

## **"Fiscal Decentralisation in Kerala: Participation and Accountability of Local Self-Governments".**

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**Abstract:** *In India, fiscal decentralisation is currently emerging as the concept of academic debate and policy interest. The fiscal decentralisation is considered very important and it is necessary in a country or a state for its economic benefits, enhanced political and financial accountability and improved effectiveness. In addition, there are some issues like declined investment in social infrastructures, macro-economic instability and increased horizontal inequities and conflicts. In this study, the fiscal decentralisation in Kerala has been analysed with respect to the participation and accountability of local government. The aim of the research is to investigate in detail about the fiscal decentralisation in Kerala in terms of participation and accountability of local self-governments. Therefore, the main objective of this studies that to analyse the participation and accountability of local government (Gram Panchayats) in fiscal decentralisation in Kerala. This study uses the secondary data for the analysis and do not include the primary data. This study adopts the positivism research approach. It is inferred from the study that the expenditure is more than the revenues in Kerala, which leads to deficit. In addition, there is a gap in the minimum and the maximum allocation of local governments in each district of Kerala. This could be rectified by means of increasing the standards of accountability and participation of local self-governments in Kerala by means of introducing innovative tools of responsibility in Kerala.*

**Keywords:** *Accountability, Fiscal decentralisation, Kerala, Local Government, and Participation*

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### **I. Introduction**

According to Rajasekharan (2008), in 1992, 73<sup>rd</sup> and 74<sup>th</sup> Constitutional amendments (CA) were brought for building a government's third stratum or in other words two-tier federal system. Such attempt is made to create local self-government institutions with the compulsion to plan for social justice and economic development, fiscal decentralisation (FD) has emerged as a concept of policy interest and academic debate in India. FD is important in the rural region, with an appendage of departments of rural development with certain bureaucratic decentralisation in the period of pre-amendment situations in few states. West Bengal and Karnataka had constituted some progress in terms of decentralisation, but such progress was more political rather than the fiscal. However, Karnataka state was a pioneer in establishing the institution of state finance commission (Issac and Thomas, 2004). For instance in Kerala, democratic decentralisation has become a concept or phenomenon related to the post-amendment. The factor that differentiates Kerala from other Indian state is the big-bang approach. This approach strategy was mainly followed to adapt an important program related to FD and then "learn by doing".

Oommen (2006) refers that Kerala has 991-gram panchayats or villages (GPs/VPs), 152 block panchayats (BPs) or intermediate level panchayats and 14 District Panchayats (DPs). Village panchayat level includes powers of revenue that increases as well as interacts by statute with the assembly of citizen and is known as gram sabha (GS). The GP is seen as the only real local self-government level in rural areas. The BPs and DPs came into usage in Kerala during the year 1996. They do not involve any revenue raising powers and rely fully on grants from state and central governments.

### **Literature review**

Aziz et al (2002) refers that the decentralisation is referred as a transfer process of resources and competences from the central or national administration of a particular state to the sub national administrations that are local, regional in the constitutionally Unitarian countries, municipal, and state in the federal countries. Moreover, public finances decentralisation needs, an existing condition, in which country is categorized into smaller or inferior units, each of the needs include its corresponding local and/or regional governments and they are closely relevant to the central government or superior unit. A country undergoes a process of decentralisation when it is territorial or sub national administrations are powered with an important powers series that needs, adequate and timely availability related to the end financial resources. Due to that reason, issues regarding intergovernmental fiscal relations become a significant aspect in viewing the implications with

respect to equality and efficiency of public sector in the distribution and assignment of the resources and powers within a state. The fiscal decentralisation means the devolution of responsibilities and power of the central (national) government towards the local (sub – national) governments. Accomplishing the macroeconomic stability, economic equality and efficiency could be well – thought – out among the principle concerns of issue for fiscal decentralisation (Rodriguez et al Eds. 2009).

According to De Mello (2000), in India decentralisation is functioned to the smallest habitation unit such as villages; whereas their functions and resources are limited. At the same time, substantial resources are devolved or increased further to next level such as states; the third tier will be suffering from inadequacy of resources. CA gives illustrative functions lists that encompass suitable functions for local governments; ultimately, they do not fund mandates. CA mentioned it compulsory to appoint SFC once in every 5 years to make amendments and suggestions in terms of fiscal transfers from the state government to the local bodies.

Devarajan et al (1996) describes that decentralisation degree in any country is complex to quantify. FD included by the sub-national expenditure share in local government expenditure and total expenditure as percentage of country's GDP. Such indices does not include the governance structure for understanding the power degree in making decision that are vested at the local bodies over functions of expenditure.

### **1.2 The benefits and the risks of fiscal decentralisation**

#### **Economic Benefits:**

Raymond and Gatti (2002) and Ebel et al (1997) point out that it is the notion that is associated with enhanced efficiency in the public resources usage and it can also be linked to raise the competition for better usage of public resources. FD promotes competition among sub national governments to maximize the service delivery and to limit the taxing power.

#### **Improved political and financial accountability:**

This accountability that increases the authority at the level of sub-national government also raise the accountability related to democratic by providing citizens greater chances for participation and input. Moreover, the services related to sub-national are financed through own values for revenues, the people like to determine sub-national authorities (Raymond and Gatti, 2002).

#### **Improved effectiveness:**

This is related to the decentralisation since it shows the subsidiary principle that is the argument where the functions of government are conducted at lowest level and it performs such type of functions efficiently and effectively. This is associated with the decentralisation that result in enhanced delivery for service due to the local officials, when compared with the central government, because of their local knowledge needs and the incentive to adapt such information, are better built for responding to local variations in requirements and standards for infrastructure and services. For satisfying these local needs, decentralisation also boosts innovation and experimentation in service delivery and public policy, as individual jurisdictions include the freedom and incentive for developing and implementing new approaches or include incentives for copying successful sub-national governments (Devarajan et al, 1996).

#### **The potential issues of inappropriately designed FD are summarized as follows:**

##### **Macro-economic instability:**

FD can occur macro-economic instability since it is in a system of fiscally decentralized, the central government control over public resources are not relevant. In such type of framework, debts related to sub-national include national repercussions and at the same time, central government cannot responds to the economic shocks that introduce fiscal or monetary policies (Devarajan et al, 1996).

##### **Declined investment in social infrastructures:**

According to Raymond and Gatti (2002), Sub-national governments are relevant to their constituencies and they are competing among themselves. Sub-national governments are accountable to their constituencies and compete among themselves to maximize the spending while minimizing taxing. Thus, sub-national governments, in deciding to undertake a particular activity or project, consider the cost of their decision. Therefore, they tend not to invest in social infrastructures (e.g. regional roads) whose benefits go beyond their geographical boundaries.

##### **Increased horizontal inequities and conflicts:**

Sub-national governments will be different in terms of level of economic activities, natural resources, size, revenue capacity and population. Thus, some jurisdictions of sub-national will generate more revenue rather than others and give to their people better or more quality services rather than provided in poorer

governments of sub-national. Inequalities of inter-sub national will reinforce politically destabilizing forces (Raymond and Gatti, 2002).

## **II. Relevance of the study**

The fiscal decentralisation involves the decentralisation of funds and the process of dispersing or redistributing allocated finances away from the central authority or location. It is necessary for each country and each state to decide the preferred range of decentralisation based on its competences and functions and regulates the most adequate and suitable financing appliances to be much more enhanced (Chakraborty and Lekha, 2006c). This study helps in understanding the fiscal decentralisation in the state of Kerala, its various features and the strategies to enhance the participation and accountability of the local governments in the fiscal decentralisation of the state. The fourth SFC recommended for devolution of 25-30 per cent or more of state plan funds to local governments and fixed 3.5 per cent as general-purpose grant and 4.5 per cent as maintenance grant.

### **2.1 Research problem**

The fiscal decentralisation indicates to the dimension of public finance of the intergovernmental associations. Specifically, it addresses the reorganization of the expenditure functions system and the source of revenue transfers to the sub – national governments from the central governments (Rao, 2006). This is the key constituent of any of the decentralisation programme. Deprived of suitable fiscal empowerment, the self - sufficiency of the sub – national governments could not be authenticated and, in this mode, the complete prospective of decentralisation could not be recognized. The fiscal decentralisation in a state helps in improved efficiency, enhanced financial and political accountability and enhanced effectiveness of the government activities. However, the fiscal decentralisation agenda for the local level governing institutions was disturbed because of the prevailing institutional and political compulsion. Because of that, the resource transfers from state to local bodies also got disturbed. Therefore, this study intends to analyze the fiscal decentralisation in Kerala, the participation and accountability of the local self – governments.

## **III. Aim and Objectives of the study**

The aim of the research is to investigate in detail about the fiscal decentralisation in Kerala in terms of participation and accountability of local self-governments.

### **3.1 Objectives**

The following are the objectives of the study.

1. To analyse the concept of fiscal decentralisation
2. To examine the fiscal decentralisation and its importance with respect to Kerala
3. To analyse the participation and accountability of local government (Gram Panchayats) in fiscal decentralisation in Kerala
4. To suggest various strategies for the enhanced management and increased accountability of local government in the fiscal decentralisation in Kerala

## **IV. Research Methodology**

Research methodology (RM) interprets the strategy that is implemented by the researcher to carry out the research. Analysis is a combination of research approach and research paradigm (Cherryholmes, 1992). This research adopts quantitative research. Neuman (2000) refers that quantitative research adopts some of the tools namely questionnaires, surveys and other equipment for gathering information about numerical or measurable data. Such type of research gauge the people feel, attitudes, think and act in a specific way. It encompass in the numerical data analysis. It is used mainly for providing a perfect picture regarding topic like tables and charts. This kind of approach performing a survey or in examining official statistics and it determines what is bad and finds it. This study uses the secondary data for the research and do not include the primary data. This study adopts the positivism. Positivists think that reality is stale and can be described and observed from an objective point of view (Levin, 1988) that is without interrupting with the idea being studied. For this particular data analysis excel is used.

### **4.1 Data collection and analysis**

Apart from the brief term of the district councils during the early period of 1990s, Kerala possesses the gram panchayat system. The village panchayats in Kerala possesses an equally good revenue base. Their receipts include revenue of own tax from the taxes that are assigned by the government of state but gathered and appropriated by the panchayats (Chakraborty, Lekha and Amaresh Bagchi, 2007). The taxes are assigned to the panchayats but are collected by the government of state and passed on to them; the non – tax revenue, shared

taxes, grants in assistance from the government of state; loans from the financial institutions or the state governments; and the funds acquired for the centrally sponsored schemes.

### V. Analysis

When the system of fund flow of panchayats is considered, the financial and functional devolution succeeding the execution of 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Act in the state perhaps have been too radical and quick. Still, the accounting system and financial flow has been in the evolving process. In Kerala, the Gram Panchayat prepares the budget and annual financial statements are based on the strategies of Kerala Panchayat Raj Act (1994). The grants of state government to the local bodies includes plan and non – plan categories. The non – plan grants have been broadly separated into non – statutory and statutory grants. With the increased growth of economy, the prospects for sound performance of the finances of State of Kerala are bright. The following table 1 provides the growth rate of different indicators of the finances of state.

**Table 1: State finance profile (Rs. In crores)**

Items	2007 - 08	2008 - 09	2009 - 10	2010 - 11	2011 – 12
State tax revenue	13669	15990	17625	21722	25718.6
State non – tax revenue	1210	1559	1852	1931	2592.19
Central government transfers	6228	6963	6632	7338	9699.58
Capital receipts	6154	6232	8000	7807	12284.22
Overall receipts	27261	30744	34109	38798	50294.85
Non – plan expenditure	22711	25441	27283	31510	41754.09
Plan expenditure	4549	5462	6785	7281	9141.99
Fiscal deficit	-6100	-6346	-7872	-7730	-12814.8
Total debt	55410	63270	70969	78673	89418

Source: Appendix IV, Budget Documents (2007-12), Kerala

It is inferred from table 1 that the state revenue from the tax and non – tax has been increased from over the period of study from 2007 – 08 to 2011 – 12. The central government contribution to the state of Kerala maintains on an average range around 6000 crores while it was increased to about 32 percent during the year 2011 – 12 compared to the previous year 2010 – 11. On the whole, the total receipts of the Kerala state increased over the period of study from Rs. 27,261 crores during the year 2007 – 08 to about Rs. 50,294.85 crores during the year 2011 – 12. In the same way, the expenditure of the state also increased, and sometimes the expenditure exceeds the receipts, which lead to the deficit of the state. In addition, the overall debt expressed a gradual increase over the recent years. A close look at the States tax revenue, according to available indicators, the performance record of the rural local bodies in the State, mainly from 1997-98 to 2001-02, the GPs itself collected and transferred Rs.414.70 crores. In the light of this data, the accountability of the GPs has no other option, identify and mobilise the resources and fully utilise them productively.

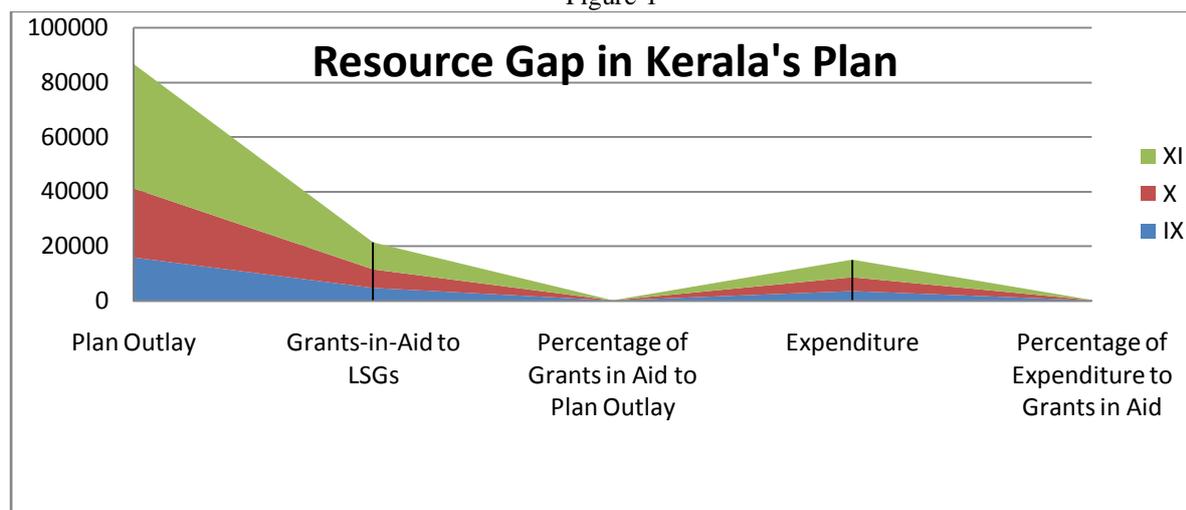
The proposed outlay, the states resources in the successive three five-year plans are summarized in Table 2: Evidently, in the past five year plans, the resource gap has been substantial.

**Table-2 Resource Gap in Kerala's Five Year Plans (Rs. In Crores)**

Plans	Plan Outlay	Grants-in-Aid to LSGs	Percentage of Grants in Aid to Plan Outlay	Expenditure	Percentage of Expenditure to Grants in Aid
IX	15755.00	4614.00	29.29	3451.77	74.81
X	25306.68	6784.00	26.81	5071.73	74.76
XI	45580.47	9896.97	21.71	6445.13	65.12

Source: Economic Review 1997 to 2012, GoK

Figure-1



Data extrapolated from the Economic Review, various years, GoK

The following table 3 shows the fiscal indicators as the percentage of Gross State Domestic Product (GSDP).

**Table 3: Fiscal indicators of GSDP in Kerala (In percent)**

Items	2007 - 08	2008 - 09	2009 - 10	2010 - 11	2011 - 12
Total revenue	12.05	12.09	11.24	11.19	12.06
Total expenditure	15.05	14.75	13.65	13.73	15.83
Revenue deficit	2.16	1.83	2.16	1.33	2.55
Fiscal deficit	3.48	3.13	3.39	2.79	4.07
Primary deficit	1.01	0.83	1.11	0.74	2.07
Total debt	31.64	31.2	30.54	28.4	28.37

Source: GoK Budget in Brief various years

When the fiscal indicators of the Kerala state is considered, the overall revenue during the period of study, showed a slight decrease during the years 2009 – 10 and 2010 – 11, but it got increased to about 12.06 per cent during the year 2011 – 12. On the other hand, when the expenditures are considered, it is more than the revenue of the state during all the years of study. This leads to the revenue deficit to about 2.16 per cent during the year 2007 – 08 to about 2.55 per cent during the year 2011 – 12 and the fiscal deficit of about 3.48 per cent during the year 2007 – 08 to about 4.07 per cent during the year 2011 – 12. This leads to the total debt of about 31.64 per cent during the year 2007 – 08 to about 28.37 per cent during the year 2011 – 12.

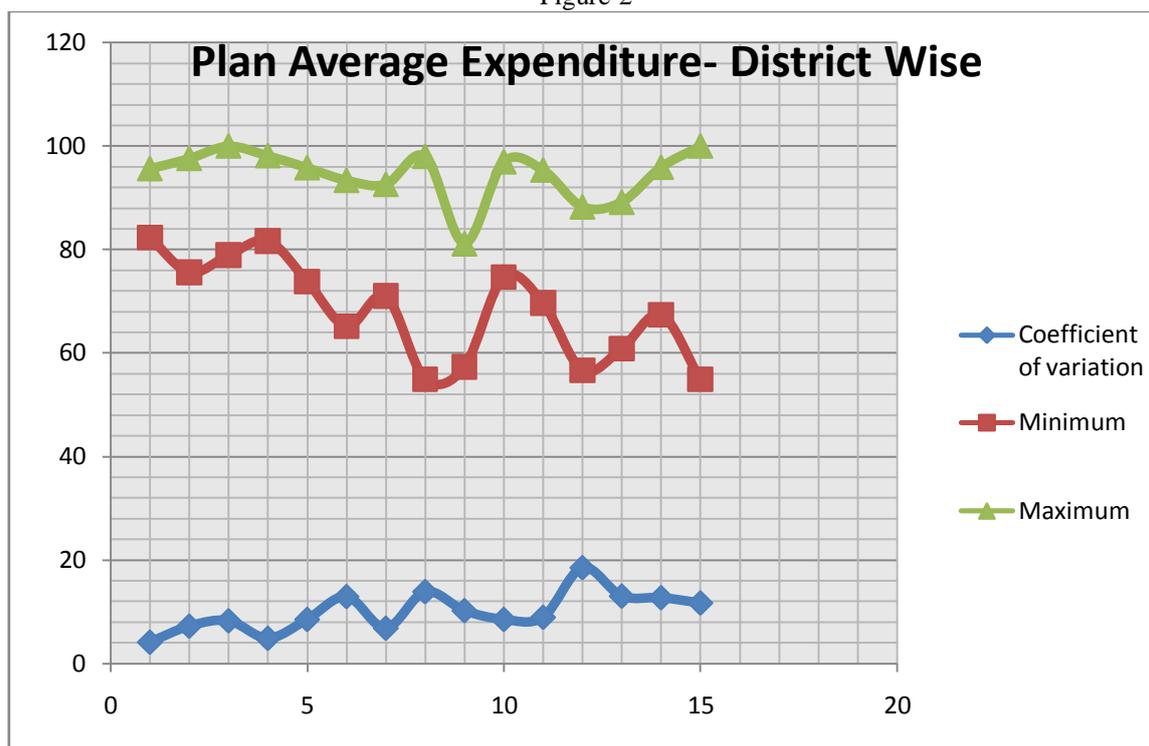
When the district – wise fiscal distribution for the year 2011 – 12 is considered (shown in table 4), there is wide gap between the maximum and minimum range of expenditure of gram panchayats of Kerala. This gap broadens over the years as a whole for the state. Provided the variation among the panchayats with concern to the fiscal capabilities and resource endowment, the variability of inter – panchayat broadens in a dynamic background.

**Table 4: District wise plan average expenditure in Kerala, 2011 – 12 (in percent)**

Districts	Coefficient of variation	Minimum	Maximum
Thiruvananthapuram	4.09	82.29	95.64
Kollam	7.2	75.59	97.61
Pathanamthitta	8.24	78.9	100
Alappuzha	4.84	81.65	98.15
Kottayam	8.5	73.81	95.82
Idukki	12.94	65.15	93.39
Ernakulam	6.8	70.99	92.62
Thrissur	13.89	54.92	98
Palakkad	10.21	57.29	81.17
Malappuram	8.5	74.69	96.95
Kozhikode	8.92	69.67	95.38
Wayanad	18.55	56.65	88.27
Kannur	13.03	60.82	89.17
Kasargod	12.73	67.38	95.92
State average	11.70	54.92	100.00

Source: Computed and compiled by GoK Budget Documents, 2011-12

Figure-2



Data extrapolated from the Budget Documents, 2011-12, GoK

### 5.1 Findings and summary

The overall record of the state government in the sector of taxation is not very weak; this depicts the GPs limited financial autonomy and comparatively low-level income per capita obtained in the local bodies. In 1997-98 to 2011-12, the consecutive three Five Year Plan period, (Ninth, Tenth and Eleventh), per capita tax revenue at current prices increased from 1997-2002, the growth rate of the State tax was 2.29 percent only. When it comes to the year of 2007, it showed 3.5 percent increases. The overall tax revenue of the State for the last decade has grown 15.78 percent annually.

It is inferred from the study that the expenditure is more than the revenues (both state and the central allocations) in Kerala, which leads to deficit. In addition, the minimum and the maximum allocation of local governments in each district in Kerala maintain a gap and this creates a wide gap in the state average expenditures. This could be rectified by means of increasing the standards of accountability and participation of local self-governments through avoiding the prevailing political and institutional disturbances in Kerala. Innovative tools of responsibility could be introduced in Kerala like the social audit by means of authorization of gram sabha, monitoring committee and neighbourhood committee; doing the performance audit; beneficiary committees in order to implement public works system. In addition, transparency could be introduced by means of discussing the right to information on the citizens; through suggesting strategies for the choosing of beneficiaries; offering for the individual's charter. In Kerala, recent years, a high revenue deficit reveals that a fall in efficiency of resource mobilisation and transfers and the growth in expenditure in all sectors.

In addition, a watchdog institution could be created, in order to make sure the fair play in the panchayats' functioning. It will resolve the transparency issues like budget, accounting and audit performance, etc... There should be an inter-local body comparison of performance, efficient use of resources, participation in grama sabhas, etc...

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