

## CHAPTER 6

### OBSERVATIONS AND CONCLUSIONS

6.1 As discussed, UTs of Andaman and Nicobar Island, Daman, Diu, Dadra Nagar Haveli, and Lakshwadeep are a heterogeneous group of UTs having diverse social and economic traits. They differ widely in per-capita income as well as other indicators of economic and human development. Individual fiscal profile of these UTs also differ in terms of their own resources and the quantum of grants received from the centre in absolute as well as in per-capita terms. The level of fiscal decentralization and the amount of resources devolved to individual UTs also vary. Individual chapters assessed the resources of the UTs and the level of fiscal decentralization in terms of the share of UT resources devolved to the local bodies and the actual functioning of the local bodies as institutions of local self governments.

6.2 The Finance Commission toured the four Union Territories and met all the concerned officers in the administration as well as members of the local bodies. It even met the members of Parliament representing these territories and had discussions with them. The general impression coming out of this exercise was that Panchayati Raj institutions and the urban local bodies were being acknowledged as one of the players in the administrative set-up after the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments. However, a lot of follow-up measures are required to make the local self-government bodies vibrant, strong and dynamic and above all a true institution of local self-government.

6.3 The First and Second Finance Commission laid down certain guidelines and suggested important recommendation to be followed so that the local self governments become truly the institutions of local development and provisioning of public services as mandated in the Constitution. Third Finance Commission has noted that some of the recommendations of its predecessors have been carried out while other recommendations have been watered down. The end result is that the Panchayats and Municipalities are struggling for funds, functionaries and functions, with abysmally low level of fiscal autonomy. However, it is not as if nothing has been done but rather a lot remains to be done.

6.4 A plethora of functional responsibilities have indeed been transferred to the to the local self-government institutions in all the four UTs. However, the corresponding follow up in terms of adequate and relevant powers to these bodies equipping them with adequate staff and most importantly providing them with sufficient funds is now required.

6.5 The most important point noted by the Finance Commission was the absence of a clear role for the functioning of the Panchayati Raj institutions. The Government departments and the PRIs were often performing overlapping functions. There seems to be a lack of clarity about the role to be followed by the government departments and the local self government institutions. There is a marked reluctance to transfer staff and funds to the Panchayats. Thus many functions statutorily listed to be performed by Panchayats are being planned and implemented by the government departments. This needs to be changed. A change in the mindset of the bureaucracy will be required for successful implementation of the decentralised system of government. It can best be described as indifferent if not a little suspicious and condescending. The impression gathered is that the Panchayats and Municipalities have to be tolerated and kept in good humour. Most of the bureaucrats felt that the performance of the Panchayats and Municipalities was not satisfactory, which probably may not be true given the roles performed by the local level institutions within the existing constraint of resources, whether it is revenue resources or manpower.

6.6 The Finance Commission held meetings with members of Panchayats and Municipal Councillors in all the four union territories. The members cutting across party lines and in all the diverse union territories were unanimous in their opinion that more funds need to be devolved to their institutions. They were rather critical of the role of government and felt they were being denied their legitimate rights by starving them of funds. Indeed one Senior Panchayat functionary openly declared that his institutional body was merely a money distributing mechanism. He felt no meaningful work could be done with the little money available and also due to the paucity of staff.

6.7 The staff strength in both the Municipalities and Panchayats is relatively less vis-a-vis the devolved function and the local bodies find it difficult to cope up with the tasks at hand. This is most acute at the village Panchayat level. This needs to be dramatically changed. Also in most cases the staff is still controlled by their parent department and often the Panchayati Raj functionaries have no knowledge about the officials working with them. This leads to lack of accountability. Staff strength has to be increased in these local self government bodies. The ground reality is that most of the staff in the various Panchayats and Municipalities are merely working in a diverted capacity and are still controlled by their departmental heads. This leads to a lack of control over the staff by the Panchayat and Municipal authorities.

6.8 The stark reality is that even though twenty nine functions have been transferred to the local bodies in 2006, this is not compatible with the position prevailing on the ground. Most of the schemes are still being executed by the administrative departments. A large number of Panchayat members felt that even those schemes which were devolved to the local bodies had little relevance to the lives of the people. They wanted more meaningful schemes to be planned and implemented at the local level the Panchayats. This is a serious issue and needs serious remedial measures. More power to local bodies helps to bridge the perception and credibility gap between the bureaucratic machinery and the ordinary citizen.

6.9 As evident from our analysis, the share of resources devolved to the local bodies in total budget of the UT administration is miniscule. If we take 2008-09 as the reference years, the share of local expenditure in the UT budget is highest in Daman and Diu (5.8 per cent), followed by, Lakshadweep (4.52), Andaman and Nicobar (4.26 per cent) and Dadra Nagar Haveli (3.54 per cent). In per-capita term, if we look at, such disparities are even more glaring.

Table 6.1: Share of Local Bodies Expenditure in UT's Expenditure

	(In Per cent)			
	Daman & Diu	Dadra Nagar Haveli	Andaman & Nicobar Island	Lakshadweep
2002-03	2.55	1.73	7.37	4.02
2003-04	4.13	2.66	6.97	1.62
2004-05	5.31	2.59	7.68	2.01
2005-06	6.98	2.40	7.80	4.90
2006-07	5.77	2.48	7.88	3.32
2007-08	5.16	3.12	6.83	3.30
2008-09	5.80	3.54	4.26	4.52

Source of Basic Data: Communications from UT administration to the Finance Commission

6.10 The expenditure-decentralization ratio shown in Table 6.1 clearly brings out the subordinate position of the local bodies in terms of size of government expenditure and the level of decentralization. Not only that their expenditure levels are low, most of these expenditures are tied and decided from above, which is against the principle of decentralization.

6.11 Before deciding on the devolution of resources, the Commission in conclusion also needs to highlight the challenges with regard to large scale devolution of resources to the local bodies in these UTs. Even to-day they are fledgling set-ups and lack vitality and vigour to take on onerous responsibilities. They are short of administrative, technical and even book-keeping expertise. These institutions have to be nourished and gradually built up through extensive capacity building exercise.

6.12 There is a lack of data base which hinders goods planning and execution of projects. The records kept by the local bodies are in poor shape and audit inspections have revealed huge irregularities and the audit is not done in regular basis. This has led to charges of wrongdoing and even in certain cases falsification of records and defalcation. As the cacophony in certain extreme cases gets louder, charges and counter-charges are traded. Also the bane of local-self government is politicking and factional infighting. The Commission in its travels in the various UTs encountered this problem frequently. On occasions charges and counter-charges were traded by the members of these august bodies in front of the Commission's representatives. It was not an edifying spectacle.

The Commission recommends that dedicated grants be provided to each Panchayat for computerisation, creation of data bases and other related records for greater transparency in the functioning of these institutions.

6.13 Given these challenges, we need to design a system of transfers free from adhocism and arbitrariness and which gives a positive impetus to the process of decentralization. In deciding its recommendations for the transfer of resources from the UTs to the local governments, the Commission has made an attempt to balance the objective of equity, efficiency, autonomy and fiscal discipline. It is to be pointed out that due to the inadequacy of up-to-date and reliable data, we have not adopted the gap filling approach. It is also difficult to estimate the revenue gaps when the local bodies are functioning at the sub-optimal level without any clear assignment of functions and finances.

6.14 It is to be noted that fiscal position of the local bodies cannot be treated in isolation and must be considered within the overall fiscal framework of the country, especially the finances of the UTs and that of central government. The terms of reference have mandated that the Commission shall, among other considerations, be guided by the objectives of balancing the receipts and expenditure on revenue account of the Andaman and Nicobar Islands, Daman & Diu, Dadra and Nagar Haveli and Lakshadweep and their Panchayats and Municipalities in a manner that sufficient surplus is generated for capital investment.

6.15 The Commission has, therefore, attempted to balance the fiscal requirements of the local bodies with that of the UTs, keeping in view the overall fiscal constraints of the central government. It needs to be emphasized that the local bodies should note that the transfers recommended by the Commission are meant to enhance their fiscal position and not substitute their existing sources of revenues. Local bodies should make sustained efforts to increase their own revenue base and efforts to become fiscally more autonomous.

6.16 The Commission also felt that the aggregate expenditure of all these four UTs constitute less than 0.5 percent of Central Government expenditure and often the UTs have complained that their approved plan outlays are much less than their actual requirement. The Commission felt that there is

some merit in their argument and proposes that given their special needs and requirements, approval of the UT plan would require careful consideration by the government based on objective norms and principles. Larger and efficient development plan would also mean greater devolution of plan funds at the local level and in turn greater degree of decentralization