Decentralisation, Governance and Development
An Action Plan for Karnataka

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Introduction

I.1. The Government of Karnataka adopted the document, “Karnataka – A Vision for Development – Vision 2020” prepared by the State Planning Board. The document presents the developmental targets, challenges, strategy and a long term developmental plan to achieve the targets for accelerating growth, reducing poverty and enhancing human development in the State. It postulates specific strategies that need to be translated into meaningful interventions by the State Government to achieve the goals.

I.2. The following key strategies have been identified which will predicate future policy and strategic imperatives that should drive Karnataka towards realising the vision:

- Ensuring greater viability of agriculture and allied activities to increase rural incomes.
- Focus on skill development to achieve job-oriented growth.
- Develop the State as a vibrant knowledge society
- Improve access and availability of quality healthcare for all
- Achieve a sustainable and orderly process of industrialisation and urbanisation
- Enhance opportunities and empower women across economic, social and political spectrum.
- Bridge the gap between socially backward and vulnerable groups and the rest of the people.
- Improve energy availability and develop infrastructure to boost productive potential of the economy.
- Preserve and promote Karnataka’s rich cultural heritage.
- Ensure sustainability of the state’s environment and natural resources.
- Build and sustain Bangalore’s global leadership in science, technology and knowledge based industries.
- Improve governance through wider participation and deep democratic decentralisation.
I. 3. To finalise the developmental strategy and guide its implementation, Government of Karnataka constituted a Vision Group comprising of eminent personalities drawn from various fields under the chairmanship of the Hon’ble Chief Minister, vide G.O. No. PD 59 SPB 2008 dated 10th October, 2008. The terms of reference of the Vision Group was (i) To provide inputs to enable the State to finalise and implement the Vision 2020; (ii) To provide guidance on the strategies, programmes, performance across different sectors based on an external perspective; and (iii) To monitor initiatives and actions taken to achieve the vision. The Group in its meeting on the 24th of June, 2009 Chaired by the Chief Minister decided to constitute six Mission Groups for working out the details of development and implementation strategy on the following aspects of development:

(i) Human Development;
(ii) Social Empowerment;
(iii) Rural Economic Development;
(iv) Infrastructure and Industrial Development;
(v) Decentralisation and Governance; and
(vi) Karnataka Heritage.

Terms of reference of the Mission Group

I.4. The six Mission Groups are entrusted with the task of drawing up short term (one year), medium term (three years) and long term (beyond three years) strategies and action plans for achieving the goals/outcomes in their respective spheres. The Groups are required to identify the policy and institutional reforms required to achieve the goals to achieve improved governance, advancement in the levels of living and quality of life of the people in the State. Originally, the Mission groups were required to submit their reports by December 31, 2009, but later the term was extended to January 31, 2010. However, due to various unforeseen factors, the report of the Mission Group on Decentralisation could be finalised only by the middle of February.
Composition of the Mission Group –

I.5. The Mission Group on decentralisation comprised of the following:

Dr. M. Govinda Rao,
Director, National Institute of Public Finance and Policy,
New Delhi. Chairman

Dr. Samuel Paul,
President, Public Affairs Centre,
Bangalore Member

Dr. R. S. Deshpande,
Director, Institute for Social and Economic Change,
Bangalore Member

Dr. H. Sudarshan,
Secretary Karuna Trust,
Bangalore Member

Principal Secretaries/Secretaries and HODs of the Departments of Urban Development, Rural Development and Panchayati Raj, Planning, Finance, Personnel and Administrative Reforms (DPAR) were also the members of this Mission Group.

The Terms of Reference to the Mission Group enabled it to co-opt subject experts and professionals as Members. Accordingly, the Decentralisation Mission Group co-opted Shri T.R. Raghunandan, former Joint Secretary, Ministry of Panchayati Raj, Government of India and presently Principal Secretary to Government, Government of Karnataka, (on study leave) as a Member.

I.6. The Mission Group was required to deal with political, administrative and fiscal aspects of decentralisation and in particular, is required to deal with issues pertaining to governance to ensure safety and security, participatory development and responsive government and public service delivery to meet needs and aspirations of the residents. It is also required to recommend the strategy to ensure efficient and public services and raise the required resources to provide the services to ensure efficiency and accountability.

Meetings

I.7. The Mission Group held four meetings with officials of the concerned departments concerned. Proceedings of each of the meetings along with the participants of the meeting are annexed.
I.8. At the outset, it is important to note that the Group had to make its recommendations within a short period of time. At the same time, the challenges of advancing the cause of decentralization in both rural and urban areas in the State are formidable. Therefore, it was not possible for the Group to undertake a thorough analysis of political, administrative and fiscal aspects of decentralisation in rural and urban areas and make comprehensive recommendations on all aspects. We have, in the short time available to us put together important recommendations that we consider important based on the existing knowledge and facts.

**Importance of decentralised governance and planning:**

I.9. It is very well recognised that decentralisation promotes participatory governance, enables more efficient and accountable delivery of public services in accordance with the preferences of the people and creates an environment for participatory planning and inclusive growth. Decentralisation, through participatory governance promotes a sense of ownership and belonging, transparency and accountability. Decentralisation and local governance are increasingly recognised as basic components of democratic governance, since they provide an enabling environment in which decision making and service delivery can be brought closer to the people, especially to the poor. Participatory planning operationalises the requirements of the people for public services into the design and implementation of policies. Decentralised decision making contributes to stable and sustained growth of the economy. It contributes to good governance which enables faster growth, human development and poverty reduction.

I.10. Decentralisation in urban areas can create growth centres by allowing interactions among people and creating conditions for innovations. Cities are the centres of economic dynamism in every State. They generate the environment for creative activity and enterprise development. The concentration of enterprise and people of various walks of life facilitates productive interaction and exchange of ideas to create innovations and productivity gains. They facilitate transactions and ensure market development for goods and services as well as factors of production. They provide facilities for human development and ensure availability of skilled personnel. They are the centres of not only
production but also distribution and entrepot trade. Large cities ensure the critical mass required to achieve such interactions and to facilitate and high degrees of specialization in labour, knowledge and businesses, services, infrastructure, institutions and media (Bird and Slack, 2006). The extent to which the cities can galvanize innovation and dynamism and accelerate the growth process depends on the standards of basic services provided, nature of policies, quality of institutions and tolerant and open social environment to facilitate creative social and economic interaction. In ensuring a congenial environment for the cities to the centres of dynamism and galvanise development, participatory governance and planning is essential.

I.11. Participatory planning and governance in rural areas is critical to rural development. Decentralisation helps to create infrastructure and services necessary to open up the rural economy to the markets. Decentralised decision making not only helps in ensuring strong rural infrastructure, but also enables the participation of vulnerable groups in governance and planning and helps in targeting the service delivery to the intended groups. Effective decentralisation is necessary to prevent elite capture of not only public services but also of common property resources. A critical component of anti-poverty interventions is decentralisation because, at the decentralised levels it is easy to find who the poor are, what do they do or not do, and what should be the appropriate interventions to take them out of the morass of poverty.

I.12. Although the legal framework for decentralisation in rural and urban areas has its roots in separate constitutional amendments and two different State Acts, the approach to decentralisation reform has to be common for a variety of reasons. First, the basic logic for decentralisation in rural and urban areas is not different. Second, as the rural areas grow and generate a host of non-agricultural activities, they acquire the character of urban areas and therefore, the approach to governance and public service delivery would have to be similar though, they may differ in the details since the nature and quantum of public services may vary with the size of the locality. Third, many urban agglomerations have rural local governments within them and therefore, the governance systems, planning and implementation mechanisms and public service delivery systems will have to be common. Bangalore Metropolitan Region, for example, includes large areas under the Bangalore rural and Ramanagaram districts containing several village, taluk and
district panchayats and the governance approach to rural local bodies in the region can not differ from that of the urban local bodies. Here again, the nature and quantum of public services demanded by the rural localities in urban areas could be different from the urban areas in the agglomerations, though, they tend to be equalised over time, but there is no reason why the approach to governance and public service delivery should be different.

I.13. For the reasons cited above, in this report, we have, by and large adopted a common approach to decentralisation reform in Karnataka. In doing so, we have considered the salient features and institutional differences between rural and urban areas in our analysis and recommendations. Although, in the approach to decentralisation initiatives taken up by the State there are distinct differences in the approach to urban and rural decentralisation strategy, we believe that over time, these need to be corrected to ensure a harmonious economic transformation in a geographical continuum in the State.

I.14. It must be mentioned at the outset that the constraints of time do not permit us to make a detailed review of the decentralisation experience in urban and rural areas of the state to make comprehensive recommendations on decentralised governance systems, planning and public service delivery in the State. It is also important to note that Karnataka has been a pioneer in decentralisation reform in many ways and it has many achievements and its performance in decentralised governance and planning can be seen in favourable terms in comparison with many other States. However, as we consider decentralisation as an a major strategy to improve the governance systems and to ensure effective and accountable public service delivery and the approach is a crucial for accelerating economic growth and making it inclusive in the State, we have highlighted a number of important areas of reform in both decentralised governance systems, planning and public service delivery in the State. These encompass political, administrative as well as fiscal decentralisation. By no means, are these comprehensive or complete, but in our view these are essential and should be taken up on a priority basis. Carrying out these reforms will make Karnataka a leader among the comity of States in furthering the cause of decentralised governance as a means to enhance the welfare of the people.
I.15. In formulating our recommendations we have had the benefit of discussions with a number of experts and officials. The Chairman of the Group had extensive consultations with Mr. Ramesh Ramanathan, the co-founder of Janagraha on a variety of governance and service delivery issues in urban areas of the State. Mr. Ramesh Ramanathan and Mrs. Swati Ramanathan also sent a note recording their views on the Report of Chaired by Dr. Kasturirangan. Mr. U. A Vasantha Rao, General Manager, Bangalore Metro was invited to one of the meetings and at the request of Group, he prepared a note on the property tax reform in Bruhat Bangalore Mahanagara Palike. These inputs were helpful in clarifying the areas of reform and in formulating our own recommendations. The Mission Group would like to record its appreciation for the assistance provided by them. The Mission Group had the benefit of listening to the views of the officials of the Department of Planning, Department of Rural Development and Panchayat Raj, Department of Urban development, Department of Municipal Administration, Department of Personnel and Administrative Reforms and Department of Information Technology. We would like to record our deep appreciation to the officials for sparing their time to attend meetings and highlight important areas in decentralised governance and planning requiring reforms. Ms. Bidisha Choudhuri, Joint Secretary of the State Planning Department assisted the Mission Group by organising and coordinating various meetings, collecting the materials and information needed by the Mission Group and in providing useful inputs on the reform areas. The Mission Group records its appreciation for her untiring efforts in organising meetings, recording the minutes and assisting the Group with the preparation of the Report.
II. Background and Context

2.1. Karnataka’s approach to decentralised governance in rural areas is distinctly different from that of urban areas. While some of these are due to the different approaches adopted in Parts IX and IX-A of the Constitution which relate to rural and urban decentralisation respectively and the separate State Panchayati Raj and Municipal Acts, others are mainly due to the fact that decentralised governance in urban areas has not received the same level of sustained attention that rural decentralisation has received over the past two decades. In the case of rural areas, there were considerable proactive interventions to decentralise the governance system. But, in urban areas the approach has been to react to the needs of the situation rather than prepare the governance system to deal with increasing pressure of urbanisation and influx of population.

Rural Decentralisation in Karnataka: a brief account:

2.2. Karnataka’s status as one of the champions in decentralisation to Panchayats in India is based on the head start it had in the Zilla Parishad, Mandal Panchayats and Taluk Samiti’s Act of 1983. The Act set up a two tier governance system consisting of Zilla Parishads (ZPs) at the district level and Mandal Panchayats (MPs) for clusters of villages\(^1\) and provided for 25 percent reservation to women in territorial seats in Panchayats. This law, implemented from 1987, was accompanied by significant administrative reforms. A district sector earmarking funds pertaining to matters transferred to ZPs and Mandal Panchayats was carved out of the State budget and these funds were transferred in monthly instalments to the ZPs. A State Finance Commission was set up to determine the inter-se shares of the State and the Panchayats from the State revenues. The DRDSs were merged with the ZPs. Officers senior to the Deputy Commissioners were posted as “Chief Secretaries” of the Zilla Parishads and the former were divested of their development responsibilities. The Chief Secretaries of ZPs were clearly accountable to the ZP and their

\(^{1}\) The Panchayat Samiti at the Taluk level was not an intermediate tier local government, but an indirectly elected monitoring body comprising largely of Mandal Panchayat Presidents.
confidential reports (CRs) were written by the ZP Adhyakshas. These reforms in Karnataka captured both international and national attention and, in fact, were inspirational for the renewal of interest in decentralisation, which eventually contributed to the 73rd and 74th amendments.

2.3. However, the primacy in local rural governance given to the Panchayats began to be eroded soon. In 1992, when the terms of the ZPs and MPs came to an end, fresh elections were postponed on the pretext that a constitutional amendment was imminent. One of the first arrangements that was reversed was the inter-se seniority difference between the Chief Secretary of a ZP and the District Commissioner, as the latter were appointed as administrators of the ZPs in the absence of an elected body.

2.4. Following the 73rd Constitutional Amendment, Karnataka passed the Karnataka Panchayat Raj Act in 1993. Modelled largely on the 1987 act, except that it introduced an elected intermediate tier, the KPR Act continued the strong legislative commitment to devolve several functions relating to all the 29 functions listed in the Eleventh Schedule to Panchayats at one or the other three level. However, this formally strong legal framework hid the reality of the gradual marginalisation of Panchayats, politically, financially and through administrative arrangements. From a political viewpoint, the biggest body blow to the system was the delay in conducting elections. They were delayed both in 1993 and in 1999. Moreover, in 1997, on the suggestion of an official committee set up to reform Panchayati Raj, the state government cut down leadership terms in Panchayats to 20 months for ZP Presidents and TP presidents and vice presidents and to 30 months for Gram Panchayat Presidents and vice presidents. This, in one stroke undermined the post, eroded the commitment of the leadership in panchayats and prevented capacity for the leadership to develop. In effect, it snowballed into an even faster pace of turn by turn occupancy of leadership posts through local political arrangements. On the financial side, a mismatch rose and grew between the functions assigned to the Panchayats and the powers to raise revenues and funds devolved to them.

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2 The 1993 postponement was not without drama. The RDPR minister in the Veerappa Moily led government, Mr. M.Y. Ghorpade, resigned in protest against the postponement.
3 In 1999, the elections were postponed by the J.H. Patel led Janata Government. The Congress after it came to power in 2000, promptly held the elections.
4 The P.R. Nayak Committee.
5 State of the Panchayats Report 2006, of the Ministry of Panchayati Raj, government of India
In many of the areas that were the formal responsibilities of the Panchayats, parallel structures such as Missions, Societies and Committees were set up, quite often on the prompting of central ministries and international lending agencies. Officers working within the ZP structure and drawing their salaries were assigned dual responsibilities, including those in parallel structures, for which they were not accountable to the ZPs. In addition, new schemes in the areas assigned to the Panchayats were positioned as State schemes. The outcome of these distortions was that setting priorities and making investment decisions were being increasingly wielded by line departments, overriding or ignoring Panchayat decisions.

2.5. The next wave of reform commenced in 2002, following the recommendations of a Working Group on Decentralisation chaired by the Development Commissioner. These included landmark amendments to the Karnataka Panchayat Raj Act to facilitate peoples’ participation and making Panchayats more accountable. A two tier system of Ward Sabhas for each constituency in the Gram Panchayat and Gram Sabhas at the Panchayat level was established. Ward and Gram Sabhas were empowered to identify beneficiaries and prioritise them in beneficiary lists for all government programmes, to approve all developmental plans, generate proposals and determine the priority of schemes. In order to bring greater transparency and accountability in the functioning of PRIs, all levels of Panchayats were mandated to make the proceedings of their meetings public, along with who voted for or against, within 72 hours. Panchayat members were obliged to disclose any pecuniary interest that they had in respect of any questions that came up for consideration in the Panchayat meetings. Taluk and Zilla Panchayat members were also required to declare their assets and maintain election expenses accounts, failure of which inviting disqualification. Frequency of Grama Panchayat meetings were increased from once in two months to once a month and the quorum increased to 50 per cent. In order to facilitate Panchayats to function effectively, Grama

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6 These amendments went to a Select Committee of the State legislature and were passed unanimously by the legislature. This was largely due to the reputation enjoyed by the then Minister, Shri. Mr. M. Y. Ghorpade, as a sincere, committed, non-partisan champion of decentralisation.

7 The words used for beneficiary selection in the legislation also has a powerful proviso, that the list so decided by the Gram Sabha cannot be changed at any level of the government. This puts beyond the pale of any doubt the supremacy of the Gram Sabha.
Panchayat Adhyakshas were declared to be executive heads of the Grama Panchayats as in the case of Taluk and Zilla Panchayats. Attendance of key officials in Grama Panchayat meetings were made mandatory. In order to enhance the capacities of the Panchayats, powers were given to Gram Panchayats for outsourcing services of technical staff. Greater freedom was also given to PRIs to form joint committees among themselves to pursue common objectives. These amendments came into force from October 2003.

2.6. Based on a draft prepared by the Working Group, the State government issued an activity mapping order further clarifying the functions of the Panchayats. This activity mapping positioned the Zilla and Taluk Panchayat as planners, facilitators and owners of common executive machinery, Gram Panchayats as the cutting edge of local service provision and Gram and Ward Sabhas as instruments of downward accountability. On the basis of this activity mapping, the district sector was re-examined. As the first step, the number of line items in the budget was reduced to a half by consolidating ones. Then the schemes and funds in the State sector that deal with those functions devolved to Panchayats were transferred to the District sector. These changes were finally manifested in the budget for 2005-06. The details are as follows:

Table 1: Size of the State and Central Shares in the District Sector Plan. (Rs. crores)

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2005-06</th>
<th>Percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>1013</td>
<td>2003</td>
<td>97.7</td>
</tr>
<tr>
<td>Centre</td>
<td>657</td>
<td>877</td>
<td>33.5</td>
</tr>
<tr>
<td>Total</td>
<td>1670</td>
<td>2880</td>
<td>72.5</td>
</tr>
</tbody>
</table>

2.7. Other reforms were also taken up to facilitate the better functioning of the Panchayats. A massive training and communication programme, using a mix of satellite communication technology and participatory training methodologies was put in place for training of all Panchayat elected representatives. This was managed and run by the Abdul Nazeer Sab State Institute for Rural Development. A drive to improve local taxation by the Panchayats was also taken up. This reform aimed at dispelling some common belief
that the Panchayats are reluctant to collect revenues from their own sources. Steps were taken to streamline financial flows to the Panchayats through electronic bank transfers. A serious attempt to reconcile electricity dues of Panchayats to the State utility was made and a system of individual billing to Panchayats was put in place. In a unique approach, the BPL survey for the 10th Plan was done entirely through elected representatives, based upon the pioneering work done by the Maravanthe Grama Panchayat in Udupi district.

in Karnataka State dates back by almost 150 years to the British colonial period. Mysore and **Urban Decentralisation in Karnataka:**

2.8. Unlike in the case of rural local governments, decentralisation initiative to urban local governments followed urbanisation instead of contributing to planned urbanisation. In other words, while the State governments adopted proactive approach to rural decentralisation, the policy initiatives in regard to urban areas emerged as a reaction to urbanising trends. Thus, while in the case of rural decentralisation where Karnataka was a forerunner, the developments in urban decentralisation broadly followed the trends in urbanisation rather than preceding it.

2.9. Decentralization experience to urban local governments Travancore – Cochin were the only princely states during the British colonial period to have made rapid strides in urban local self government. Municipal Committees were first experimented with in Mysore State way back in 1862 when they were established in the cities of Mysore and

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8 The process comprised of re-designing the format for data collection into an attractive and user-friendly format with icons so that even the illiterate could use them. The voters list, broken into Gram Panchayat-constituency sized bits was used as the basic underlying family list. Grama Panchayats own the data. The process is not unnecessarily high tech, even though data entry has taken place, the idea is that Gram Panchayats would bind the list into Gram Panchayat constituency level registers and the same would be used in Ward and Grama Sabhas for selecting beneficiaries locally. Results were very good, particularly in places where the message that Gram Panchayats can directly use the data has gone home. Several Gram Panchayats carried out surveys and began to act on their findings even before data was compiled. Innovations also began to happen; for instance, several Gram Panchayats took up photography of their families, sometimes standing in front of their houses, to capture pictorial data at a fraction of the cost as proposed in other high-tech models.
Bangalore on the pattern of the Government of India Act XXVI of 1850. Encouraged by the success in the two cities, municipal Committees were established for each district headquarters in 1864-65 to ensure participation and enlist co-operation of local residents in local affairs. After independence, the State reorganization in 1956 brought together five different regions to the State comprising of parts of Bombay Presidency (Bijapur, Dharwar, Belgaum and Karwar), Madras Presidency (Dakshina Kannada, Bellary and Kollegal Taluk), Hyderabad State (Bidar, Gulbarga and Raichur) with the entire princely state of Mysore and the Coorg area to form the Mysore State. The experiences of different regions with the urban local self government system were incorporated into formulating the legal framework governing urban decentralisation in Karnataka.

2.10. After the States’ reorganization, urban local bodies in the State were classified into various categories like Corporations, City Municipalities, Town Municipalities and Town Panchayats depending upon the population size. The legal framework for urban governance in the State is provided in the Karnataka Municipalities Act, 1964 (for City Municipalities, Town Municipalities and Town Panchayats) and Corporation Act, 1976 (for Corporations). Urban local governments have been entrusted with the task of discharging obligatory functions like (a) drinking water supply (b) drainage and sewage systems (c) public street lighting (d) maintaining sanitation and hygiene in public places (e) construction and maintenance of bus terminals, roads, culverts and bridges (f) maintenance of public parks and gardens (g) ensuring systematic/planned urban growth (h) regulation of building construction (i) licensing of Trade activities as well as (j) maintenance of birth and death records. In addition, they can undertake discretionary functions such as education, health, community and recreational services depending upon the resources available to them. In recent years, they have been involved in implementing anti-poverty interventions such as Swarna Jayanti Sampoorna Rozgar Yojana (SJSRY).

2.11. After the 74th Constitutional amendment, Government of Karnataka reclassified urban local governments based mainly on population size in terms of Town Panchayats

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(Population 10,000 – 20,000), Town Municipal Councils (Population 20,000 – 50,000) City Municipal Councils (Population 50,000 -3,00,000) and City Corporations (Population 3.0 lakhs and above). Thus, presently, there are 6 City Corporations, 44 City Municipal Councils, 79 Town Municipal Councils and 93 Town Panchayats in the state. Also for specified areas like industrial areas where municipal services are required to be provided, the government has created 4 Notified Area Committees (NAC).

2.12. Unlike in the case of rural local bodies, the state government exercises direct supervision of the functioning of urban local bodies through the Directorate of Municipal Administration. Curiously, though it actually lays down the framework within which the municipal bodies are required to function, the direct supervision of the Directorate is extensive, but actually it lays down the framework within which the municipal bodies are required to function. It determines human resource policies, exercises disciplinary control over the municipal staff, monitors municipal tax collection, prescribes policies for transparency in spending, hears appeals against the decisions of municipalities, releases financial transfers to the ULBs from the state and for schemes like SJSRY (for urban poverty alleviation), IDSMT, Nirmala Nagar. In this, sense, it is a misnomer to call ULBs in Karnataka as local self governments.
III. Organizational and Governance Issues.

3.1. In spite of several shortcomings and breaks, Karnataka’s record on decentralisation in rural areas continues to be relatively better than that in other States. This does not in any way mean that the government should rest on its laurels, for better relative performance does not mean that the system works well. There are several shortcomings in both organisational and governance issues encompassing administrative, political and fiscal aspects of decentralisation in both urban and rural areas. Given that the objective of decentralisation is to achieve citizen participation in governance and more efficient and equitable public service delivery, there are several areas that need to be addressed and these include both policy and institutional aspects of decentralisation. Several distortions that have crept into the system both in their structure and functioning and while some of them inadvertent, there are others which emerge due to the way in which various interests work in the state. Decentralisation, if it has to be an effective mechanism for governance and a means to provide efficient and equitable public service delivery, needs to be remedied through both policy and institutional reforms. Indeed, reforms are also necessary to urban and rural local government institutions must be brought to an even keel to address the rural – urban continuum in the governance system and public service delivery.

Optimal size and pattern of urban and rural local governments.

3.2. The Constitution does not stipulate any size range for Panchayats, either in terms of population or area. In Karnataka, the details are as follows:

<table>
<thead>
<tr>
<th>Rural Population (2001 Census)</th>
<th>No of Panchayats</th>
<th>Average population per Panchayat</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>District</td>
<td>Intermediate</td>
<td>Village</td>
</tr>
<tr>
<td>34889033</td>
<td>27</td>
<td>5652</td>
</tr>
<tr>
<td>1292186</td>
<td>176</td>
<td>198233</td>
</tr>
<tr>
<td>6173</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.3. In Karnataka, each of the nearly 22000 revenue villages constituted a GP under the 1959 Panchayat Raj Act. In the changes introduced in the 1987 Act, these were clustered into 3300 Mandal Panchayats, each having a population of around 15000. Following the enactment of the new Panchayat Raj Act in 1993, the number of GPs was increased to 5650. While the average population size of the GP is 6173, the picture is skewed from one district to another; in the Malnad region, Panchayats could have population sizes that are considerably smaller, in the range of 3000 persons per Panchayat. Though gains can be expected when Village Panchayats are clustered in terms of a more optimal size for service delivery, the trade-off could be in terms of larger Gram Sabhas. However, the second issue was addressed in the amendments made to the law in 2003, by which the concept of Ward Sabhas, citizen groupings at the level of the territorial constituency of each ward member, was given force through law. It is felt that the size of the GP is now more or less well understood in the State and there need be no attempts to commence a cycle of delimitation. However, different services might have different optimum scales for efficient delivery and the footprints of each need not necessarily match the jurisdictional boundaries of the Panchayat. To address this issue, leeway was given through the 2003 amendments to section 79-B of the Panchayat Raj Act, enabling Panchayats to form groups or associations and work out arrangements between themselves to deliver services that are more efficiently undertaken collectively. However, there has been no attempt by Panchayats suo moto, or by the State to encourage the formation of Panchayat collectives to improve service delivery and this amendment remains only on paper. There is a need to highlight the possibilities of efficient service delivery through such arrangements.

**Local government system and structure in fast urbanising areas:**

3.4. The Urban Development Policy for Karnataka (2009) recognizes three corridors of fast urbanization, namely, Bangalore-Belgaum, Mysore-Bangalore-Kolar and the coastal Corridor (Mangalore-Udupi-Karwar). It is estimated that by 2021, 76 per cent of the State’s urban population will be living in these corridors. The issues of governance
and development in these areas are qualitatively different and this needs to be recognised in instituting the governance systems as well as providing public services. First, as mentioned earlier, the enable the fast growing cites to be the centres of dynamism, it is necessary to create a framework of multicultural and cosmopolitan environment that promotes social and economic interaction. Second, these are the centres of manufacturing and service sector activities with attendedent consequences on not only high income levels but also congestion, adverse environmanetal impact and heavy pressure on public service delivery. Third, ecojnomic dynamism in central cities attracts significant migration of people putting pressure on public service delivery. Fourth, there are large rural and semi-urban parts within the precincts of these fast growing cities and governance systems and the development plan has to take this into account. Finally, the cities exapand at alarming speed and the development plan has to conseider the orgerly development of not merely the city precincts but also peripheral areas in order to ensure their orderly development over time.

3.5. The Kasturirangan Committee has gone into the details of urban governance and planning in the Bangalore Metropolitan Area and has made a number of important recommendations for the orderly development of the area. By and large, we consur with the recommendations of the Committee though, in some matters of detail we have suggested some modifications. In our view the Report provides a framework of governance and planning for other fast growing urban corridors in the State and should be adopted with appropriate modifications. It is important that the State prepares itself to make the cities as the growth centres in the State by implementing the governance systems and planning framework recommended by the Committee.

3.6. One issue that needs to be considered is the status of the Panchayats in areas that are fast urbanising. Often, the time lag in converting Panchayats into urban local governments even though urbanisation is rapidly taking place on the ground leaves Panchayats to tackle urban problems with governance systems that are suited to rural administration. The net result is that by the time these bodies are formally converted into urban local governments, the damage in terms of lack of spatial planning had already occurred – the Gramthanas are nothing more than congested slums trapped between high-rise, planned residential or industrial localities that have come up on former surrounding
farmlands. It would be advisable to re-think the definition of rural local bodies in such fast urbanising areas. Although the Kasturirangan Committee has recommended that the spatial planning responsibilities can be taken away from the Gramathana area. The alternative approach could be to cluster all Panchayats in such areas into "Town Panchayats", so that a coherent set of jurisdictions that are based on demographic and spatial considerations can be evolved. This is consistent with the 74th CAA, which defines TPs as transitional areas, moving from a rural character to an urban character. This will also allow for coherent Master Planning for that area.

**Regularity in elections to local governments:**

3.7. One black mark on Karnataka’s record in decentralization is the fact that elections to local governments have not been held regularly even after the 1993 Act. In respect of ZPs and TPs, they were delayed in 1993, in 1999 and in 2005. On the last two occasions, the pretext for postponement was the filing of public interest litigations questioning the seat reservation matrix. On the last occasion, elections were stayed by a decision of the High Court of Karnataka. This stay was vacated by the Supreme Court and elections were conducted in December 2005 after a six month delay. In the intervening period, ‘administrators’ were posted to the Panchayats after the existing elected bodies demitted the offices. In urban areas too, the record has not been good. Bangalore city has not had an elected government for the past five years, with delays in delimitation and fixation of the seat matrix being the reasons quoted. Recently, an unequivocal view was taken by the Supreme Court. In *Kishansing Tomar v/s Municipal Corporation of the City of Ahmedabad and others*, where Judgment was pronounced on 19 October 2006, a five-Judge constitutional bench stated the following:

“… it is clear that the State Election Commission shall not put forward any excuse based on unreasonable grounds that the elections could not be completed on time… The Election Commission shall complete the election before the expiration of the duration of five years’ period as stipulated in Clause (5) and not yield to situations that may be created by vested interests to postpone elections from being held within the stipulated time.”
3.8. The Supreme Court has also stated that delays in delimitation or preparation of electoral rolls cannot be considered as an excuse to delay elections in violation of the constitutional provisions.

3.9. Therefore, it is strongly recommended that the State should conduct elections to the Panchayats and Urban local governments regularly and in time, henceforth. The preparations for local government elections will have to be put in place sufficiently early and the calendar announced sufficiently in advance. The GP elections are scheduled for March 2010 and we trust that they will be held according to schedule.

Fostering harmonious relationships amongst elected representatives and between them and the bureaucracy:

3.10. In every State including Karnataka, even as there is a strong legal commitment to decentralisation and support to local governments, there are strong undercurrents to the contrary to weaken the process. Surely, the thrust for decentralisation is given by the Champions like Shri. Abdul Nazeer Sab in the 1980s and Shri. M. Y. Ghorpade in the current decade. Nevertheless, generally the representatives at higher levels of government tend to see that the powers vested in the local governments result in erosion of their own powers. Their attitude varies from indifference to being uncomfortable and even to being hostile to local governance. In Karnataka too, we can see hostility of elected representatives at the higher levels to Panchayats in recent years and this has led to repeated attempts to amend the Panchayat Raj Act to erode the powers of the Panchayats. In the urban sphere too, there has been dragging of feet in putting in place constitutionally mandated institutions such as the MPC and to legislate to provide for citizens’ participation in urban governance. The higher echelons of bureaucracy, by and large, were happy to collude in such deviations from the policy of decentralisation. Such actions at the higher levels have led to tensions between these levels, sometimes resulting in public demonstrations and protests by Panchayat representatives, as also court action to seek protection of the rights of Panchayats by elected representatives and public interest litigants. One way to tackle these phenomena would be to accept that they are
typical of a competitive and crowded political environment, in which higher level elected representatives, in their eagerness to show that they work for the people, often trespass with one eye on their election prospects into the functional domains of local government representatives. Such an indifferent and sometimes even unsympathetic approach by the State government to decentralisation is harmful as it disrupts development by throwing wrong signals to the administrative machinery.

3.11. There is a need for the State government to reaffirm its commitment to decentralisation, not only because of the Constitutional requirement but because of the inherent advantages for participatory governance and development. Attempts to erode or encroach into the powers of local governments must be put an end to and clear signals should be given to prevent dilution of decentralisation. Measures should be put in place to promote a harmonious relationship between the Panchayats and urban local governments. Currently officers interact only with their departmental colleagues, even when they proceed to the field. There is no system or requirement for say, a director of health services to interact with the standing committee chairpersons on health in ZPs and Municipalities. Consequently, senior officers have very little interaction with or perspective on the process of decentralisation. Often, policy decisions that seriously impact local governments are taken or implemented without consulting them. At best, the officer deputed to the LG is considered as a subordinate of the Department, when actually he is under the control of and answerable and accountable to the decentralised governments. Senior officials cannot bypass local governments and leave the interaction with them only to their subordinates. There is a need for a code of conduct to guide the relationship between the local government elected representatives and the bureaucracy. First and foremost, there is a need for officers to engage more with elected representatives at the local level through frequent meetings and interactions, so that both begin to understand each other. There is also a need to avoid frequent changes in scheme guidelines and withdrawing powers given to the Panchayats. The State Panchayat Raj Act provides for a State level Panchayat Parishad comprising of representatives of both the Panchayats and the State government and meet infrequently, but this has not been utilised
as a forum for mutual consultation. This forum must meet at six monthly intervals, as envisaged in the law.

3.12. In addition, certain institutional reforms are required to reduce the scope for such face-offs, and to promote harmony between the functionaries at different levels of government.

**Dominant relationship between Members of Parliament/Legislature and Elected Representatives of Local Bodies.**

3.13. Article 243C of the Constitution gives States the option to give ex-officio representation to the Legislators in Zilla and Taluk Panchayats. Karnataka has also made such a provision. All over India as also in Karnataka, studies have shown that when ex-officio membership is given to Legislators in PRIs, they tend to dominate and influence the decisions of the PRIs. Giving ex-officio membership to legislators in ZPs and TPs promotes a climate of competition and rivalry in Legislator PRI member relations. This is not a healthy trend and its continuance cannot be for the larger good of decentralization. It must be noted that the Constitution under Article 243C only gives the option to give ex-officio representation and this is not mandatory. The Report of the Expert Committee on Karnataka Panchayat Raj Act (March 1996) stated as follows:

“The respective spheres of PRIs on the one hand and the Parliament and Legislature on the other, should be left without encroachment and therefore, Members of Parliament and the State Legislature should not be made members of Taluk and Zilla Panchayats.”

3.14. We agree with this suggestion and state that amendments should be made in the Karnataka Panchayat Raj Act in the larger interest of strengthening decentralization to remove the ex officio representation given to MLAs, MLCs and MPs in ZPs and TPs. (To
check if such representation is provided for in the Municipalities act. If so, that must also be removed)

Slowing down the rotation of reservation to seats of LG Presidents and Standing Committee Chairpersons:

3.15. At present, according to the law, limited terms of office are prescribed for PRI Adhyakshas and Upadhyakshas. At the Grama Panchayat level, Adhyakshas and Upadhyakshas have terms of 30 months each, whereas at the ZP and TP level the terms are for 20 months. This means that a Grama Panchayat would see two sets of office bearers during its 5-year term, whereas the ZP and TP would see three sets. In urban areas, the Mayor’s has only one year’s term. The rationale for these decisions is that through a combination of reservation and restriction on the term of office, during each 5-year term, women members and those belonging to backward categories and SCs will also have an opportunity for leadership. However, this approach stunts the growth of local governments and derails the process of capacity creation. Frequent change of leaders in the name of inclusion, does not help in establishing stable and mature leadership at the local level with medium and long term vision for development and encourages a culture of sharing the spoils. The issue of who should lead a representative body is essentially a political one and it has to be decided through political processes. Even when the political process is acrimonious, it is important to follow democratic principles. The local government system has evolved enough to dispense with the idea of providing an opportunity to all to quickly get a “taste of leadership” through short terms and accelerated rotation of reservations. It is suggested that the law be amended to do away with twenty or thirty month terms and to give the Panchayat president at all levels an undisturbed 5 year term. In urban areas too, Mayors ought to be given a five year term, as recommended by the Kasturirangan Committee.
Levels of LGs as independent spheres of government:

3.16. There has been a persistent debate whether in the rural areas, the village, taluk and district panchayats should be considered as a hierarchy of tiers or as independent entities within their own spheres. We believe that fundamentally, respecting these entities as working in their independent spheres would be the best approach. This is not to mean that one cannot work as an agency of the other – on the other hand, such agency arrangements could function well, provided that they are formally arranged and contain precise responsibilities on the part of both parties. However, elements such as the provision of dissolution of Grama Panchayats on the recommendation of the TPs and ZPs should go\(^\text{10}\) and be replaced with arrangements that involve investigation by an Ombudsman as an independent regulator.

3.17. The issue of providing staff to the LGs as well as the relationship between the State bureaucracy and the LGs is discussed under the next heading, of improving service delivery.

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\(^{10}\) Section 268 of the KPR Act gives the ZP the power to dissolve a Grama Panchayat on the recommendation of the TP. We propose that the power should be reserved only to the Government, based upon an independent enquiry by the LG Ombudsman.
IV: Improving service delivery through better planning, implementation: Multiple Actors and Overlapping Domains

4.1 Effective and efficient delivery of public services to the people is the first and foremost objective of decentralised governance. The ultimate test of decentralization lies in efficient and effective service delivery that meets preferences, improves productivity, enhances satisfaction and wellbeing of the maximum number of people.

4.2 With multiple tiers of government involved in planning and implementing service delivery, generation and transfer of resources, control and supervision of personnel and monitoring of performance, attention to service delivery and its effectiveness tends to get fragmented or even overlooked. Overlapping domains and lack of coordination between multiple actors at different levels can be difficult and may involve significant transaction costs. Capabilities and interests of various actors tend to vary a great deal. Furthermore, the services and outputs delivered are not always easy to measure in precise and comparable terms. All these are factors that make it difficult for the governments to focus on and sustain effective and efficient service delivery. To overcome these risks, institutional design of decentralisation has to be carefully thought out.

4.3 In a multilevel government system, it is possible that local governments, in addition to their original and core functions, perform agency functions on behalf of higher tiers. However, in our system, since a bulk of money spent by Panchayats comes in the form of tied funds and not block grants or a share of revenues, LGs tend to largely work as agents; sometimes they totally neglect their core functions in doing so. The availability of own revenues or assigned taxes is a critical factor in determining whether a Panchayat functions as a local government or merely as an agent. As we believe that Karnataka’s long term vision must be to ensure that LGs function as independent spheres of government, the State must dismantle the hierarchical relationship that de facto exists today and give LGs at different levels more leeway to hire their staff, collect their revenues and plan and implement their own plan in their spheres. It is with these broad design objectives in mind that we make the following recommendations.
Activity mapping for LGs:

4.4. The foundation to improving service delivery through local governments lies in ensuring role clarity. Once functions and responsibilities are assigned with precision, other aspects of institutional design naturally follow. These include creating and augmenting capacities and ensuring availability of funds to carry out the functions, as also the mechanisms to ensure that those responsible can be held accountable for the services delivered. Role clarity is ideally to be conveyed through the legislation; however, the law may not be able to address every nuance of each activity with precision and therefore, there is a need to undertake ‘activity mapping’, for this purpose. Karnataka was the first State to complete an activity mapping exercise in 2003, for the Panchayats in pursuance of a report of the Ministry of Rural Development in 2001. It is likely that with the implementation of new schemes such as NREGA, SSA and NRHM in the rural areas, the Activity Mapping would have become outdated. Moreover, the matrix of activity mapping for rural areas did not lay down the responsibilities of the gram sabha, as well as user groups, and other contracted-in service providers. These aspects would need to be addressed in an exercise of updating the activity mapping.

4.5. No similar exercise of activity mapping has ever been undertaken in respect of urban local governments. Activity mapping for the urban areas will need to extend to the Area Sabha level as well, in order to be complete and consistent with the recommendations of MOUD in JNURM as well those of the Planning Commission and the Second ARC report on local governance. While doing so, it will be necessary to ensure that a decentralised system of urban management within each ULB needs to be practiced, at the heart of which would be the functioning of appropriately empowered Ward Committees. The Model Activity Mapping document provided by the Ministry of Urban Development, as an annexure to the Nagara Raj Bill, can serve as the template for the distribution of functions across the tiers of ULB, Ward Committee and Area Sabha, for each of the functions being devolved to the ULB. This ensures that Executive power is located at the ULB and Ward Committee levels, while participatory and accountability mechanisms are created with the Area Sabha, and the link between the Area Sabha and
the Ward Committees through the Area Sabha Representatives who are the members of the Ward Committee.

4.6. Since the fundamental roles of local governments are common regardless of their urban or rural nature, we suggest that the above activities ought to be merged into a common activity mapping exercise, which should be a combined effort of both the urban and RDPR departments. This could be termed the local government activity mapping matrix. Such a matrix should be developed in an inclusive manner and adequate time given to people to respond to a draft that can be placed in the public domain. Once activity mapping is completed, it is best if it is sanctified through law, by issuing the same as rules under both the Panchayat Raj Act and the Karnataka Municipalities Act. By doing this, the activity mapping matrix will obtain a multi-departmental sanctity and the tendency of individual departments to issue fresh guidelines and circulars that bypass or ignore the roles and responsibilities of local governments will be avoided.

4.7. Activity mapping once done can still go out of date, as new imperatives arise and new scales of efficient delivery of services arise due to technological advancements. Therefore, there ought to be a regular effort to update the activity mapping exercise every 5 years, through a consultative process.

4.8. A key aspect that needs to be considered now is the question of efficient service delivery and the role of LGs in the same. Traditionally, the choice has been between two traditional models, namely, the undertaking of service delivery by departments or their surrogate agencies, such as parastatals, user groups, NGOs or even local governments themselves, but in their capacity as agencies of the former, or the devolution of service delivery responsibilities to the LGs, with departments being divested of their roles, or being positioned as agencies that assist the LGs in undertaking their roles better. In Karnataka, the latter route was taken initially in 1987 in respect of the Panchayats, where ZPs were devolved powers of service delivery and assets and responsibilities transferred to them. In the rural areas, the model of service delivery through LGs has survived, even though the process has come under strain from time to time. Some efforts have taken
place to further devolve responsibilities of service delivery\textsuperscript{11} downwards to the Grama Panchayats. However, in rural areas, the position in respect of service delivery is subject to various pulls and pressures; departments are constantly on the watch for opportunities to pull back services and run them departmentally, or through departmentally sponsored decentralised mechanisms that are at variance with the constitutional position, such as missions, NGOs, and sponsored development of user groups and CBOs.

4.9. However, the position in respect of the urban LGs is quite different. Here, powerful parastatals by and large handle delivery of some important services\textsuperscript{12}, which are appropriately supposed to be in the domain of the ULBs. Historically, there has been rigidity in the way in which municipal services are contracted out. State parastatals were monopolies and municipalities were forced to contract services from them, irrespective of cost or technology considerations. For instance, even if drinking water could be supplied from nearby reservoirs to Municipalities, there have been instances where the KUWS&DB created supply systems from far away sources and Municipalities had no choice but to accept the supply given\textsuperscript{13}.

4.10. The best way to deal with this dichotomy in the service delivery models between rural and urban areas is to recognise that the objective is to improve the delivery of services and that institutional design must essentially serve this purpose. With that in mind, the next step would be recognising the comparative advantages that LGs on the one hand and parastatals on the other, would have. Thus LGs would be better suited to understand local variations in demands for service delivery, while departments and parastatals have better access to technology and technical expertise. LGs are designed to be more responsive and departments, to be more technically equipped.

4.11. We suggest that activity mapping should especially concentrate on ensuring the best leveraging of both LGs and Parastatals. The following could be the fundamental principles that underlie their inter-se arrangements, for ensuring better service delivery.

\textsuperscript{11} As in the case of drinking water supply schemes, which have been transferred to the Grama Panchayats from the ZPs in 2000, and water bodies and tanks, which have been transferred to GPs from the ZPs in 2003-04.

\textsuperscript{12} The main of these are the BWSSB and KUWSDB in respect of water supply, the Karnataka Slum Board, and the ESCOMs in respect of electricity supply.

\textsuperscript{13} Chitradurga case, where water source was available within a radius of 20 kms but KUWS&DB supplies water from 60 kms away, thereby significantly increasing the cost.
(a) Parastatals and LGs should be part of the same activity mapping matrix.

(b) The activity mapping matrix could provide for both choices; namely, that LGs could function as agencies of the parastatal and vice versa. However, whatever might be the arrangement, the details should be captured in an agency agreement between the two. Moreover, such arrangements cannot be in violation of the legislative devolution of functions and responsibilities to the LGs. In other words, where a particular matter has been devolved to the LGs under the law, the agreement cannot position the LG as the agent of the parastatal. On the other hand, the parastatal has to be the agent of the LG.

(c) Parastatal management should have a clear representation from the LGs concerned.

(d) LGs should be delegated powers and given the choice to select their capacity providers:
In spite of the transfer of departments and schemes to the PRIs, most departments still work in accordance with hierarchical technical guidance rules. For instance, even when the PWD was bifurcated into a ZP Engineering sector and a State sector and subsequently the ZP Engineering department and the Public Health Engineering Department (PHED) were merged to form the Rural Department Engineering Division (RDED), manuals that provide for a hierarchical system of examination of estimates have remained unchanged. There must be greater choice to the PRIs to undertake their works, instead of totally relying on government departments or parastatals. Section 113 of the KPR Act has already been amended in 2003 empowering the government to enable Panchayats to hire technical support from outside the government department. This intent of this section must be operationalised now and necessary rules enacted to enable Panchayats to decide how they want to deliver the services and to whom they need to outsource their works.
e. Once Activity Mapping is approved, then technical rules should be modified to bring them in line with the powers and responsibilities given to the LGs. All technical codes starting with the PWD code should do more than merely prescribing financial limits determining what needs to move upward for technical scrutiny and allow for greater transparency and leeway at the local level for estimating costs and executing works. In particular, technical codes must be modified to suit situations where projects are taken up with greater participation and involvement of the people and civil society groups. As people are going to contribute in greater proportion to such projects, they must be given the right to decide what should be done, how to do it and at what cost. In the existing projects built on community participation, operational norms have already been developed around the concept of marrying technical correctness and compliance to standards, with greater local flexibility in the choice of technology and use of locally available material. Such examples can be adopted for universal application.

(f) We recommend that even if there are specialised agencies that provide such services, given that these are essentially municipal service, municipalities must be given the choice of choosing their contractors for providing these services in the interest of economy and efficiency. We concede that since over time infrastructure for various services has already been built up, the flexibility in this regard may be limited. However, over time, it is necessary to unbundle these historical commitments to ensure greater choice and freedom for Municipalities in contracting various public services. In the final analysis, Parastatals will have to divest their monopoly privileges and compete for the task of providing services.

**Setting standards for service delivery, regulating quality and enforcing compliance with standards:**

4.12. Once activity mapping is completed and accepted, we expect that a new paradigm for service delivery arrangements will be put in place between the local governments and the parastatals. These arrangements would fundamentally be based on contractual
agreements, which state out the inter-responsibilities of local governments and the parastatal. However, a cornerstone of the new arrangements would depend upon the mechanisms of enforcement of these arrangements. We suggest that the local government Ombudsman should also be entrusted with the powers to enforce contracts entered into between parastatals and other service providers with the local governments.

**Decentralised participative planning:**

4.13. The next aspect that needs to be addressed is the structuring of decentralised and participative planning mechanisms, from the people upwards. An Expert Group headed by Shri V. Ramachandran on participatory planning was constituted by the Ministry of Panchayati Raj, Government of India in 2005. The report of the Expert Group\(^1\) contained several detailed recommendations as to how to institutionalise a process of participatory planning from the grassroots upwards. In continuance of the recommendations of this report, the Planning Commission's report titled "Manual for Integrated District Planning" lists out in detail the modalities of the preparation of participative decentralised district plans from the grassroots upwards through the ward sabhas and area sabhas in rural and urban areas respectively, through the local governments and culminating in a district plan prepared by the DPC. We recommend that the State should accept the detailed workflows in respect of district planning, as given in the district planning manual of the Planning Commission, as this approach is constitutionally compliant and suited to a system with strong and empowered local governments.

4.14. The focus of decentralized planning should be on the outputs and outcomes to be achieved from the allocation of resources for various services, schemes and projects. Often, statements of aggregate outputs or services may exist, but there may not be realistic exercise of providing access to them by location or beneficiary groups. The time dimension of service delivery is also important. Multi year projects and schemes call for annual milestones that can be incorporated into annual budgets. It will be extremely difficult under these conditions to hold any agency or officials accountable for results.

\(^{14}\) March 2006
Detailed planning that specifies outputs within given time frames along with an assurance of the required resources and skilled personnel is the starting point for effective and efficient service delivery.

4.15. While DPCs have been set up, there is a need to undertake further institutional design to ensure a streamlined process of district planning. In this regard, the Planning Commission manual recommends an institutional structure for the DPC under which Sector Consolidation Committees would be set up for various sectors, such as the Primary Sector, Education, Health, Poverty Alleviation, Infrastructure, Economic Development, Planning, Regulatory Services. The purpose of these consolidation committees is to consolidate the sectoral plans that emerge from the local government and consolidate them at the level of the district taking into account common needs, conflicts, dependencies etc. In addition to these Sector Consolidation Committees, an Integration Committee is also envisaged to consider all the recommendations submitted by the sector consolidation committees on inter-sectoral dependencies and decide upon these recommendations, making appropriate modifications.

4.16. Similarly, there is an urgent need to constitute the MPC for the Bangalore Metropolitan region as this is not only a Constitutional imperative but also essential to impart dynamism to Bangalore city as an engine of growth for the State. This is a recommendation of the Kasturirangan Committee and we strongly reiterate it.

4.17. In respect of the Bangalore Metropolitan Area, the Kasturirangan Committee report has also laid out the road map for planning, which is broadly consistent with 74th CAA and various committee recommendations including the Second ARC Report on Local Governance. In order to ensure that each LG in the Metropolitan area can plan for implementing their responsibilities, each of these must have a Planning Department, which even if not fully staffed, must have a critical mass to provide for the day-to-day planning and design requirements of the LG, and that can also establish and oversee contractual arrangements with external planning service providers (from within or outside government) as needed. All ULB areas that are currently under the planning authority of
SPA must be returned to the planning authority of the respective ULBs within a 12-month period. Invariably, the Master Plans must be prepared by the ULB, and be first submitted to the MPC. Any directions given by the MPC from the point of view of ensuring the fulfilment of requirements and imperatives of the notified MDP shall be complied with by the ULB concerned and the Master Plan which fully complies with such directions (if any) shall be approved by the ULB concerned. This ensures compliance with the requirements of regional planning and also safeguards the power of the individual ULBs to approve the Master Plans prepared by them without such plans being required (as is the legal requirement today) to be submitted to the State Government for final approval.

4.18. The importance of constituting the MPC, establishing its procedure and getting it to prepare the metropolitan plan will have significant beneficial repercussions on the functioning of the DPC as well. The MPC will be preparing the most comprehensive spatial plan attempted in the State. This could provide the impetus for similar district-wide spatial plans to be attempted by the DPCs. Currently, rural spatial planning has remained a grey area in spite of the fact that the ‘town and country’ planning covers rural areas as well. Therefore, there is no long term perspective on land use for rural areas. The MPC’s spatial plan will provide an excellent learning ground for establishing processes for DPCs to undertake spatial planning.

4.19. The second important benefit in establishing a planning process by the MPC arises from Article 243ZE-3 (iv) which states that the MPC in preparing the draft development plan should have regard to the extent and nature of investment likely to be made in the metropolitan area by the agencies of the Government of India, the State government and other resources- financial or otherwise. This clause gives significant powers to the MPC to proactively seek its entire budget envelop within which it has to prepare its plan. In the absence of a similar clause, the DPC’s planning process is a little tentative as it is often not done with respect to a budget envelop. The MPC’s practice of planning within a budget envelop disclosed by the departmental agencies of the government will, hopefully establish a similar practice in respect of the DPCs.
4.20. The Kasturirangan Committee has recommended that the Chief Minister of the State should be the ex-officio Chairperson of the MPC. However, some Members of the Group feel that it would not be proper for the MPC to be presided over by the Chief Minister. The Chief Minister of the State has the responsibility for planning for the entire State and not just areas in the Bangalore Metropolitan Region. At the same time, the Mayor is the elected executive head only for the area for Bangalore Mahanagara Palike (BMP) and MPC will cover the entire Bangalore Metropolitan Region (BMR) which covers about 8000 kms in and around Bangalore. Nevertheless, since BMP covers overwhelming proportion of BMR and therefore, it is advisable to have the Mayor, who is the executive head of the city government to Chair the MPC. The development of the greater Bangalore region in an orderly manner is in the interest of the Bangalore city as well and having the Mayor to Chair the MPC for the Bangalore region would be appropriate. There is a need to maintain a distinction between the city government and the State to ensure proper role demarcation and fixation of accountability. Making the CM perform multiple roles as both the head of the State government as well as the city government would compromise this cardinal principle. The position of the Chief Minister of the State should not be reduced to the role of performing the functions of a Municipal executive. There will be other MPCs in other fast urbanising areas of the State as well and having the Mayors to Chair the MPCs would be in the spirit of decentralisation, role clarity and accountability. However, this is an important issue and the decision on this must be taken after due considerations and deliberations on the pros and cons.

4.21. In our view, the committee structure of MPC needs to be strengthened on the same lines as recommended by the Planning Commission in respect of DPCs. Sectoral Committees, should be established and the list of Sectors linked with the functions as defined in Schedule XI and XII in 73rd and 74th CAA. There should also be an Integration Committee, which will consider all the recommendations submitted by the sector consolidation committees on inter-sectoral dependencies and decide upon these recommendations, making appropriate modifications. The Integration Committee will also prepare the Draft Metropolitan Development Plan, which will be sent to the State Government for comments and suggestions, and the final plan will then be placed before the MPC for approval and notification. The Integration Committee shall essentially
function as the Executive Committee of the MPC. Each of these committees will have a Chairperson, who will be chosen from among the Elected Representatives of the participating local governments in the metropolitan area, and not from the nominated members from either the Legislative Assembly or Parliament. Each Committee will also draft relevant state government departments/organisations/other key stakeholders into it as it deems fit. It is also critical to note that a credible Metropolitan Plan can only be done if it fulfils two critical criteria: first, that it is well-integrated with the next levels of plans (Master Plans and Ward/Area plans, as discussion on Plans below, being produced by lower tiers of governments/planning authorities; and second, that it has been generated in a truly participatory manner. The details of how the three levels of plans are to be produced will require adherence to a well-defined calendar of planning. Hence, it is critical that the MPC functioning be well defined, in order that it can fulfil its central mandate of preparing the Metropolitan Development Plan.

4.22. In order to operationalise the recommendations made by the Kasturirangan report, there is a need to provide further details on the regional institutional architecture. If the many nuances to the actual creation of plans are ignored, it can result in a set of bureaucratic institutions that are established, but make no real difference to governance outcomes on the ground. The final output of the Metropolitan Development Plan may consist of the following sub-plans:

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<td>a</td>
<td>land and housing plan</td>
<td>Sectoral Committee on Planning and the Sectoral Committee on Poverty Alleviation</td>
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<td>economic plan</td>
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<td>physical infra plan</td>
<td>Sectoral Committee on Infrastructure</td>
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<td>d</td>
<td>transport and connectivity plan</td>
<td>Sectoral Committee on Infrastructure, working in coordination with the UMTA¹⁵.</td>
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<td>e</td>
<td>social infrastructure plan</td>
<td>jointly by the Sectoral Committees on Education and Health</td>
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¹⁵ this is consistent with the view expressed by the 2nd ARC in its report on Local Governance, reflecting the importance of transportation planning to the overall land-use planning process (section 5.4.4.5.15, page 269)
4.23. This structure of mapping committees to plan outputs will prevail for all three levels of plan outputs. However, any set of recommendations of the sweeping nature as above will require a few years to navigate through the due process of debate, followed by the necessary statutory and legislative work, before the appropriate institutional architecture gets established, from the grassroots up to the metropolitan level. Hence, a set of interim actions should be taken to make a transition to evolve a robust planning system, even as the right institutional mechanisms are created. It is assumed that this transition period will take 5 years, a sufficient window of time for all necessary changes to be implemented, given adequate political will and administrative support. Keeping this in mind, what follows is a set of recommendations on the production of plans that require a minimum set of critical institutional re-organisations, realistically implementable in a timeframe of one year (November 2010). With this minimal set of changes, a reasonably robust set of plan outputs can be generated by March 2013, for the period 2013-2033, thereby ensuring that development in the metropolitan area takes place in a planned manner, even as the longer-term institutional architecture is being established. This final institutional arrangement can then take ownership over the plan outputs via a review/revision process, which would be a logical timeframe since five years would have passed by then, an appropriate window for plan revision. If the timing of this exercise were to be done such that the first set of plan outputs were ready by March 2013, and revisions were to take place by 2018, these dates would be synchronous with the overall Plan periods at state and national levels. This process allows for a seamless transition from the fragmented, dysfunctional arrangement that exists today, to a coherent institutional architecture in the future. The following are specific steps to be undertaken:

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<th>Environment Plan</th>
<th>Sectoral Committee on Regulations</th>
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a. The MPC to be constituted for the BMR and BMRDA be notified as its technical secretariat, and regulatory authority

b. The entire metropolitan area be covered by SPAs, in a manner reflecting closely the future arrangement of ULBs, such that the role of each SPA will be folded into the appropriate future ULB being created for that area
By March 2013: a Metropolitan Development Plan, as well as Master Plans for each PA/SPA in the region. For this, several activities will have to happen in parallel, over the 3 year period between March 2010 and March 2013 as follows:

i. Establishment of MSDC, and creation of base map of the metropolitan area.

ii. Each SPA to collect all relevant Sectoral Data

iii. MPC to produce draft Metropolitan Development Plan

iv. PA/SPA to produce draft Master Plans and ward/area plans, in consultation with their respective constituent local bodies


vi. In 2016, with the appropriate institutional architecture in place for integrated planning, a revision of the Master Plan can be undertaken over a 2-year period. This detailed exercise will be comprehensive, participatory and coordinated across all three levels of the planning process. Such a process will also ensure that there is a tight integration between Plans and Annual Budgets of all institutions, from the local level to the State level

Problem of lack of qualified personnel and need for personnel planning for effective governance in local bodies.

4.24. In order that LGs function effectively, they should ultimately be vested with wide ranging powers to recruit their staff and exercise control over them. At the same time, the prevailing staff employed by the state government would be rendered surplus if the local bodies are given full powers to recruit their own cadres of officials. In the case of PRIs, purely as an interim measure, it was decided that all posts barring those at lower levels, would be filled up through deputation of government employees to them. This resulted in an uneasy relationship between officials and elected representatives, inasmuch as while the official did work under the superintendence and control of the local body, he was not fully accountable to it as he did not belong to a local cadre and always retained the option

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16 Following the detailed guidelines released by the Planning Commission in its Manual for Integrated District Planning, and reiterated by the 2nd Administrative Reforms Commission Report on Local Governance (section 3.7.5.6 page 90).
to revert to his original cadre. These arrangements were intended to be transitional, but were never changed. Consequently, officers working with Panchayats still feel that they are answerable to their departmental hierarchy, although the decision-making is with the PRI. In the case of urban LGs too there has been centralization. While D group employees are in theory, hired and fired by the Municipality concerned, they are often covered under the protection given to contract labourers and they get absorbed into permanent service. While the Directorate of Municipal Administration (DMA) continues to be the controlling authority\textsuperscript{17}, there are no norms based upon workflow studies as to how much staff is required at each level within a typical ULG. This has resulted in a situation where, in practice, there is very little for the DMA to do but to regularize the services of staff recruited in a haphazard manner by ULGs.

4.25. The way in which the posts of the head of LG administrations are filled leaves much to be desired. In rural areas, it is a common knowledge that the senior bureaucracy was uncomfortable with the approach taken in 1987, of the ZP Chief Secretary being senior to the Deputy Commissioner (DC). Not surprisingly, Karnataka soon reversed this decision and returned to the status quo of the DC being the head of the district. Recommendations to restore the seniority of the CEO of the ZP have been ignored\textsuperscript{18} since

\textsuperscript{17} His powers are currently delegated to the Deputy Commissioner.
\textsuperscript{18} The Working Group on Decentralisation, recommended that the post of CEO, being crucial to the effectiveness of decentralisation is in the district, should be filled by IAS Officers senior to the DCs. Section 196(1) of the KPR Act reads as follows:

"The Government shall appoint an officer not below the rank of the Deputy Commissioner of a district as Chief Executive Officer of the Zilla Panchayat:

This provision was further qualified through a proviso as quoted below, to permit the posting of KAS officers as CEOs are ZP's.

"provided that if a suitable officer not below the rank of the Deputy Commissioner of a District is not available for appointment as Chief Executive Officer of the Zilla Panchayat, the Government may for a period of three years from the date of commencement of the Karnataka Panchayat Raj (Amendment) Act, 1998 appoint an officer of the Karnataka Administrative Service (Selection Grade) or an officer belonging to the Development and Local Government Branch of the Karnataka General Services holding a post in a Grade equal to that of the Karnataka Administrative Service (Selection Grade) as Chief Executive Officer of the Zilla Panchayat."

This amendment came into force on 24-11-98 and the three-year period expired on 23-11-2001. In the meantime, in line with section 196(1), that an officer not less than the rank of a DC can be posted as CEO, government took a decision to post Conservators of Forest from the Indian Forest Service also as CEOs.
then. Moreover, even though the post of the CEO of the ZP was encadred with the IAS, other services such as the KAS and the Forest Service gained access to CEO posts. Today, these posts are held by a mix of offices from these services, apart from IAS officers and class I direct recruit officers from the Rural Development Department, i.e., officers recruited through the KAS examinations and assigned to the Rural Development Department. In ULGs under the law, posts of Commissioners of CMCs are to be filled by officers of the Karnataka Municipal Administrative Service (KMAS) which is a state level directly recruited service. Today, CMC commissioners come from as diverse streams as Joint Controllers of Accounts from the State Accounts Department, KAS and IAS officers and officers of the Industries Department, in a deviation from the law.

4.26. Consequent to the tendency to post relatively junior officers, or those from other departments as CEOs of ZPs and Municipal Commissioners, the DC has become their main point of contact within the district. Even more, tasks and programmes have been taken away from the Zilla Panchayat and implemented through the DC, through various ‘missions’ that are independently set up. In the case of urban areas too, the DC has been given powers of financial approval for municipal projects, higher than those given to the body, thereby leaving nobody in doubt as to who is the ultimate head of the district is. This undermines the decentralisation process, for the Deputy Commissioner does not have direct control or access over the staff that implements these programmes, as they are still on deputation to the Zilla Panchayats. It is essential that this duality and confusion in district development management is done away forthwith. This position will have to be changed through legislative and administrative measures so as to ensure that officials working at the LG levels are responsible and answerable to the body. LGs will have to be given control over staff working in their jurisdiction so that they can function effectively, execute schemes and are accountable locally.

(The latest facts have to be ascertained, i.e., whether the provision for posting of KAS officers has been extended, whether posting of other officers has been permitted under the law, etc.)

19 As a matter of detail, different streams are prescribed for different levels of ULGs. While grand I CMCS have commissioners from the grade I senior scale of the KMAS, Grade II CMCS have Commissioner Grade II. Grade I Town Panchayats Chief Officers can either be KMAS Group B direct recruits or promotees from directly recruited Grade II COs. Town Panchayat COs are either directly recruited grade II officials or promotees to that rank from lower grades.
Recruitment of CEOs of ZPs and Municipal Commissioners:

4.27. We suggest that recruitment to the posts of the head of the administration in the higher level LGs, such as the CEO of the ZP of Commissioner in Grade I municipalities, should be made from the open market on a contractual basis, for a fixed tenure, through a Local Government Services Commission, in consultation with and at the request of the ZP or Corporation concerned. Senior officers of the government, such as from those cadres that are actually now holding these posts, should also be free to apply, provided that their postings are for a fixed tenure of three years. This would help in inducting fresh talent into the system, which will not harbour any biases. Another advantage would be that such persons would be recruited for a specific period and will remain with these LGs for a long time. Such an approach will also be in keeping with the principle that these LGs are independent bodies corporate, which are competent to select professional staff for handling their responsibilities more efficiently. We strongly endorse the recommendation contained in the Kasturirangan Committee report regarding the selection of the BBMP Commissioner and recommend that the same process could be adapted for the selection of the ZP CEO also. As a matter of detail, we suggest aptitude based examinations to test the skills and attitude of the aspirants to these posts.

4.28. Just as is the case with the CEO of the ZP and the BBMP Commissioner, every Executive Officer, Grama Panchayat Secretary or Chief Officer of a TMC or Town Panchayat is central to the strengthening of governance at the local government level. Two imperatives are to be addressed; to put in place mechanisms that make the chief of the bureaucracy at the LG level more accountable to the elected body and the people and to improve their quality. Karnataka’s model of providing administrative support has been through deputing of government staff, with officials assigned to the higher level.

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20 The Kasturirangan report recommends that the BBMP Commissioner should be selected by a high powered Search Committee set up by the State Government in consultation with the Mayor. The Search Committee may advertise for the position by specifying the qualifications and experience necessary for the job and invite applications from as wide a spectrum as possible. The Mayor may appoint any one of the candidates short listed by the Search Committee, after due process. The Commissioner’s role should be redefined in the new, proposed legislation for BBMP, so has to make him responsible and accountable to the Mayor and the Corporation. The Commissioner shall have a tenure of three years.
supervising and controlling those attached to the lower tiers. Therefore, the post of Grama Panchayat secretary has been of a low level in the government hierarchy, namely, a second or first division clerk. Action is now being taken to recruit Panchayat Development Officers (PDOs), but these will still be selected by the government and be assigned to the Panchayats. We believe that the current process of centralized recruitment of GP secretaries cannot be disrupted and may be accepted as a short term measure to rapidly clear the accumulated backlog of vacancies. However, further recruitments should be on the basis of the same model as recommended by the Kasturirangan Committee in respect of the BBMP Commissioner. While it might not be practically feasible for each Panchayat or Municipality to set in motion an independent process of selection of its Secretary, it would be useful to create a local service commission that is entrusted to select the Local Government Secretary, in consultation with the local government concerned. While providing for the government mandated reservations to these posts, we also believe that there must be special efforts in recruiting more women to work as LG Secretaries. Currently, though almost 43 percent of Panchayat members are women, hardly 1 percent of Grama Panchayat secretaries are women. Those women recruited as Grama Panchayat secretaries are generally posted at desk jobs and rarely work in the field. This serious imbalance could result in gender insensitivity in the preparation of decentralized plans and their execution and needs to be corrected.

4.29. With respect to other staff, the deputation of staff to LGs is an imperfect substitute to giving them complete control over staff assigned to them. Therefore, all LG staff requirements from Government departments should be on permanent secondment or absorption basis as an immediate short-term measure. The government should determine the normative criteria by which the number of posts can be determined, as also the qualifications for various posts. Once these are determined, recruitment to these should be undertaken in the manner suggested in this report.

4.30. The Expert Group on Participative district planning of the Ministry of Panchayati Raj made the following recommendations with respect to the Staff of PRIs. These recommendations have been accepted and endorsed by the Empowered sub-Committee of the National Development Council on Administrative and Financial Strengthening of the Panchayats and we endorse them:
(a) Administrative and Legislative measures should be taken for the creation of local cadres so that LGs can function effectively and execute schemes. A common fear expressed is that objectivity suffers through local recruitment. It is feared that district level cadres may suffer from too much proximity with local politicians, and imbibe the local social ethos to the extent that it hinders their objectivity. While this may be true to some extent, there are limitations in always recruiting staff from outside the district. First, this often does not really work in practice. There is an increasing tendency amongst staff, even if recruited on a statewide basis, to gravitate towards their home districts, often by bringing political pressure to bear. We believe that in the overall analysis, decentralized recruitment is appropriate for the effective running of LGs and the fear of a lack of objectivity is overstated. The general comfort that a person experiences while working close to familiar surroundings is likely to create the necessary well being required for a person to become an effective official.

(b) There must be an appropriate mechanism for ensuring convergence and cross-departmental movement particularly of Group D and Group C ministerial level.

(c) One fear is that decentralized recruitment into local cadres limits exposure and thereby restricts the possibility of gaining experience elsewhere. In order to take care of this, we suggest that local cadres ought to be loosely ‘federated’, so that arrangements can be made for staff to be exchanged through a process of deputations, thus ensuring that staff gets opportunities to appreciate newer ideas and also learn from new experiences. We also suggest that while creating local cadres, a system of transfers that ensure a prescribed mandatory level of cross-district experience should be introduced.

(d) A major issue concerning having district level recruitments and cadres is that since these cadres are smaller, opportunities of growth through promotions tend to be restricted. This is particularly important where government service is still seen as a permanent occupation. Therefore, while designing our system of local cadres, we must ensure that opportunities are provided for the good to rise to higher levels. Doing so through time bound and routine promotions are an outdated system and reduces the incentive to perform well. What we envisage is a system that allows stars to rise, provided that they do so through adherence to excellence. The idea would be to have an independent board, the Local Government services commission, which works in a similar manner as the Public Enterprises Recruitment Board of the Government of India. We recommend that above certain levels, posts can be reserved only for direct recruitment, with the option for those within or outside the government to apply for recruitment. Such a system would allow those with the necessary ability currently occupying a lower level in the hierarchy, to climb faster. Such a system will also expose in-house staff to the pressure of competition with outsiders for higher jobs on a sustained basis.

(e) LGs should be allowed to secure the services of qualified technical personnel to undertake their works.

(f) Attendance of officials to be invariably monitored by respective LGs.

(g) Salaries to LG functionaries should be invariably paid through the LGs concerned.
(h) In the case of Grama Panchayats, full time staff consisting at the minimum, a full
time Secretary, an Accountant and at least two Assistants should be provided to
Panchayats.

(i) There must be an emphasis on recruitment of women as Secretaries of Gram
Panchayats.

4.31. The above reforms will have to be undertaken by making changes in the C&R
rules of the various departments. However, this has to be done quickly and transparently,
so that there are no allegations of bias. Unfortunately, steps in this direction have been
long and drawn out. For instance, the RDPR department’s C&R rules have been on the
anvil for several years, In the UDD, there are different C&Rs for each of the 7
Corporations. While rationalisation has to be undertaken, the State has to avoid the
temptation of further centralisation, such as retaining unilateral powers to transfer people
from LG to LG. If these retrogressive ideas are allowed to persist in these exercises, we
fear that the situation will be worsened, rather than moving forward.

Local bodies versus district administration:

4.32. With CEOs of ZPs and Municipal Commissioners being appointed in the fashion
recommended above, the role of the DC should be restricted to that of enforcement and
regulation. In particular, he cannot be entrusted development tasks that squarely fall
within the responsibility of LGs, and empowered to implement these through a plethora
of societies or missions.

Capacity building for planning:

4.33. In respect of planning, there is a need to create a permanent secretariat for the
DPCs and MPCs. In respect of the former, this can be achieved by integrating the offices
of the district planning officer, statistical officer and the officials of the town planning
department into the secretariat of the DPC. In addition, provision must also be made to
induct academicians and other technical institutions to assist the DPC through contracted
services. In case of the MPC, we endorse the recommendations of the Kasturirangan
Committee to make the BMRDA the secretariat of the MPC. At every level of LG, there
is a need to create expertise to undertake the various steps in participative planning. This will have to be done through hiring technical support agencies such as NGOs to provide this support. However, there is a need to exercise caution as such TSAs could actually be counter-productive in case they try to dominate the LGs themselves. The best way is to have the DPC empanel these and allow the choice of hiring these to the LGs themselves. Both the SIRD and SIUD could also create panels of experts who could be hired by the LGs to assist in local planning.
(V) **Ensuring Accountability and Improvement in Service Delivery:**

5.1. Timely monitoring of implementation and corrective action in the light of the information is another area that deserves priority attention. Here, the challenge is to extend this practice from the monitoring of expenditures to that of outputs and services. The main problem here is the multiplicity of output indicators that can make the exercise complex, given the measurement problems and the limited skills available at different levels of government. But the approach should be to start with simple measures and make them more complete and precise over time. There is a lot of evidence that when outputs are quantified and compared, service providers do sit up and take notice. More importantly, those responsible for monitoring and supervision will now have the information required to assess the progress, recognize good performance and penalize poor performers. The oversight function of governments can be greatly enhanced through such practices.

5.2. Local governments responsible for mandatory functions should be equipped to make monitoring a part of the implementation exercise, and make the results known to their citizens. It is through transparency of this kind that citizens will learn and demand greater accountability from their service providers. Central and state schemes also need to display a transparent approach so that people are aware of the budgets being allocated to different local governments and the services/outputs expected to result therefrom.

5.3. Once performance monitoring is put in place, a logical next step will be to use the results to build in incentives in the organization to sustain and improve services and outputs/outcomes. Additional grants, awards, etc., can be tied to the performance assessments of local governments. Often the information used to decide on such grants are internally generated, and input oriented. In judging performance, it is important to incorporate user feedback on the services being delivered so that the quality and responsiveness of agencies can also be gauged. Some governments have already started using this approach with good results. Since local governments have the most interactions with citizens, it is imperative that their feedback is systematically taken into account in
assessing the relevant dimensions of service delivery. Accountability to the people will emerge only when governments are willing to listen to the “voice” of the people.

**Citizens participation in LG governance:**

5.4. With a greater thrust on closing the infrastructure gap, we can expect that the state will achieve accepted norms of levels of physical infrastructure in the near future. However, by this alone we would not achieve satisfactory levels of service provision. Providing acceptable levels of services necessitates a high level of soft investments, which even if they may not be as large in financial terms, requires a high degree of continuous management and improvement. Apart from bringing into position enforceable contractual arrangements between service providers maintaining the quality of services also require putting in place good systems of downward accountability.

**LGs and civil society collaboration: Relationships with user groups, self help groups and NGOs:**

5.6. Another aspect of LG outsourcing services would be the increasing involvement of civil society in planning and execution of plans. Typically, such linkages have followed the path of encouraging, even creating civil society institutions that proactively implement, run, or regularly monitor service delivery efforts. Such efforts also seek a modicum of local contribution to leverage the availability of government allocation to put up assets. While these are steps in the right direction, some design shortcomings will need to be addressed. Most existing programmes do not look into the relationship between the implementing bodies and PRIs closely enough, leading to the existence of grey areas that lead to confusion later on. Most of such schemes also envisage different degrees of involvement of an LG or user groups at different stages of implementation. While quite often, user groups are involved in the choice of work, they are not assigned

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21 Sectors that lent themselves well to this kind of design were the rural water supply augmentation programme and the sanitation programme,
as much responsibility in the execution or monitoring of quality in execution; works are usually given to an external contractor through a centralized process and monitoring done by a departmental agency. This is likely to create problems when the asset is subsequently handed over to a local PRI or user group for maintenance. Poor definition between LGs and citizen level bodies such as ‘user groups’ results in the two often regarding each other with suspicion and the relationship breaks down when outside support is withdrawn. We need to develop simple, consistent frameworks and ground rules for such collaborative arrangements to flourish. Ideally, legal sanction for such participatory mechanisms through gram sabhas in rural areas and ward sabhas in urban areas will need to be further clarified through activity mapping.

5.7. In urban areas, there is also a case for decentralised enforcement of regulatory directions and compliance with rules. There should be a three-tier system of enforcement, consisting of the Ward Committee as the first level of enforcement, closest to the actual location of violations. The WC must be authorised to hold hearings, serve notice, recommend appropriate punitive action against violators of notified plans, and steps for reversal of the violation to the ULB b. The ULB/SPA is the second level of enforcement, acting upon recommendations from the WC, and as the first appellate authority to address disputes arising out of WC decisions. The MPC shall act as the third level of enforcement, acting on ULB/SPA recommendations, and as the appellate authority to address disputes on ULB/SPA decisions. Any disputes that cannot be settled by MPC can move to the judiciary.

Monitoring, Information systems and capacity building for governance and planning:

5.8. If the vision that we put forth becomes a reality, a wide range of activities and considerable funds will be spent at the LG levels. This in turn will require a complete overhaul of the monitoring and coordination systems at the metropolitan, LG, district and state levels. A system of tracking and monitoring from Expenditures to Outputs will need to be put in place.
5.9. Regarding accounting systems, the CAG has made recommendations to standardise the maintenance of accounts at the local level so as to conform to central/state accounting system. Both in the case of urban and rural LGs, considerable efforts have gone into standardising the accounting system. However, these efforts have proceeded in parallel tracks. Given the push towards greater coordination of urban and rural planning, and the increasing interconnections between the two, there is a need for further integration of the accounting reforms in urban and rural LGs, so as to create a common platform for accounting for LGs as a whole.

System to be put in place to ensure fund flow and tracking.

5.10. Both Central and State governments follow hierarchical and multiple patterns for allocation and release of funds to LGs. Such multiple levels of allocations and release result in irregular and untimely release as well as floats within the system. Consequently, it is difficult to track diversion of funds. There is no comprehensive centralized system to produce standardized MIS reports and policy evaluation. Since expenditures are monitored on the basis of bunched up utilization reports, there is no mechanism for judging the best performing LGs based on project implementation and spending.

5.11. There is an urgent need to establish a system for tracking expenditures related to the various plan schemes being implemented across the State. Such a system will both enable effective monitoring and scheme wise allocation and release of funds. It will allow evaluation of outputs and outcomes, better budgeting practices at local levels and better planning and decision making by the local governments. It will maintain time-series information related to each LG, which will enable in evaluating their performance. It will ensure timely disbursement of funds to LGs, thereby reducing the float. It will provide near real time information on the utilization of funds and will facilitate monitoring of expenditure outcomes up to the last LG. A web based integrated solution should be put in place that will track up to the last mile, allocation, authorization, disbursement and utilization. Apart from LGs, all State and local monitoring and implementing agencies and beneficiaries will be part of the network and will be able to monitor the outcomes,
utilization and fund status through near-real-time availability of information about all entities and programs.

**Ensuring regular audit.**

5.12. Regular audits of LGs are predicated on the preparation of accounts in a timely fashion. In Karnataka, several reforms have been undertaken in order to speed up urban and rural accounts. Both Urban and Rural LGs are moving to an accrual system of accounting and computerisation of accounts is in full swing. We endorse and welcome these reforms and suggest the following additional steps to complete the process of accounts preparation.

5.13. In rural areas, accounts of Grama Panchayats are being prepared in a decentralised manner, with Chartered Accountants hired for this purpose for every two or three Panchayats. We believe that while this system has yielded dividends, it could be further streamlined if all Grama Panchayats are provided connectivity and a central accounts processing system put in place to undertake the common back-end tasks of accounting. This provides economies of scale. It also means less effort in training and deployment of staff, because at the front end, they only need to be trained in entry of expenditure and income vouchers and all classification and compilation is done by the back office.

5.14. Accounts of the Taluk Panchayats still pose a problem for two reasons. First, they have three kinds of expenditures, namely, those incurred by them directly, those that they incur as agents of the Zilla Panchayats and those that are pass-through payments to GPs. Second, Taluk Panchayats have not been provided with independent accounting staff and they are still dependent on the Zilla Panchayat accounting set up for preparing their accounts. Delays in the preparation of Taluk Panchayat accounts thereby delay the overall yearly audit of the Panchayat system. We recommend that the Taluk Panchayats should be provided with independent accounting staff, which will enable them to maintain their own accounts as they are also an independent level of Local Government.
5.15. One of the critical issues regarding audits is the final oversight of these at the State level. Currently, it is the State government’s local fund audit department that audits the GPs. ZPs and TPs are audited by the C&AG. Because of this dual approach, the GP audit reports are not placed before the Public Accounts Committee. Earlier, this dual arrangement did not matter much, because the GPs undertook most of their expenditure as agents of higher level LGs. However, this has to change in the light of the fact that GPs are now undertaking significant level of expenditure independently. We therefore recommend the establishment of an audit commission to oversee the audits of GPs conducted or similar such regulatory bodies at the State level. The State Local Fund Audit Department should come under the supervision of the State Audit Commission. The report of the State Audit Commission should also be placed before the LG Public Accounts Committee, discussed more fully below.

5.15. Currently the Public Accounts Committee of the State legislature holds the departments of urban and rural development accountable for the adverse observations made by the C&AG on LGs. This is a contradiction in terms, because in case the LGs are to be as independent as constitutionally envisaged, then they alone, and not State administrative departments concerned, can be held responsible for their omissions and commissions. We believe that if state level departments are held accountable for the misdemeanours of the LGs, then the tendency to control them will persist. There is a need to recognise that the LGs are an independent level of government and therefore, are accountable individually for their own misdemeanours. We therefore recommend that arrangements may be made in State Legislatures for the establishment of LG Public Accounts Committees to exercise oversight and monitor the expenditures of LGs. In turn, the LGs shall be answerable directly to this committee for the audit observations that concern them.

Activating social audit.

5.16. Social audit is an important complement to formal audit and essential for the sound and healthy development of Panchayati Raj. While in Karnataka social audit is
typically undertaken at the level of the Grama Sabha, named as the Panchayat Jamabandi, it also needs to be undertaken at higher levels of the Panchayat Raj system. Moreover, there is no corresponding mechanism for social audit in urban areas, which is a big lacuna in the urban governance system. For social audit to be effective a Social Audit Policy should be prepared to provide a framework within which social audit is undertaken. Such Social Audit Policies may be targeted at facilitating popular participation in fighting corruption in LGs, as also complementing formal audit processes by quality assessment, ascertainment of preferences and the provision of choices. At the same time, Social Audit Policies may provide for measures to prevent needless harassment.

5.17. The Economics and Statistics department will need to set up a specialised cell to compile information geographical, demographic, economic and fiscal data for all rural and urban local bodies.

5.18. There is need for the establishment of a data aggregation agency at the metropolitan level. One way to address this is through the creation of a Directorate of Metropolitan Economics and Statistics, under the Department of Economics and Statistics of the State Government, reporting to each MPC in the state. The DMES will be a service provider to the ULBs in the MA on key statistics in each ULB - GDP by sector, employment data (jobs/unemployment) by sector, housing starts/completions by category, births and deaths etc. it will compile this data from various departments, and publish on a monthly/quarterly basis.

5.19. It is impossible to ensure that systematic planning takes place in the region without the establishment of a Metropolitan level Spatial Data Centre as a separate institution, with a direct institutional linkage to the BMRDA. The MSDC will form part of the technical support that BMRDA will provide to the MPC for planning and will be mandated to be the sole service provider for all GIS-services to all agencies/departments for their needs in the MA. It will be responsible to:

a. Create a central repository of spatial data for the MA that all agencies within the MA will use
b. Become the procurement agency for any GIS needs of any agency/dept for the MA
c. Set data standards and scales, consistent with NUIS standards and other standards as applicable
d. Specify data requirements for two needs - planning and urban management

e. Access best talent and agencies in the public and private sectors in producing this data.

**Controlling Corruption**

5.20. The governments at the village and municipal level impact on the lives of people much more than at the State or Central level as they are required to provide basic services needed by the people in their daily lives. If they have to pay bribes to get these services, it will create a demoralising impact. Indeed, corruption at all levels is bad and at the lowest level of government, it impacts overwhelmingly on the poorer sections of community. This has a demoralising effect on the citizenry.

5.21. There is considerable apprehension among the citizenry regarding corruption in urban local bodies in the state. Corruption at local levels impacts on the every day life of the people and can have serious political, social and economic repercussions. It is therefore, important to institute mechanisms to minimise corruption through both preventative and remedial measures. The strategy to combat corruption should identify what the sources of corruption are and institute checks and balances to minimise the scope for corruption. Similarly, the penalty for those indulging in corruption should be exemplary so as to deter the offence.

5.22. There can be a variety of ways in which corruption can exist at local levels. In fact, given that local governments have monopoly powers to provide local public services and a number of these services are in the nature of quasi-public goods, it is possible to exclude those who do not pay the bribe. In such cases, the monopoly power will be exploited by the corrupt elements to demand the bribe. In the absence of effective checks and balances, the cancer of corruption can spread into the provision of every service. Principally, corruption in urban areas can arise from the powers to issue licenses for shops and establishments, issuing permissions for altering land use pattern, approving building plans, awarding contracts and in administering taxes.

5.23. A major factor that can deter corruption is the generation of information, its sharing. Transparency is an extremely effective instrument to deter corruption. In an age where the technology permits the creation of information and its sharing among wide
sections of people. The Right to Information Act enables the information to be kept in public domain, but there is always a strong resistance from the interested groups to keep the system opaque. All efforts must be made to generate information about all activities of the local governments and the various services provided them and create systems to share them widely in a transparent manner.

5.24. A clear and transparent set of norms and regulations on land use and buildings would help to contain corruption. Similarly, clear licensing rules and mandating that the licenses must be given within the prescribed time limit if all the requirements are fulfilled would streamline the process. It is important to use the information technology wherever possible to minimise human interaction and this is particularly true of tax administration. Strengthening the procurement laws and systems and ensuring transparency can help to minimise corruption in this areas. Equally important is the penalty rate when corruption is detected. Whenever irregularities are found, it is necessary to give this a wide publicity because ‘naming and shaming’ can be a deterrent. Furthermore, law should be passed to debar the politicians from contesting all elections and to dismiss the officials indicted for corruption.

**Creating an LG Ombudsman:**

5.25. The Working Group on decentralisation (2002) recommended the setting up of an Ombudsman as an independent regulatory authority to investigate misdemeanours in the field of administrative activity and complaints made by individuals, groups and even the Government relating to defective administration by local bodies. This proposal was not pursued as the Lok Ayukta held the view that with adequate support from the government, it could take on this task. Even though this suggestion of the Lokayukta was accepted, till date, it is hanging fire and has not been implemented. We recommend that the State sets up the institution of Ombudsman without any further delay, or empowers the Lokayukta with powers and a district wise establishment to perform the task of the Ombudsman. The Ombudsman should be a common one for both urban and rural local governments and should be also empowered to adjudicate in cases of breach of contract between service delivery agents contracted by the LGs, including parastatals.
5.26. We believe that the institution of the Ombudsman would go a long way in upholding the rights of the citizen even while protecting the autonomy of the elected body against possible intrusion by the executive. The Ombudsman would provide a strong system of checks and balances required to make the system work with greater efficiency.

Information Technology and e-Governance for Local Governments:

5.27. In spite of Karnataka’s reputation as an IT development hub, its e-governance programme for LGs reveals a mixed picture. While on the urban side, commendable progress has been seen by way of accounting computerisation, on the rural side, the opportunity has been regrettably missed. While nearly all GPs have computers, they are merely used for documentation and plans for software rollout have been terribly delayed. Websites of the Departments of urban and rural development are also indicative of the stop start approach. While initiatives such as Samanya Mahithi were started to make available to the public statistical data on a Panchayat-wise basis, they are hardly used by the Panchayats themselves for planning and implementation. The data on the web seems to be more to satisfy audiences and academics that IT is being rolled out, but as respects actual users, such as the general public or the LGs themselves, there is hardly any evidence that use of IT has made the intergovernmental system transparent. Things that really matter, such as real time data on releases and expenditures of funds and spatial maps still remain out of reach of governments at all levels, in spite of treasury computerisation.

5.28. The blunt fact remains that while websites are created with alacrity, too little thought and effort goes in to maintaining them or updating data. There are several blank
formats and incomplete data on web based formats. Thus, time wasting by using manual methods of paper reporting continue.

5.29. The State needs to take a re-look at its IT strategy for LGs. On the rural side, packages such as accounting, property tax estimation etc., which have been on the drawing board need to be deployed and rolled out. Considering each Panchayat as a self-contained unit for the rolling out of computerisation is inefficient and has not shown results. The State should put in place centralised platforms and data processing centres, rapidly complete the provision of connectivity to the Panchayats and deploy software that is already ready, on the same lines as for urban areas. This will enable Panchayats to actually deliver IT enabled services.

5.30. There is widespread IT illiteracy in Karnataka, particularly at the middle and higher levels of government. When top managers in the departments of urban and rural development are not habituated to using the net, or are unable to undertake simple analytical tasks on computers, there is little hope that staff below will master these skills or make them second nature.

5.31. The websites of both the urban and rural development departments need to be redesigned professionally. The latest in platform and portal development in e-governance, should be adopted. The tendency to put documents in scanned non-manipulable form should be eschewed. Finally, if e-governance is to make a difference to the way transactions are undertaken between the State and the local governments, there must be a concerted effort, starting from the top, to instil IT usage skills.

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22 A random check of the RDPR website shows such data gaps in Pragathi, its expenditure reporting software. Moreover, data that is reported on Pragathi is still manually collected and not reported online, because individual Panchayats do not have connectivity.

23 Such as the data.gov website of the US government, which adopts cloud computing techniques to provide raw data streams that can be used by a host of users for analysis and research.
VI: Issues Relating to Fiscal Decentralisation:

6.1. Under Articles 243G and 243W, the Legislature of a State may devolve powers and authority to the panchayats and urban local bodies to enable them to function as institutions of self government. They have been devolved functions and responsibilities to undertake the “preparation of plans of economic development and social justice”, in their respective jurisdictions and a list of 29 matters have been indicated for devolution to panchayats in the Eleventh Schedule to the panchayats and 18 matters to urban local bodies under the Twelfth Schedule. The functions listed in these schedules are the ones either in the State list or the Concurrent list of the Seventh Schedule.

6.2. Some important observations relating to the functional domains of the panchayats and municipal bodies must be noted. First, the listed items in the schedule concerned are identical for all levels of panchayats and municipal bodies – the municipal corporations, municipalities and Nagar Panchayats. Second, the extent of devolution of matters to the panchayats and municipal bodies is at the discretion of the State government. Therefore, even when the State government devolves all matters listed in the two schedules, it is possible for it to retain control over these functional domains by devolving only minor functions relating to these matters to local governments. Third, as the listed items in the two schedules are the ones in either the State list or the Concurrent list, there is considerable concurrency and overlap in the functions not only between the State government and the urban and rural local bodies, but also between the Central government and the local bodies. This creates problems in assigning responsibility for the provision of specific services to specified level of government and ensuring accountability for the same.

Assignment of Functions

6.3. As important precondition for effective decentralisation is clarity in assignments. There is considerable overlap in the assignment of functions not only between the State government and panchayats but also among the three tiers of panchayats as well.
Similarly, overlap in the functional domains of the urban local bodies and the state
governments has been a source of ambiguity. The problem is particularly acute in capital
cities in the States where the overlap in functions between the state government and
Municipal Corporation makes the system opaque. We have already referred to the need
to undertake periodic activity mapping for the different urban and rural local bodies in the
state. A detailed analysis shows there are several activities in which the local
governments have a comparative advantage are still with the State government.

6.4. There is nothing wrong with concurrent assignment of powers if there is clear
demarcation of functional domains. Clarity in assignments is like assigning property
rights which is essential for both efficiency and accountability in public service
provision. When there are concurrent assignments, clarity in functional domains is
achieved by undertaking activity mapping of the functions to municipal, State and
Central governments. In the case of rural local governments, the initiative of Ministry of
Panchayati Raj has helped to undertake activity mapping for district, block and village
level panchayats in many States. Although this is far from being perfect, it has helped to
achieve a measure of clarity in the functional domains. However, much remains to be
done to initiate action on to undertake activity mapping for urban local governments. As
the nature of functions and the capacity to undertake them differ with the population size
of the municipalities, separate activity mapping exercise will have to be undertaken for
Municipal Corporations, Municipalities and Nagar panchayats. We would like to
reiterate the recommendation that activity mapping should be done in the case of urban
local governments and panchayats immediately, and periodically. This is necessary to
ensure clarity in the assignments which in turn is a precondition to achieve efficiency and
accountability in the provision of local services in local of the State.

6.5. The analysis of the functioning of panchayats since 2003 showed that much of the
fiscal devolution to panchayats was capsuled in terms of various schemes. First, the
nature of devolution shows that they are primarily implementing agencies for Central and
State schemes rather than independent local self governments providing public services.
Second, multiplicity of schemes within each of the sectors causes minute splitting of
expenditures, overlapping and duplication. This also results in lack of flexibility and
inefficient allocation of resources. Third, a multiplication of schemes results in
multiplication of bureaucracy, segmentation of service provision and thin spread of resources. It also brings in inflexibility in the allocation of resources. Any serious reform in rural fiscal decentralisation in Karnataka should therefore, attempt to consolidate these multiple schemes, untie the funds and enable the panchayats to provide public services more efficiently. Despite attempts to consolidate the schemes into meaningful categories and unbundling them to provide greater flexibility to the panchayats, the problem persists and the issue needs to be revisited in the medium term. It is necessary to revisit the task of unbundling and consolidating various Central and State schemes and use the specific purpose transfers to ensure more efficient allocation of funds.

6.6. A major development in service delivery in both urban and rural areas of Karnataka is the emergence of independent service providers bypassing the elected panchayats and municipal bodies. There are a variety of reasons, some of them legitimate, for the emergence of such specialised agencies. The practice of central government directly transferring funds for various Central schemes has led to the creation of several independent implementing agencies. In some cases dissatisfaction with the provision of a particular service by the urban and rural local governments can be a reason for creating a specialised agency. In some cases, such agencies are created to insulate policy making from political considerations. Whatever be the rationale, it is important that the decisions relating to public service delivery must be subject to the supervision by the elected body. Even if it is desired to have a separate service providers, it is necessary to subject them to the accountability system of elected rural and urban local governments.

6.7. Cities are centres of economic dynamism in every region and Karnataka is not an exception. The extent to which the cities can galvanize innovation and dynamism and accelerate the growth process depends on the standards of basic services provided, nature of policies, quality of institutions and tolerant and open social environment to facilitate creative social and economic interaction. Agglomeration economies in the cities depends on sustained provision of wide range of services provided such as water, sewers, garbage collection and disposal, drainage systems, police and fire protection, transportation, parks, recreation and culture, affordable housing and social assistance. In addition, conducive institutional climate is created by ‘knowledge workers’ and they can be attracted only with policies to accommodate diverse cultures and those that do not
discriminate between locals and outsiders and factors that improve the quality of life such as high quality schools and healthcare facilities, social and cultural activities, recreational opportunities and safe and strong neighbourhoods. Equally important is the political mechanism and governance system that responds to the requirements and needs of the people swiftly without entailing heavy transaction costs.

6.9. Analysis shows that the standards of public services provided by local bodies in the State both in urban and rural areas are grossly inadequate. A recent study by the Reserve Bank of India on 30 large Municipal Corporations in the country for 1999-2000 shows that as compared to the Zakaria Committee norms, the extent of under spending in Bangalore city is about 75 per cent. There is no indication to show that the situation has improved since then\(^{24}\). The situation is not very different in other urban centres either.

6.10. Under the JNURM, the state can receive funds up to 35 per cent in cities with more than 40 lakh population, 50 per cent in cities with more than 10 lakh but less than 40 lakh population and 80 per cent in other smaller towns. The admissible components for assistance under JNNURM include urban renewal, sewerage and water supply, solid waste management, storm water drainage, urban transport, parking spaces on PPP basis, development of heritage areas, prevention and rehabilitation of soil erosion, and preservation of water bodies. The grants under the scheme are linked to reforms both at the State and at municipal level. The municipal level reforms include introduction of accrual based accounting system, reform of the property tax by using the GIS information, levy of user charges to recover 100 per cent of operation and maintenance charges, provision of basic services to urban poor and internal earmarking of budgets for the purpose. The State level reforms under JNURM include enactment of public disclosure law, full implementation of the provisions of 74\(^{th}\) Constitutional amendment including the setting up of District Planning Committees (DPC) and Metropolitan Planning Committees (MPC), enactment of community participation law, associating elected representatives with the function of city planning, repeal of urban land ceiling act and reform of rent control act, and rationalisation of stamp duty to bring it down to no more than 5 per cent within the next five years. In addition, there are optional reforms

relating to revision of bye-laws, simplification of legal and procedural frameworks for conversion of agricultural land for non-agricultural purposes, earmarking of 20-25% of developed land for economically weaker sections (EWS), introduction of computerised process of registration of real properties, making water harvesting mandatory in all buildings and bye-laws to introduce re-cycling of water, encouraging public – private partnerships and structural and administrative reforms. All these reforms are important and are in the interest of the State government. The state government should take up an action plan to avail maximum assistance under the JNURM and ensure urban renewal to make them centres of dynamism in economic activity.

**Augmenting Revenues of Local Governments:**

6.11. An important implementable rule of fiscal decentralization is that the finances should follow functions. The local governments should have adequate revenue sources to finance the public services they are mandated to provide. The revenue sources could be in terms of powers to levy taxes, user charges or intergovernmental transfers. Although the Panchayat and Municipal Acts assign a number of taxes to the local bodies, the only important tax from the viewpoint of revenue productivity is the tax on real properties.

6.12. From the viewpoint of augmenting revenues of the rural and urban local bodies, it may be worthwhile to levy an additional one percentage point tax on the value added tax or the GST when it is imposed by the State and earmark the proceeds to local bodies. The proceeds may be allocated to urban and rural areas on the basis of their consumption shares as given in the latest NSS Consumer Expenditure Survey and it may be allocated individual local bodies on the basis of the population residing in them. This portion should be considered a local revenue sources. This will ensure some assured revenue to the local bodies to undertake their essential functions.

6.13. An important principle of fiscal decentralization is that the services which are in the nature of private goods and still provided by the local governments should be financed by charging user charges on them. The local public goods should be financed
by taxing the residents and those with benefits spilling over the jurisdiction should be financed through specific purpose transfers with matching ratios determined according to the degree of spillovers. Indeed, general purpose transfers are necessary to offset the fiscal disabilities of local bodies with low tax bases. At the same time, it is important that the dependence on general purpose transfers at local levels should be the minimum because, efficiency and accountability requires that, at the margin, there should be a strong linkage between revenue and expenditure decisions. Excessive reliance on unconditional transfers results in the exploitation of fiscal commons and softening of the budget constraints by local governments.

6.14. The anecdotal evidence shows that in both urban and rural local bodies, the record of cost recovery through user charges has been abysmal. It is important to recover the average cost of providing the services in respect of services such as water supply, sewerage and solid waste disposal. In some cases, contracting out services with proper regulatory framework could reduce the average cost of service provision. In India, Chennai is the first city to contract out municipal solid waste management to ONYX, a Singapore based company. The scope of the contract includes activities such as sweeping, collection, storing, transporting of municipal solid waste and creating public awareness in three municipal zones. ONYX collects about 1100 Metric tons of waste from three zones per day and transports it to open dumps. This experiment holds a lot of promise for other municipal corporations and municipalities as well. A number of other municipalities have contracted out waste disposal and solid waste management to the private sector including the NGOs. The municipal bodies in Karnataka should explore this option not only to improve the service delivery but also reduce the cost of delivering the service.

6.15. In rural areas of the State, it is difficult to contract out services. Levying user charges for the services delivered is a real challenge. Often, the user charges for water supply are mixed with property taxes and distinguishing the two becomes difficult. In any case, the detailed study in 2003 showed that the collection of both property tax and water charges is abysmal. It is necessary to ensure a clear separation of water changes from property tax, levy proper user charges for water supply and reform the property taxes to ensure that the residents pay at least a portion of the cost of the service provided
and in some cases to enable the local governments to undertake a meaningful role in provide public services.

6.16. World over, tax on land and housing or real properties is the most important tax handle at the local level. The advantage with the tax is that the tax base is not mobile and the tax takes the nature of a benefit tax as the public services impact on the values of real properties. However, realization from property taxes by both urban and rural local bodies is not significant.

6.17. The recent experience with the reform of property tax in the Bangalore Metropolitan Area has shown that the actual realisation from the tax is much below the potential. There is considerable scope for raising additional revenues at both urban and rural local body by reforming property taxes. The reform of property tax in Bangalore involving the introduction of area based system of taxation with self assessment scheme in 2000 has helped to augment the revenues. The recent revision of the guided values and introduction of on-line payment of the tax has, besides improving revenue productivity has reduced the compliance cost. It is important to initiate reforms in the property tax system on lines similar to the reform undertaken in Bangalore Metropolitan Area in other municipal corporations, municipalities as well as town panchayats in the state. It is necessary to initiate immediate measures to design a simple system of area based taxation in each of the urban local body jurisdictions of the State.

6.18. One problem associated with the area based system of taxation is that it is not responsive to changes in prices of real properties. In the absence of periodic revision of guided values, the tax will remain relatively stagnant. Since the revisions can not be done every year, every time the revisions are made, there will be discrete increases in tax liabilities and this could make it politically difficult to undertake the revisions. One way to deal with this is to automatically index the guided values to the increases in the relevant price index. Fortunately, the National Housing Bank estimates the price index of houses in major cities in the country. The State statistical bureau could estimate the relevant price index using the methodology followed by the National Housing Bank for all cities and towns having municipalities to construct the relevant price indexes. Until a proper index is available, the guided values may be indexed by applying the wholesale
price index and a proper revaluation exercise may be made once in every five years. Generally, the increase in the prices of real properties are higher than the general price index and making automatic correction according to the general price index obviates the need to have large discrete changes in the property tax liability. A similar approach of increasing the taxes on a yearly basis in rural areas must also be undertaken.

6.19. It must be mentioned that only the Gram Panchayats have independent source of revenue and both Taluk and District Panchayats have to depend on transfers from higher levels of government to meet their expenditure requirements. The only important source of tax revenue for Gram Panchayats is the tax on land and housing. Based upon a detailed analysis of the data of GP wise tax collections in 2003, reform was initiated to systematically bring in all structures not assessed to property tax within the net, on a GP wise basis. This was followed by a rational exercise in assessing property tax, based upon quality of construction and area. The demand of property tax quadrupled and so have collections, since then. The work done in property tax determination and collection in panchayats has done much to dispel the popular notion that Panchayats are indifferent to tax collection. However, further reform has not taken place. The management structure for monitoring of rural taxation has fallen off. Revision of taxes is due after 4 years, but this has not been monitored. The software developed for tax assessment and to aid collection has not been deployed yet. The reform of property tax is a priority if Gram Panchayats have to take any meaningful role in local public service provision in the State.

6.20. The reform of property taxes in both urban and rural areas of the State is a priority area of reform. It is when the people pay user charges and taxes for public services, they demand accountability and decentralisation becomes an effective mechanism to improve governance and public service delivery. Property tax reform is an important reform conditional for availing grants under JNURM and therefore, this should be an area of priority.

6.21. The reform of property tax in rural areas too can take a similar approach as in the case of urban areas. It is necessary to design a simple area based tax system for each Gram Panchayat based on the area of land and houses, their location and the type of construction. The design of the tax should be simple and easily administrable.
6.22. It is important to note that a large number of properties simply do not pay the tax. In fact, Bruhat Bangalore Mahanagar Palike (BBMP) undertook a simple GIS mapping of all the properties within its 800 square kilometres. All properties were clearly identified and they were given GIS numbers. The GIS map has identified 17 lakh properties. However, nearly 3 lakh properties are identified either as slums and State and Central government buildings. After excluding them, it is seen that the actual properties paying property tax was only a half of the properties identified. The Administrative Reforms Commission too reported that only about 60-70 per cent of the properties in urban areas are actually assessed. Given the advancement in the technology and the possibility of mapping the properties from the GIS to identify the properties evading the tax must be used to good effect. This will not only enhance revenue productivity of the tax system but also will contribute to both horizontal and vertical equity.

6.23. A major area of reform in property tax system is in its administration. Efforts at improving the coverage and collection will significantly improve revenue productivity of the tax. Various exemptions granted to educational and charitable institutions, as also government properties require a thorough review. The improvements in property hardly get reported. Illegally constructed properties simply do not pay the property tax. It is necessary that all properties, legal or otherwise should be subject to tax and payment of property tax payment should not be considered as the recognition of ownership or legitimacy. Tracking the properties not paying the tax suing the GIS and matching it with the tax paid properties holds the promise of expanding the base of the tax and this should be implemented expeditiously. As recommended by the Administrative Reforms Commission, the tax details of all properties should be placed in the public domain to minimise collusion between the property owners and tax assessors.

6.24. The reform of property taxes in both urban and rural areas of the State is a priority area of reform. It is only when the people pay user charges and taxes for public services, they demand accountability and decentralisation becomes an effective mechanism to improve governance and public service delivery. It is necessary to design an area based tax system for each Gram Panchayat which is simple and based on the area of land and houses, its location and the type of construction. A committee of experts should be
constituted to work out the details of the property tax reform – both design and implementation aspects in urban local bodies as well as panchayats in the State.

6.25. The urban local bodies should also attempt to raise revenue from other sources assigned to them. In larger municipalities, there is a lot of scope for raising additional revenue from advertisement hoardings and parking fees. In fact, low rates charged on parking are largely responsible for vehicles being parked even on busy roads hindering the smooth movement of traffic. It is necessary to construct parking places on public private partnerships in city centres to decongest roads.

**Intergovernmental transfers**

6.26. The panchayats and municipalities receive transfers from the State government as well as grants from the Centre. The State government transfers comprise of either share in the State taxes or the grants either based on the recommendations of the State Finance Commissions or independently decided by the State government. The urban and rural local governments receive some grants from the Centre based on the recommendations of the Union Finance Commission. In addition, specific purpose transfers from the Centre as well as the State governments are given to Panchayats and Municipalities to implement various Central and State government schemes.

6.27. In terms of articles 243–I and 243-Y of the Constitution, the State Finance Commission appointed every five years is required to make recommendations on (a) the principles which should govern the distribution between the State and the rural and urban local bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the State, and inter-se allocation between different rural and urban local bodies; (b) assignment of taxes, duties, tolls and fees to rural and urban local bodies; (c) the grants-in-aid from the consolidated fund of the State to be given to different Panchayats and municipalities from the Consolidated Fund of the State. The State Finance Commissions are also required to suggest measures needed to improve the financial position of the Panchayats and municipalities and deal with any other matter referred to the State Finance Commission by the Governor in the interests of sound finance of the Panchayats and municipalities.
6.28. A critical review of the State Finance Commissions by the Twelfth Finance Commission (TFC) applies to the situation in Karnataka as well. The TFC was candid when it stated, “….it is necessary that the state constitute SFCs with people of eminence and competence, instead of viewing the formation of SFCs as a mere constitutional formality. We find that most states are yet to appreciate the importance of this institution in terms its potential to carry the process of democratic decentralization further and evolve competencies at the cutting edge level by strengthening the PRIs and the municipalities. The delays in the constitution of SFCs, their constitution in phases, frequent reconstitution, the qualifications of the persons chosen, delayed submission of reports and delayed tabling of action taken report (ATR) in the legislature have in many cases defeated the very purpose of this institution”. We can not agree more.

6.29. The recommendations of the Third SFC in Karnataka are summarised in the following table. Briefly, it has recommended that 33 per cent of Net Own revenue receipts of the State government should be transferred to the local governments of which, and panchayats and urban local bodies are supposed to receives 23 per cent and 10 per cent respectively. There are four components of the grants for Panchayats. The first is the programme/scheme obligated grants given to District, Taluk and Gram Panchayats. The second is the block grant component. The SFC has recommended that a lump sum grant of Rs. 9 lakh for panchayats with population up to 4000, Rs. 12 lakhs for Panchayats with population from 4001 to 8000 and Rs. 15 lakhs to the Panchayats with population above 8000 per year to each gram panchayat. The third component consists of development grants with gram panchayats recommended to recive Rs. 1 lakh, Rs. 2 lakh and Rs. 3 lakh GPs in backward, more backward and the most backward Taluks respectively. The fourth is the incentive component which is supposed to be given according to the fiscal performance of the Panchayats.

6.30. In the case of urban local bodies, grants are recommended under three heads; The first is to meet the house keeping expenditures like salaries and pensions, repayment of water board loans, power sector dues and establishment charges. The second component is meant for activities such as water supply and sanitation and rain water harvesting and the third component is the block grant component to be distributed to urban local bodies.
6.31. The State government does not follow the recommendations of the SFC in respect of either aggregate transfers to local bodies or its various components. As regards aggregate transfers are concerned, it is claimed that the actual transfer is higher than what was recommended by the SFC. However, on closer examination, it is seen that this claim is not correct. The funds transfer to the local bodies to implement various schemes as well as non plan transfers for salaries cannot be clubbed with the transfer to undertake local body functions. In other words, the transfers given to the local bodies do not enable them to undertake their functions independently of the various schemes devolved to them for implementation. Nor do the transfers vary either according to fiscal capacity or fiscal needs of the panchayats. In the ultimate analysis, the prevailing transfer system reduces the local governments to the status of mere implementing agencies and not units of local self government.

6.32. In any case, the State government does not follow the SFC recommendations either in letter or spirit. In the case of Panchayats, the practice is to give a lump sum amount and at present the state government gives Rs. 6 lakh per year to each gram panchayat. This type of grant is neither efficient nor equitable. It does not vary either according to fiscal capacity or fiscal needs of the panchayats. The least the government could do is to categorise panchayats based on some simple development indicators and give the grants on per capita basis. The development indicators will distinguish the panchayats according to their capacity to raise revenues and the size of population takes account of the expenditure need, however, imperfect that may be.

6.33. The practice of deducting electricity bills at source from the grants to be given to the panchayats in clearly non-transparent and creates perverse incentives. In fact, in the current year, of the allocation of Rs. 6 lakh per Panchayat, each Panchayat has on an average, hardly received about Rs. 50,000/-. The rest has been adjusted pro rata against electricity bill commitments. Although the decision was taken in 2003 to install electricity meters and bill the panchayats according to their consumption, this was not implemented. Most gram panchayats find the entire system of deducting the electricity bill at source non-transparent. As the billing is not according to the actual consumption, there is no incentive for the gram panchayats to economise on electricity. Thus, they have no incentive to use power saving bulbs for street lighting or use only the required
number of points or switch on and of according to the requirements. The State government should take up an action plan to install electricity meters and bill the panchayats according to their consumption of electricity.

6.34. In a system in which specific purpose transfers proliferate, grassroots planning should adapt to them. There are several specific purpose transfers finance various Central and State schemes to panchayats and municipalities. In the system of grassroots planning, the public service needs as identified in Gram Sabhas and Ward Sabhas should be listed and matched with spending on various schemes. The remaining needs can be prioritised and financed according to the resources available. In this manner, it is possible to maximise the gains from various Central and state schemes.

6.35. Since 2002-03, funds to implement a large number of Central Schemes are given directly to the implementing agencies instead of routing them through the State budgets. As a result, there is no system of accountability in place. First, it is necessary to ensure that the funds flow to the implementing agencies including panchayats and urban local bodies without delay. Second, the entire funds received and its utilization should be shown in a transparent manner in the notice boards of panchayats and municipalities. This will make it easier for the people to understand the various schemes implemented by the local bodies and ensure greater participation of the people in choosing the beneficiaries. Third, it is necessary to institute an information system by the State government to ensure better coordination in ensuring the matching fund contribution from the State as required in the case of some of the Central schemes. Besides, information system is also necessary to ensure better monitoring by the State government. The task of creating the information system in respect of all Central schemes should be entrusted to the newly created fiscal cell. The information collected should contain the funds receivable and received by the implementing agency and sectors (budget heads), the contributions to be made by the State government and the timing and the nature of conditionality involved. It should also compile information on any of the evaluation studies done and if it has the capacity, should undertake evaluation studies on selective basis. This is will improve efficiency and accountability of various schemes.
7. Concluding Remarks and Summary of Recommendations

7.1 In this Report, the Mission Group on Decentralization has made an attempt to provide an overview of the policies, systems and processes of decentralization to both rural and urban areas in Karnataka State. Within the short time available to the Group, it has attempted to analyse the strengths and weaknesses of policies, institutions and their implementation aspects with a view to identifying the areas of reforms. The Report has tried to highlight the reform areas in political, administrative and fiscal aspects of decentralization in the State.

7.2 In analyzing the decentralization systems and processes in the State, our approach has been to understand where we are, where we want to go and how to go there. In other words, we have tried to take stock of the prevailing situation with regard to rural and urban decentralization, understand their strengths and weaknesses and then go on to make recommendations. The Mission Group has taken that making decentralisation work requires it to become more responsive and accountable and this requires improved governance and efficient and accountable public service delivery. Whether or not decentralization should be an end itself is not an issue. The fact remains that responsive public service delivery, encompassing economic growth through participatory planning and strengthening the linkage between revenue and expenditure decisions at the margin to impart greater efficiency and accountability requires that the decentralized system must be made effective.

7.3 The 73rd and 74th constitutional amendments have provided the basic framework for decentralization to rural and urban areas. The record of Karnataka in decentralization reform even before the amendments has been better than in many other States and this is particularly true of devolution of powers to Panchayats. This, however, should be taken to mean that everything is fine with the system of decentralisation in the State. In general, it is in the human nature to resist sharing of powers. Indeed, everyone wants decentralization, but only up to his or her level and not beyond. It is therefore, important to make a conscious and proactive approach to the devolution of administrative, political and fiscal powers to rural and urban local governance in the State. At the end of the day
it may be noticed that the local governments are closet to the people and the services delivered by them impact directly on the lives of the people.

7.4 In making our recommendations, we have taken a uniform approach to decentralization to rural and urban areas. Surely, we recognize that there are differences in the nature of governance system, nature and quality of public services provided and the scale of operation. However, these are matters of detail and the broad approach of distribution of powers between the executive, elected representatives and bureaucracy needs to be conceptually clear and this approach must be uniform. With the passage of time, rural areas will graduate into urban areas and there are several rural habitations within urban agglomerations. The approach adopted to deal with reform issues should deal with this continuum in space.

7.5 In an important reform initiative dealing with policies and institutions, it is difficult to make a clear distinction between short, medium and long term issues, nor it is possible to sequence and prioritise them. Nevertheless, we have tried to distinguish between immediate and medium term reforms. However, we reiterate that all the identified reform issues are extremely important to improve governance and responsive and accountable public service delivery. The recommendations of the Mission Group are summarized in the following:

A. Organisational and governance issues:

1. Size and organisation of GPs:

   Recommendations for short term:

   The size of the GP is now more or less well understood in the State and there are no attempts to commence a cycle of delimitation. However, as different services might have different optimum scales for efficient delivery and the footprints of each need not necessarily match the jurisdictional boundaries of Grama Panchayats, Panchayats should be encouraged to form groups or associations under section 79-B of the Panchayat Raj Act and work out arrangements between themselves to deliver services that are more efficiently undertaken collectively.

2. Local government structure in fast urbanising areas:
Recommendations for short term:

In fast urbanising areas, it is advisable to abolish ZPs, TPs and GPs and constitute "Town Panchayats", to create a coherent set of jurisdictions that are based on demographic and spatial considerations within such areas. This is consistent with the 74th CAA, which defines Town Panchayats as transitional areas, moving from a rural character to an urban character. This will allow for coherent Master Planning for that area within the institutional framework of urban governance, rather than having to add the complexity of dealing with two parallel designs of rural and urban governance.

3. Conducting regular elections to LGs:

Recommendations for short term:

The State should conduct elections to the Panchayats and Urban local governments regularly and in time, henceforth. The preparations for local government elections will have to be put in place sufficiently early and the calendar announced sufficiently in advance. The GP elections are scheduled for March 2010 and should be held according to schedule.

4. Fostering harmonious relationships amongst elected representatives and between them and the bureaucracy:

Recommendations for short term:

Further attempts to amend the Panchayat Raj law with a view to take back powers relating to one or the other scheme and vest them in the MLAs is retrograde. The PR Act has been passed by the legislature and amendments aimed at taking away the powers are retrograde. Impressions that LGs are not functioning well are often biased and not based on good research or objective appraisal.

b. Frequent changes in scheme guidelines, withdrawing powers given to the Panchayats or urban local bodies should be avoided.
Recommendations for medium term:

A code of conduct should be brought out to act as a guide the relationship between the local government elected representatives and the bureaucracy. First and foremost, there is a need for officers to engage more with elected representatives at the local level through frequent meetings and interactions, so that both begin to understand each other. The State Panchayat Raj Act provides for a State level Panchayat Parishad comprising of representatives of both the Panchayats and the State government, meets very infrequently and has not been utilised as a forum for mutual consultation. This forum must meet at six monthly intervals, as envisaged in the law.

5. Hegemonic relationship between Members of Parliament/Legislature and elected representatives of local bodies.

Recommendations for short term:

Amendments should be made in the Karnataka Panchayat Raj Act in the larger interest of strengthening decentralization to remove the ex officio representation given to MLAs, MLCs and MPs in rural and urban local bodies.

6. Slowing down the rotation of reservation to seats of LG Presidents and Standing Committee Chairpersons:

Recommendations for short term:

The law be amended to do away with twenty or thirty month terms and to give LG President at all levels an undisturbed 5 year term. In urban areas, Mayors ought to be given a five year term, as recommended by the Kasturirangan Committee.

7. Levels of LGs as independent spheres of government:

Recommendations for medium term:

The LGs should be considered as independent entities within their own spheres. Provision of dissolution of Grama Panchayats on the recommendation of the TPs and ZPs
should go and be replaced with arrangements that involve investigation by an Ombudsman as an independent regulator.

B: Improving service delivery through better planning, implementation:

8. Long term recommendation:

   It must be ensured that LGs function as independent spheres of government, the State must dismantle the hierarchical relationship that de facto exists today and give LGs at different levels more leeway to hire their staff, collect their revenues and plan and implement their own plan in their spheres.

9. Activity mapping for LGs:

   Recommendations for medium term:

   A common activity mapping exercise should be undertaken through a combined effort of both the urban and RDPR departments to create a local government activity mapping matrix aimed at assigning functions and responsibilities to them precisely. In doing so, the rural activity mapping exercise undertaken in 2003 may be taken as the basis and revised if required. In urban areas, the model Activity Mapping document provided by the Ministry of Urban Development, as an annexure to the Nagara Raj Bill, can serve as the template for the distribution of functions. Activity mapping should also be broad and encompass the gram sabha and ward committees in urban areas, user groups, contracted-in service providers and parastatals. Once activity mapping is completed, it should be enacted through law, by issuing the same as rules under both the Panchayat Raj Act and the Karnataka Municipalities Act.

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25 Section 268 of the KPR Act gives the ZP the power to dissolve a Grama Panchayat on the recommendation of the TP. We propose that the power should be reserved only to the Government, based upon an independent enquiry by the LG Ombudsman.
Activity mapping should especially concentrate on ensuring the best leveraging of both LGs and Parastatals on the basis of the following fundamental principles:

(a) Parastatals and LGs shall be part of the same activity mapping matrix.

(b) LGs should be given the choice to select their capacity providers, instead of totally relying on government departments or parastatals. Preferential treatment to the parastatals should be given up and they should compete with other agencies including private-public partnership systems to secure the contract of providing services.

(c) Choice can be provided for Parastatals to function as agencies of LGs and vice versa, provided that these arrangements are captured in enforceable agency agreement between the two, which are in line with the legislative devolution of functions and responsibilities to LGs.

(d) Parastatal management should have a clear representation from the LGs concerned.

(e) Technical Rules should also be amended in accordance with activity mapping.

**Long term recommendation:**

There ought to be a regular effort to update the activity mapping exercise based on new scales of efficient delivery of services arise due to technological advancements every 5 years, through a consultative process.

**10 Setting standards for service delivery, regulating quality and enforcing compliance with standards:**

**Recommendations for medium term:**

Activity mapping will result in a new paradigm for service delivery arrangements between LGs and parastatals be based on contractual agreements. These will require mechanisms of enforcement. The local government Ombudsman should be entrusted with powers to enforce contracts entered into between parastatals and other service providers with the local governments.
11. **Decentralised participative planning:**

**Recommendations for short term:**

a. The State should accept the detailed workflows in respect of district planning as given in the district planning manual of the Planning Commission, as this approach is constitutionally compliant and suited to a system with strong and empowered local governments. The same may be issued in the form of State planning guidelines.

b. The institutional design for the DPC given in the Planning Commission manual should be adopted, under which Sector Consolidation Committees are set up for various sectors, such as the Primary Sector, Education, Health, Poverty Alleviation, Infrastructure, Economic Development, Planning, Regulatory Services, to consolidate the sectoral plans that emerge from the local government at the district level. An Integration Committee should also be set up that considers all the recommendations submitted by the sector consolidation committees on inter-sectoral dependencies and decide upon these recommendations, making appropriate modifications.

c. The MPC for the Bangalore Metropolitan region should be constituted immediately.

d. The recommendations of the Kasturirangan Committee report on the road map for planning should be implemented. However, the MPC ought not to have executive power that intrudes on the power of the LGs in the Metropolitan Area, such as powers to approve the budgets of the LGs in the MA as this is in violation of the 74th CAA. The MPC should only prepare the Metropolitan level regional Plan, and not the Master Plans and local plans of the local bodies. It should be empowered to overrule LG plans only where there is clearly demonstrated regional impact beyond the boundaries of the local body concerned. Neither the execution of the plan nor the raising of financial resources necessary for these investments should be vested with the MPC.

e. There is a need to maintain a distinction between the city government and the State, in the interests of proper role demarcation and fixation of accountability. Therefore, the Mayor, who is the executive head of the city government, should chair the MPC.
f. The Committee structure of the MPC needs to be strengthened on the same lines as recommended by the Planning Commission in respect of DPCs. Sectoral Committees, should be established and the list of Sectors linked with the functions as defined in Schedule XI and XII in 73rd and 74th CAA. There should also be an Integration Committee, which will consider all the recommendations submitted by the sector consolidation committees on inter-sectoral dependencies The Integration Committee will also prepare the Draft Metropolitan Development Plan, which will be sent to the State Government for comments and suggestions, and the final plan will then be placed before the MPC for approval and notification. The Integration Committee shall essentially function as the Executive Committee of the MPC. Each of these committees should have a Chairperson, who will be chosen from among the Elected Representatives of the participating local governments in the metropolitan area, and not from the nominated members from either the Legislative Assembly or Parliament. Each Committee should also coopt relevant state government departments/organisations/other key stakeholders into it as it deems fit.

**Recommendations for medium term:**

a. The final output of the Metropolitan Development Plan shall consist of the following sub-plans:

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<th>Land and housing plan</th>
<th>Sectoral Committee on Planning and the Sectoral Committee on Poverty Alleviation</th>
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<td>Economic plan</td>
<td>Sectoral Committee on Economic Development</td>
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<td>Physical infra plan</td>
<td>Sectoral Committee on Infrastructure</td>
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<td>Transport and connectivity plan</td>
<td>Sectoral Committee on Infrastructure, working in coordination with the UMTA.</td>
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<td>Social infrastructure plan</td>
<td>jointly by the Sectoral Committees on Education and Health</td>
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<td>Environment plan</td>
<td>Sectoral Committee on regulations</td>
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**Recommendations for long term:**

a. Over the next 5 years, there should be a seamless transition from the fragmented, dysfunctional arrangement that exists today, to a coherent institutional architecture in the future. A set of interim actions should be taken, even as the right institutional mechanisms are created. These include,

(i) Constituting the MPC for the metropolitan region and notifying the BMRDA as its technical secretariat and regulatory authority

(ii) Covering the entire metropolitan area with interim Special Planning Authorities, in a manner reflecting closely the future arrangement of ULBs, so that the role of each SPA will be merged into the appropriate future ULB being created for that area

This should be aimed at generating a set of plan outputs by March 2013, for the period 2013-2033, thereby ensuring that development in the metropolitan area takes place in a planned manner, even as the longer-term institutional architecture is being established. This final institutional arrangement can then take ownership over the plan outputs via a review/revision process. If the first set of plan outputs are ready by March 2013, and revisions are in place by 2018, it would synchronise with the overall Plan periods at state and national levels.

**12. Providing qualified personnel to LGs:**

**Recommendations for long term:**

Logic dictates that if LGs are to function effectively, they should ultimately be vested with wide ranging powers to recruit their staff and exercise control over them. Legislative
and administrative measures should be undertaken to ensure that officials working at the LG levels are responsible and answerable to the body. LGs will have to be given control over staff working in their jurisdiction so that they can function effectively, execute schemes and are accountable locally.

13. **Recruitment of CEOs of ZPs and Municipal Commissioners:**

**Recommendations for medium term:**

a. Recruitment to the posts of the head of the administration in the higher level LGs, such as the CEO of the ZP of Commissioner in Grade I municipalities, should be made from the open market on a contractual basis, for a fixed tenure, through the State Public Service Commission, in consultation with and at the request of the ZP or Corporation concerned. Senior officers of the government, such as from those cadres that are actually now holding these posts would also be free to apply, provided that their posting is for a fixed tenure of three years. We endorse the recommendation contained in the Kasturirangan Committee report regarding the selection of the BBMP Commissioner and recommend that the same process could be adapted for the selection of the ZP CEO also. As a matter of detail, we suggest aptitude based examinations to test the skills and attitude of the aspirants to these posts.

b. While the current process of centralized recruitment of GP secretaries cannot be disrupted and may be accepted as a short term measure to rapidly clear the accumulated backlog of vacancies. Further recruitments should be on the basis of the same model as recommended by the Kasturirangan Committee in respect of the BBMP Commissioner. A local service commission should be constituted and entrusted to select the Local Government Secretary, in consultation with the local government concerned. While providing for the government mandated reservations to these posts, there must be special efforts in recruiting more women to work as LG Secretaries.

c. Administrative and Legislative measures should be taken for creation of local cadres so that LGs can function effectively and execute schemes.

d. There must be an appropriate mechanism for ensuring convergence and cross-departmental movement particularly of Group D and Group C ministerial level.
e. Local cadres ought to be loosely ‘federated’, so that arrangements can be made for staff to be exchanged through a process of deputations, thus ensuring that staff gets opportunities to appreciate newer ideas and also learn from new experiences.

f. Opportunities can be provided for the competent personnel to rise to higher levels through the local government recruitment board. Above certain levels, posts can be reserved only for direct recruitment, with the option for those within or outside the government to apply for recruitment.

Recommendations in the short term:

a. In the interim, all LG staff requirements from Government departments should be on permanent secondment or absorption basis as an immediate short-term measure. The government should determine the normative criteria by which the number of posts can be determined, as also the pre-qualifications for various posts. Once these are determined, recruitment to these should be undertaken in the manner suggested in this report.

b. LGs should be allowed to secure the services of qualified technical personnel to undertake their works.

c. Attendance of officials should be invariably monitored by respective LGs.

d. Salaries to LG functionaries should be invariably paid through the LGs concerned.

e. In the case of Grama Panchayats, full time staff consisting at the minimum, a full time Secretary, an Accountant and at least two Assistants should be provided.

f. The above reforms will have to be undertaken by making changes in the C&R rules of the various departments quickly and transparently, so that there are no allegations of bias. While rationalising C&R rules, the State should avoid the temptation to further centralise by retaining unilateral powers to transfer people from LG to LG.

g. The role of the Deputy Commissioner should be restricted to that of enforcement and regulation. In particular, he cannot be entrusted development tasks that squarely fall within the responsibility of LGs, and empowered to implement these through a plethora of societies or missions.

14. Capacity building for planning:
**Recommendations in the short term:**

Permanent secretariats should be created for DPCs by integrating the offices of the district planning officer, statistical officer and the officials of the town planning department. Provision must also be made to induct academicians and other technical institutions to provide services to the DPC through contracted services. In case of the MPC, as recommended by the Kasturirangan Committee the BMRDA should become its secretariat. LGs can hire experts to help in participative planning from experts empanelled by DPC Both SIRD and SIUD can also create expert panels that could be hired by the LGs to assist in local planning.

**C. Major Issues regarding accountability in improving service delivery:**

**Recommendations in the short term:**

a. Local governments responsible for mandatory functions should be equipped to make monitoring a part of the implementation exercise, and make the results known to their citizens

b. Additional grants, awards, etc., can be tied to improved performance by local governments. In judging performance, user feedback on the services being delivered should be incorporated.

**15. Citizens participation in LG governance:**

**Recommendations in the short term:**

Unlike on the Panchayat side, there are no corresponding mechanisms for citizens’ participation in urban governance. The State must make necessary changes in the law to provide for area sabhas and elected ward committees. The footprint of each polling station in the urban area is more or less well recognised today and can be taken as the basic unit for citizens’ participation, as the area sabha.

**16. LGs and civil society collaboration: Relationships with user groups, self help groups and NGOs:**
Recommendations in the medium term:

a. Poor definition between LGs and citizen level bodies such as user groups results in the two often regarding each other with suspicion. Legal sanction for such participatory mechanisms through gram and ward sabhas in rural areas and area sabhas and ward committees in urban areas will need to be further clarified through activity mapping.

b. In urban areas, there should be a three-tier system of enforcement, consisting of the Ward Committee as the first level of enforcement, closest to the actual location of violations. The WC must be authorised to hold hearings, serve notice, recommend appropriate punitive action against violators of notified plans and steps for reversal of the violation to the ULB. The ULB/SPA is the second level of enforcement, acting upon recommendations from the WC, and as the first appellate authority to address disputes arising out of WC decisions. The MPC shall act as the third level of enforcement, acting on ULB/SPA recommendations, and as the appellate authority to address disputes on ULB/SPA decisions. Any disputes that cannot be settled by MPC can move to the judiciary.

17. Monitoring, Information systems and capacity building for governance and planning:

Recommendations in the medium term:

a. A system of tracking and monitoring from Expenditures to Outputs will need to be put in place.

b. Given the push towards greater coordination of urban and rural planning, and the increasing interconnections between the two, there is a need for further integration of the accounting reforms in urban and rural LGs, so as to create a common platform for accounting for LGs as a whole.

18. System to be put in place to ensure fund flow and tracking.

Recommendations in the short term:

There is a need to establish a system for tracking expenditure related to the various plan schemes being implemented across the state, which enables effective monitoring and
scheme wise allocation and release of funds and outcome as well as better budgeting, planning and decision making by LGs. This will maintain time-series information related to each LG, which will enable in evaluating their performance and ensure just in time disbursal of funds to LGs.

19. Ensuring regular audit.

Recommendations in the short term:

a. Though the system of preparation of GP accounts by Chartered Accountants has yielded dividends, it could be further streamlined if all Grama Panchayats are provided connectivity and a central accounts processing system put in place to undertake the common back-end tasks of accounting.

b. Taluk Panchayats should be provided with independent accounting staff, which will enable them to maintain their own accounts as they are also an independent level of Local Government.

Recommendations in the medium term:

a. An audit commission should be established to oversee the audits of GPs conducted or similar such regulatory bodies at the State level. The State Local Fund Audit Department should come under the supervision of the State Audit Commission. The report of the State Audit Commission should also be placed before the LG Public Accounts Committee, discussed more fully below.

b. Arrangements may be made in State Legislatures for the establishment of LG Public Accounts Committees to exercise oversight and monitor the expenditures of LGs. In turn, the LGs shall be answerable directly to this committee for the audit observations that concern them.

20. Activating social audit.

Recommendations in the short term:

a. Unlike rural areas, there is no mechanism for social audit in urban areas. This must be established.
b. A Social Audit Policy should be prepared to provide a framework within which social audit is undertaken. Such Social Audit Policies may be targeted at facilitating popular participation in fighting corruption in LGs, as also complementing formal audit processes by quality assessment, ascertainment of preferences and the provision of choices. At the same time, Social Audit Policies may provide for measures to prevent needless harassment.

c. The Economics and Statistics department should set up a specialised cell to compile information geographical, demographic, economic and fiscal data for all rural and urban local bodies.

d. A data aggregation agency should be set up at the metropolitan level by creating a Directorate of Metropolitan Economics and Statistics, under the Department of Economics and Statistics of the State Government, reporting to each MPC in the state. The DMES will be a service provider to the ULBs in the MA on key statistics in each ULB - GDP by sector, employment data (jobs/unemployment) by sector, housing starts/completions by category, births and deaths etc.

e. A Metropolitan level Spatial Data Centre should be set up under the BMRDA as part of the technical support that BMRDA will provide to the MPC for planning. It will be responsible to create a central repository of spatial data for the MA, that all agencies within the MA will use, become the procurement agency for any GIS needs of any agency/dept for the MA, set data standards and scales, consistent with NUIS standards and other standards as applicable, specify data requirements for two needs - planning and urban management and access best talent and agencies in the public and private sectors in producing this data.

21. Controlling Corruption

Corruption in urban areas can arise from the powers to issue licenses for shops and establishments, altering land use pattern, approve building plans, award contracts and in administering taxes. A clear and transparent set of norms and regulations on land use and buildings would help to contain corruption. Similarly, clear licensing rules and mandating that the licenses must be given within the prescribed time limit if all the
requirements are fulfilled would streamline the process. It is important to use the
information technology wherever possible to minimise human interaction and this is
particularly true of tax administration. Strengthening the procurement laws and systems
and ensuring transparency can help to minimise corruption in this areas. Equally
important is the penalty rate when corruption is detected. Whenever irregularities are
found, it is necessary to give this a wide publicity because ‘naming and shaming’ can be
a deterrent. Furthermore, law should be passed to debar the politicians from contesting
all elections and to dismiss the officials indicted for corruption. Transparency and
sharing the information will go a long way in empowering the people and minimising

23. Creating an LG Ombudsman:

Recommendations in the short term:

The State should set up the institution of Ombudsman without any further delay,
or empowers the Lokayukta with powers and a district wise establishment to perform the
task of the Ombudsman. The Ombudman should be a common one for both urban and
rural local governments and should be also empowered to adjudicate in cases of breach of
contract between service delivery agents contracted by the LGs, including parastatals.

24. IT and e Governance for LGs:

Recommendations in the short term:

a. On the rural side, packages such as accounting, property tax estimation etc.,
which have been on the drawing board need to be deployed and rolled out. Considering
each Panchayat as a self-contained unit for the rolling out of computerisation is
inefficient and has not shown results. The State should put in place centralised platforms
and data processing centres, rapidly complete the provision of connectivity to the
Panchayats and deploy software that is already ready, on the same lines as for urban areas.
This will enable Panchayats to actually deliver IT enabled services.

b. If e governance is to make a difference to the way transactions are undertaken
between the State and the local governments, there must be a concerted effort, starting
from the top, to instil IT usage skills. The widespread IT illiteracy in Karnataka,
particularly at the middle and higher levels of government should be tackled through IT education programmes. Those who are not conversant with these or resist them should not be posted to management posts.

c. The websites of both the urban and rural development departments need to be redesigned professionally, using the latest developments in platform and portal development

D. Fiscal Decentralization

Short Term Recommendations:

We would like to reiterate the recommendation that activity mapping should be done in the case of urban local governments and panchayats immediately, and periodically. This is necessary to ensure clarity in the assignments which in turn is a precondition to achieve efficiency and accountability in the provision of local services in local of the State.

A major development in service delivery in both urban and rural areas of Karnataka is the emergence of independent service providers bypassing the elected panchayats and municipal bodies. Whatever be the rationale for their creation, it is important that the decisions relating to public service delivery must be subject to the supervision by the elected body. Even it is desired to have a separate service providers, it is necessary to subject them to the accountability system of elected rural and urban local governments.

Analysis shows that the main function of the panchayats is to implement various schemes formulated by Central and State governments. They are called upon to implement multiple schemes even within a sector resulting in inflexibility and inefficiency in the use of resources. Despite attempts to consolidate the schemes into meaningful categories and unbundling them to provide greater flexibility to the panchayats, the problem persists and the issue needs to be revisited in the medium term. It is necessary to revisit the task of unbundling and consolidating various central and State schemes and use the specific purpose transfers to ensure more efficient allocation of funds.
Under the JNURM, the state can receive funds up to 35 per cent in cities with more than 40 lakh population, 50 per cent in cities with more than 10 lakh but less than 40 lakh population and 80 per cent in other smaller towns. The admissible components for assistance under JNNURM include urban renewal, sewerage and water supply, solid waste management, storm water drainage, urban transport, parking spaces on PPP basis, development of heritage areas, prevention and rehabilitation of soil erosion, and preservation of water bodies. The grants under the scheme are linked to reforms both at the State and at Municipal level. The reforms that are mandated for receiving the assistance are important and are in the interest of the State government itself. Therefore, the state government should take up an action plan to avail maximum assistance under the JNURM and ensure urban renewal to make them the centres of economic dynamism.

In rural areas of the State, it is difficult to contract out services. Levying user charges for the services delivered is a real challenge. Often, the user charges for water supply are mixed with property taxes and distinguishing the tow becomes difficult. It is necessary to ensure a clear separation of water charges from property tax, levy proper user charges for water supply and reform the property taxes to ensure that the residents pay at least a portion of the cost of the service provided and in some cases to enable the local governments to undertake a meaningful role in provide public services.

The anecdotal evidence shows that in both urban and rural local bodies, the record of cost recovery through user charges has been abysmal. It is important to recover the average cost of providing the services provided in respect of services such as water supply, sewerage and solid waste disposal. In some cases, contracting out services with proper regulatory framework in place could reduce the average cost of service provision. The municipal corporation of Chennai has contracted out services of garbage disposal and solid waste management to ONYX, a Singapore based company to good effect. The municipal bodies in Karnataka should explore this option not only to improve the service delivery but also reduce the cost of delivering the service.

The reform of property tax in Bangalore involving the introduction of area based system of taxation with self assessment scheme in 2000 has helped to augment the revenues. The recent revision of the guided values and introduction of on-line payment
of the tax has, besides improving revenue productivity has reduced the compliance cost. It is important to initiate reforms in the property tax system on lines similar to the reform undertaken in Bangalore Metropolitan Area in other municipal corporations, municipalities as well as town panchayats in the state.

A major area of reform in property tax system is in its administration. Various exemptions granted to educational and charitable institutions, as also government properties require a thorough review. The improvements in property hardly get reported. Illegally constructed properties simply do not pay the property tax. It is necessary that all properties, legal or otherwise should be subject to tax and the payment of property tax should not be considered as the recognition of ownership or legitimacy. Tracking the properties not paying the tax suing the GIS and matching it with the tax paid properties holds the promise of expanding the base of the tax and this should be implemented expeditiously. As recommended by the Administrative Reforms Commission, the tax details of all properties should be placed in the public domain to minimise collusion between the property owners and tax assessors.

The reform of property taxes in both urban and rural areas of the State is a priority area. It is necessary to design an area based tax system for each Gram Panchayat which is simple and based on the area of land and houses, its location and the type of construction. A committee of experts should be constituted to work out the details of the property tax reform – both design and implementation aspects in urban local bodies as well as panchayats in the State.

In the case of Panchayats, the practice is to give a lump sum amount and at present the state government gives Rs.6 lakh per year to each gram panchayat. This type of grant is neither efficient nor equitable. It does not vary either according to fiscal capacity or fiscal needs of the panchayats. The least the government could do is to categorise panchayats based on some simple development indicators and give the grants on per capita basis. The development indicators will distinguish the panchayats according to their capacity to raise revenues and the size of population takes account of the expenditure need, however, imperfect that may be.
The practice of deducting electricity bills at source from the grants to be given to the panchayats is clearly non-transparent and creates perverse incentives. Although the decision was taken in 2003 to install electricity meters and bill the panchayats according to their consumption, this was not implemented. Even though a Grama Panchayat is supposed to receive Rs. 6 lakhs per year as a block grant, after the deduction of electricity bills at source, on an average, they seem to be receiving just about Rs. 50000! Furthermore, as the billing is not according to the actual consumption, there is no incentive for the gram panchayats to economise on electricity consumption. The State government should take up an action plan to install electricity meters and bill the panchayats according to their consumption of electricity.

There are several specific purpose transfers finance various Central and State schemes to panchayats and municipalities. In the system of grassroots planning, the public service needs as identified in Gram Sabhas and Ward Sabhas should be listed and matched with spending on various schemes. The remaining needs can be prioritised and financed according to the resources available. In this manner, it is possible to maximise the gains from various Central and state schemes.

A number of reforms must be initiated in regard to the central schemes to strengthen the accountability and improve efficiency. First, it is necessary to ensure that the funds flow to the implementing agencies including panchayats and urban local bodies without delay. Second, the entire funds received and its utilization should be shown in a transparent manner in the notice boards of panchayats and municipalities. This will make it easier for the people to understand the various schemes implemented by the local bodies and ensure greater participation of the people in choosing the beneficiaries. Third, it is necessary to institute an information system by the State government to ensure better coordination in ensuring the matching fund contribution from the State as required in the case of some of the Central schemes. This will ensure better monitoring of the scheme by the State government as well. The task of creating the information system in respect of all Central schemes should be entrusted to the newly created fiscal cell in the Finance Department.