Devolution of powers and responsibilities to local governments is one of the most important challenges in governance reforms today. India represents a paradox where on the one hand, high growth rates have dramatically increased wealth while on the other there has also been no commensurate improvement in the quality of service delivery, particularly for the poor and in remote and inaccessible areas. It is therefore no surprise that a significant number of Billionaires are Indian, while a sizeable chunk of their fellow compatriots have little or no access to good education, health, drinking water and nutrition.

The 73rd and 74th constitutional amendments reflect a general consensus that these deficiencies and the democratic deficit can best be addressed through democratically elected and empowered local governments. But efforts to vest adequate powers and responsibilities on these institutions continue to be beset by several hurdles. The constitutional provisions have not been an effective trigger for the Panchayats to function as institutions of local self-government, particularly because of weak administrative action for effective transfer of 3 Fs (Functions, Funds and Functionaries). Efforts at effective devolution are often slowed down, stopped or reversed by several vested interests that have a stake in the current system. The existing mechanism of implementation of the delivery of services is neither effective, efficient and economical. Operation and maintenance of assets & services is even a bigger issue. It is well recognised that the programmes to solve these problems are not performing well. They are too centralized, fragmented in concept as in implementation, insufficiently responsive to varying local needs or accountable to ensure efficient service delivery.
It is the effective empowerment of the disadvantaged through the effective devolution of Functions, Finances and Functionaries to representative institutions of local self-government such as Panchayats (where part IX of the Constitution applies) and Village Councils, Village Development Boards and similar such institutions elsewhere, on the principle of subsidiarity, which states that anything which can be done at a lower level should be done at that level and no higher level, that will pave the way to the effective implementation of other measures of inclusive growth.

The virtually three-fold increase in annual allocations to rural development and welfare, and the launching of new schemes like NREGA, BRGF and RTI, are inadequately impacting on inclusive growth because governance at the grassroots is still far from inclusive. Too large a proportion of the Centre’s Rs.81,000 crore per annum on rural development and welfare reaches the people - if it reaches them at all – through government-run or officially managed silos; too small a proportion of it is actually planned and implemented with the participation, involvement and supervision of village communities and their elected representatives. If Gram Sabhas are largely non-functional and most elected representatives (other than Panchayat Presidents) left uninvolved and, therefore, frustrated, this is because even as they see more and more money being poured into rural areas, they also see that much of it is beyond their control or responsibility. The overarching components of governance include (a) policy formulation (b) implementation (c) monitoring and evaluation. If these three components are tightly packed there is little room for manipulation and corruption.

That this should be so is an anomaly considering that the Constitution amendments have so firmly rooted Panchayati Raj in our system of governance that 3.2 million elected representatives, including 1.2 million women and well over 22% SC/ST (their estimated share in the rural population), are serving in the local bodies of our vibrantly democratic society at the grassroots. This anomaly is caused by:

(i) Inadequate effective devolution of functions, finances and functions by State legislatures/governments to the Panchayati Raj Institutions; and
(ii) Inadequate provisions for planning and implementation by PRIs in the guidelines issued by Central Ministries for Centrally Sponsored and Central Sector schemes that directly impinge on inclusive growth.

It is important that Panchayat Raj be brought centre-stage as the principal governance reform to reinforce economic reform in such a manner as to secure inclusive growth. (Parallel measures of empowering the grassroots are required in those areas, many in the North-East, which the Constitution exempts from Panchayati Raj, such as the Sixth Schedule areas).

Activating and strengthening institutions of local self government calls for conformity to certain broad and generally well-accepted principles of institutional design. Holding of regular elections to local bodies; clarity in the functional assignments to different levels of local bodies in rural and urban areas; matching the devolution of functions with the concomitant devolution of funds and functionaries so that the devolved functions might be effectively performed; ensuring that elected representatives of local bodies effectively wield their powers; building capacity in local bodies to undertake planning; ensuring a healthy, constructive and mutually fruitful relationship between officials appointed by the State government and elected local bodies; and providing for collective decision-making through Gram and Ward Sabhas and holding the local body to account for their performance are some of the features of a good design for local self-government. In addition, it is important to create systems and institutions for planning and delivery of public services, including the creation of information systems, and for monitoring evaluation and ensuring accountability.

Several initiatives are required to be taken to make the local governments really effective in service delivery. These include:

- ensuring participatory local level planning by the PRIs to identify needs, levels of delivery and the enhancements desired by the people in each sector;
- assigning clearly demarcated roles to the PRIs through activity mapping;
• confining centrally sponsored and State schemes to a small number of important programmes to achieve declared national and State goals and also providing adequate space for the PRIs to participate in these schemes;
• undertaking a well structured process of administrative and fiscal devolution that matches the resource availability at each level of the panchayats with functions assigned to it;
• providing capacity to the PRIs in the widest sense of the term to perform their responsibilities efficiently; and
• putting in place systems of accountability by duly empowering the Gramsabha, so that citizens, the ultimate recipients of services, are enabled to hold the PRIs accountable for any inadequacies in service delivery.

New schemes launched by the UPA government, such as the Backward Regions Grant Fund and the Planning Commission’s guidelines for the Eleventh Five-Year Plan make Panchayati Raj the *sine qua non* of planning and implementation of economic development and social justice at the grassroots. The National Rural Employment Guarantee Act not only designates the Panchayats as the “principal authority” for the planning and implementation of the National Rural Employment Guarantee Programme (NREGP), the Act itself spells out the specific duties of the Panchayats at each level with respect to the Programme, thus rendering the provisions of the Act itself the Activity Map for the Programme.

Equally, the Rural Electrification Policy, the Rajiv Gandhi Vidyutikaran Yojana, the National Rural Health Mission and the Jan Kerosene Yojana have a significant and central Panchayati Raj component. There are also some pre-UPA programmes which have now introduced the most telling amendments to bring Panchayati Raj centre-stage, such as the Sarva Shiksha Abhiyan, the Mid-Day Meal Scheme, the National Literacy Mission, the Rajiv Gandhi Drinking Water Mission and the Total Sanitation Campaign. The Ministry is engaged in discussions with the authorities concerned on such key schemes as the ICDS, schemes of the Ministry of Social Justice and Empowerment, the
legislation moved by the Ministry of Tribal Affairs on tribal forest rights and the resettlement and rehabilitation of displaced tribals, and schemes of the Department of North-East Region.

The question of Panchayats and agriculture, particularly agricultural extension services which, by and large, have fallen into disarray and without which a Second Green Revolution will be difficult to attain, especially bearing in mind the great significance of extension to the success of the first Green Revolution. There also remains considerable scope for increasing the involvement of Panchayats in Bharat Nirman programmes. It would be recalled that in his Budget speech for fiscal 2005-06, the Finance Minister had underlined the centrality of the Panchayats in making a success of Bharat Nirman. More work needs to be done to ensure this. Disaster Management is yet another area where Panchayats could be more fully utilized and trained to meet emergencies.

However moving forward with a well-designed inclusive governance would require aligning the “three Fs”: funds, functions, and functionaries in ways that make it possible to have technically effective services with both “accounting” (the capability to provide reliable budget control and reporting) and “accountability” (the ability of citizens and communities from the bottom up to hold elected officials and providers responsible for outputs and outcomes). This “activity mapping” of the three Fs cannot be done by slogans or ideology, as a functional activity mapping will vary from sector to sector, vary within sectors (e.g. hospitals versus aanganwadi), and even vary by function (e.g. asset creation versus operation), but can be informed by general principles.

However the inclusive governance will create an opportunity to unbundle responsibilities across tiers of government in order to create checks and balances in the interests of the tiers of government—so that one tier reports on the performance of another—in order to assist citizens in getting the information they need to create accountability for performance. Second, this, in creating new lines of responsibility will also create opportunities to strengthen the “demand side”—the mobilization of communities from the bottom up to demand better performance with better information and greater scope for voice and choice.
Slowly but surely, Panchayats appear to be accepted in the implementation of schemes of line ministries. New programmes such as the Rashtriya Madhyamik Shiksha Abhiyan, a programme which aims to do for secondary education what SSA has done for primary education and a basket of three programmes aimed at comprehensive agricultural development, namely, the National Food Security Mission, the Rashtriya Krishi Vikas Yojana and the Planning Commission driven Comprehensive Agricultural Development Programme are all based on the concept of grassroots level planning through Panchayats, culminating in the dovetailing of the agricultural plan into the district plan developed by the District Planning Committee.

Undoubtedly, these Sector-specific approaches are demonstrating considerable success, at least as evidenced in the accelerated progress in bridging the rural infrastructure gap. However, there is another important dimension to rapid local development that must be kept in mind. Unless we strengthen local governance by addressing the need for cross-cutting systems of participatory planning and decision-making, local taxation, audit, financial management and procurement, these impressive gains will begin to rapidly fall away. We will build expensive roads, water supply schemes and irrigation systems, but in the absence of strong Panchayats that can maintain and protect them, they will inevitably deteriorate and a few years later, we will be rebuilding them at considerable expense. Similar would be the case with programmes that focus on soft inputs rather than on infrastructure, such as the ICDS, the Sarva Shiksha Abhiyan.

Since implementation of Panchayati Raj is dependent on policies that cut across several sectors of economic development and social justice, the Government of India will now need to look at how its fiscal relationships with States through CSSs and regulatory interventions pertaining to these sectors can be used to encourage a progress on strengthening Panchayats, across the range of differing state contexts.

**Central policies and CSS reforms can be engineered to become LG friendly**
**Article 243-G** endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government for preparation of plans and the implementation of schemes for economic development and social justice. However, because of the weak administrative action for effective transfer of 3 Fs (Functions, Funds and Functionaries) these provisions have not sufficiently activated the Panchayats to function as units of local self-government. The Central Government undertakes large fiscal transfer to the states in the functional domain of the Panchayats, mainly through Centrally Sponsored Schemes (CSSs) and Additional Central Assistance (ACAs). The shortcomings that are manifest in the CSS approach as currently seen are rigid conditionalities, no consistent approach to institutional structures, obsession with financial performance, ineffective monitoring of outcomes, administrative overload on departments lead to inefficiency in processing requests for funding and delayed and lumpy releases and lack of consistency in fund transfer systems, leading to lack of transparency in releases.

Effective implementation of CSSs demands participation by users and beneficiaries in fine-tuning scheme guidelines to local situations and requirements. Clearly, any direct and upfront involvement of PRIs in the planning, implementation and oversight of CSSs, being so far run through departmental structures, does impact outputs and outcomes in a positive manner. The most important issue and the area of concern is how to ensure the CSSs and ACA relating to functions in the realm of PRIs are actually implemented by them. In order to ensure that the vast resources that GOI is making available to the CSSs would be correctly used, the responsibility of recognizing the beneficiaries must be allocated to PRIs. The broad activities that pertain to the involvement of PRIs could be as follows: Identification of beneficiaries; Enumeration of the target group using household registers of Village Panchayats; Verification of data collected from other sources against data available with PRIs; PRIs/Gram Sabhas as nodal agencies for building data bases and constant revision for maintaining updated database; Determination of optimal sites for construction through PRIs; Distribution of publicity material to PRIs and use of PRIs functionaries for awareness campaigns; Selection of projects by PRIs where micro level solutions are required; Operations, future maintenance and management (post project) by PRIs; Monitoring and vigilance should be
the responsibility of PRIs; Periodical reporting of implementation officer to PRIs; Recommendation of PRIs to be considered for training purposes; Devolution of funds through PRIs.

If each CSS clarifies what lies within the domain of local government, and if this is supported with appropriate devolution of the 3 Fs, there will be significantly less infirmity in the outcomes and impacts of the CSS. It is important to leverage the Centrally Sponsored Schemes to demarcate the tasks, responsibilities and activities that lie within the domain of local governments (rural and urban). This will encourage and motivate state governments to systematically engage in appropriate devolution of functions, finances and functionaries. More significantly, CSSs will then serve to further strengthen (for their own implementation and oversight) the third tier of elected local bodies with reference to the 73rd & 74th Constitutional amendments.

**Incentivise local government from the centre**

A key instrument available to GoI is thus to provide fiscal incentives to state governments that can encourage them to strengthen local governance, in pursuance of the national strategy. The Panchayat Empowerment and Accountability Incentive Scheme has been proposed as such an instrument. The outputs of the proposed Panchayat Empowerment and Accountability Incentive Scheme are to provide a well-designed system of incentives, which is hoped would provide an effective mechanism for the Government of India to undertake the following measures:

- Make a signal and fundamental systemic contribution to the overarching Plan objective of ‘Inclusive Growth’.
- Incentivise and support States to effectively devolve more functions, functionaries and finances to the Panchayats, apart from constituting effectively empowered District Planning Committees to fulfill their Constitutional functions.
• Encourage and facilitate States to restructure the system of self-government at the Panchayat level to achieve the Constitutional objective of making them ‘institutions of self-government’.

• Incentivise Panchayats to be transparent in their transactions and accountable to their respective Gram Sabhas and then to motivate and assist Panchayats to use their newly enlarged responsibilities in an efficient, honest, focused and productive manner so that a much larger share than at present of the vast resources being made available for rural development and welfare reaches the targeted beneficiaries and attains the targeted objectives, including, particularly the Bharat Nirman targets and the National Millennium Development Goals.

• Ensure that Panchayats achieve standards that meet norms set out for public accountability including public financial accountability, both upward as well as downward to the people. This would particularly cover responsibilities and obligations under various legislations such as those relating to Right to Information, Social Audit, and Fiscal Responsibility.

• The Outcomes of the Scheme would be the greater effective devolution of, functionaries and finances by the States to the Panchayati Raj Institutions and making the DPCs and PRIIs the fulcrum for the planning and implementation of economic development and social justice. Moreover, the Scheme aims at empowering Gram Sabhas to effectively monitor and exercise vigilance over the work of their elected representatives to secure both effectively gains in service delivery by the Panchayats and promote transparent, responsive and accountable grassroots development through grassroots democracy.

There can be an overall incentive based grant to states linked to their movement along a panchayat empowerment index. Operating and monitoring, a competitive CSS approach could be a main activity of the central ministry of PR.

There should be a clear structure of budgeting of the Panchayats (which does exist in some cases) and a mechanism for checking how the actual expenditure matches with the budget proposal (which generally does not match and there is inadequate
mechanism to check). This will require creation of head of account for Panchayats to broadly define the nature of work as well as the source of fund. In that context when it is spoken about functioning of the subcommittees/standing committees, each such committee should have its budget (to be approved by the general body) and the committee will have a financial limit to spend within the budget without seeking further approval. There should also be a structure of preparing an annual report with certain essential disclosure norms. Issues related to availability of functionaries related to the transferred scheme may be elaborated a little more.

Capacity building support to elected PRI representatives

The need for providing capacity building support to elected PRI representatives and officials working on local governance process has been emphasised in many state and national forums. However, its relevance needs to be firmly located within the above context. Keeping that in mind, the key rationale for capacity building is:

- Given the existing social inequalities, it is imperative to help particularly the women, scheduled caste and scheduled tribes fight this disadvantage and enable them participate in the local government processes with confidence. The training and capacity building initiatives will not even out the terrain, but can equip the participants to better navigate through it and expand spaces for democracy and equality.

- Keeping in mind the fact that a majority of entrants to local government system continue to be first time entrants there is a strong need to recontextualise their skills, experience, equipping them with appropriate information and updating their knowledge base.

- Locating the local government system within the spirit of the 73rd amendment, capacity building efforts are also required to be able to create a cadre of local leadership that is capable of transforming the conditions of inequality and injustice within which much of the country still lives.

At the same time, for most of the Government officials, the concept of devolution is new. Decentralisation and devolution require different ways of working, and they need as
much training to re-orient their attitudes and perspective such that they can enable effective local government functioning.

It is particularly emphasized that the strengthening of grassroots level self-government is in itself a public good recognized and highlighted by the Constitution and endorsed by the Eleventh Five Year Plan reinforced by the detailed guidelines on district planning issued by the Planning Commission in August 2006. A well-structured and empowered Panchayati Raj system will translate into substantial efficiency gains in service delivery, particularly through convergence, and critically contribute to the universally accepted goal of ‘Inclusive Growth’, which has not been the case thus far in the stand-alone social sector schemes delivered through administrative silos insulated from one another and structurally inimical to attempts at convergence. We expect that the Panchayat Empowerment Incentives Scheme would incentivise State Governments to exponentially accelerate the devolution of powers and responsibilities to Panchayati Raj Institutions at all three levels in line with the provisions of Article 243G read with the Eleventh Schedule of the Constitution, and in broad conformity with the conclusions of the seven Round Tables and bilateral Statements/MoUs signed between the Union Minister of Panchayati Raj and Chief Ministers of States, and to match such devolution of functions with the devolution of funds and functionaries on the pattern of the activity map for Functions.

Such inclusive governance, besides ensuring political empowerment, through enabling people to control their own destiny, would also yield significant inclusive growths. When grass-roots planning processes strikes deep roots, economic empowerment is both strong and sustainable. Social empowerment through inclusive governance would help safeguard social, ethnic and cultural values of people, which in turn would lead to building trust of their governments in tribalcommunities. Active participation of people in the political processes and in grassroots planning will bring about the desired transformation of the region by establishing peace and setting in motion the wheels of progress towards prosperity.
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