriculture officers and the staff there were transferred to these local bodies. The assistant director of agriculture was transferred to block panchayat and two deputy directors were transferred to the district panchayat. Agricultural officers and one post of deputy director were transferred to municipality/corporation. Appendix 3.3 gives the list of institutions and posts transferred to various local bodies. Transfer of institutions and staff has taken from seventeen departments.

In the health sector all institutions other than medical colleges and big regional specialty hospitals have been transferred. In the education sector all schools have been transferred. The entire responsibility of poverty alleviation has gone to the local bodies; all the centrally sponsored anti-poverty programmes are planned and implemented by them. As regards social welfare, barring statutory functions relating to juvenile justice, all the responsibilities have gone to local bodies. ICDS is fully implemented by the grama panchayats and the urban local
bodies. Barring highways and major district roads, connectivity has become a
local government responsibility. The whole of sanitation is with the local bodies.
All the welfare functions are with them (GoK 2001). But, the devolution of
adequate funds for running these institutions and for maintenance has not taken
place. The Second State Finance Commission has made valuable suggestions in
this regard. It recommended that the local bodies are entitled to 9 per cent of
state’s own tax revenue of which 5.5 per cent shall be maintenance grant and 3.5
per cent general purpose grant.

In order to strengthen administration, government issued an order
transferring senior officers in various departments to the district panchayat (vide
order GO (P) 188/2000 LSGD, dated 1-4-2000). Around 1200 clerical staff were
deployed from other departments, who became surplus due to decentralisation.
The expenditure on public works increases with expenditure of local bodies, which
requires more technical staff to plan and implement these works. The committee
on decentralisation of powers (Sen Committee 1997), had given detailed
recommendation on deployment of engineering staff to local self governments, to
cope up with the functional responsibilities transferred to them. Government vide
order GO (P) No. 186, 2000 LSGD dated 4-7-2000, transferred the engineering,
staff in the following way.

1. A chief engineer to the local self-government.

2. Six superintending engineers would be deployed to the panchayat raj
institutions and one each to the newly formed corporation of Kollam
and Thrissur.

3. 14 executive engineers would be deployed one each to district
panchayat. 167 posts of assistant engineers would be deployed.

4. Each of the village panchayats which has an allocation of more than
Rs.75 lakhs under plan or which has an area of 75 sq. km. or more with
allocation of over Rs. 50 lakh under plan will get one post of assistant engineer. In the case of others, two village panchayats would share one assistant engineer. Overseers/ draftsman of number 511 were deployed to panchayat raj institution and 53 to the urban local bodies other than corporations. The staff and the technical staff deployed were from public works and minor irrigation departments. Ministerial staff were also deployed to support them. Government also issued orders for deploying 1302 post of clerks to the local governments from various departments via G.O (P) 187/2000 LSGD dated 4-7-2000. Proportionate number of class IV staff was also deployed.

The local self-government department issued detailed orders (GO (P) No. 43928/N2/2000/LSGD dated 17th September 2001) delegating full control over the staff including transferred and authority to take disciplinary action. The Act also has provision for mutual respect between elected authorities and officers (Section 185 A). The behaviour of the political executive and administrative executive shall be based on a code of conduct.

Administrative decentralisation will be effective only if the political executive of the local bodies have control over the officials. The officers should be answerable to the executive and the power to impose punishment in the event of indiscipline also should be with executive. Full managerial power of the institution has been transferred to the local bodies but salary will be given by the government. Local bodies have no authority to create new posts or selecting the staff. Staff strength is decided by the state government. The promotions are also done by the government. The local body concerned has full control and supervision of institutions and employees transferred to them. The local bodies have authority to make disciplinary action against employees. Section 181 of the Act specifies that government officers and employees transferred to the local bodies shall, in addition to their normal function, perform other related functions.
delegated to them by the local body. Although, institutions and staff were transferred, there exists dual control by the departments and local bodies. This dual control creates problems in actual practice, since, the activities of the department and the local body are formulated independently.

The general principle followed was the transfer of the institutions with the staff. Although, government issued an order (G.O. (P) No.188/2000/LSGD) for restructuring of development department, much progress has not been made. For example, all the staff allotted for maintenance of streetlights was transferred to the local bodies from the Kerala State Electricity Board (K S E B), but that was not implemented. Moreover, the staff devolved were not sufficient to undertake the new responsibilities of welfare and developmental functions bestowed on these institutions. Absence of capacity building activities for the staff hampers efficient discharge of the functions. The government has got undue control over the administrative system of the local body. The transferred staff remain under the control of the department and the vertical relation is very strong. There is the absence of active involvement of the staff in planning process. The managerial efficiency of the local bodies needs to be improved (GoK 2001).

Administration

The executive head of the rural local body is the president of the panchayat (chairman/mayor for the urban local body). Every local body will have a secretary who is the executive officer (Section 179 of KPA 1994). Earlier, the chief officer of the village panchayat was known as executive officer and for the municipality as municipal commissioner. The change in the designation has significance, which means that the duty of the chief officer is to execute the decisions taken by the panchayat/municipal committee. Salary and allowances of the secretary are paid by the local body concerned. The local body has the authority to impose minor penalties on its secretary, following the rules made there of. The
Government may transfer the secretary if a resolution is passed by the local body supported by a simple majority of votes (Section 179.4 KPA 1994).

The Committee System of Administration

Although panchayat/municipal/corporation committee is the decision making body, in order to strengthen the administration, there is the system of standing committees. The following committees shall be constituted in every local body and the functional domain of each standing committee also has been specified (Section 162, KPA 1994 and Section 20 of KMA 1994). Table 3.5 shows the number of standing committees of each local body.

Table 3.5
Standing Committees of Local Bodies

<table>
<thead>
<tr>
<th>Local Body</th>
<th>Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Village Panchayat</td>
<td>1) Standing Committee for Finance</td>
</tr>
<tr>
<td></td>
<td>2) Standing Committee for Development</td>
</tr>
<tr>
<td></td>
<td>3) Standing Committee for Welfare</td>
</tr>
<tr>
<td>b) Block Panchayat</td>
<td>1) Standing Committee for Finance</td>
</tr>
<tr>
<td></td>
<td>2) Standing Committee for Development</td>
</tr>
<tr>
<td></td>
<td>3) Standing Committee for Welfare</td>
</tr>
<tr>
<td>c) District Panchayat</td>
<td>1) Standing Committee for Finance</td>
</tr>
<tr>
<td></td>
<td>2) Standing Committee for Development</td>
</tr>
<tr>
<td></td>
<td>3) Standing Committee for Public Works</td>
</tr>
<tr>
<td></td>
<td>4) Standing Committee for Health and Education</td>
</tr>
<tr>
<td></td>
<td>5) Standing Committee for Welfare</td>
</tr>
<tr>
<td>d) Town Panchayat</td>
<td>1) Standing Committee for Finance</td>
</tr>
<tr>
<td></td>
<td>2) Standing Committee for Development</td>
</tr>
<tr>
<td></td>
<td>3) Standing Committee for Welfare</td>
</tr>
<tr>
<td>e) Municipal Council</td>
<td>1) Standing Committee for Finance</td>
</tr>
<tr>
<td></td>
<td>2) Standing Committee for Development</td>
</tr>
<tr>
<td></td>
<td>3) Standing Committee for Welfare</td>
</tr>
<tr>
<td></td>
<td>4) Standing Committee for Health and Education</td>
</tr>
<tr>
<td></td>
<td>5) Standing Committee for Public Works</td>
</tr>
<tr>
<td>f) Municipal Corporation</td>
<td>1) Standing Committee for Finance</td>
</tr>
<tr>
<td></td>
<td>2) Standing Committee for Development</td>
</tr>
<tr>
<td></td>
<td>3) Standing Committee for Welfare</td>
</tr>
<tr>
<td></td>
<td>4) Standing Committee for Health and Education</td>
</tr>
<tr>
<td></td>
<td>5) Standing Committee for Public Works</td>
</tr>
<tr>
<td></td>
<td>6) Standing Committee for Town Planning</td>
</tr>
<tr>
<td></td>
<td>7) Standing Committee for Tax Appeal</td>
</tr>
</tbody>
</table>

The chairperson of the finance standing committee is the vice-president/vice-chairman/deputy-mayor. The chairperson of every standing committee is elected from amongst the members, and each elected member shall be a member in any one of the standing committees. There is a steering committee consisting of the president and chairpersons of standing committees in the panchayats and similarly in the municipalities and corporations. The functions of the steering committee are to co-ordinate and monitor the functions of the standing committees. The Acts have provisions for the creation of functional committees for particular sectors consisting of members of the local body and others, if necessary. Similarly joint committees also may be constituted with one or more local self-government institutions for any purpose for which they are jointly responsible. The Fig. 3.3 illustrates administrative structure of the local body.

**Fig. 3.3. Administrative Decentralisation**

<table>
<thead>
<tr>
<th>State Government</th>
</tr>
</thead>
</table>

```
State Government

Panchayat/ Municipal Committee

Standing Committee

Steering Committee

Secretary

Implementing Officer/ Department heads

Other Staff
```
The committee system of administration in local bodies is a replication of the cabinet system at the state level. The role of president/chairperson / mayor is similar to that of the Chief Minister and of the standing committee chairpersons are that of the ministers. Subject-wise committee system facilitates detailed examination of issues and helps in making better decisions. All members become part of the committee system, so involvement of different political parties is ensured. In some cases, some of the standing committee chairpersons can be from the opposition. The provision for functional committees facilitates the involvement of experts, if the local body desires.

Although, the Acts empower the political executive to have control over the bureaucracy, in actual practice, the secretary wields considerable power. Similar, is the case with other staff in which only minor punishment can be made. In the case of transferred staff, there is dual control, one by the line department and the other by the local body. The salary is given by the government, hence they consider themselves as government staff. The transferred staff have not yet become a part of the local body.

SECTION - V

Decentralisation of Planning

The distinguishing feature of decentralisation in Kerala is the democratisation of the planning process. There existed no well-established or experimented methodology of grass root level planning for the state to emulate. Therefore, a methodology for bottom-up participatory planning was developed.

Planning is a technical exercise of making choice and priorities. In participatory planning, choice and priorities are fixed by the people. This necessitates drawing the people into the planning process.
The methodology for the formulation of plan evolved for this had nine phases –

1) Grama sabha
2) Development seminar
3) Task forces
4) Preparation of local plan
5) Preparation of higher level plan
6) Plan appraisal and sanction.
7) Implementation
8) Monitoring
9) Evaluation

All the voters in a ward are the members of the grama sabha (village assembly). Kerala Panchayat Raj Act 1994 empowers the grama sabha to make decisions regarding the developmental issues in the locality. Special grama sabhas were called for the purpose of prioritising local needs and elicit their opinion to solve the problems. There were subject-wise group discussions and at the end reports were presented in the plenary session. Trained resource persons participated in the grama sabha as facilitators.

The participatory planning cycle is illustrated in Fig. 3.4.

The objective of the development seminar was to discuss on what could be done to solve the issues raised in various grama sabhas of the local body. An objective assessment of the resources was made in relation to the requirements. The delegates of development seminar were selected from each group in the grama sabha. It also consisted of invited experts, officers and resource persons. A printed development report was prepared consisting of fifteen chapters. Discussions at the
Gramasabhas were a major input to the development report. Secondary data were collected from various offices. Transact walk was also conducted to bring input into the development report. The problems in each development sector were discussed in detail.

**Fig. 3.4: The Planning Cycle**

Preparation of the project was the next step for which task forces were constituted. The development seminar had listed the important issues to be taken up in the plan. The task forces for each development sector were constituted by the local body. It consisted of officers, retired officers and other experts drawn by the local body. Preparation of the project is a technical work, which necessitates expertise and hence training. The task forces prepared a shelf of projects in a format suggested by the State Planning Board specifying the objectives, financial analysis and technical details. The task force was a major innovation of the
people's campaign, which could mobilise the expertise of the retired officers as well as others ready to work voluntarily for the development of the locality.

The local body concerned was responsible for selecting the projects and programmes prepared by the taskforces to be included in the plan. The Planning Board gives broad directions as regards sectoral allocation. Thus, the preparation of local plan, taking into account the deliberations in the grama sabha and the development seminar was done by the elected committee of the local body, following the structure designed by the Planning Board.

Block panchayats and district panchayats were to prepare their plans taking into account the plans prepared at the lower level. Integrating the lower level plans was expected from the higher level plans. Thus, the block panchayat plans can be prepared only after preparation of the grama panchayat plans and the district plan can be made only after preparation of the block panchayat plans. The methodology for planning for the higher level plans was similar to that of grama panchayat plans except that of the grama sabha. A meeting of all the elected members within the block panchayat was held, in the place of grama sabha, to elicit their views regarding the issues to be taken up in the plan. Similar was the methodology of planning of district panchayat. Development report, development seminar, taskforces and preparation of projects were to be followed as done at the lower level panchayats.

The plans of the local bodies shall be approved by DPC for implementation. Each project has to be appraised for technical and financial viability. On the average, grama panchayats had 45 projects in Thrissur district in 1997-98 (Sudhakaran 2004). The official machinery was unable to do this function within a short period. This necessitated the creation of Voluntary Technical Corps (VTC) at block, district and state level. The VTC consisted of retired officers, and other experts in field. The committees were constituted by the district collector. The VTCs were later named as expert committees (ECs) consisting of officers in
the department, retired officers and other experts. The block level expert committees (BLECs) verified the projects of grama panchayats within its purview and recommended to the DPC. At the municipal level there were municipal level expert committees (MLECs). The district level expert committees (DLECs) verified the plans and projects of block panchayats. The state level expert committee (SLEC) verified the plans and projects of the district panchayats and municipal corporations prior to the approval of DPC. The expert committees could attract the expertise of retired officers in a big way.

Implementation is the crucial stage, since the fruits of the developmental activities flow only after implementation. Implementation is the responsibility of the local body. People’s plan campaign encouraged the implementation of the projects by the people by forming beneficiary committees so as to enhance the quality of work. Orders were issued for giving advances to the beneficiary committees to undertake work. The government also issued orders for monitoring the projects by the task forces and people’s monitoring committees. Evaluation of the project is done at grama sabha. Thus, the people’s campaign for planning developed a methodology for planning from below with people’s participation in all phases of planning process.

**Kerala Development Plan**

There was a change in guard at the state level in 2001. The new government rechristened the people’s plan campaign as Kerala development plan. There was no substantial change in the methodology of planning or the quantum of grant devolved. It attempted preparation of five-year plans in the place of annual plans from X\(^{th}\) plan onwards (Go. MS/ No 20/2002 Planning). The name of the task forces was changed to working groups (WGs) and the first phase of the plan formulation begins with formation of working groups for different sectors with a minimum of 8 groups. The working group had to update the development
report prepared during IXth plan and prepare a note specifying the major problems and action plan containing project proposals. The second phase is the grama sabha/ward sabha in which the draft proposals prepared by the working groups are discussed. The third stage is the strategy setting, based on the discussions at the grama sabha/ward sabha in the local body. A draft of proposed projects would be presented for discussion in the development seminar. The next phase is the preparation of projects by the working groups in the light of the discussions at the seminar. The fifth stage is the preparation of plan by the local body. The sixth phase is the appraisal of plan. The appraisal of projects is done by technical advisory committees (TACs), which is the new form of the expert committees, constituted at the block panchayat level for grama panchayats and at the district level for district panchayats, block panchayats, municipalities and corporations. Technical sanction is required only for projects of public works and for that technical committees are constituted at block, municipality, corporation and district level (GO. MS. No 20/2002 Planning, dated 6/6/02).

In every phase of the planning cycle, there is space for people's involvement, of course except in selecting the projects to be included in the plan, which is a prerogative of the elected members. But, this can be done only considering the priority set by the people. The planning process does not deny the due role of the elected members. The whole process goes under the leadership of the elected panchayat/municipal committee. The ECs constituted for appraising the projects and plans do not have the right to alter the preferences of the people or reject a project. The ECs are expected to help the local bodies by correcting the projects, if necessary. If it is not technically feasible or financially viable, it can be brought to the notice of the local bodies and convince them. The local bodies may take a decision on it.

Regarding sectoral allocation only broad guidelines are given by the government. The local bodies have the freedom to determine priority within each
sector following it. The sectoral allocation share for each sector has been given in Table 3.6.

Table 3.6
Guidelines on Sectoral Allocation Indicated for Local Bodies-IX plan

<table>
<thead>
<tr>
<th>Sector</th>
<th>Rural local bodies (Percentage)</th>
<th>Urban local bodies (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productive</td>
<td>40-50</td>
<td>20-30</td>
</tr>
<tr>
<td>Service</td>
<td>30-40</td>
<td>40-50</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>10-30</td>
<td>10-35</td>
</tr>
</tbody>
</table>

Source: Economic Review 1997-98

During 1998-99, the sectoral investment guidelines were slightly modified by fixing minimum and maximum for sectors. Panchayats were to allocate minimum 40 per cent in productive sector and urban local bodies to spend 30 per cent from the general sector. In the infrastructure sector maximum permissible for all the local bodies in general sector was 30 per cent. Urban local bodies were to set apart 5 per cent for slum development. During the tenth plan, there was some variation in sectoral allocation, which is given in Table 3.7.

Table 3.7
Guidelines for Sector Allocation in Tenth Plan

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Local bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GP</td>
</tr>
<tr>
<td>Productive (minimum) Percentage</td>
<td>30</td>
</tr>
<tr>
<td>Infrastructure (maximum) Percentage</td>
<td>30</td>
</tr>
<tr>
<td>Slum improvement (minimum) Percentage</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: GP- Grama Panchayat; BP- Block Panchayat; DP- District Panchayat; M- Municipality; C- Corporation
Source: Guidelines for the Preparation of Tenth Five Year Plan of Local Self Government Institution (M.S) No. 20/2002 Planning.
The Special Component Plans

Another feature of the decentralised planning in Kerala is the empowerment of women. For that, a mandatory allocation of 10 per cent of the plan grant to Women Component Plan (WCP) was made. This amount has to be spent exclusively for the projects/programmes for the development of women. Programmes/projects for income generation, skill development, awareness making etc can be undertaken. There is a special task force for preparing the projects. Women representation was insisted by the government in every task force.

The allocation of plan grant for scheduled castes is given as Special Component Plan (SCP) and for scheduled tribes as Tribal Sub Plan (TSP), which is given separately for each local body in appendix IV of the state budget document. It was insisted that at least 30 per cent of the grant under SCP must be earmarked for productive sector and for infrastructure it must not exceed 30 per cent for both SCP and TSP. A project benefiting a group of people such as roads or water supply can be considered under SCP or TSP only if more than 50 per cent of the beneficiaries belong to the category concerned. A separate task force must be constituted for preparation of projects for SCP and TSP.

In the implementation stage also the involvement of the people shall be ensured and necessary support for that shall be provided by the local body. The initiative of the local body in ensuring the participation of the people is important. Monitoring is crucial for the success of any project and the government orders are ambiguous in the matter of participatory monitoring. This is equally true in the case of participatory evaluation. In the planning process of block panchayats or district panchayat there is no direct participation of the people. Participation is brought in an indirect way through an assembly of elected members in the panchayat. Therefore, the higher tier plans are not genuine people’s plans and
making participatory planning at higher levels of government is an important issue.

SECTION - VI

Integration and Coordination

The district panchayat, block panchayat, grama panchayat, municipalities and corporations are independent institutions. Once autonomous local governments are established, integration of their activities becomes important. Functional and administrative authority has been distributed in such a manner to create maximum co-ordination. But, at the operational level there arise several issues of integration. The District Planning Committee and the State Development Council have been visualised to integrate the decisions taken at various levels. Let us first see the constitutional and legislative provisions for integration.

The Legislative Provisions for Integration

Integrated planning has been envisaged in Kerala’s Panchayat Raj Act 1994 and Municipalities Act 1994 (as amended in 1999). The Act states that every year the grama panchayat shall prepare development plan and submit it to the block panchayat concerned, and each block panchayat shall prepare a plan considering the plans of grama panchayat and submit to district panchayat concerned and the district panchayat shall prepare a plan considering the block plans and submit to DPC. Every panchayat shall make a master plan and submit to the DPC through district panchayat (Section 175.4).

Section 51 of Kerala Municipalities Act 1994 states that every municipality/corporation shall prepare an annual plan and submit it to the DPC. A master plan shall be prepared based on scientific spatial planning and submitted to the DPC. The Act envisages that planning at each level with controlling authority over major developmental institutions within the jurisdiction of a local body.
enables better horizontal flow of information among different sectors, which will facilitate horizontal integration.

The Act envisages an integrated plan where the higher tiers of the local body are expected to prepare their plans taking into account the plans prepared at lower levels. The higher levels of governments are expected to prepare complementary projects finding the gaps and avoiding duplication. The grama panchayat president is a member of the block panchayat and block panchayat president is a member in the district panchayat. This constitutional provision is aimed at bringing complementarity in decision-making among different tiers. This facilitates information flow among different tiers of government and complementary projects can be taken up at higher and lower levels.

**The District Plans**

The District Planning Committee, which is the only constitutional body of planning, has the function to prepare a draft district plan integrating the plans of local bodies. In Kerala, DPC has been given an important role in decentralised planning. The approval for the local plan is accorded by DPC. Moreover, it gives various directions to the local bodies in matters concerned with planning.

The DPC consists of 15 members, of whom 12 are elected from district panchayat committee members and members in urban local bodies. The Constitution does not provide the opportunity for representation of block panchayats and grama panchayats. Hence, Kerala Government issued orders for making two representatives of block panchayats and grama panchayats as permanent invitees, so that their views are also incorporated. (Circular No. 51628/D.P. 1/2001 LSGI dated 4/12/2001).

The DPC shall prepare a draft district plan before 30th September of every year and forward it to the government (SRO No.1415/95). The district plan is expected to identify the gaps in multi-level planning and integrate the plans of the
local bodies. The district plan shall provide a macro district developmental perspective and the future plans of the local bodies shall be prepared on that basis. The State Planning Board initiated the preparation of a district plan for Thiruvananthapuram in 2000 to develop a methodology for the preparation of the same. The district plan would have three parts, namely Part I: Perspective for District Development; Part II Consolidated Plans of the Local Self-Governments; and part III: Guidelines (State Planning Board 2000a). The part I examines the developmental issues of each sector as well as the assessment of the resource base. In part II a review of the local plans is attempted. This shall reveal the gaps, duplications and contradictions in the local plans. The local plans should be in agreement with the state and national priorities. Part III contains suggestions based on the analysis in earlier parts.

Following the above methodology, other districts also made their district plans. The DLEC were responsible for the preparation of the district plan. Systematic examination of the projects of the local bodies was absent in the district plan of Thrissur district. As such, precise suggestions based on it could not be made rather than making general observations. The local bodies were not making use of this document for their plans. The district plan was prepared only once, although it has to be prepared every year.

The present structure of DPC has inherent limitations such as domination by the elected representatives. The presence of elected representatives is beneficial but lack of expertise in planning in the body fails to deliver the intended results. The directions and suggestions on decentralised planning are now given mainly by the Planning Board, which really has to be made by the DPC. Therefore, DPC has to be strengthened to discharge such functions for which necessary expertise shall be brought into it. The rules pertaining to the constitution of DPC has provisions for constitution of sub-committees for special tasks for which experts can be nominated.
The State Development Council (SDC) is the highest policy-making body to formulate policies for sectoral and regional development, to integrate the district plan and state plan and to make policy for strengthening local bodies. The SDC can make recommendations regarding inter-departmental issues at the state level so that, co-ordination can be achieved at the local level. The members in SDC are the Chief minister (Chairperson) and the entire cabinet members, the opposition leader, vice-chairman of the planning board, district panchayat presidents, mayors of municipal corporations and two representatives from gram panchayat presidents, block panchayat presidents, and chairpersons of municipal councils.

Government Directions for Integration

Duplication and overlapping of functions is a major issue in a federal set up. This problem becomes all the more severe in decentralised planning. In view of this, government issued various orders so as to ensure integration. But, it is very important that clear functional demarcation is essential for making integrated developmental plan. The Kerala Panchayat Raj Amendment Act 1999 clearly specified the functions of each tier of government, taking into account the experiences of People's Plan Campaign, following the Sen Committee recommendations. Still, there are overlapping in functions and activities.

The detailed guidelines issued by the planning department clearly indicate the activities to be taken up at different tiers to prepare an integrated plan. For example, we specify the details of the GO (MS) No.20/99 planning.

(1) The centrally sponsored and state sponsored schemes shall be integrated with the plan prepared by local bodies. Integration means identification of needs through the planning process, preparation of suitable projects to meet the needs and utilising funds from various sources to implement these projects. While doing this, the guidelines for the respective schemes would have to be followed in letter and spirit. Centrally sponsored schemes and state sponsored schemes can be used
as definite identifiable components of integrated programme. The plan grant-in-aid can be used as an additionality. The guidelines and schemes should be part of annual plan. The revenue surplus of each local body should be worked out and projects should be prepared for the same and it should be part of the plan. The local bodies can raise finance from commercial banks and co-operative banks. Mobilisation of voluntary labour or beneficiary contributions in kind or in cash to supplement plan grant can be done.

The guidelines issued the following instructions to avoid duplications.

a) Only grama panchayats, municipalities and corporations need to undertake individual beneficiary oriented asset distribution programmes, but, all the three tiers can take up distribution of sanitary latrines, wells, houses and house sites.

b) Only grama panchayats, municipalities and corporations need to undertake construction of roads with less than six meters width. Block panchayat shall confine themselves to link roads with minimum width of eight meters relaxable to six meters as in Jawahar Rozgar Yojana (JRY) and connecting two panchayats or opening to new areas. The district panchayats are to confine to link roads with minimum width of eight meters and give priority to road transferred to them or roads connecting two blocks opening to new areas. Minor irrigation projects with an Ayacut of less than 5 hectares in area should be undertaken only by the grama panchayat.

Joint projects or programmes may be undertaken jointly by different tiers of local bodies or local bodies within the same tier by specifying one of the local bodies as the implementation agency. The necessary funds may also be transferred to such implementing agencies. The tendency of the district panchayats to take up too many small projects should be discouraged.
The following priorities may be observed by the higher tiers of panchayats in order to ensure greater complementarity of their programmes to the lower tiers for avoiding the critical gaps.

a) The district panchayats and block panchayats shall organise training programmes for various projects that are being taken up by the grama panchayats. All block panchayats should attempt to draw up comprehensive watershed programme and they should give priority for creation of water management and conservation measures.

b) The district panchayats, municipalities and corporations should give special attention to creation of software technology parks, mini industrial estates and entrepreneurial training programmes. The district panchayats and block panchayats should pay special attention to marketing of the products as input for the programmes drawn up by the lower tiers.

Transparency and Accountability

Transparency is the hallmark of participatory planning, for which necessary arrangements must be made. For the central or state government several things need to be kept as secret for the sake of political and economic security, but, almost all decisions of the local body can be made public. People’s participation enhances only with transparent functioning of the local body. Moreover, corruption can be reduced and nepotism in beneficiary selection eliminated by bringing transparency in the functioning of local governments.

Committee on Decentralisation of Powers (1997) noted that there is a thick veil of secrecy in the functioning of the executives, which hides inefficiencies, corruption, and arbitrariness and nepotism from public gaze. Tearing this veil is inevitable. The right of information has been a part of Act (Chapter XXV, Section
Right to information means the right to have access to information and include the right to get certified copies or relevant extracts of document. Every bonafide person requiring any information shall have the right to get such information in accordance with the procedure prescribed. Secretary or any officer of the local body responsible for furnishing the details shall give the information to the individuals on written request paying the required fee. If the officer fails to provide this, he/she will have to pay a fine of Rs. 50 per day.

Another feature of Kerala's decentralisation effort is the publication of citizen's charter. Every local body has to publish a citizen's charter describing the services available from it and maximum delay in providing the same and the procedure to be followed. The citizen's charter must be renewed and updated periodically at least once in a year (Chapter XXVI Section 272 A, KPA 1994). The citizen's charter also facilitates transparency in the functioning of local bodies and hence more informed participation is possible. Although transparency is enshrined in the Acts, it has not yet been realised. People are unaware of the provisions of the Acts. The political and administrative executives are not yet ready to follow the provisions in the Acts and Rules. The details of the public works are to be published at the site; but it is not being followed. Thus, there are problems from both sides: from the part of the executive as well as from the people who are to act as the watchdogs of the system. It is the pressure from the bottom that needs to be generated for transparency of the system.

The accountability of the local body shall be ensured and institutional arrangement for that is necessary. The increased flow of functions and finance enhances the possibility of corruption. Mal-administration or corruption or irregularities in the functioning of the local bodies is to be checked. The provision of Ombudsman in the Act is to make investigations and enquiries on any action involving corruption or mal-administration (Chapter XXVB Section 271 G, KPA 1994). The Ombudsman is a cost-free mechanism to check corruption or mal-
administration in a local body. Ombudsman\textsuperscript{10} can go into the rationale of a decision taken by the authority concerned. The Ombudsman in Kerala has not functioned as envisaged in the Act. One-member Ombudsman, as it was converted into in 2001, is unable to dispose of the complaints received in a fair manner.

The functions of the Tribunal for Local Self-Government Institutions are to consider and dispose of the appeal or revisions filed against the decisions of LSGIs\textsuperscript{11}. The legality or reasonableness of the decisions taken by the local body is considered (Chapter XXV C, Section 271 S of KPA 1994). Another measure aimed at accountability is the auditing (Section 243 J KPA 1994). There is performance auditing to correct the omission while implementing. Moreover, there is local fund auditing to ensure that fund is utilised properly. Thus, the planning methodology for bottom up planning creates opportunities for people's participation and transparency in function. There are institutions to ensure accountability. Transparency and accountability can be ensured only if people participate in the functioning of the local body and make use of the opportunities created by law.

The state government's control over local bodies has been considerably reduced with the amendment of the Acts in 1999. The state government can issue guidelines regarding policies, but cannot interfere in day-to-day activities. The panchayat can be dissolved directly by the government only if it fails to pass the budget or if majority of its members have resigned (Section 193 of KPR Act 1994, Section 64 of KMA 1994). In all other cases due process has to be followed and government has to seek the opinion of the Ombudsman. Government has, the power to cancel or suspend the resolutions, if it is not legally passed or is in excess of powers conferred by this Act, or is likely to endanger human life, health, public safety, communal harmony. Before cancelling the resolution, the government may refer the matter to the Ombudsman or to the Tribunal.
Conclusion

The Kerala Panchayat Raj Act 1994 and the Kerala Municipalities Act 1994 enacted following the 73rd and 74th Constitutional Amendments form the basis of the design of decentralisation in Kerala. In addition to this, the state government has issued rules and orders defining complementary features of the design of decentralisation. The launching of the Peoples’ Plan Campaign devolving 35-40 per cent of the state plan outlay to the local bodies triggered the decentralisation process. It evolved a unique methodology of bottom up planning with people’s participation in all phases. The revamping of the original Panchayat Raj Act and Municipal Act in 1999 was necessitated by the experience of Peoples’ Plan Campaign. This, in a way was an attempt to improve up on the architecture of governance laid out in 1994 Acts. The amendments in 1999 and complementary initiatives of the state governments have helped to strengthen the design of decentralisation of the state. Nevertheless, in spite of such corrections there exist grey areas and weak spots that adversely affect governmental activities. There remains lack of clarity of responsibilities with respect to sectoral functions. There are areas like social welfare where lower tiers are given responsibility without financial backing. In fact, there exists a clear mismatch between functional and financial devolution. In the case of administration, the relationship between local governments and the employees continues to remain vaguely defined. The weakest link in the design appears to be the mechanism for horizontal and vertical integration. It is important to have an efficient integrating mechanism to avoid overlaps, duplication, and waste. But the provisions included have not produced the desired results as yet. It needs to be cautioned that the critical observations outlined here have been made primarily on an apriori basis. They need to be empirically verified and confirmed up before making assertions. It is to the empirics that we turn now.
Notes

1 States having population below 20 lakhs are exempted from constituting the intermediate tier. Article 243B.
2 Section 197 of the Kerala Panchayat Raj Act empowers the panchayats in raising loans. The district panchayat can issue revenue bonds.
3 Kerala Government issued an order withdrawing the show tax by GO (MS) No.257/04/LSGI dated 7/8/2004. Government also reduced the entertainment tax of Malayalam cinema from 25 per cent in gram panchayat to 15 percent and in municipal areas from 30 per cent to 20 per cent and in corporation area from 35 to 25 per cent, in the same order.
4 Government constituted the working group to examine and suggest some objective criteria for allocation of funds to the local bodies from 1998-99 onwards vide order No.1834/95/LX-Plan/PC/SPB dated 25-10-97.
5 The Chairman of the first commission was PM Abraham. The Chairman of the second commission was Prabhat Patnaik and the Chairman of the third commission is KB Rabindran Nair.
6 The second state finance commission recommended 9 per cent of the tax revenue as specific grants to the local bodies.
7 For urban local bodies with population less than one lakh, the ward sabha shall be constituted. If the population is over one lakh ward committee shall be constituted (section 42 KMA 1994). For planning purpose special ward sabhas are called by the urban local bodies.
8 The beneficiary committee is formed in a general body meeting of the beneficiaries of a project. The committee has a convener and chairman, who are to make the financial dealing with the local body. The committee shall consist of seven to fifteen members and 1/3rd shall be women. The committee shall make an agreement with the local body for timely completion of the project. All committee members are liable for implementation and shall sign the agreement. (GO (P) No.105/98/LAD dated 25-5-1998).
9 Government issued orders for improving the monitoring system vide order GO(MS) No.138/2001/LSGD dated 25-05-2001 and order GO(MS) No.2/2002pig dated 31/2/2002 making the sectoral committees (task forces) as monitoring committees.
10 The Ombudsman shall be a person who has held the post of a judge of the High Court. The term of office is three years, appointed by governor on the advice of the Chief Minister. Government of Kerala constituted the Ombudsman with effect from 29-05-2000 having seven members. Government amended the Act in 2001 with effect from 14-9-2001, consisting of only one member.
11 The tribunal shall consist of one judicial officer having the rank of a District Judge, appointed by the government in consultation with the chief justice of the High Court of Kerala. The tribunal shall have the powers of Civil Court.