



## Towards Effective Democratic Decentralisation

*This editorial is based on “[Decentralisation: Failures at the State level](#)” which was published in The Hindu on 09/03/2025. The article brings into picture the severe financial constraints faced by Panchayats due to weak devolution, excessive dependence on central schemes, and poor fund utilization.*

**For Prelims:** [Panchayats](#), [Democratic decentralization](#), [73rd and 74th Constitutional Amendments](#), [Urban Local Bodies](#), [Directive Principle of State Policy](#), [K. Santhanam Committee](#), [Ashok Mehta Committee](#), [11th Schedule](#), [15th Finance Commission](#), [Municipal bonds](#)

**For Mains:** History of Democratic Decentralisation in India, Key Issues Hindering Effective Democratic Decentralisation in India.

Despite constitutional provisions, [Panchayats](#) face severe financial constraints due to **weak devolution**, excessive dependence on controlled central schemes, and **inefficient fund utilization**. Institutional weaknesses, including poor tax collection capacity, lack of borrowing power, and inadequate financial transparency, further cripple **Panchayat effectiveness**. The path forward requires reimagining our governance model beyond the **rural-urban binary to create systems that genuinely deliver services and move towards effective [democratic decentralization](#)**.

## What is the History of Democratic Decentralisation in India?

- **About:** Democratic decentralisation in India has evolved over centuries, transitioning from colonial-era local administration to constitutionally mandated self-governance structures.
  - The [73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments \(1992\)](#) marked a watershed moment, providing legal recognition to Panchayati Raj Institutions (PRIs) and [Urban Local Bodies \(ULBs\)](#).
- **Early Developments in Local Governance (Pre-Independence Era):** Even during British colonial rule, local self-governance was recognised as an administrative necessity, though in a highly **centralised and limited** manner.
  - **Key Milestones in Pre-Independence Decentralisation**
    - **1882 - Resolution on Local Self-Government:** Initiated by **Lord Ripon**, this resolution laid the foundation for municipal governance in India, advocating for more autonomy to local bodies.
    - **1907 - Royal Commission on Decentralisation:** Recommended **strengthening rural governance through village panchayats**, but implementation remained weak.
    - **Constitutional Debates on Decentralisation (1948):** While **Gandhi advocated Gram Swaraj (self-rule) as the foundation of democracy**, Ambedkar raised concerns over panchayats being controlled by dominant castes.
      - The final Constitution only included local governance as a [Directive](#)

**Principle of State Policy (Article 40)** rather than a mandatory provision.

- **Post-Independence Developments in Democratic Decentralisation**
  - **Phase 1: Initial Reforms and the Three-Tier Panchayati Raj Model (1950s-1970s)**
    - **1957 - Balwant Rai Mehta Committee**: Recommended a **three-tier Panchayati Raj system** with elected bodies at village, block, and district levels. This led to the establishment of PRIs across various states in 1959.
    - **1963 - K. Santhanam Committee**: Suggested that PRIs should have **limited taxation powers** and recommended setting up **State Panchayati Raj Finance Corporations** to enhance financial autonomy.
    - **1978 - Ashok Mehta Committee**: Highlighted issues such as **bureaucratic resistance, political interference, and elite capture** of PRIs. Recommended making **districts the primary administrative unit of governance**.
    - While some states like **Karnataka, Andhra Pradesh, and West Bengal** adopted reforms based on these recommendations, decentralisation remained **incomplete, with state governments retaining excessive control over local bodies**.
  - **Phase 2: Strengthening Local Governance (1980s-1990s)**
    - **1985 - G.V.K. Rao Committee**: Recommended **greater autonomy to PRIs** and **empowering Block Development Offices (BDOs)** for rural development planning.
    - **1986 - L.M. Singhvi Committee**: Advocated **constitutional recognition** for PRIs and **Gram Sabha as the foundation of grassroots democracy**.
    - **1992 - The 73rd and 74th Constitutional Amendments**: Established **constitutional status** for rural and urban local governance.
    - These amendments marked a **turning point** by introducing **mandatory elections, reservations, fiscal devolution, and planning responsibilities for local bodies**.

## What are the Key Issues Hindering Effective Democratic Decentralisation in India?

- **Fiscal Dependence and Weak Revenue Autonomy: Panchayats and Urban Local Bodies (ULBs)** lack financial independence, relying on unpredictable state and central transfers, limiting their ability to plan and execute projects effectively.
  - The absence of **robust own-source revenue generation**, poor tax collection mechanisms, and state control over key revenue streams further weaken their fiscal capacity.
  - Even **State Finance Commissions (SFCs)**, mandated to recommend devolution every five years, are either delayed or their recommendations remain unimplemented.
  - The **2024 "Status of Devolution to Panchayats in States Index"** highlights that own-source revenue contributes only **5-10% of Panchayat expenditure**.
    - The RBI report highlights that while urban areas generate **60% of India's GDP**, municipal corporations receive **only 0.6% of GDP in revenue**.
- **Political and Bureaucratic Centralisation**: Despite constitutional recognition, real authority remains concentrated in state governments, with **local bodies often reduced to implementing agencies** for centrally and state-sponsored schemes.
  - The transfer of **29 subjects under the 11th Schedule** remains **inconsistent**, as State governments hesitate to cede control, restricting Panchayats' decision-making authority.
  - This creates a structural contradiction where local governments are held accountable for service delivery but lack the power to execute decisions effectively.
    - **District Planning Committees (DPCs)** exist but are not effectively implemented.
- **Excessive Reliance on Centrally Sponsored Schemes**: Local governments lack discretionary spending power as funds are largely tied to **centrally designed schemes, reducing flexibility in addressing local needs**.
  - The mismatch between local priorities and centrally dictated projects leads to inefficiencies and **underutilization of resources**.
    - For instance, PMAY-G was launched in 2016 aiming for housing for all in rural India,

but only **41% of funds remain unutilized due to delays**, slow construction, and land availability issues.

- **Weak Accountability and Transparency Mechanism:** Local bodies suffer from **poor financial accountability, lack of independent audits**, and limited public participation in governance.
  - Corruption and the reluctance to **impose taxes for electoral gains weaken Panchayat finances** and opaque decision-making undermine democratic decentralization.
    - The recent RBI report highlights a performance gap in Panchayat finances, with tax revenue at just **1.1% and non-tax revenue at 3.3% of the total**.
- **Structural Weaknesses in State Finance Commissions:** State governments often delay constituting SFCs, and even when formed, their **recommendations are either ignored or not implemented in letter and spirit**.
  - Unlike the Central Finance Commission, most states **fail to adhere to the constitutional obligation of constituting State Finance Commissions** at regular intervals.
    - The failure to institutionalize a robust SFC framework has **weakened the financial independence of local governments**.
  - The **15th Finance Commission (2021-26)** highlighted that only **9 states** have constituted their 6th SFC, even though it was due in 2019-20 for all states.
- **Limited Representation of Marginalized Groups in Decision-Making:** While reservations exist for women, SCs, and STs in local bodies, **their representation remains largely symbolic**, with real decision-making power often controlled by dominant social groups.
  - **Women sarpanches and councilors** frequently face proxy representation (**Pradhan Pati**), where male family members influence governance.
    - The lack of training, financial independence, and institutional support weakens their role in actual governance.
  - A **2023 government panel** proposed strict penalties for husband proxies in Panchayats, but the practice remains widespread.
- **Poor Human Resource Capacity in Local Governments:** Local bodies suffer from an **acute shortage of trained personnel**, with critical administrative functions still controlled by state-appointed officers.
  - The **absence of dedicated technical staff for planning, financial management, and service delivery** weakens their ability to function effectively.
    - Elected representatives often lack the necessary training and expertise to manage governance functions efficiently.
  - A 2020 report stated that **District Planning Committees are non-functional** in nine states, and failed to prepare integrated plans in 15 states.
    - It also found that in many of the cities staff vacancies against sanctioned strength is about **30%**.
- **Lack of Digital and Technological Integration in Local Governance:** Most local bodies have inadequate **digital infrastructure, limiting transparency, efficiency, and citizen engagement**.
  - While some states have adopted **e-Governance initiatives**, the uneven implementation of digital tools leads to a gap in service delivery.
  - Over **40% of gram panchayats** do not report digital attendance. A 2021 data shown in **Lok Sabha** reveals that over **25000 villages** in India are still unconnected to the internet.

## What Measures can India Adopt to Revamp Democratic Decentralisation?

- **Ensuring Fiscal Autonomy through Strengthening State Finance Commissions (SFCs):** A predictable and transparent fiscal devolution mechanism is essential for effective local governance.
  - States must undertake **comprehensive activity mapping** for all **Eleventh and Twelfth Schedule subjects** and align financial devolution accordingly.
  - Local governments must be given **greater tax autonomy**, including better property tax assessment and professional tax collection mechanisms.
    - The **Second ARC** recommends broadening and deepening the revenue base of local governments to ensure financial sustainability.

- **Empowering Panchayats and Municipalities with Administrative Autonomy:** Local governments must have the **power to recruit personnel and regulate service conditions** to ensure efficiency and accountability.
  - The **practice of state governments approving local budgets** should be abolished, ensuring that locally elected bodies have full control over their financial planning.
    - Panchayats and ULBs should have **independent secretariats** with trained personnel dedicated to local governance.
- **Reforming Urban Governance through Mayor-in-Council System:** The current system of municipal governance, where executive powers are shared between **mayors and commissioners**, leads to inefficiencies and accountability gaps.
  - A **directly elected Mayor with a fixed tenure** and executive authority will improve governance and public accountability.
  - The **Mayor-in-Council system**, as **recommended by the 2nd ARC**, will help streamline decision-making and improve municipal efficiency.
  - Municipal bodies should also **leverage land banks for revenue generation** to reduce financial dependency on state governments.
    - The 2<sup>nd</sup> ARC recommends that municipalities must have full autonomy over their functions **and a transparent taxation mechanism**.
- **Strengthening Rural Governance with True Devolution of Powers:** A **mandatory activity mapping exercise** should ensure clear delineation of responsibilities at each level of governance.
  - Gram Panchayats should be of **appropriate size** to function effectively and deliver public services efficiently.
  - Tribal areas should see **full implementation of the Panchayats (Extension to Scheduled Areas) Act, 1996 (PESA)** to empower traditional governance structures.
- **Enhancing Local Revenue Generation through Transparent Taxation and Borrowing:** Local governments should be granted **greater borrowing powers** with regulatory safeguards to ensure fiscal discipline.
  - **Transparent property tax assessment** and **professional tax collection** should be streamlined to improve local revenue generation.
  - **Municipal bonds** and pooled financing mechanisms should be encouraged to **diversify revenue sources (e.g, Indore Model)** and fund urban infrastructure.
  - The 2nd ARC recommends that municipalities should have full financial autonomy and their borrowing capacity should be enhanced.
- **Bridging the Urban-Rural Governance Divide with Flexible Classification:** The **rigid urban-rural classification** leaves many peri-urban areas without proper governance structures.
  - A dynamic classification system, where **peri-urban areas transition smoothly from Panchayats to Municipalities**, should be developed.
    - Governance should be **service-centric rather than classification-centric**.
  - Special governance models, such as **Metropolitan Planning Committees (MPCs) and District Planning Committees (DPCs)**, should be strengthened to address cross-jurisdictional issues.
    - The **Ashok Mehta Committee** recommended a two-tier governance structure with stronger financial and functional autonomy for local bodies.
- **Institutionalizing Local Government Capacity-Building and Training:** Local representatives often lack the necessary training and expertise to handle governance functions.
  - Establishing **Local Governance Training Institutes (LGTIs)** in every state can provide continuous capacity-building for elected representatives and officials.
  - **E-Governance and digital tools** should be integrated into local administration to improve efficiency and transparency building upon the **G.V.K. Rao Committee** recommended that local governments must be **empowered with adequate administrative and technical expertise**.
- **Implementing Citizens' Charters and Participatory Governance Mechanism:** Citizens must be actively engaged in local governance through **mandatory public consultations, ward sabhas, and Gram Sabhas** for key policy decisions.
  - **Social audits and participatory budgeting** should be made compulsory to improve accountability in fund allocation and service delivery.
  - **Citizen Charters in all ULBs**, as recommended by the 2nd ARC, should be legally binding to ensure service delivery timelines.

- The **Balwant Rai Mehta Committee** also emphasized community participation in decision-making for effective local governance.

## Conclusion:

To ensure true democratic decentralization, India must focus on **Fiscal Strength, Functional Autonomy, and Fair Representation**. Strengthening local revenue generation, granting genuine administrative powers, and ensuring inclusive governance will empower Panchayats and municipalities. A forward-looking approach must integrate digital governance, financial independence, and citizen participation.

### **Drishti Mains Question:**

Critically assess the effectiveness of the 73rd and 74th Constitutional Amendments in achieving true democratic decentralization in India.

## UPSC Civil Services Examination, Previous Year Questions (PYQ)

### **Prelims**

**Q1. Local self-government can be best explained as an exercise in (2017)**

- (a) Federalism
- (b) Democratic decentralisation
- (c) Administrative delegation
- (d) Direct democracy

**Ans: (b)**

**Q2. The fundamental object of the Panchayati Raj system is to ensure which among the following? (2015)**

1. People's participation in development
2. Political accountability
3. Democratic decentralisation
4. Financial mobilisation

**Select the correct answer using the code given below**

- (a) 1, 2 and 3 only
- (b) 2 and 4 only
- (c) 1 and 3 only
- (d) 1, 2, 3 and 4

**Ans: (c)**

### **Mains**

**Q1.** Assess the importance of the Panchayat system in India as a part of local government. Apart from

government grants, what sources can the Panchayats look out for financing developmental projects? (2018)

**Q2.** To what extent, in your opinion, has the decentralisation of power in India changed the governance landscape at the grassroots? (2022)

---

PDF Reference URL: <https://www.drishtias.com/current-affairs-news-analysis-editorials/news-editorials/10-03-2025/print>

