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The Political Economy of Decentralisation in Sikkim: Strengthening Gram Panchayat Planning and Budgeting

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The Political Economy of Decentralisation in Sikkim: Strengthening Gram Panchayat Planning and Budgeting

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**Final Report on Village Development Action Plan for Sikkim
supporting the RMDD in preparing guidelines for
decentralized grass roots budgeting and planning**

Final version: January 11, 2011

**Government of Sikkim
RMDD
Gangtok**

**ISMS
SDC
New Delhi**

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Abbreviation

ARWSP	Accelerated Rural Water Supply Programme
BAC	Block Administrative Centre
BDC	Block Development Committee
BDO	Block Development Officer
CSS	Centrally Sponsored Scheme
DDO	District Development Officer
DPO	District Planning Officer
DTSC	District Technical Support Committee
GP	Gram Panchayat
GPF	Gram Planning Forum
GPU	Gram Panchayat Unit
HBAS	Harmonised Budget and Accounting System
IAS	Indian Accounting Structure (2009)
IAY	Indira Awas Yojana
ICDS	Integrated Child Development Service
IMF	International Monetary Fund
ISMS	Indo Swiss Mission in Sikkim
IWMP	Integrated Watershed Management Programme
LDO	Line (State) Department Officer
MDMS	Mid Day Meal Scheme
MLA	Member of the (State) Legislative Assembly
NGO	Non Governmental Organisation
NRHM	National Rural Health Mission
NREGA	National Rural Employment Guarantee Act
NREGS	National Rural Employment Guarantee Scheme
OCDE	Organisation for Cooperation and Development
PMGSY	Pradhan Mantri Gram Sadak Yojana
PPP	Private Public Partnership
PRI	Panchayati Raj Institution
RDA	Rural Development Assistant
RMDD	Rural Management Development Department
SAVC	Social Audit cum-Vigilance Committee
SDC	Swiss Agency for Development and Cooperation
SFC	State Finance Commission
SGRY	Sampoorna Gramin Rozgar Yojana
SGSY	Swaranjayanti Gram Swarozgar Yojana
SSA	Sarva Shiksha Abhiyan
ToR	Term of Reference
TSC	Total Sanitation Campaign
VDAP	Village Development Action Plan

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The Mission Team was led by Bernard Dafflon, Professor of Public Finance and Local Governance at the University of Fribourg, Switzerland. Dr Cherian Joseph was the Institutional Expert and team member. Mr Tashi W. Khangsarpa, the Project Coordinator ISPS functioned as the facilitator. Without his precious support, the interaction with the participants in the meetings – thus the mission – would have been impossible. Both played also an important role in the realization of the Report, carefully scrutinizing the facts exposed here, the expert's minutes of the various meetings and interactions in the field and the legal references. This improved beyond doubt the quality of the report, though remaining errors are mine.

A number of individuals contributed to making this mission possible and to ensuring its success. First, we express our gratitude to Mr A. Ganeriwala, Secretary to the Government of Sikkim, Rural Management and Development Department, for giving us the vision and the direction of the Mission and for his constant support.

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Mr P.T.Euthenpa, Director, Panchayat Cell, RMDD;

Mr B.P. Kharel, Superintending Engineer;

Mr D.P. Rai, Chief Accounts Officer;

Dr. S. Tambe, IFS, Joint Secretary / NREGA;

Mr Anil Raj Rai, District Development Officer (East);

Mrs Urvashi Poudyal, Block Development Officer Ranka BAC;

Mr Chodak Bhutia, District Planning Officer (North).

We highly appreciate their contributions. We thank all of them. Many of them accompanied the Mission in the field visits. Beside their contribution in the meetings with different stakeholders, we benefited from the long discussions that took place in the evenings which enabled us to better understand the Sikkim context. These discussions have played an important role in framing the present report.

This report is indebted to the elected Gram Panchayats and Zilla Panchayats, the women and men representatives from the various GPUs who participated in the dialogue meetings at the local level and at the Block Administrative Centres. This debt extends also to the Block and District Development Officers who participated in the events. They all gave us time, valuable information and suggestions on the practices, difficulties and challenges in local planning and related matters. Their commitment to make devolution work at the grassroots level was translated in frank, straightforward answers to the numerous queries we posed to them, individually, in the large group discussion sessions and when visiting Panchayat Ghars.

We are also thankful to the members of State Government constituted Committee on Village Development Action Plan, the State Planning Commission, the Third State Finance Commission, and to Senior Officers within the State administration who received the Mission Team for discussion on the issues pertaining to Gram Panchayat planning and the valuable insights given on these occasions. We deeply appreciate the support we received from them for their

unwavering commitment to strengthening local governance and decentralization.

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Between September 2009 and 2010, the VDAP has been prepared for Aritar GPU as a blueprint and first experiment in decentralisation at the grass root level. This was no easy road and we are indebted to those who contributed, took the lead with tenacity and optimism. In this endeavour our thanks go especially to Dr Sandeep Tambe, from RMDD who has been our reference man and the pilot at the front: without his expertise and hard work, this experiment would not have been possible. We add to our thanks Dhiren Gurung, President of Aritar GPU, all elected Aritar Gram Panchayats; Dhiraj Pradhan, BDO Rhegu Block, East Sikkim; and the functionaries in Aritar, who joined and contributed to this pilot experiment. The first year in this experiment has shown that the proposals in the Report are correctly targeted and feasible; and that building capacity at the local level is a challenge that can be successfully faced.

A second mission took place in Gangtok on September 9 to 19, 2010 with the aim of presenting the Report in official circles, exposing the first intermediate results of the Aritar GPU experiment and also holding a two-day workshop with the main stakeholders in decentralisation in order to render its implementation sustainable. Chief Minister Pawan Chamling released the Report on September 14, 2010 at a function organised by the RMDD, attended by the Council of Ministers, MLAs, Chairpersons, Mayor, Addl. Chief Secretary, DGP, Heads of

various government departments, DDO, BDO and Panchayats from all four districts. Mr T.T. Dorjee, Chief Secretary of the Government (previously Additional Chief Secretary, Finance Revenue and Expenditure Department) and was particularly helpful in informing on recent development in local governance at the State level. On September 15 and 16, 2010, a two-day workshop was organised in the RMDD building, Gangtok, with the participation of the main Heads of Department and functionaries responsible for decentralisation at the State level. The feedback and interaction of this workshop have been taken into consideration in the final report. Mr Kuber Bhandari, Finance Cell RMDD, gave us most useful information on the recent 2009 Accounting Structure for Panchayati Raj Institutions. Once more we are grateful to the RMDD for the perfect organisation of the workshop and to all participants for a frank, open and direct discussion on all the issues in decentralisation exposed in this Report: the institutional design, functions and expenditures, financial resources and grants, budgeting, accounting and planning.

January 10, 2011

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1

Introduction

Sikkim follows a two-tier system of Panchayati Raj with the Zilla Panchayats at the district level and the Gram Panchayat at the local (village) level. The State is divided into four Zillas and 163 Gram Panchayats, two of which are Dzumsas, in the North District. Each Gram Panchayats consists of a number of Wards. There are a total of 891 wards in Sikkim. In North Sikkim the traditional institutions of local self governance in Lachen and Lachung known as Dzumsas have been allowed to continue and are deemed to be Gram Panchayat Units for the purpose of the Sikkim Gram Panchayat Act, 1993, and exercise their traditional powers in addition to those of a Gram Panchayat.

Since 2006, Block Administrative Centres (BAC), each headed by a Block Development Officer, have been created to reinforce decentralization. BAC's have the function to assist GPUs in preparing their annual plan and five year plans and to give them technical support in preparing and monitoring development projects. Block Development Committees were also to be set up with the responsibility of overseeing the overall development of the constituencies within their jurisdiction. They were to identify and scrutinise development projects of the GPUs and of the Block as a whole in the overall interest of the Block.

However, the institutional position of the BAC in vertical decentralization is unclear as the guidelines for planning preceded the setting up of the BACs. They are at present not included in the vertical design of devolution but BACs are now functioning in that chain. Their working has been recently analysed and the report submitted to the RMDD (Joseph and Khangsarpa, 2009).

Box 1-1 The territorial institutional design in Sikkim

District / Zilla Panchayats	No of Blocks	No of Gram Panchayats	Number of Wards
West	6	53	283
South	13	45	257
East	8	44	243
North	4	19+2 Dzumsas	108
4	31	163	891

Source: ISPS, 2008: 9; RMDD, 2009: 52-58 for the Territorial Jurisdiction of Block Administrative Centres

The Activity Mapping detailing the list of activities, sector / department wise, transferred to Zilla and Gram Panchayats (no specific activities are assigned to Blocks) was notified in April 2008 (RMDD, 2009: 15-23). It provides clarity with regard to the distribution of functions between the State Government, the Zilla and the Gram Panchayats. It is the first step in the 3F sequence of devolution (Functions, Funds, and Functionaries). Funds are mainly in the form of earmarked grants from the State, and CSS. Raising revenue from own sources is for the moment extremely limited in GPUs; some have started with the implementation of user charges and administrative fees. Line department functionaries have been posted to the Zilla and Block Administrative Centres, though not always and in all places in sufficient number (Joseph and Khangsarpa, 2009).

At the Gram Panchayat level two Planning exercises should take place: preparation of five year plans and annual plans. The 11th Five Year Plan (2007-2012) was prepared by the Gram Panchayats in 2006. For each fiscal year, annual plans are prepared in the GPUs, and discussed and prioritised in Ward and Gram Sabhas. But the process, though carefully designed, is not working properly at the moment and faces many difficulties.

To strengthen the capacities for decentralised grass roots planning at the Gram Panchayat level, the Government of Sikkim sought the aid of the Indo-Swiss Project in Sikkim and the SDC New Delhi, for supporting the Rural Management and Development Department (RMDD) in preparing guidelines for

a Village Development Action Plan drawing on the Swiss experience. The diagnostic interaction with stakeholders for this mission for this request started on July 22nd in Gangtok and closed with a de-briefing at SDC, Delhi on August 10th 2009.

Box 1-2 Recent History of Decentralization in India and Sikkim

In India, at the Centre	
1992	<p>The 73rd Amendment Act of the Indian Constitution requires State Government to constitute Panchayats and the village, intermediate and district level.</p> <p>The 74th Amendment Act requires that State Government endow Panchayats, by law, with such powers and authority necessary to enable them to function as institution of self-government, ... including the 29 subjects listed in the Eleventh Schedule (see Box 6-6 in Section 6 below).</p>
1993, April 24	Enforcement of the 73 rd and 74 th Amendment Acts.
2002	Based on the recommendations of the Eleventh Finance Commission, for exercising proper control and securing better accountability, the formats for the preparation of the budget and accounts and database on finances of PRIs were prescribed by the Comptroller and Auditor General of India.
2009, January 29	New Accounting Structure, Formats, Guidelines and List of Codes for PRIs, Comptroller and auditor General of India, Ministry of Panchayati Raj, Government of India.
In Sikkim, at the State level	
1993, September 11	The Sikkim Panchayat Act (Act No. 6 of 1993), enforced on October 18, 1993
1997	<p>First election in 157 Gram Panchayats and 2 Dzumsas (Lachen and Lachung).</p> <p><i>"It appears that the Panchayats in this term did not have much responsibilities entrusted to it and merely functioned as implementing agencies, primary for identification of beneficiaries for various departmental programmes."</i> (ISPS, 1998: 7-8)</p>
1998	First State Finance Commission
1998, March 27	<p>Cabinet Decision to allocate approximately 15 per cent of each department's budget to the Panchayats.</p> <p><i>"This decision appears not to have been fully complied with. Only a few departments provided grants to Panchayats in its budget and even these provisions were less than ten per cent."</i> (ISPS, 1998: 8)</p>
1998, April 14	<p>Activity Mapping for PRIs, Notification No 3/RMDD/P.</p> <p>List of activities transferred to Zilla and Gram Panchayats (RMDD, 2009: 15-23)</p>

1998, May 13	Notification No 35(2) 97-98/38/RDD/P(II) on the transfer of activities pertaining to various development departments to Zilla and Gram Panchayats and Gram Sabha.
1998, June 26	Sikkim Panchayat Rule (Procedure for convening and conducting meetings of the Gram Sabha), Notification No 35(14)97-98/RDD/P(II).
1998, August 19	Constitution of Gram Planning Forum, Notification No 50/RMDD/P
2002, October	Second election in 164 Gram Panchayats and 2 Dzumsas.
2003	Second State Finance Commission
2005	Amendment of the Sikkim Panchayat Act to insert a provision for one-third reservation for women in the quorum of a Gram and Ward Sabha to ensure active participation of women in all decision making.
2005, January 28	24 Block Administrative Centres were established and Block Development Officers posted in an attempt to decentralize administration. Notification No 5 /Home 2005 dated January 28, 2005
2006, August 19	Constitution of District Technical Support Committee in all districts, Notification No 31/RMDD/2004
2007, January 12	Notification No 627/RMDD, to further delegate and provide to the Block Development Officers and Block Administrative Centres for the following powers, functions, facilities and responsibilities to make the delivery mechanism more effective for accessibility and delivery of goods and services to the people.
2007, February 20	Notification No 60/RMDD/P dated 20.02.2007 concerning the Territorial Jurisdiction of Block Administrative Centres
2007, October	Third election in 161 Gram Panchayats and 2 Dzumsas
2008	Third State Finance Commission
2008, February 28	Constitution of GPU Level Social Audit-cum-Vigilance Committee, Notification No 29/RMDD/2008. This is a "reissue" of Notification No 35(93)05-06/RMDD/P/29 dated September 1, 2005.

Source: ISPS, 1998; RMDD, Government of Sikkim, 2009.

In Sikkim, seven days were devoted to interaction with elected Gram Panchayats, Block and District officials and four days for meeting with State Department officers and members of State Commissions.

Box 1-3 Gram Panchayats and BAC's visited

July 24 th , 2009,	at Janta Bhawan, Gangtok, elected Panchayats and BDOs from East District.
July 27 th ,	Gerethang GP and Panchayats from neighbouring GPUs.
July 28 th ,	Panchayats from Turuk Ramabong and neighbouring GPUs, and BDOs, South Sikkim. Panchayat members at Mellidara Paiyong.
July 30 and 31 st , August 1 st ,	Aritar GPU, and BAC Regu, East Sikkim : the six elected Panchayat members: Mr D. Gurung, president, Mr D.C. Pradhan, vice-president, Mr N.B. Chettri, secretary, Mrs S. Pradhan, Mrs U. Sharma, Mr. C. Bhutia; Zilla Panchayat member: Mrs M. Pradhan; BDO Mr Dhiraj Pradhan and DDO Mr Anil Raj Rai. Aritar GPU has been selected for the preparation of a blueprint essay in village development planning.
August 3 rd ,	Kabi Tingda, GPU and BAC, North Sikkim: elected members of GPUs in the Block, Block and District Development Officers, and Rural Development Assistants.

Personalities met at the State level (alphabetic order):

Mr P. Bhuta, East District Planning Officer;
 Mr B. Datha, Ad. Director Finance;
 Mr T.T. Dorjee, Additional Chief Secretary, Finance Revenue and Expenditure Dept ;
 Mr P.T. Euthenpa, Special secretary-cum-Director, Panchayat, RMDD;
 Mr A. Ganeriwala, Secretary to the Government of Sikkim, RMDD;
 Mr Gyatso, principal secretary com. Develop. Commissioner;
 Mr P. Kumar, Consultant to RMDD;
 Mrs U. Poudyal, Block Development Officer Ranka, East District);
 Mr D. Pradhan, Block Development Officer Regu East District;
 Mr A. R. Rai, East District Development Officer;
 Mr K.N. Rai, Minister in charge of RMDD;
 Mr D.P. Sharma, Sp. Secretary Home;
 Mr K.K. Shrestha, Deputy Director, secretary of the State Finance Commission;
 Mr S. Tambe, IFS, Joint Secretary, RMDD, NREGA;
 Mr R. Telang, Secretary ARDD;
 Mrs Y. D. Yongda, Deputy Secretary, RMDD Sanitation.

Institutions visited:

State Committee on Village Development Action Plan;
 State Planning Commission;
 Third State Finance Commission.

2

Terms of Reference

Two visits in Sikkim were organised for the completion of the study, in July and August 2009 and in September 2010. The Terms of Reference were the following.

2.1 First Visit, July and August 2009

The Terms of Reference prepared by the SDC, Embassy of Switzerland, New Delhi, and approved by the Government of Sikkim are as follows:

A. Objective of the mission

To strengthen the capacities of Government of Sikkim on decentralised grassroots planning by advising on strengthening Gram Panchayats planning based on the systems, practices and experiences of Swiss Communes.

B. Main Tasks

- (i) Suggest modalities for formulation of Village Plan by GPs;
- (ii) Outline steps towards infrastructure planning by GPs;
- (iii) Advise on strengthening the delivery of services through GPs;
- (iv) Advise on availability, role and responsibilities of functionaries to be supporting Panchayats in service delivery and infrastructure provisioning;
- (v) Advise on:
 - increasing the devolution of finances to GPs,
 - promoting the raising of their own resources (revenue generation by GPs),
 - strengthening the system of accounting, audit and accountability;
- (vi) Advise on creating and maintaining an information system to enable Gram Panchayats to better undertake planning and monitoring;

- (vii) Identify the implications of the recommendations for the roles and responsibilities of the different stakeholders (Elected Bodies at village and district level, Block Administrative Centres, Line Departments, District Authorities etc) relating to plan preparation, implementation, revenue raising and maintenance of community assets and quality of services as well as monitoring performance;
- (viii) Identify anomalies (such as those of parallel bodies)¹ that contradict the basic objective of empowering Panchayats to plan, implement and maintain village development activities;
- (ix) Base recommendations and advice after taking into consideration the principles of inclusion, transparency, accountability and subsidiarity;
- (x) Finally, prepare a blueprint plan for one village.

In order to give pertinent and implementable answers for the specific context of local governance through Panchayati Raj in Sikkim, these tasks have been distributed in four domains as in the following Table 2-1.

C. Outputs:

- [1] A methodology outlined for Village Action Plan Preparation, Implementation, Maintenance and Monitoring by Gram Panchayats with recommendation on changes that would need to be made in the existing system and practices to enable the methodology to be adopted;
- [2] One Village Development Plan prepared.

¹ For a description of those “parallel bodies”, see section 4, page 24.

Table 2-1 Terms of Reference by Theme *

Institutional design, Management and Coordination	Functions, Service Delivery	Finance, Budget and Accounting	Village Development Planning
<p>(vii) Identify the implications of the recommendations for the roles and responsibilities of the different stakeholders (Elected Bodies at village and district level, Block Administrative Centres, Line Departments, District Authorities etc) relating to plan preparation, implementation, revenue raising and maintenance of community assets and quality of services as well as monitoring performance</p> <p>(iv) advise on availability, role and responsibilities of functionaries to be supporting Panchayats in service delivery and infrastructure provisioning</p> <p>(vi) advise on creating and maintaining an information system to enable Gram Panchayats to better undertake planning and monitoring.</p>	<p>(iii) Advise on strengthening the delivery of services through GPs</p>	<p>(v) advise on</p> <ul style="list-style-type: none"> - increasing the devolution of finances to GPs, - promoting the raising of their own resources (revenue generation by GPs) and - strengthening the system of accounting, audit and accountability 	<p>(i) Suggest modalities for formulation of Village Plan by GPs</p> <p>(ii) Outline steps towards infrastructure planning by GPs</p> <p>(x) Finally, prepare a blueprint plan for one village</p>
<p>(viii) Identify anomalies (such as those of parallel bodies) that contradict the basic objective of empowering Panchayats to plan, implement and maintain village development activities.</p> <p>(ix) Base recommendations and advice after taking into consideration the principles of inclusion, transparency, accountability and subsidiarity.</p>			

* The Terms of Reference given earlier are broken up here to provide a sense of the thematic aspects relating to decentralization processes that are covered by this mission. The numbers in brackets are the numbers as given in the Terms of Reference and quoted above.

2.2 Second visit, September 2010

The Terms of Reference prepared by the SDC, South East Division, Federal Department of Foreign Affairs, Bern, Switzerland and approved by the Government of Sikkim and SDC, New Delhi, are as follows:

A. Objective of the mission

Finalise the tasks undertaken in the last mission in July and August 2009 in relation to strengthening the capacities of Government in Sikkim on decentralised grassroots planning by advising on strengthening GP planning based on the systems, practices and experience of Swiss communes.

B. Main Tasks

- (i) Presentation of the process of the Village Development Action Plan before invited guests in a one day high-powered workshop;
- (ii) Identify steps still to be taken to conclude the study undertaken for Aritar Gram Panchayat;
- (iii) Share the findings on the first phase of the Aritar GP study with the various stakeholders in Aritar Gram Panchayat.

C. Outputs

- [1] Presentation made in the high powered seminar being organised by the Government of Sikkim;
- [2] Method of Planning for the Aritar GP plan, subject to the available information at the time of visit;
- [3] Clear recommendation to the Government of Sikkim on next steps to be taken to complete the study.

3

Organisation of the Report

The Terms of Reference seek three outputs from the first mission:

- a methodology for Village Action Plan Preparation, Implementation, Maintenance, and Monitoring and
- the preparation of a Village Development Plan (a blueprint), which it was agreed would be for the Gram Panchayat unit of Aritar in East Sikkim. (The mission team spent three days at this GPU during its field interaction).
- The TOR further suggested that the Report should also provide *"recommendation on changes that would need to be made in the existing system and practices to enable the methodology to be adopted"*.

What is in fact demanded is that the blueprint plan for a GPU be based on a methodology which, if successful for planning in a "laboratory" GPU, would be duplicated and disseminated to other GPUs. In turn, this methodology should be founded either on the present institutional design for decentralisation or, if needed, on a design that would be adapted from the present one taking into consideration changes for improvement, simplification or increased efficiency.

In the meetings with elected Gram and Zilla Panchayats, Block and District Development Officers, line department officers and other stakeholders in the decentralisation process, it soon became obvious that actual practices in planning at the local level differ from one place to the other and were far from faithful to the existing institutional design. Hence, it would not be wise to construct a blueprint model /methodology for a Village Development Plan which would later be applied to all, based just on the actual practices of planning in a selection of GPUs and from the observations made in the field.

Local planning models/ methodological steps cannot be developed from ad hoc particular situations. The blueprint / methodology needs a sound basis, either drawing from the actual institutional design – if it is respected and applied - or from a proposed "corrected" institutional design still to be constructed and implemented. "Corrections" required and necessary would emerge from the analysis of the situations met in the field and informed by the Swiss experience in budgeting and planning at the local level. The benchmark for the methodology demanded in Output [1] in the Terms of reference for the first visit (section 2.1, litt. C above) would thus not be the actual institutional design of local planning, but the proposed "simplified" design.

The TOR for the second visit, in September 2010, did not change the substance of the present report. Since the provisional conclusion of the first visit was that simplification in the actual institutional design of local planning would modify some aspects of the present legal system in order to swift from deconcentration and the influence of line ministries' officials in the planning process to a true devolution with responsibilities entirely in the hands of the local people, the political acceptance of the proposal had to be tested. In addition, the Aritar blueprint, which had been initiated in the meantime, should be checked.

The Key Concerns

Consequently, the Mission, and the Report that follows, was/is organised around five concerns:

- ✓ The Design of the Local Planning Process in Sikkim
- ✓ Field study: observations/ findings from the interaction with all Stakeholders at the local level about the process of devolution and planning at the grass root level;
- ✓ Possible Simplification in the Planning Process;
- ✓ The Methodology for Village Development Planning: From diagnosis to action. A step by step planning model for Gram Panchayats;

- ✓ Blueprint for preparation of development plan for Aritar

Our Anchors

The key words for understanding how the Mission functioned during the meetings in the fields, its aims and how the dialogue and interaction were facilitated, are captured in the words: “listening, understanding, comparing, and suggesting”.

- ✓ **Listening** to the Panchayats' experience and practices in planning, budgeting, monitoring development projects in order to gain as much information as possible on the problems which exist at the grassroots level and in the day-to-day management of Panchayats. Strengths and good practices were sought out to be recognised, maintained and even reinforced. BDOs, DDOs, RDAs and line department officers took part in the dialogue. Also of interest were the initiatives taken and the variety of solutions designed for various problems in different GPUs.
- ✓ For **understanding** local budgeting and planning in the Sikkim context, problems, difficulties, strengths and specific solutions were classified in the four domains given in Table 1 above. The present institutional design of the local planning process (see below, next section) served as the reference point.
- ✓ Thirdly, to crosscheck our understanding as above, we **compared** problems, processes and practices of local budgeting and planning in Sikkim with the processes and practices in the Swiss communes. There are similarities between the Sikkimese and Swiss situations in rural areas: the population is dispersed in small villages, topography and climate are difficult, infrastructure, roads, sewage and other facilities are expensive to build and maintain due to the topography. So, if there are similarities in problems, the assumption is that there could be similarities in solutions.

- ✓ Fourth, based on the "learning by doing" and "best practices" approaches in fiscal federalism (Blindenbacher and Koller, 2003), here with reference to Swiss communes, the objective is to open avenues for **suggestions** and, if possible, solutions to the GPUs' problems in budgeting and planning. Solutions cannot be based on the "copy-and-paste" method since the particular experiences of one country cannot be easily exported to another. What is viable is to examine how the Swiss experience can inform local governance in Sikkim and be contextualised to the specific situation of Sikkim. The methodology proposed and the blueprint for planning / budgeting in Aritar follows this approach.

4

The Design of Local Planning in Sikkim

In our interaction meetings we were confronted by the fact that Gram Panchayats have over the past years adopted more or less ad hoc procedures. The first step therefore for understanding the process used at the local level for preparing the five year plan and the annual plan was to elaborate a point of reference and organise accordingly our questioning in the four domains explained in Table 2-1 above. To gain a clear picture of this a set of charts have been prepared of the planning process as it has been currently designed and intended at the State level. This graphic depiction is called the "Design of Local Planning in Sikkim" (See Charts 4-1 to 4-4 below).

The objective of democratic decentralization is to enable institutions at the grassroots level to take decisions in matters related to day to day life of the people. Transparency and accountability do not happen on their own: they have to be promoted and delivered by performing institutions. In Sikkim, the focus on empowering the Panchayats was initiated in 2002-3 with the devolution of specific functions, transfers of more grants and posting suitable personnel to the Panchayats. In the ideal design of decentralization, the three-F sequence is "Functions – Funds – Functionaries". But attitudinal changes take long to obtain, and resistance to such changes and processes are inevitable and deep rooted.

It is of utmost importance that the system of devolution as intended by the State Government, be understood, scrutinized, and then examined as to how it has been replicated in the field. Theories of fiscal federalism and decentralization do not give benchmarks. There is no "best system" and no normative best proposal. Following the approach of *Positive Institutional Economic Policy*, experience shows that by comparing the "design" with the "reality", one can better identify the strengths and the weaknesses of the quality

of devolution in a particular country. This report hence first presents the “design” of the planning process and then proceeds to reflect on how this has been implemented in “reality”.

This first step establishes the "design" charts. The "Design of Local Planning in Sikkim" is presented through four Charts under the general head of "Village Development Planning at GP level":

- Chart 4-1 Planning at the GP level
- Chart 4-2 Submission of the Annual Plan
- Chart 4-3 Implementation
- Chart 4-4 Budget and Accounting

The charts are organised in the following manner.

- ✓ On the left hand side, in white rectangles and ovals, the local democratic institutions are presented. These cover the elected members of the Gram Panchayat, who form the executive body of the GPU; Ward Sabha and Gram Sabha where development project are proposed, decided and prioritised, and all the related process.
- ✓ On the right hand side, depicted in shaded rectangles, are given the "parallel bodies" and institutions which to some extent or another intervene in the planning process. "Parallel Bodies" are constituted groups of the civil society, members of institutions, committees or other organisation who interfere in the process of deciding and producing local public services without the legitimacy of being elected; they do not carry accountability in the sense of the elected Panchayats

Each Chart is based on and followed by an explanatory matrix which indicates in summary:

- (i) the name of these "parallel" institution / committee, etc;
- (ii) the source of reference;
- (iii) the member composition;
- (iv) the function, duties and responsibilities of the institution / committee.

4.1 Planning at the local level

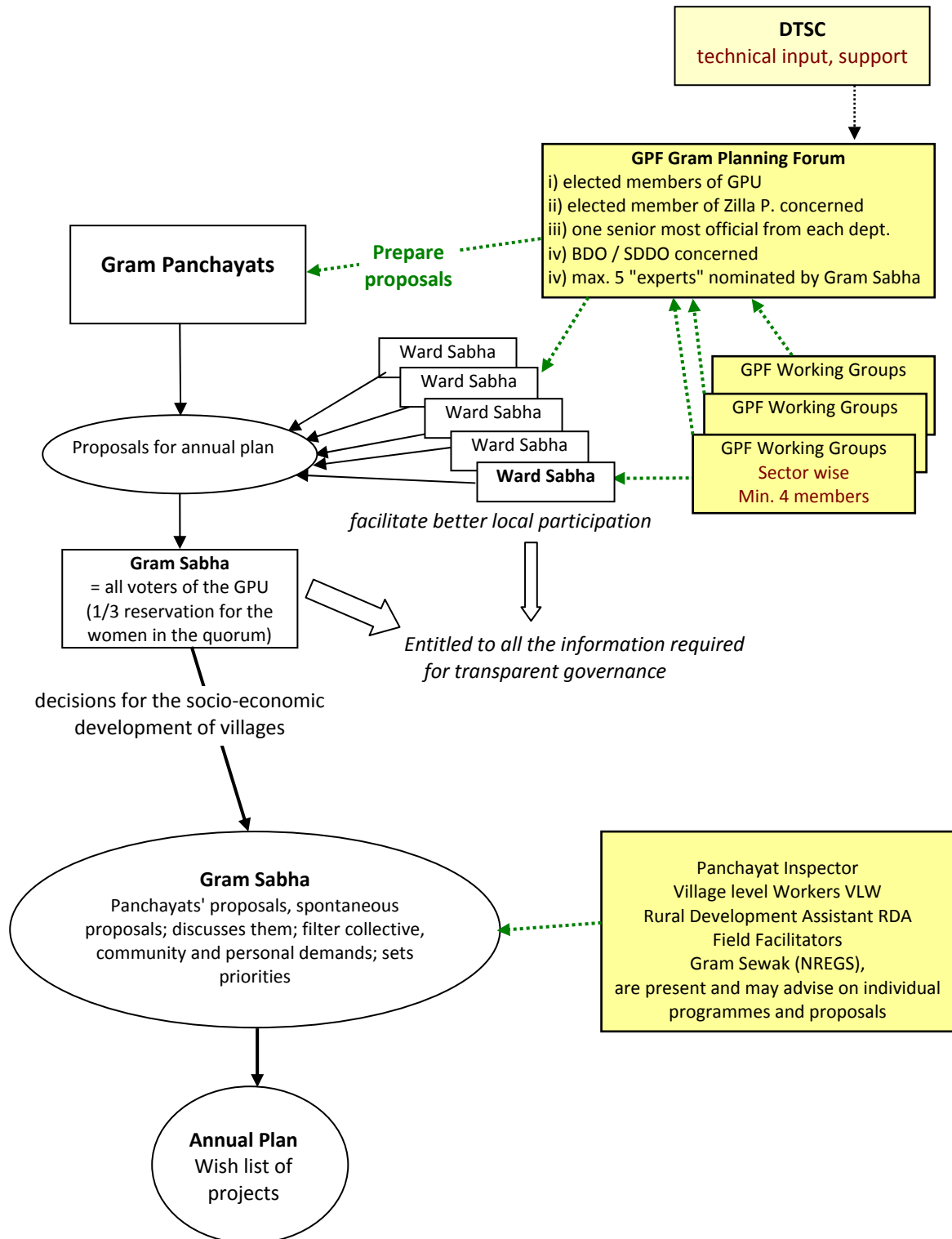
It can be seen from the Chart 4-1 and the related matrix that several institutions (in yellow shaded rectangles on the right) can interfere in preparing the development project proposals:

- the District Technical Support Committee (DTSC) through the Gram Planning Forum (GPF),
- the Gram Planning Forum either directly or through sector wise Working Groups.
- Despite they are subordinated to the GPF, Working Groups can report directly to the Sabha and not necessarily to the GPF – a breach in the vertical coordination.
- Finally the village level workers and similar persons can interact directly during the Sabha – again without the necessary vertical coordination with the GPF.

These multiple collateral interferences bring "noise" in the democratic system. Owing to the actual abilities and existing capacities in GPU, this situation reinforces technocracy rather than democracy. We learnt from our field level meetings that parallel bodies interfere through influencing the choice of projects or their priorities. During the Sabha, direct intervention are also made questioning the feasibility of spontaneously proposed projects in the gram Sabha. The problems are summarized in the subsequent Section 5.

Another problem was revealed during our visit. Despite the fact the GPF should assist the local government in developing a vision of what it should achieve and, for this purpose, *"prepare Periodical and Annual plan for the Gram Panchayat as directed by the state Government time to time"* (RMDD, 2009: 45), in fact and in practice it has been constituted only in a certain number of GPUs, not all, at only for the five-year planning, not on a yearly basis. Thus, there is a lack of continuity and sustainability in its work and outcome.

Chart 4-1 Planning at the GP level



Name of institution / committee / etc	Reference	Member composition	Function / duties / responsibilities
Gram Planning Forum GPF	Panchayati Raj in Sikkim, RMDD, Government of Sikkim, (RMDD, 2009: pages 44-46)	<ul style="list-style-type: none"> - All elected members of GP (GP President is Chairman); - The concerned elected member of Zilla Panchayat; Ex-officio members: <ul style="list-style-type: none"> - One senior line department officer (LDO) working under GPU - BDO/ SubDDO concerned; (one is selected secretary for one year); - a max. of 5 "expert" members to be identified by GP elected members and approved by the Gram Sabha (suggestions: have a transparent selection process; invite application; ask experienced people to help identify the right person) 	<ul style="list-style-type: none"> ✓ GPF secretary is also "plan coordinator": write the plan document and make the budget as per the decision of the GPF; <p><i>Preparation of the Plan (periodical / annual)</i></p> <ul style="list-style-type: none"> ✓ Respect State government guidelines; ✓ Collection of data and information; ✓ Fixes development goals in perspective planning, identifies ways and means to achieve it; ✓ Preparation of project proposals; ✓ Find out technical feasibility, financial norms, viability (with the help of planning cell and DTSC); ✓ Selection (prioritisation?) based on fund availability, resources (own?) and capacity to do it; ✓ Finalizing the plan for the GP for approval by the Gram Sabha; ✓ Timely submission of the approved plan do the District planning officer (DPO) and the District planning Committee (DPC) for discussion and approval; ✓ Update according with Government priorities and directives (in relation to DPO).
GPF Working Group(s)	RMDD, 2009: 44-46	<p>Minimum 4 members within GPF selected for their knowledge and interest towards the sector.</p> <p>Chairperson: an elected Panchayat Convener: Senior most official from the concerned sector (line department)</p>	<p><i>Working Groups</i> (recommendation: sector wise) WG should be set up as per need and goals of the GP</p> <p><i>Preparation:</i></p> <ul style="list-style-type: none"> ✓ Sectoral development analysis; ✓ Performance evaluation (5 last years); ✓ Identification of existing problems, gaps, needs, possibilities; ✓ Generation of shared vision of sectoral development with district officials and DTSC; ✓ Suggesting action plan, with priorities and reasons for priorities; ✓ Deal with any queries when sector plan is scrutinized at the district level.

4.2 Submission of the Annual Plan

The Chart 4-2 is about the submission of the Annual Plan. This is the vertical channel to transmit the wish list and priorities of the Gram Sabha to the State Planning Department, through the Block and the District. According to the Panchayats, the situation is rather confusing on the ground. The design is that GPUs' annual plans should be transmitted to the District Planning Officer (DPO) for consolidation with the District plan, and then forwarded to the State Planning Department. The formal transmission process is represented with full arrows on the left side of Chart 4-2.

In 2007, another level was added: the Block Administrative Centre (BAC). BACs are headed by a Block Development Officer (BDO), with a twin cap of chief manager of block affairs and informal coordinator of local affairs when the same issues are relevant for several neighbouring GPUs. Also Block Development Committees (BDC), chaired by the Member of the Legislative Assembly (the MLA) were created. De facto, the BAC, BDO and MLAs in their capacity of chairman of the BDC, occupy the intermediate level, with the consequence that a double transmission channel has now to be followed.

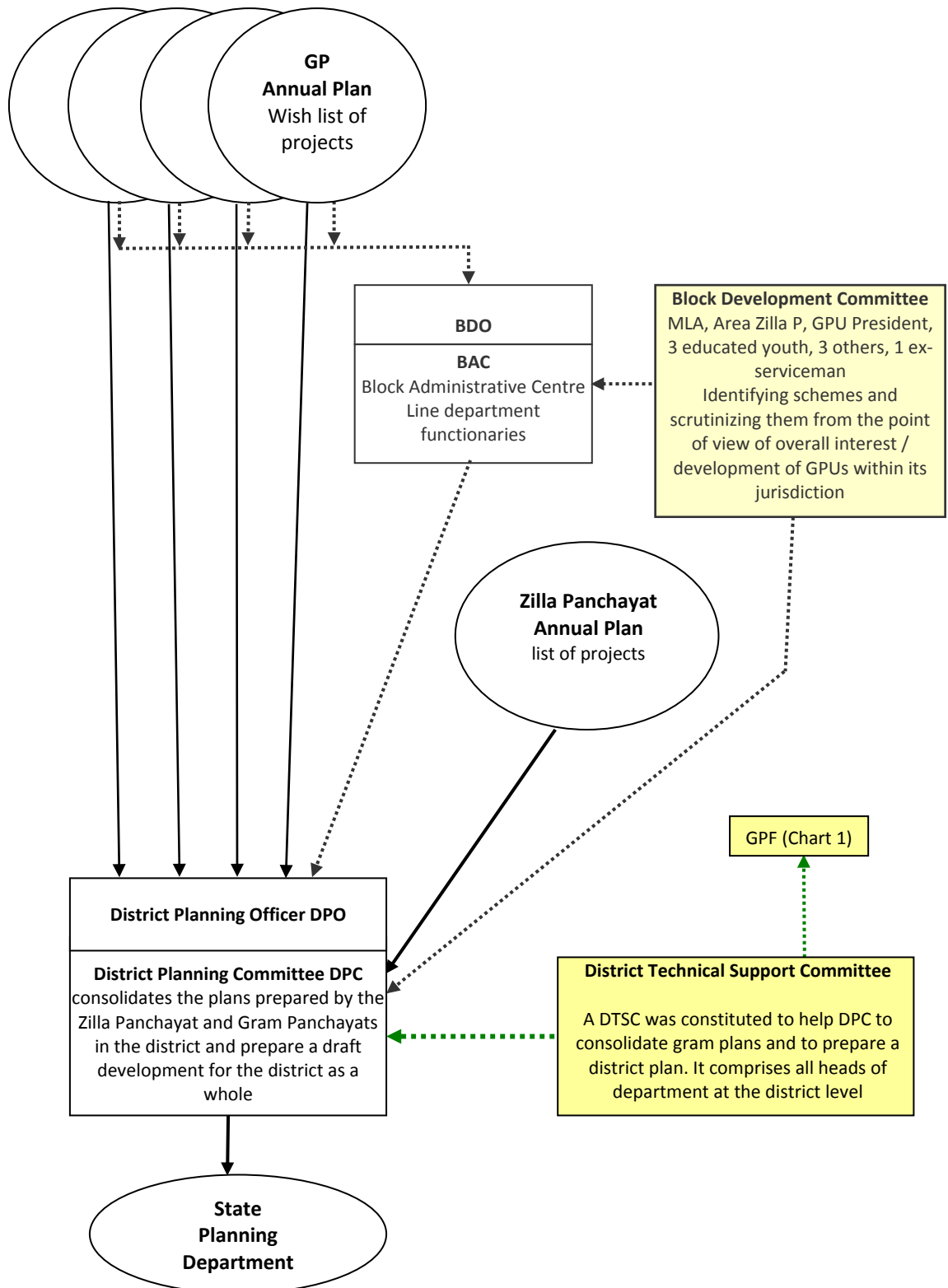
Because of their geographical proximity and the difficult topography of Sikkim, the absence of all-weather roads in some part of the country, also the proximity with the GPUs within their jurisdiction, the attribution of qualified civil servants and technicians, the BAC have rapidly gained a privileged position in the organisation of decentralization in Sikkim. It soon became clear that BDO would play a central and consistent role in advising and supporting local elected Gram Panchayats in their daily responsibilities and endeavours. Yet, the internal functioning of the Block, in particular the role of BDC and MLAs in fixing local priorities and in organising horizontal coordination, and the vertical processing of the flow of information, need to be more accurately assigned and described.

Annual Plans of GPUs are now processed through BACs (dotted arrows in Chart 4-2), despite that this is not the official channel.

At the district level, the district planning does not function satisfactorily. District should consolidated the GPUs annual plans, consider which individual local projects contain geographical spillovers in order to coordinate, and add functions of district importance. This is not realised, with the consequence that, instead of concentrating on issues of importance for the district, GPUs' individual plans are re-discussed rather than simply consolidated. Horizontal coordination is not properly realised; vertical coordination simply does not exist.

As it was revealed during the interactive meetings, confusion in transmission lines and overlapping of influences and controls create many problems for the Gram Panchayats and subsequent dissatisfaction. Thus simplification and clarification are needed in reorganising the planning process at this second stage. The transmission process of information should be reformed: local annual plans should be transmitted to one institution (BAC preferably for reason of proximity) and not through two channels running in parallel (a duplication which dilutes responsibilities). Also the role at the Block level of horizontal coordination between similar local projects should be explicitly stated: who is responsible of what, and are decisions of coordination taken at the block level binding for the concerned GPUs?

Chart 4-2 Submission of the Annual Plan

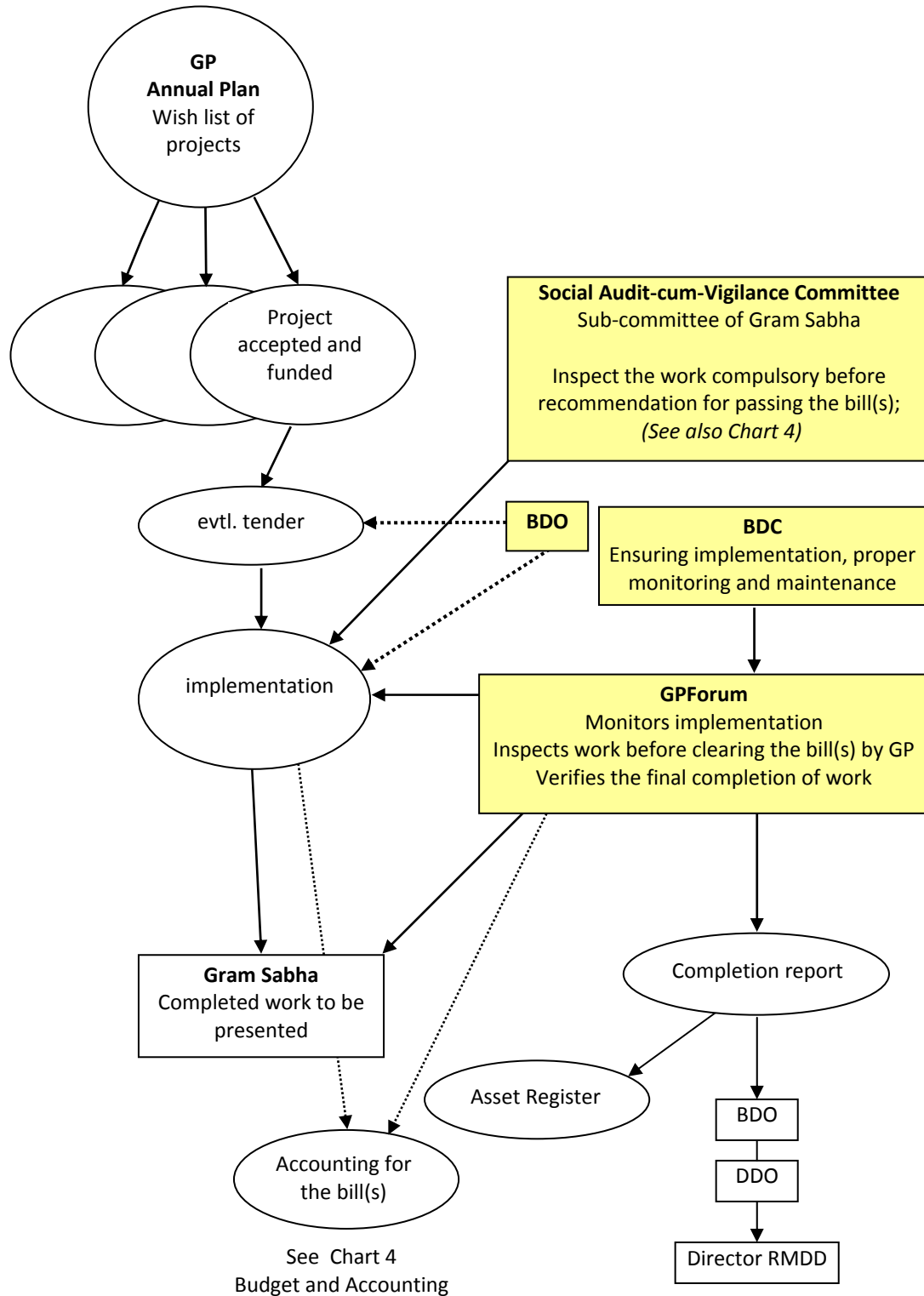


Name of institution / committee / etc	Reference	Member composition	Function / duties / responsibilities
Block Administrative Centre, BAC	RMDD, 2009: pages IV, 26, 59-60	Head of BAC: BDO Block Development Officer	<ul style="list-style-type: none"> ✓ BDO: responsible for the smooth functioning of GPUs; ✓ act as facilitator and attend all the Gram Sabhas; also for resource mapping, SWOT analysis and preparation of the village developmental plans; ✓ call tender, opening of tender, conclusion of agreement acceptance of tenders for works costing up to Rs 20.00 lakhs, ✓ Responsible for overseeing the execution of all responsibilities assigned to GP.
Block Development Committee BDC		Area MLA (Member of the (Sikkim) Legislative Assembly: Chairman; Members: Area Zilla Panchayat, GPU President; 3 educated youth; 3 others; ex-serviceman	<ul style="list-style-type: none"> ✓ Identifying schemes and scrutinizing them from the point of view of the overall development of the GPUs and of the Block as a whole; ✓ Ensuring implementation, proper monitoring and maintenance; ✓ Projecting them to the District Planning Committee
District Planning Committee 4 DPC	RMDD, 2009: 12, 40-43,	Nominal list of members: West 35, South 33, East 40, North 23. President: an elected Zilla Panchayat Secretary: District Planning Officer	<ul style="list-style-type: none"> ✓ Consolidates the plans prepared by the Zilla Panchayat and Gram Panchayat in the district; ✓ Prepare a draft development plan for the district as a whole; ✓ Have regard to matters of common interest between the GPUs including spatial planning, sharing of water, natural resources, environment conservation and integrated development of infrastructures.
District Technical Support Committee DTSC	RMDD, 2009: 12, 40-43, 47	<ul style="list-style-type: none"> - Chairperson: District Collector - Member secretary: district planning officer - Ex-officio members: all Heads of office and line departments at the district level 	<p>“Since the DPC on its own has not been able to consolidate and prepare district plans, a DTSC was constituted in each District”.</p> <ul style="list-style-type: none"> ✓ Prepare district perspective per sector and submit it to GP and ZP for their plan; ✓ Provide technical input, support, coordinate GP Forum for the preparation of GP plan; ✓ Assist in formulation of ZP plan and make projects in collaboration with ZP ✓ Provide technical support for GP, ZP and district plan as per the directive and guidelines of the Government; ✓ Scrutinize for technical aspect of the GP and ZP plan and submit the observation to the DPC (District Planning Committee); • Approval of DTSC means that the plans prepared by the GP, ZP respect government guidelines and are technically sound. DTSC are therefore accountable to GP, ZP and the State Government. • Under the control of the DPC.

4.3 Implementation

The Chart 4-3 traces the process of implementation. The institutional organisation of implementation, once the projects have been accepted (subsequent to technical feasibility and funding clearance), seems correct on first glance. Tender are invited for more important public works. A treasury / cash accounting system exist alongside. Work in progress and completed works have to be presented in Sabhas and completed work written in an Asset register. The concept is sound but technical improvements are always possible. The problem at this stage is the overlapping of monitoring and controlling bodies. In addition to the elected Panchayats, the Gram Planning Forum, Block Development Committee indirectly through the GPF, and the Audit-cum-Vigilance Committee are entrusted with monitoring and controlling the works in progress and their completion. Also, the BDO in his function oversees the execution of "all" (?) responsibilities assigned to the GPUs under his/her jurisdiction. It is not clear whether this supervision is limited to the management of current affairs and the implementation of accepted development projects or both of these: "all responsibilities" would include the latter as well. The problem in this third stage may be summarized sharply in the fact that overlapping responsibilities dilute them and reduce accountability. Thus, the corrective concept here would be to reassign implementation responsibilities to one body only.

Chart 4-3 Implementation



Name of institution / committee / etc	Reference	Member composition	Function / duties / responsibilities
Gram Planning Forum GPF	Panchayati Raj in Sikkim, Government of Sikkim (RMDD, 2009: 44-46)	<p>- All elected members of GP (GP President is Chairman);</p> <p>- The concerned elected member of Zilla Panchayat;</p> <p>Ex-officio members:</p> <p>- One senior line department officer (LDO) working under GPU</p> <p>- BDO/ SubDDO concerned;</p> <p>(one is selected secretary for one year);</p> <p>- a max. of 5 “expert” members to be identified by GP elected members and approved by the Gram Sabha (suggestions: have a transparent selection process; invite application; ask experienced people to help identify the right person)</p>	<p><i>Implementation of the Plan</i></p> <ul style="list-style-type: none"> ✓ Monitor the implementation of all work; ✓ Inspect the work through concerned working group and base on the report of the working group before clearing the bill by the GP (coordination Budget); ✓ Present all the executed /completed work to the Gram Sabha for information; ✓ Maintain year wise record (sector wise) of scheme executed under GPU in an Asset Register. <ul style="list-style-type: none"> • Accountability towards GP, Gram Sabha, DPC.
GPF Working Group(s)	RMDD, 2009: 44-46	<p>Minimum 4 members within GPF selected for their knowledge and interest towards the sector.</p> <p>Chairperson: an elected Panchayat Convener: Senior most official from the concerned sector (line department)</p>	<p><i>Implementation</i></p> <ul style="list-style-type: none"> ✓ Preparation of draft project to implement the action plan; ✓ Monitoring of projects as directed by GPF <ul style="list-style-type: none"> • Accountability towards GPF
Block Development Committee BDC	RMDD, 2009: 26	<p>Area MLA (Member of the (Sikkim) Legislative Assembly: Chairman;</p> <p>Members: Area Zilla Panchayat, GPU President; 3 educated youth; 3 others; ex-serviceman</p>	<ul style="list-style-type: none"> ✓ Ensuring implementation, proper monitoring and maintenance;

Name of institution / committee / etc	Reference	Member composition	Function / duties / responsibilities
BDO	RMDD, 2009: 59-60	BDO in his function	<p><i>Implementation of the Plan</i></p> <ul style="list-style-type: none"> ✓ Shall be empowered to call tender, opening of tender, conclusion of agreement, acceptance of tenders for works costing up to Rs 20.00 Lakhs with the help of the technical support staff. ✓ Payment of the final bill shall be done only on the receipt of the inspection report of the BDO which will have to be accompanied with the technical completion report of the Assistant Engineer. ✓ Shall be responsible for overseeing the execution of all responsibilities assigned to respective GPUs under his/her jurisdiction.

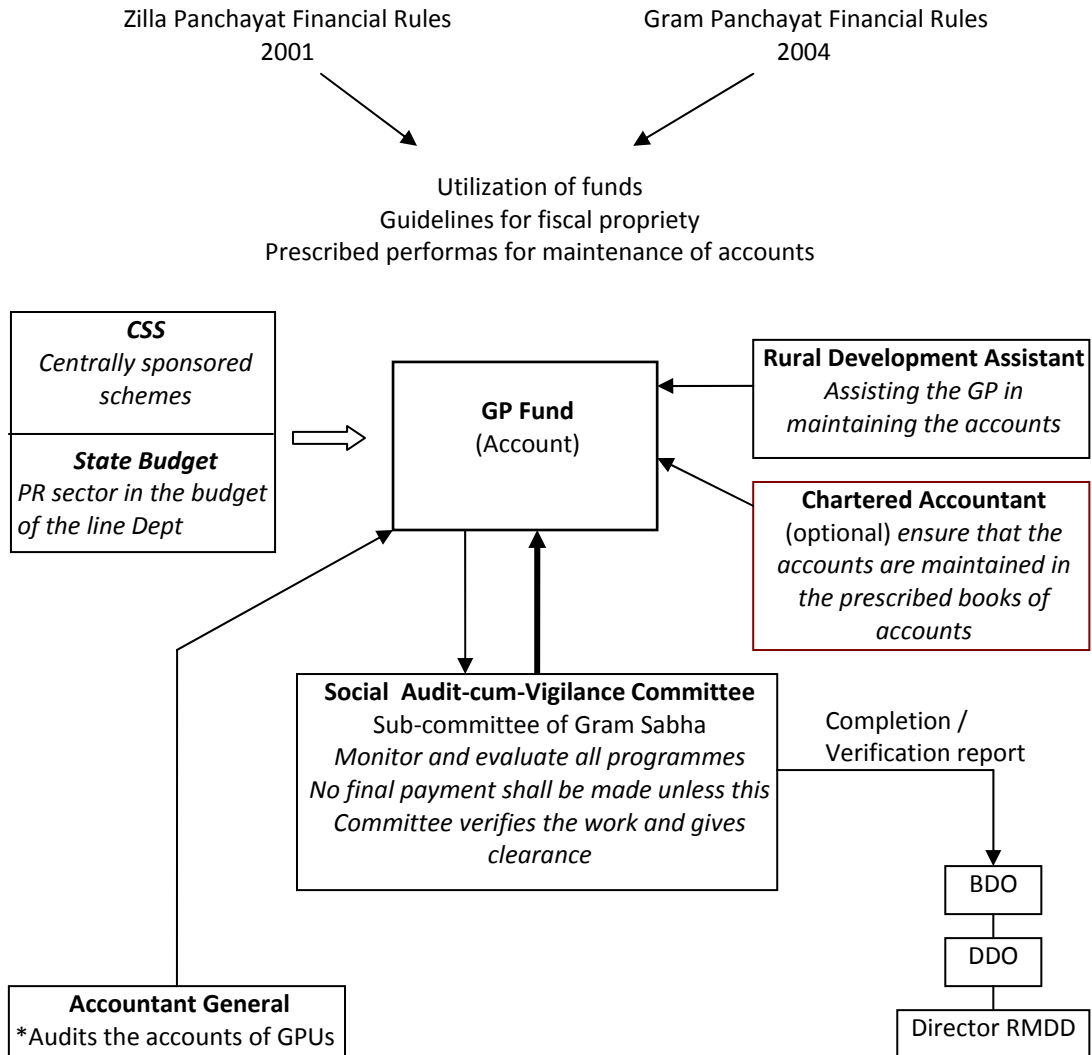
4.4 Budgeting and Accounting

The last step in the design of Planning in Sikkim, budgeting and accounting, is depicted in Chart 4-4. The institutional design here is straightforward and without complication. Expenditures for the development projects in progress or completed have to be certified. The Accountant (Secretary of the GPU) passes the corresponding entries in the books and a Chartered Accountant may verify the entries as an option. The accounts are audited by the Accountant General's Office on a regular basis. While audit by the state Government is mandated in the Sikkim Panchayat Act 1993, such audit appears not to have ever been conducted. The Social Audit-cum-Vigilance Committees is responsible for verifying the implementation of development project. Its clearance is required for payment of final bills of all works. But it has not the responsibility to certify the annual account of the GPU, so that auditing from the local institution is not exhaustive.

In this fourth stage, three issues have been discussed in the interaction meeting:

- (i) the constitution and /or the work of the Audit-cum-Vigilance Committee should be revisited, in particular because it partially overlaps that of the Gram Planning Forum;
- (ii) the accounting system is "treasury – cash" base but does not give an overview of the functions sector wise of the GPU;
- (iii) the revenue side of the accounting is absent because funding is through Centrally Sponsored Schemes and State plan schemes. Own revenue sources are limited or nonexistent but for a few exception (where user chargers are levied for water, administrative fees, etc). The issue of improving own financial resources and revenues will be taken up later in this Report.

Chart 4-4 Budget and Accounting



*Audit by State Government (Finance) is a statutory requirement but in practise not performed.

Name of institution / committee / etc	reference	Member composition	Function / duties / responsibilities
Social Audit-cum-Vigilance Committee	Panchayati Raj in Sikkim, Government of Sikkim, RMDD, 2009: 13, 49-50	<ul style="list-style-type: none"> ✓ Elected in Gram Sabha ✓ For one financial year (re-eligible) ✓ No G Pachayat member; servicing Gvt employees excluded; ✓ Min. 10 people ✓ At least one person from each ward ✓ Identification holder and permanent resident of the GPU ✓ RMDD can nominate one or more person(s) if felt necessary 	<ul style="list-style-type: none"> ✓ Receive a copy of the social estimate of the work /scheme by the department concerned to have a clear knowledge about the project implemented. Social estimate here means the estimate can be clearly understood by the laymen; it indicates the total cost of the scheme and the quantities of various materials to be utilized in laymen's language. ✓ Inspect the work compulsory before recommendation for passing the bill(s); ✓ No final bill to be passed and released without the recommendation of the Committee.
Rural Development Assistant RDA	RMDD, 2009: 13	One person in each GPU	Assisting the GPs in maintaining the accounts
Chartered Accountant	RMDD, 2009: 13	Private Chartered Accountant	Ensure that the account of GPUs are maintained in the prescribed book of accounts and provide practical training to the Sashiva and RDA
Comptroller and Auditor General of India	RMDD, 2009: 48	Appointed auditors	Audi the accounts of the Gram Panchayat and Zilla Panchayat as soon as may be after the end of each financial year, in the manner provided under Chapter IX of this Act (Note: the Sikkim Panchayat (Amendment) Act, No 3, 2004)

5

Gram Panchayat Annual Plan: How it is? Field analysis

Box 5-1 Personal discussions, visited institutions : a Reminder

Had one on one discussions with: (Names in alphabetical order)

Mr Kuber Bhandari, Finance Cell RMDD;
 Mr Phuchung Bhuta, District Planning Officer (East District);
 Mr B. Datha, Ad. Director Finance;
 Mr T.T. Dorjee, Additional Chief Secretary, Finance Revenue and Expenditure Dept ;
 Mr P.T. Euthenpa, Special secretary-cum-Director, Panchayat, RMDD;
 Mr A. Ganeriwala, Secretary to the Government of Sikkim, RMDD;
 Mr Gyatso, principal secretary com. Develop. Commissioner;
 Mr Pavan Kumar, Consultant to RMDD;
 Mrs U. Poudyal, Block Development Officer Ranka, East District);
 Mr Dhiraj Pradhan, Block Development Officer Regu East District;
 Mr Anil Raj Rai, East District Development Officer;
 Mr K.N. Rai, Minister in charge of RMDD;
 Mr D.P. Sharma, Sp. Secretary Home;
 Mr K.K. Shrestha, Deputy Director, secretary of the State Finance Commission;
 Mr Dr. Sandeep Tambe, IFS, Joint Secretary, RMDD,NREGA;
 Mr R. Telang, Secretary (ARDD);
 Mrs Yishey D. Yongda, Deputy Secretary, RMDD, Sanitation.

Institutions visited:

State Committee on Village Development Action Plan;
 State Planning Commission;
 Third State Finance Commission;

Gram Panchayat Units and BACs visited:

16 Sabhapatis (President) of GPUs of East District and BDO in Gangtok;
 Gerethang (West District); Turuk Ramabong and Mellidara Paiyong (South District);
 Aritar (East District) which will serve as reference unit for the blue print planning;
 BAC Regu (East) and Kabi Tingda (North), BAC and GPU.

In the interaction meetings with Panchayats, BDO's, DDO's and elected Zilla Panchayats, it became obvious fairly soon that organising the proposed Report around the design of a planning process on which to base a blueprint plan for one village, as requested, would not suffice. Processes of annual planning in the GPUs differ a lot from one place to the other and nowhere respect the system intended and given in laws and guidelines of the State. Therefore it was necessary first to understand the system "as it is designed" for comparison to its application in the field. Second, confrontation of the practises in planning at the local level with the "should be" planning process would reveal where difficulties arise and how to remedy them or simplify the present designed system. Then, and only then, would it be possible to develop a sound experiment which, if implemented with success in the blueprint for a village, could a model be proposed for duplication elsewhere. In addition, further discussions and investigations at the personal level (see Box: a Reminder) and interaction with the members of the Third State Commission, the State Planning Commission and the State Committee on Village Development Action Plan reinforced both the preliminary conclusions of the field visits and also served to inform the Mission on additional problems in local governance and planning. These issues are taken up below insofar as they pertain to the Terms of reference.

Without going into the details of the discussion and interaction with Panchayats and other stakeholders at the Block and District and State levels, including Senior Officers of line department, the present concerns and difficulties at the grassroots level can be regrouped in six domains:

- (1) technical interference in the democratic process;
- (2) absence of horizontal coordination;
- (3) faulty vertical coordination;
- (4) overlapping responsibilities;
- (5) lack of transparency and the impediments in vertical transfer of information;
- (6) the design of the political institution.

5.1 Technical interference in the democratic process

Ensuring democracy at the grass root level is at the core of the devolution of powers. The institution and functioning of Ward and Gram Sabha are the expression of a strong local democracy. This should not be changed. The preoccupation is how to increase the awareness of citizens-voters and the responsibility / accountability of elected Gram / Zilla Panchayats.

A first problem is the interference of line departments at each stage of the planning, from preparation to the completion of the works. Line department officers and other functionaries intervene in DTSC, GPF, GPF Working Groups, Gram Sabha. Interfering institutions and “external bodies” are named in the yellow shaded rectangles on the right in Chart 1 to 4 in the Design of Local Planning. Interference is due to the fact that in the many committees which help and support Panchayats, line department representatives and others are stakeholders with quasi decision power whereas they should act as advisers and consultants. As a consequence, technocrats are in a position to influence the sorts of development projects that could be proposed to Gram Sabha or the priorities thereafter – though it is difficult to define the exact extent of their influence.

Thus the first proposal is to remedy this situation. Decisions and prioritisation belong to the Gram Sabha; line departments must function as advisers.

5.2 Horizontal coordination

From an institutional point of view horizontal coordination is not guaranteed at the moment. It depends on the awareness of individual Panchayats and their willingness to cooperate but is not built into the system. Block Development Committees are expected to look at the overall development

of the Block, but this does not include horizontal coordination for projects that are of interest for a group of neighbouring GPUs within the Block. In addition BDCs do not function satisfactorily, even where they have been constituted (Joseph and Khangsarpa, 2009).

The District Planning Committee should not only consolidate GPUs' annual plans but also prepare a draft development plan for the district as a whole. True, DPC *"have regard to matters of common interest between the Panchayat and Municipalities including spatial planning, sharing of water and other physical and natural resources, the integrated development of infrastructure and environment conservation"* (RMDD, 2009: 43). As articulated this statement seems to concern the relation between the Zilla Panchayat (singular in the quoted text) and municipalities and not the rural Gram Panchayats (not in plural in the text). When asked on the DPC's activities, most Gram Panchayats ignore what were the proposals – if any – which could concern them. In addition, *"since the DPC on its own was not able to consolidate and prepare district plans, a DTSC was constituted in each District to undertake the task under the control of DPC"* (RMDD, 2009: 12). But horizontal coordination is not listed in the duties and responsibilities of DTSC (RMDD, 2009: 47).

We suggest remedying this situation in reinforcing the role of Block Development Officers as initiators and facilitators of horizontal coordination. When similar development projects and proposals emerge from Gram Sabhas in neighbouring GPUs, BDOs at the Block level must take note of these projects and see how they can be implemented and operated in coordination between the neighbouring GPUs. This is not to suggest that BAC take over the responsibility from GPUs, but that the BDOs should convene the concerned Panchayats to see how a project common to them can be properly developed in parallel in their unit in order to gain efficiency and save costs.

5.3 Vertical coordination

The precise roles of the Block and District have been scrutinized in the “should be” design. BACs are recent institution (2007) and though they appear in the reference book on Panchayati Raj in Sikkim and are a prominent part of the administration, no responsibilities defined in the activity mapping for decentralization are effectively devolved to them (RMDD, 2009: 14-23). Yet it is important to note that in the perception of Panchayats, BACs are more useful for reason of proximity than the District administration and also because line departments have been decentralized and brought to the BACs.

Panchayats have also complained that priorities in the list of proposals put forward by Sabhas were in some cases modified without their consent and without consultation. The criteria or technical reasons for changes were rarely made clear or explained. Often changes in priorities could result from limited funding. Considerable fine tuning is required in this aspect.

The proposal is to adopt clear vertical lines for the respective roles of BAC and District, avoiding undue interferences. Vertical interference with local choice should also be circumvented to those situations where horizontal coordination on identical, neighbouring and simultaneous projects is needed, especially for technical reasons and economies of scale in their realisation.

5.4 Overlapping responsibilities

It is not always easy to avoid overlapping responsibilities in the design of devolution. Overlapping often appears in action not necessarily in the text of the process as spelt out. So when such a situation is spotted remedy should follow.

There are two sorts of overlapping. One is concerned with the overlapping of functions when identically defined functions are assigned concurrently to two government layers: then which layer does what? For example, in the activity mapping for PRIs, in Sector 2 “Horticulture and Cash Crops” “*extension and*

demonstration on organic farming related to horticulture” are activities given in the same terms under Zila Panchayat and Gram Panchayat (RMDD, 2009: 16).

The second overlapping is institutional and procedural when two or more institutions are given roles that are very close one from the other. Thus, in preparing GP annual plans, elected Panchayats, Gram Planning Forum, BDO, DTSC and line departments are involved (see Chart 4-1). In monitoring and implementation, elected Panchayats, GPF, BDO, BDC and Audit-cum-Vigilance Committee share responsibilities (see Chart 4-3). With overlapping action, responsibilities are diluted and accountability vanishes.

Our proposal is that responsibilities are reassigned so as to avoid overlapping. In doing so, we expect to simplify the planning and monitoring procedures and to make it simpler, more transparent, and more responsible.

5.5 Transparency and vertical transfer of information

In the present state of affairs, annual Panchayat plans are consolidated at the Block and District levels, and then sent to the State Planning Department. With the condition that the work assigned to Blocks and Districts is to be clarified, streamlining bottom up proposals functions satisfactorily. But the reverse is not true: the top down streamlining to inform GPUs on the following up of their plan is not functioning. Panchayats have complained that information about the acceptance of their projects was belated, and that they are ignorant up to the last moment as to how much funds are available to them. They wish that information about the acceptance and funding of their projects should follow once the State Budget of the fiscal year has been passed in the Assembly. It is not simply a question of technical and bureaucratic processes that have to be set right. It is important for the upgrading and lasting commitment to Panchayats and local bodies in making devolution work. It seems that Panchayats are sometimes disheartened by the lack of an answer or late answers in the fiscal year.

The technical question is not simply the knowledge of the amount of funding at their disposal, but the way it is calculated. If, as it is the case presently, funding is earmarked to a specific sector project, then of course the feasibility of the project must be first scrutinized, and this cannot be obtained within a few weeks after the State budget has been accepted. Therefore, a new course of funding must be analysed: that is whether funding could be sector wise rather than earmarked sector and project wise, in which it is left to GPUs to decide the priorities (see subsection 5.7 below). This has to be in tandem with improvement in the GPUs' capacity to raise their own revenues.

5.6 Political institution design

This sixth point is obviously the more delicate. A number of aspects contribute to the political design. One concerns the role of MLAs at the Block level and elected Zilla Panchayats at the District level. Some remarks in the meetings in the field drew our attention to this point. (This issue is also referred to in the study of the BACs of Joseph and Khangsarpa, 2009). The feedback raised doubts about their respective roles in decentralisation. It was obvious that these required serious rethink.

Another critical issue related to divergences in priorities in the vertical transmission of projects and priorities. Gram Sabha decisions were not always given absolute respect. Projects which were not in the list or not in first priorities were upgraded. Funding in some cases diverged from priorities decided by the Gram Sabha. The list of beneficiaries of social aid would not correspond in decision and implementation despite the fact that Panchayats have the responsibility and were asked to justify the differences. The complaint was not so much that differences appear but rather that they were neither associated nor consulted about the changes; moreover, criteria for change were not explained.

There is an obvious need here also for fine tuning in the respective roles of elected representatives, at their level, GPU, Block and District to ensure proactive and supportive roles.

Two further issues have been raised in the interaction meetings with Panchayats and also the Third State Finance Commission. One relates to the design of grants. The second relates to the need for increasing own revenue sources at the local level.

5.7 Grants

Funds for GPUs come from two sources: from CSS (Centrally Sponsored Schemes), and from State plan funds under which various line departments including RMDD, transfer around 10% of their development funds to the panchayats.² Though the allocation of funds to Gram Panchayat Units was not adequate before fiscal year 2007-2008, the situation is now improving. The discussion about Central and State grants focused on three issues: how much, how and when?

How much? Grants under CSS are tied grants leaving no room for manoeuvre. *“Though a Panchayat sector in the budgets of the Line Departments has been in existence for the last 8 years, the quantum of funds provided is inadequate. In 2006-07, Rs 89 lakhs was allocated to the Panchayats in 6 departments in its budget. The implementation of the Activity Mapping (2008) has brought about more devolution of funds. It recommended for the deduction*

2 By "development funds" of line department, one means the funds that are not allocated to the wages of the department functionaries and the administrative expenditures of the department. The equation is:

total funds budgeted for a department

minus wages

minus material and equipment

minus administrative current expenditures

= residual funds for development projects

on which 10 % should be allocated to Panchayats.

Budgets of line department contain a "Panchayat Sector", that is funds allocated to projects in Gram Panchayat Units = the so called "sectoral allocation of funds to GPU".

of the funds relating to the subjects transferred at source and placing such funds in a separate Panchayat sector in the State budget. All line departments have been transferring the Panchayat budget as per the Activity Mapping report. During Financial Year 2007-08 funds amounting to Rs 1900 lakhs approximately were transferred.” (RMDD, 2009: 13).

While the 10% target for the sectoral allocation of funds to Panchayats was not discussed in our interactions, Panchayats complained that funds were insufficient. A related issue then came up is the imbalance between too many project proposals in the Gram Sabhas and the available funds. Since local own revenues is almost absent in all GPUs and local budgets are essentially funded through CSS and State grants, and no charges are collected for services provided by the government, local public services have no opportunity cost. Without a tax counterpart, local residents have the illusion that these services are free – which in turn increases the number of project proposals to a level out of proportion to the budget available. In our meetings, Gram Panchayats have evaluated that only around 20 to 30 % of proposals in their wish lists were implemented. They hence inevitably felt frustrated.

As we know that building local capacities to rise own revenues will take time, the immediate effort would be to design a budgeting / accounting system in which Gram Panchayats would be made aware of how much funds they would have before presenting development project proposals in the Gram Sabha. This should (i) reduce the number of project proposals of the Gram Sabha by creating awareness of the limitation of funds; and (ii) by compelling them to make more pertinent choices in prioritisation of proposals.

How? Three possibilities exist:

- (i) earmarked grants per project as now,
- (ii) sectoral block grants
- (iii) and a general block grant.

The general block grant solution (which is demanded by most elected Panchayats) would imply that the GPU would not only have to select projects and define priorities between projects (wish list of Wards and Gram Sabhas), but also between sectors / functions – roads versus irrigation versus primary school etc. The general view was that political maturity was not yet sufficient to follow this alternative. In addition, this solution – which would be the ultimate step in the devolution of finance – should and can only be implemented when own revenues will finance a substantial part of local budgets and expenditures.

Actually, grants are earmarked per sector and within a sector per project. In the meetings, this way of financing Gram Panchayat activities was labelled as too restrictive and as not responding to the spirit and letter of devolution.

However, before brushing aside earmarked grants, one should scrutinize carefully the nature of local public expenditures, their purpose and monitoring. Local public expenditures in Gram Panchayat fall into three groups, summarized in Table 5-2.

Individual targeted aid

It clearly appears from the above distinction that earmarked grants are not in question for the “individually targeted aids”. Criteria have to be set at the State level: one would not understand that the eligibility criteria could differ from one local unit to the other. Once state-wide criteria are fixed, eligibility will be automatically determined: individuals will qualify or be disqualified. The role of Gram Panchayats would be to list which households or individuals satisfy the selection criteria, to ensure that they have access to the aid, and according to the scheme channel and monitor the funds.

Table 5-2 The nature of local public expenditures

Community (collective) services	Targeted “interest group” activities	Individual targeted aid
These are activities which are of concern for all the residents in the GPU and will generally increase the well-being of all residents.	These are activities of interest for the whole community and focus on general economic development, but can only be implemented by selecting individual households / farmers.	These are activities that benefit directly individual households, through social aid programmes, mainly in pursuing poverty reduction programmes.
Examples: school, roads and bridges, water distribution, irrigation works, village health and sanitation, etc	Examples: programs for seed production, high-bred farm animals, promotion of horticulture, etc, which require some primary input from the individual.	Examples: Indira Awas Yojana, Rural Housing Scheme, Rural Employment Guarantee Funds
Eligibility: general; Accountability: bottom up	Eligibility: sector / programme criteria; Accountability: bottom up	Eligibility and criteria: State / top down; Monitoring: at the local level
Financial instrument ³		
General block grants	Sectoral block grants; <i>Suppress earmarking per programme</i>	Earmarked specific grants; <i>Transparent criteria are needed.</i>

Targeted “interest group” activities

For targeted “interest group” activities, the question is more delicate. At the moment, these funds are earmarked per program. Moving them to sector earmarked grants (rather than sector and program earmarking) implies that Gram Panchayats have an appropriate five-year planning, with sectoral priorities and the related programmes in the annual plans. This is not yet the case, but

³ For a discussion on the adequate financial instrument in intergovernmental budget transfers, see B. DAFFLON and T. MADIES, 2009: 71-82.

could be considered in the blueprint plan for a gram panchayat. Of course, these changes do not imply that Gram Pachanyats can do away with eligibility and programme criteria: once the priorities have been chosen in the five year planning, technical feasibility must also be undertaken [if a programme of seed production is envisaged, is there adequate farm land in the GPU for this to be implemented? What will be the technical criteria for land selection? Then what will be the criteria for the eligibility of individual farms within the land selection?].

Community (collective) services

Functional block grants would be recommended as a first step for community (collective) services, leaving to the GPU the responsibility to select their projects within sectors. At this stage, fund transfer between sectors would be prohibited: funds allocated to sector A in the budget (annual plan) cannot thereafter be used for sector B (not even with a Gram Sabha decision). But line department should not go into detail guidelines selecting the projects within a sector – they should only look at the technical feasibility. The objective is to increase the awareness of Panchayats and participants in Sabhas on the link between project estimates and funds available to them, and to make better informed choice of projects and priorities.

When? Panchayats complained that they do not know exactly in the budget year when the information about their budget allocation comes (see (5) above). One way to solve this problem would be to have a functional accounting system (complementary to the actual treasury accounting system), consolidating annual funding and expenditures under sectoral / functional heads so that GPU could base their priorities upon this information. For example, while waiting the exact information on the 2010-11 State budget, GPU could use the consolidated result of the previous fiscal years 2007-08 and before and the on-going fiscal year 2009-10 to project their own priorities for 2010-11. This would allow finance to

follow functions and not the other way round. A detailed proposal in this direction will be made for the blueprint village development plan.

5.8 Own revenues

One further issue is the need for GPUs to increase their own revenue sources in a not to distant future in order to increase the awareness of residents that local public services have a cost and also to strengthen responsibility and accountability. Some initiatives in this regard are already seen in several gram panchayats in the raising of user charges for drinking water, administrative and certification fees, and also initiating profitable commercial activities. Legal and financial rules are sufficient at the moment. Yield from own revenue sources should be kept in the GP Fund (account) and need not be included in the State treasury account system. The related technical issue is how to account for these revenues and the corresponding expenditures since user charges, etc have to be attributed to the specific functions for which they have been paid. Beneficiaries will probably agree to pay as long as they control the use for which the yields have been allocated. Again, functional budgeting and accounting could help.

There is nothing new in this proposal which, at this stage, corresponds to recommendations 2 to 7 of the Second State Finance Commission (RMDD, 2009: 10):

Box 5-3 Recommendations of the Second State Finance Commission

1. *Introduction of taxes on property in municipal areas,*
2. *Introduction of user charges for drinking water in Panchayats areas,*
3. *Introduction of user charges for use of irrigation water,*
4. *Introduction of fees for construction of houses in Panchayats areas,*
5. *Introduction of fees for occupation of Haat sheds*
6. *Assignment of taxes on fairs, melas and other entertainment in Panchayat areas to the Panchayati Raj Institutions.*
7. *Introduction of service charges for registration of births and death.*

6

Possible Simplification in the Planning Process

On the basis of the information and practises gathered from extensive field interaction and discussions with a cross section of officers at Block, District, and State level, suggestions are made for simplifying the planning process, avoiding duplication and more specifically for eliminating interferences of line department in the democratic procedure of decision and prioritisation at the Gram Panchayat level. The proposed simplification also takes into consideration the eight domains which have been discussed in the previous section 5.

This section follows the same sequence as in Section 4 and is based on the four Charts presented earlier. Recommendations with regard to the principles and guidelines of the proposed design are detailed within the description of each Chart. In each Chart, the square and boxes on the left hand side are as in the present design of the planning process and are not changed. These define the democratic fundamentals for devolution at the grassroots level. Each Chart is followed with a reference table as in section 4. However, these Tables contain additional information. Changes in the actual composition of commissions, committees, working group and like institutions which are involved in the planning process, or changes in their activities / responsibilities, are highlighted in yellow. New phrasing of membership or functions are highlighted in blue and underlined. The aim is to make crystal clear what are the implications of the proposed simplification. Note also that the next step, a methodology for village development plan, is based on this proposal.

6.1 Planning at the Gram Panchayat level

Three institutional problems have been spotted (sections 4.1 and 5.1):

- (i) GPFs have been constituted for the 5-years planning, but there has been no follow up for annual plans as it should be;
- (ii) Line department officers tend to control the planning process from the formulation of proposals to implementation and its monitoring;
- (iii) Interventions of parallel bodies (such as DTSC, GPF, Working Groups, and others) at the Gram Sabha level weaken its responsibilities, and hence are unnecessary.

In short, the proposals are first to reinstall GPF in their function for the annual plans. Second to revisit the organisation of the GPF, mainly membership; to suppress the possible role of DTSC (already minor if non existent at the GPU level), since line departments at the block level can technically advise Panchayats in planning. Also technical interventions during the Gram Sabha are not very efficient: it is difficult to assert without time for reflection and analysis whether a spontaneous proposal is technically feasible or not. It was also suggested that line department should intervene on demand, as technical advisors, but not belong to the GPF as members. These proposals are detailed and explained below.

The proposed simplification is to give the Gram Planning Forum alone the responsibility of the five year planning and, for the subsequent period of time, also the responsibility of preparing the proposals for the annual plan. In this option, illustrated in Chart 6-1, there is one institution only, the GPF, who would be in charge of planning. It will be responsible and accountable to the Gram Sabha. This is reflected in the proposed membership of the GPF: both elected Panchayats and members nominated by Gram Sabha through a democratic process. As at present, the concerned BDO will remain ex officio member: he/she will play a central role in horizontal coordination, as we shall see in Chart 6-2.

Moreover, placed at the BAC, he/she has the capacity to call upon line department officers in order to scrutinize the technical feasibility of development projects.

Line department officers should not be ex officio members of the GPF. They are not stakeholders in the democratic process. But they will serve as advisers and contribute to assessing the technical feasibility of the projects that Panchayats intend to submit for decision to Ward and Gram Sabhas. In the same way, the Rural Development Assistant will serve as secretary of the GPF, but will not have any voting rights or decision making authority. The reason is that he functions in the capacity of a government employee and not as an elected or nominated representative.

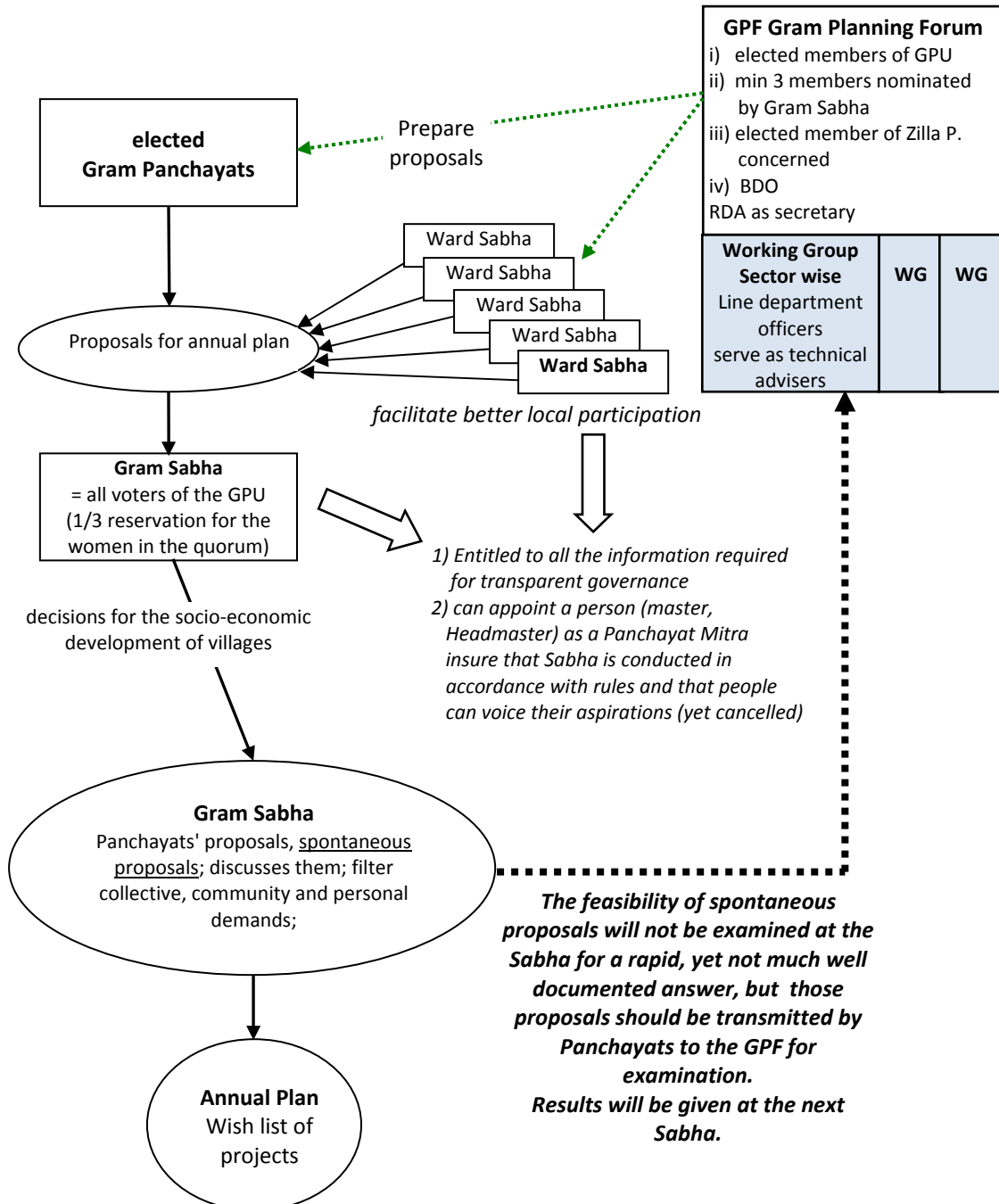
GPF Working Groups would no longer report independently and directly to Sabhas, but are institutional part of GPF. They would report to GPF, which is alone in charge of transmitting the information to Sabhas. The reason for this is that faced with several proposals but limited funds, a GPF Working Group would discuss and choose priorities between specific projects within the same sector (sector wise proposals) but it does not have the information to weigh more global/macro priorities between the sectors. That is, it can prioritize between project a1, a2, a3, a4, etc in Sector A, but does not possess the information to weigh Sector A in relation to other Sectors, according to the policy focus of the Gram Panchayat as a whole. And prioritization between sectors is of utmost importance if GPU wants to identify where the highest development potential exists.

In this model, it is intended that the GPF will prepare in advance development projects for submission to the Sabhas. In doing so, it will have to call for the advise of line department officers to analyse the feasibility of the projects. Also, the GPF will have to examine the availability of funds for the fiscal year ahead so as not to multiply the proposals without any chance that they will

be financed thereafter. These should increase their responsibility and the pertinence of choices and priorities. With limited funding, wish list needs to be realistic. While waiting to know how much the GPU will receive in the next fiscal year – an information which is not known at the time of planning and will not be available before the State Budget is approved by the Assembly, the assessment of funds available would be based on the accounting results of the previous years and a projection for the year ahead. The blueprint for village action plan will contain a model matrix for the collection of these data.

In Sabhas, spontaneous proposals will of course remain possible in addition to the list prepared by Panchayats. But the assessment of proposals made by the Sabha should not be made then and there. Proposals must be registered and transferred to the GPF which will then examine their feasibility. If the response is in the affirmative, the proposal will be added to the list of priorities already decided, or submitted to the next Sabha for decision on the priority. Proposals which are not feasible will be disregarded. But this information including the technical reasons for elimination must be placed before the next Sabha. With the list of Panchayats' proposal prepared in advance, this procedure aims to give more substance to the discussions in the Sabha, at increasing the quality of discussion on content and prioritisation of the projects finally selected from the proposals made.

Chart 6-1 Planning at the GP level



Shaded sentences: suppression to the present institutional setting [Changes added in blue are underlined](#)

Name of institution	reference	Member composition	Function / duties / responsibilities
Gram Planning Forum GPF	Panchayati Raj in Sikkim, Government of Sikkim, RMDD, 2009: 44-46	<p>- All elected members of GP (GP President is Chairman)</p> <p>- The concerned elected member of Zilla Panchayat</p> <p>Ex-officio members:</p> <p>- One senior line department officer (LDO) working under GPU</p> <p>- BDO/ SubDDO concerned; (one is selected secretary for one year);</p> <p><u>min 3 max the number of wards</u></p> <p>5 “expert” members to be identified by GP elected members and approved by the Gram Sabha</p>	<p>✓ GPF secretary <u>RDA Rural Development Assistant</u> is also “plan coordinator”: serves as secretary, write the plan document and make the budget as per the decision of the GPF;</p> <p><i>Preparation of the Plan (periodical / annual)</i></p> <p>✓ Respect State government guidelines;</p> <p>✓ Collection of data and information;</p> <p>✓ Development goals in perspective planning, identifies ways and means to achieve it;</p> <p>✓ Preparation of project proposals;</p> <p>✓ Find out technical feasibility, financial norms, viability (with the help of planning cell and DTSC);</p> <p>✓ Selection (<u>prioritisation</u>) based on fund availability, (<u>own</u>) resources and capacity to do it;</p> <p>✓ Finalizing the plan for the GP for approval by the Gram Sabha;</p> <p>✓ Timely submission of the approved plan do the <u>BDO for consolidation and, if needed horizontal coordination</u> District planning officer (DPO) and the District planning Committee (DPC) for discussion and approval;</p> <p>✓ Update according with Government priorities and directives (in relation to DPO).</p>
GPF Working Group(s)	RMDD, 2009: 44-46	<p>Minimum 3 members selected within GPF selected for their knowledge and interest towards the sector.</p> <p><u>Ex-officio: Panchayat in charge of the Sector in which the proposal is made.</u></p> <p>Chairperson: an elected Panchayat</p> <p>Convener: Senior most official from the concerned sector (line department)</p>	<p><i>Working Groups (recommendation: <u>sector wise</u>)</i></p> <p>WG should be set up as per need and goals of the GP</p> <p><i>Preparation:</i></p> <p>✓ Sectoral development analysis;</p> <p>✓ Performance evaluation (5 last years);</p> <p>✓ Identification of existing problems, gaps, needs, possibilities;</p> <p>✓ Generation of shared vision of sectoral development with district officials and DTSC;</p> <p>✓ Suggesting action plan, with priorities and reasons for priorities;</p> <p>✓ Deal with any queries when sector plan is scrutinized at the district level.</p>

6.2 Submission of the Annual Plan

The object of the simplification in the second stage of planning is to organise a clear link in the vertical transmission of the GPU development projects, to install the BDO at the core of horizontal coordination between the GPUs under the jurisdiction of the Block, and to restore the role of the District as it is in the present institutional design (see Sections 4.2, 5.2 and 5.3 above).

Block Development Committees are non functional: they have not played any role at this point and as such have not been given a role in the activity mapping. Field discussions have shown that BDCs have no specific role in development projects at this level: development is ensured through the consolidation of GPUs individual plans. The projects of concern for the total area of the Block or part of it are similar projects across neighbouring GPUs. In this case, horizontal coordination would add value. But GPUs cannot be obliged, only persuaded through discussion sector wise for these identical projects. BDO could be coordinator in convening and conducting horizontal coordination meetings.

Proposal is that GP plans should be consolidated at the Block level. Block should also sort out in the GP plans within their jurisdiction which projects are of concern for two or more GPUs: it should be the role of BDO to organise coordination between the GPUs concerned. Also, line department officers are now engaged at the Block level: technical advises (in Chart 6-1) should come from the Block. In transferring the consolidation of GP plans at the Block level, the advantages would be:

[1] the vertical coordination would be ensured in a better way, consistent with the actual practise;

[2] since the BDO is ex-officio a member of the GPF, he is in a position to alert the GPF on the necessity to have technical council on specific proposal. Technical

advise is at hand at the Block level, so that Working Groups of the GPF can be organised and act effectively.

[3] the probability of and need for horizontal coordination for common GPU project(s) is higher at the Block level than at the district level.

District institutions will be restored to their primary role of district planning. Zilla Panchayats have three responsibilities:

- (i) prepare a draft development plan for the district as a whole;
- (ii) have regard to matters of common interest between the GPUs and
- (iii) consolidate Zilla and Gram Panchayat plans.

Actually, (i) is not realised; in (ii) “have regard” is sometimes considered as the right for the District authorities to modify the priority set in the Gram Sabha, whereas it should only mean “coordination” (a task which is presently exercised at the Block level). In addition, GPs have complained that proposals specific to a GPU – and not of district interest – are brought in through the Zilla level and added to the GP list and often given the first priority. Zilla Panchayat members who have proposals that concern the GPUs falling within his/her area should put such proposals to the concerned GPU and follow the process described in Chart 6-1. It is the nature of the proposals and not the position of the elected person which determines whether the proposal is placed at the Gram or Zilla levels.

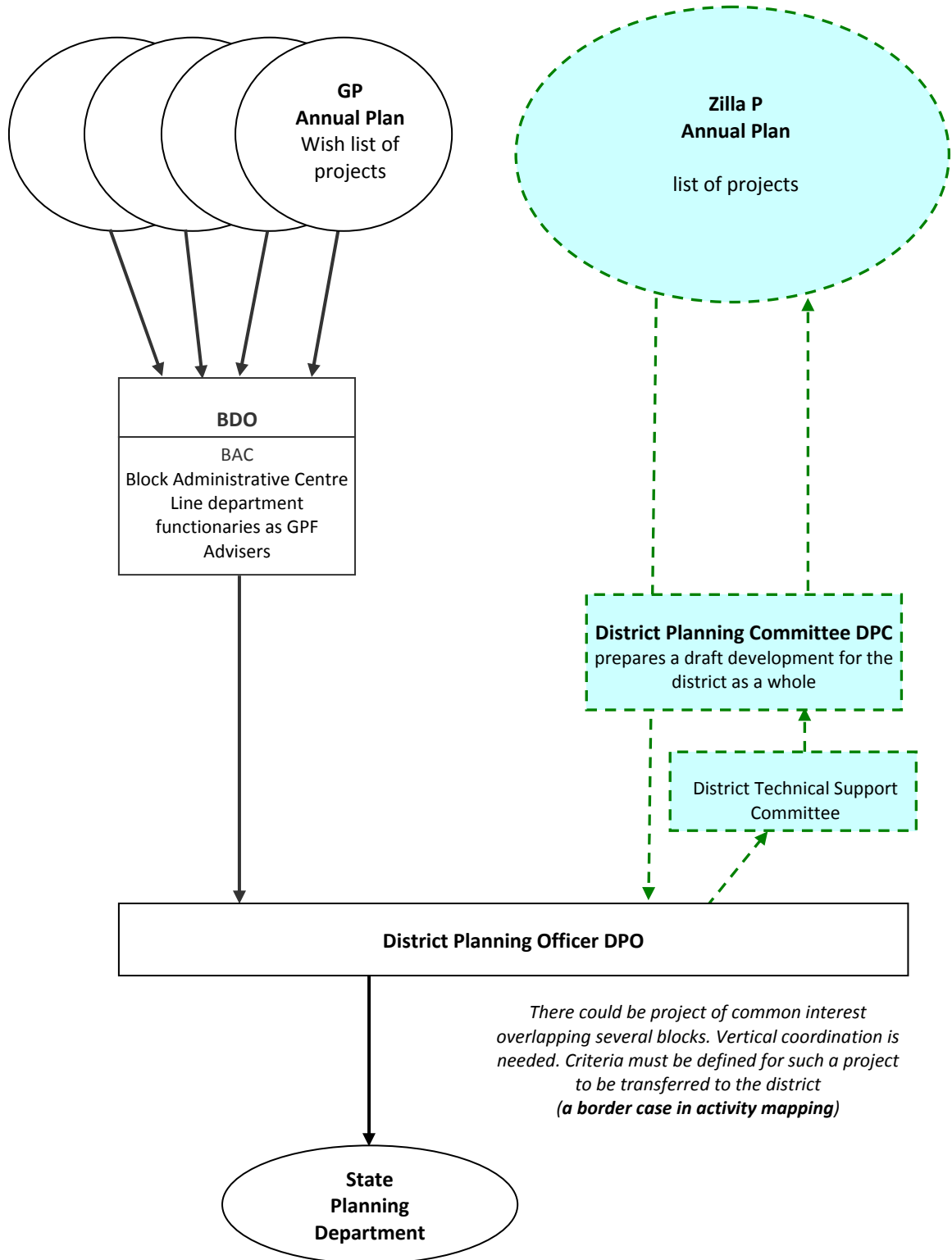
In the present situation, district planning does not function satisfactorily. The DPC should prepare a draft development plan for the district as a whole; this is not done. They have a responsibility concerning matters of common interest between the GPUs. But in fact the district is not the best geographical jurisdiction for this purpose owing to distance and travel time. Horizontal coordination between GPUs would be better placed under the responsibility of the BAC.

There could be projects of common interest overlapping several blocks. Vertical coordination is needed. This possibility should not be disregarded, but it is important to ensure that Districts do not interfere with GPUs' plans through this door. Criteria must be defined for such a project to be transferred to the district (border cases which may not fall in the activity mapping).

The proposed design is to separate clearly what is the concern of Blocks and that of the Districts to avoid any distortion in the vertical process. The DPO consolidates the plans prepared by the Zilla Panchayat for the District and Gram Panchayat plans transmitted through BDOs. GPUs plans must be consolidated at the Block level and transmitted to the DPO. In GP plans, projects cannot be added, priorities cannot be modified. Grass root level democratic decisions have to be respected.

The last concern here is the belated top-down return of information about the accepted GPUs' proposals for the next budget year. At the present time, GPUs complain that these information are not delivered in due time so that project implementation can start without delay once the State budget has been approved. Improvement is possible in this respect within the State bureaucracy. As we have written in subsection 5.7, the annual budgets of the Line Departments contain a "*Panchayat sector*" in which the total available amount is written. No doubt that both the concerned Line Departments and the RMDD have access and can now the details per GPU of the total amount accepted in the budget and could inform them as soon as the budget passes through the Legislative Assembly.

Chart 6-2 Submission of the Annual Plan



Shaded sentences: suppression to the present institutional setting [Changes are underlined and added in blue](#)

Name of institution	reference	Member composition	Function / duties / responsibilities
BDO	RMDD, 2009: IV, 26, 59-60	Head of BAC: BDO Block Development Officer	<ul style="list-style-type: none"> ✓ BDO: responsible for the smooth functioning of GPUs; ✓ act as facilitator and attend all the Gram Sabhas; ✓ facilitator for resource mapping, analysis and preparation of the village developmental plans; ✓ Provide technical support for GP (line department officers situated at the BAC to help and advise GPF in planning; ✓ Horizontal coordination: when GPU plan have similar projects: induce coordination if needed ✓ Responsible for the transfer of GPUs' annual plan to DPO. ✓ Overseeing the execution of all responsibilities assigned to GP.
Block Development Committee BDC		Area MLA (Member of the (Sikkim) Legislative Assemble: Chairman: Responsible person: BDO Members: Area Zilla Panchayat, GPU Presidents; 3 educated youth; 3 others; ex-serviceman	<ul style="list-style-type: none"> ✓ Identifying schemes and scrutinizing them from the point of view of the overall development of the GPUs and of the Block as a whole; this function is transferred to the BDO, see above "horizontal coordination" ✓ Ensuring implementation, proper monitoring and maintenance; these responsibilities are transferred to the GPF: see below Chart 3 implementation. ✓ Projecting them to the District Planning Committee responsibility of BDO, see above
District Planning Committee DPC	RMDD, 2009: 12, 40-43,	Nominal list of members: West 35, South 33, East 40, North 23. President: an elected Zilla Panchayat Secretary: District Planning Officer	<ul style="list-style-type: none"> ✓ Prepare a draft development plan for the district as a whole; ✓ Have regard to matters of common interest between the GPUs including spatial planning, sharing of water, natural resources, environment conservation and integrated development of infrastructures. Horizontal coordination between GPUs is the responsibility of the Block: see above in BDC; ✓ There could be project of common interest overlapping several blocks. Vertical coordination is needed. Criteria must be defined for such a project to be transferred to the district (border case in activity mapping) ✓ Consolidates the plans prepared by the Zilla Panchayat and Gram Panchayat in the district. In GP plans projects cannot be added, priorities cannot be modified.

Shaded sentences: suppression to the present institutional setting [Changes are underlined and added in blue](#)

Name of institution / committee / etc	reference	Member composition	Function / duties / responsibilities
District Technical Support Committee DTSC	Panchayati Raj in Sikkim , Government of Sikkim, RMDD, 2009: 47	<ul style="list-style-type: none"> - Chairperson: District Collector - Member secretary: district planning officer - Ex-officio members: all Heads of office and line departments at the district level 	<p>“Since the DPC on its own has not been able to consolidate and prepare district plans, a DTSC was constituted in each District”.</p> <ul style="list-style-type: none"> ✓ Prepare district perspective per sector and submit it to GP and ZP for their plan; ✓ Provide technical input, support, coordinate GP Forum for the preparation of GP plan; this task is transferred to the Block; see above BDO ✓ Assist in formulation of ZP plan and make projects in collaboration with ZP ✓ Provide technical support for GP, ZP and district plan as per the directive and guidelines of the Government; ✓ Scrutinize for technical aspect of the GP and ZP plan and submit the observation to the DPC (District Planning Committee); this task is transferred to the Block; see above BDO <ul style="list-style-type: none"> • Approval of DTSC DPC means that the plans prepared by the GP, ZP respect government guidelines and are technically sound. DTSC are therefore accountable to GP, ZP and the State Government. • Under the control of the DPC.

6.3 Implementation

As it has been said in the analysis of the present design, the problem at this stage is the overlapping of monitoring and controlling bodies. In addition to the elected Panchayats, the Gram Planning Forum, Block Development Committee indirectly through the GPF, and the Audit-cum-Vigilance Committee are occupied with monitoring and controlling the works in progress and their completion. Also, the BDO in his function oversee the execution of all responsibilities assigned to the GPUs under his/her jurisdiction (See sections 4.3 and 5.4 above).

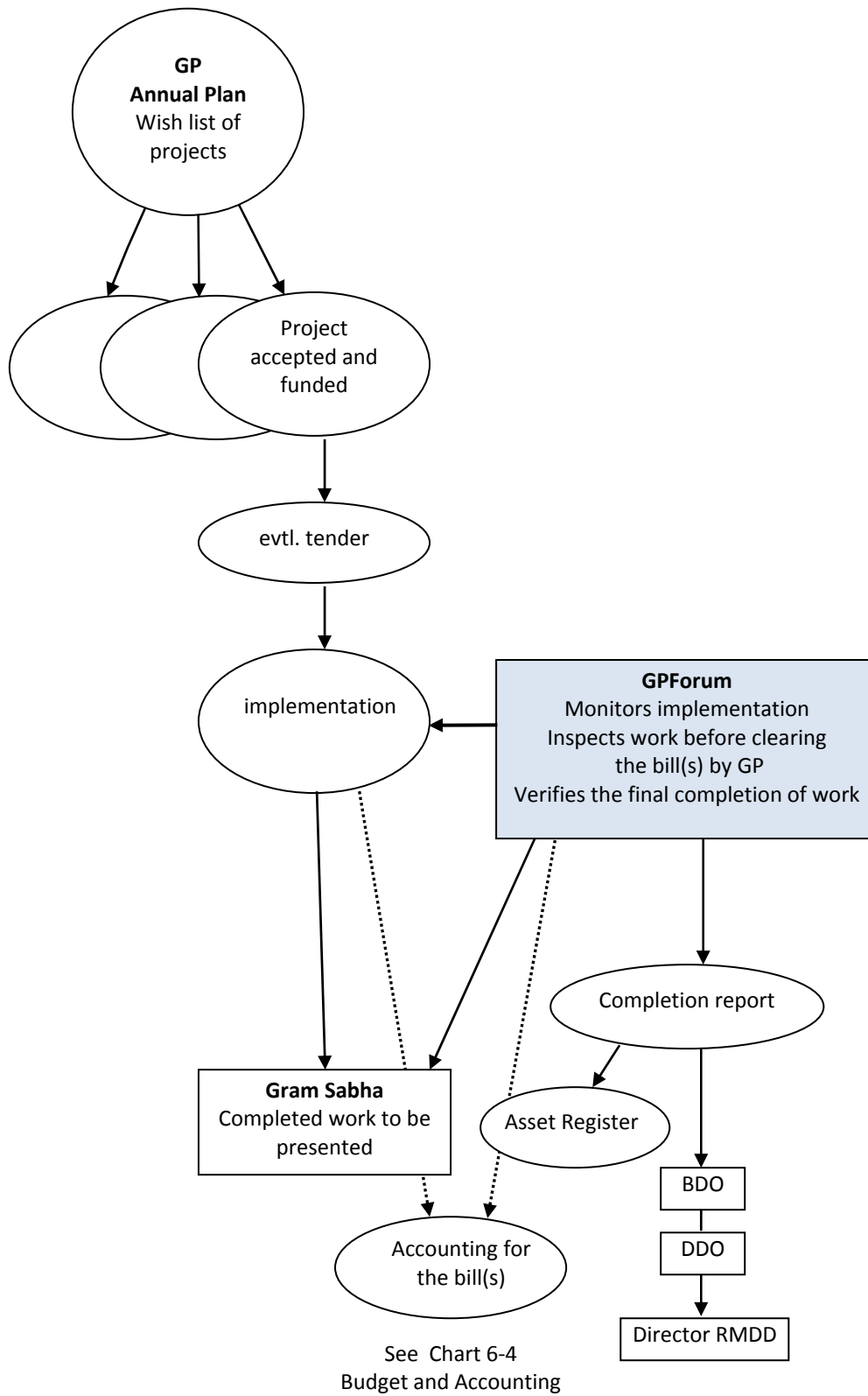
We propose that the implementation, monitoring and controlling responsibilities are centred on the Gram Planning Forum as the sole institution. This avoids all overlapping of responsibilities. This simplification is necessary for several reasons given below. First, in all decentralized democratic systems, the prime responsibility in the implementation of decisions taken in Sabhas rests on the shoulders of the elected members of the local executive, in this case the elected Gram Panchayats. In the proposed change, Panchayats are members of the GFP. Second, in term of accountability, the Sabhas should be duly informed on the acceptance of the projects it has decided, the work in progress and the completion of the work. How the projects have been financed and whether the value of each project is worth the money it costs also belong to the Sabha's prerogatives. But one readily understands that a close scrutiny of projects by every permanent resident of the GPU is not feasible. In this case, delegation of function is possible and, as it is, a minimum of three representatives and maximum number equal to the number of Wards in the Gram Panchayat, are nominated by the Sabha. In addition the concerned elected Zilla Panchayats is member. Democratic rules in the delegation of responsibilities are respected.

Parallel to what is proposed for the preparation of the development project proposals, the concerned BDO, ex officio member, can follow the working progress of projects that are of concern to several neighbouring GPUs. Thus horizontal coordination is ensured not only at the preparation stage but also during the

realisation. GPF Working Groups, organised for preparing proposals sector wise, can also intervene at this stage for monitoring and control. And line department officers may be called upon as technical advisers and can help in the quality-control of the works in progress.

In total, the modifications suggested at this third stage are modest in design: simply regroup the monitoring and control of implementation under one hat, that of the GPF. But, by redistributing responsibilities and the role of different institutions in a precise way, without overlapping, this should enhance the efficiency of the process.

Chart 6-3 Implementation



Shaded sentences: suppression to the present institutional setting

Changes are underlined and added in blue

Name of institution / committee / etc	reference	Member composition	Function / duties / responsibilities
Gram Planning Forum GPF	Panchayati Raj in Sikkim, Government of Sikkim, RMDD, 2009: 44-46	<p>- All elected members of GP (GP President is Chairman)</p> <p>- The concerned elected member of Zilla Panchayat;</p> <p>- One senior line department officer (LDO) working under GPU (one is selected secretary for one year);</p> <p>- BDO/ SubDDO concerned;</p> <p>- <u>3</u> 5 "expert" members to be identified by GP elected members and approved by the Gram Sabha (<i>suggestions: have a transparent selection process; invite application; ask experienced people to help identify the right person</i>)</p>	<p><i>Implementation of the Plan</i></p> <ul style="list-style-type: none"> ✓ Monitor the implementation of all work; ✓ Inspect the work through concerned working group and base on the report of the working group before clearing the bill by the GP (<u>coordination Budget</u>); ✓ Present all the executed /completed work to the Gram Sabha; ✓ Maintain year wise sector wise record of schemes executed under GPU in an Asset Register. <ul style="list-style-type: none"> • Accountability towards GP, Gram Sabha, <u>DPC</u>.
GPF Working Group(s)	RMDD, 2009: 44-46	<p>Minimum 3 members selected within GPF selected for their knowledge and interest towards the sector.</p> <p><u>Ex-officio: Panchayat in charge of the Sector in which the proposal is made.</u></p> <p>Chairperson: an elected Panchayat</p> <p>Convener: Senior most official from the concerned sector (line department)</p>	<p><i>Working Groups</i> (recommendation: sector wise)</p> <p>WG should be set up as per need and goals of the GP</p> <p><i>Implementation</i></p> <ul style="list-style-type: none"> ✓ Preparation of draft project to implement the action plan; ✓ Monitoring of projects as directed by GPF <ul style="list-style-type: none"> • Accountability towards GPF <p><u>Horizontal coordination sector wise is ensured through BDO action in organising meeting with the concerned Panchayats.</u></p>
Block Development Committee BDC	RMDD, 2009: 26	<p>Area MLA (Member of the (Sikkim) Legislative Assembly: Chairman;</p> <p>Members: Area Zilla Panchayat, GPU President; 3 educated youth; 3 others; ex-serviceman</p>	<ul style="list-style-type: none"> ✓ Ensuring implementation, proper monitoring and maintenance; <p><u>Note : the role of BDC is suppressed in the implementation phase. BDO as ex-officio member of GPF can ensure in this place implementation, proper monitoring and maintenance of GP project together with the other members of GPF.</u></p>

6.4 Budgeting and Accounting

Two improvements are suggested in the present design at this fourth stage. One concerns the membership composition and the role of the Audit-cum-Vigilance Committee, in charge of controlling the works and the bills. The other relates to the accounting system.

6.4.1 Auditing

First, start with the role of the Social Audit-cum-Vigilance Committee in controlling works in progress and the bill. In the comparative Table, page 53, one can easily see that responsibilities of the GPF and SAVC are almost “copy-pasted”. That is: GPF has to inspect the work before clearing the bill (RMDD, 2008: 45). Similarly the SAVC has to inspect the work compulsorily before giving the recommendation for passing the bill(s) (RMDD, 2009: 50). There is no difference.

Yet, more interesting:

“14. A copy of the social estimate of the work /scheme to be given to the Committee by the section/department concerned so that the latter may have a clear knowledge about the materials issued or sanctioned for the work. Project implemented.

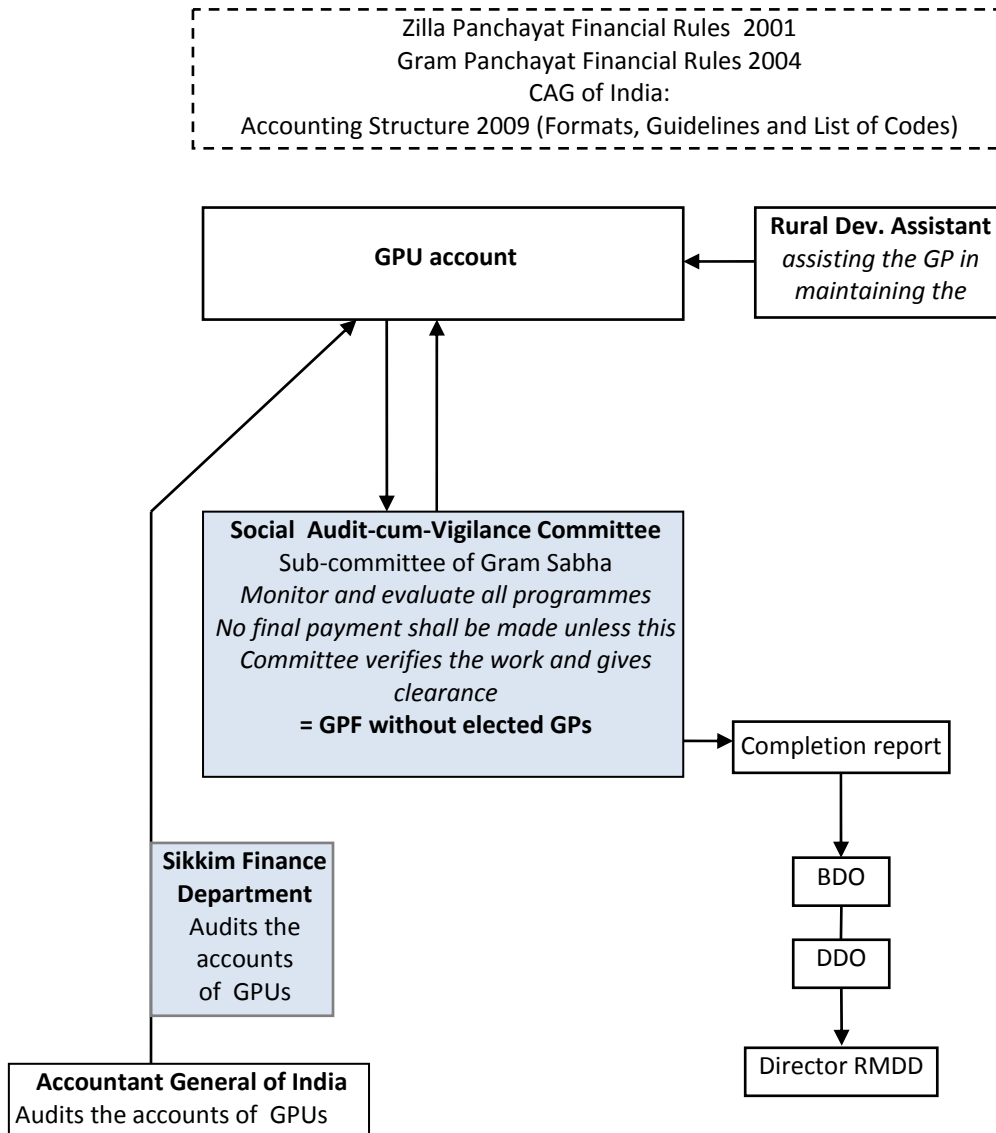
Social estimate here means the estimate can be clearly understood by the laymen. It will indicate the total cost of the scheme and the quantities of various materials to be utilized in laymen’s language.” An example follows (RMDD, 2009: 50).

The question here is why the social estimate is given only in the course of the work and for the final bill? Should it not be given at the stage of preparation of the project (eventually to be confirmed once the work tendered is completed)? The first suggestion in this respect is that the social estimate should also go to the GPF: but in this case, functions and responsibilities of the GPF and

the SAVC are the same. This raises the question of duplication in roles of similar institutions.

If one looks at the member composition of the two institutions (Comparative Box 6-5), one sees that they are almost similar and that with very little adjustment, the member composition could be adjusted for better efficiency in the accomplishment of their functions and for higher accountability. Almost all criteria set for the eligibility in the Social-Audit-cum-Vigilance Committee can be respected without changes for the GPF. *The main difference is of course that elected Panchayats, as members of the GPF cannot be members of the SAVC.* This is adequate and in line with the general and the Swiss experience. One cannot at the same time be controller and belong to the controlled institution. Separation of roles is necessary. But for the rest, SAVC criteria prescribe that a minimum of ten members, one for each ward at least can be nominated. Our proposal is that there should be minimum of 3 members but not more members than the number of wards. This would be less than 10; but surely this criterion is not so crucial that the proposal for membership of the GPF cannot be extended to the SAVC. In this case, the same persons, except elected Panchayats to the SAVC, would belong to the two institutions. This is a guarantee of better information from start, better monitoring along the stages from preparing the proposal to the completion report and the final bill, efficiency in the respect of grassroots decisions of Sabhas. It also avoids the multiplication of committee and the dilution of responsibilities.

Chart 6-4 Budgeting and Accounting



Shaded sentences: suppression to the present institutional setting [Changes are underlined and added in blue](#)

Name of institution / committee / etc	reference	Member composition	Function / duties / responsibilities
Social Audit-cum-Vigilance Committee	Panchayati Raj in Sikkim Government of Sikkim, RMDD, 2009: 13, 49-50		<p><u>It is proposed that GPF with some adjustment act also as Social Audit-cum-Vigilance Committee. See the matrix below: Comparison of Gram Planning Forum and Social Audit-cum-Vigilance in the present system.</u></p> <p><u>See below the Comparative Table</u></p>
Rural Development Assistant RDA	RMDD, 2009: 13	One person in each GPU	Assisting the GPs in maintaining the accounts
Chartered Accountant	RMDD, 2009: 13	Private Chartered Accountant Optional	Ensure that the account of GPUs are maintained in the prescribed book of accounts and provide practical training to the Sashiva and RDA
Comptroller and Auditor General of India	RMDD, 2009: 48	Appointed auditors	<p>Audi the accounts of the Gram Panchayat and Zilla Panchayat as soon as may be after the end of each financial year, in the manner provided under Chapter IX of this Act (Note: the Sikkim Panchayat (Amendment) Act, No 3, 2004)</p> <p>There is a grey box in Chart 4 to indicate that introduction of an Auditor General for Sikkim should be an option to be scrutinized by Sikkim Government.</p>

Box 6-5 Comparison of Gram Planning Forum and Social Audit-cum-Vigilance in the present system

	Gram Planning Forum as proposed	Social Audit-cum-Vigilance Committee
Member composition	<ul style="list-style-type: none"> - All elected members of GP (GP President is Chairman) - The concerned elected member of Zilla P - <u>min 3 max the number of wards</u>; 5 “expert” members to be identified by GP elected members and approved by the Gram Sabha - BDO/ SubDDO concerned; - One senior line department officer (LDO) working under GPU (one is selected secretary for one year); 	<ul style="list-style-type: none"> ✓ Elected in Gram Sabha ✓ For one financial year (re-eligible) ✓ No Panchayat member; <u>but presence may be demanded for inquiries on unclear issues in the sector attributed.</u> ✓ Servicing government employees excluded; ✓ Identification holder and permanent resident of the GPU ✓ Min. 10 people; <u>min 3 max the number of wards</u> ✓ At least one person from each ward ✓ <u>BDO concerned</u> ✓ RMDD can nominate one or more person(s) if felt necessary
Function / duties / responsibilities	<p><i>Preparation of the Plan (periodical / annual)</i></p> <ul style="list-style-type: none"> ✓ Respect State government guidelines; ✓ Collection of data and information; ✓ Development goals in perspective planning, identifies ways and means to achieve it; ✓ Preparation of project proposals; ✓ Find out technical feasibility, financial norms, viability (with the help of planning cell and DTSC); ✓ Selection (<u>prioritisation</u>) based on fund availability, (<u>own</u>) resources and capacity to do it; ✓ Finalizing the plan for the GP for approval by the Gram Sabha; ✓ Timely submission of the approved plan do the <u>BDO for consolidation and, if needed horizontal coordination</u> District planning officer (DPO) and the District planning Committee (DPC) for discussion and approval; ✓ Update according with Government priorities and directives (in relation to DPO). 	<ul style="list-style-type: none"> ✓ Receive a copy of the social estimate of the work /scheme by the department concerned to have a clear knowledge about the project implemented. Social estimate here means the estimate can be clearly understood by the laymen; it indicates the total cost of the scheme and the quantities of various materials to be utilized in laymen’s language. <p>Note: if the planning work is efficiently pursued by the GPF, this information would already be necessary for deciding technical feasibility and thereafter implementation. Merging the two institutions avoid duplication (see also below).</p>

	<p><i>Implementation of the Plan</i></p> <ul style="list-style-type: none">✓ Monitor the implementation of all work;✓ Inspect the work through concerned working group and base on the report of the working group before clearing the bill by the GP;✓ Present all the executed /completed work to the Gram Sabha;✓ Maintain year wise sector wise record of schemes executed under GPU in an Asset Register.	<p>In the present system, the two audit responsibilities below duplicate those of the GPF.</p> <ul style="list-style-type: none">✓ Inspect the work compulsory before recommendation for passing the bill(s);✓ No final bill to be passed and released without the recommendation of the Committee.
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6.4.2 Accounting for Decentralized Functions

It is not the place in this Report to enter into the technical details of budgeting and accounting in Gram Panchayats. However some consideration are useful not from an accounting technical point of view, but to reinforce local public finance policies at the local level. Remember the recent history of decentralization in India (given in Box 1-2): although the 11th amendment was enforced in 1993, one has to wait 2002 for the first budget format; and the New Accounting Structure for Panchayati Raj Institutions dates 2009. It took sixteen years to have an accounting structure that could inform in a somewhat proper manner the decentralization process in Indian States. Without a functional classification in the accounts, it has proved impossible to measure in a sufficient robust manner the decentralization performance.

Following the per formats prescribed in the Sikkim Gram Panchayat Financial Rules, the accounting system of Gram Panchayats is at the moment “treasury-based”, using cash books and bank pass book (see for example: RMDD, 2009: 83-87 and 92). This is sufficient in a system where the essential if not the total of local revenue sources come from transfers from the Centre or from the State. But the system will have to be augmented when GPUs will start generating their own revenues. One should not have a parallel accounting system.

Cash accounting does not produce two sorts of information that are of utmost importance if devolution is to be strengthened and democratic participation enhanced. The two missing pieces are [1] functional / sectoral expenditures and revenues, and [2] the economic nature of the outlays and revenue yields.

According to the Eleventh Schedule to the Constitution under Article 243G,⁴ twenty-nine functions should be devolved at the local level to rural Gram Panchayats (see Box 6-6).

Box 6-6 The 29 decentralized functions (1992 Eleventh Schedule, Cst Article 243G)

Livelihoods

1. Agriculture, including agricultural extension
2. Land improvement, implementation of land reforms, land consolidation and soil conservation
3. Minor irrigation, water management and watershed development
4. Animal husbandry, dairying and poultry
5. Fisheries
6. Social forestry and farm forestry
7. Minor forest produce
8. Small scale industries, including food processing industries
9. Khadi, village and cottage industries
12. Fuel and fodder

Infrastructures

11. Drinking water
13. Roads, culverts, bridges, ferries, waterways and other means of communication

Education, health

17. Education, including primary and secondary schools
18. Technical training and vocational education
19. Adult and non-formal education
20. Libraries
23. Health and sanitation, including hospitals, primary health centers and dispensaries

Anti-poverty and social welfare

10. Rural housing
16. Poverty alleviation programs
24. Family welfare
25. Women and child development
26. Social welfare, including welfare of the handicapped and mentally retarded
27. Welfare of the weaker sections, in particular, of the Scheduled Castes and the Scheduled Tribes

4 In 1992, two historic amendments to the Indian Constitution were passed by the Parliament: the 73rd and 74th Amendment Acts, which came into effect on April 24th, 1993. The 73rd amendment act provided guidelines for States in drafting their Panchayat Acts and Constitution thereto. The 74th Amendment Act concerns Art. 243G of the Constitution: State Governments are required to endow Panchayats by law with such powers and authority necessary to enable them to function as institutions of self-government with respect to preparation of plans and implementation of schemes for economic development and social justice entrusted to them including 29 subjects in the Eleventh Schedule (ISPS, 2008: 2-3).

Miscellaneous

14. Rural electrification, including distribution of electricity
15. Non-conventional energy sources
21. Cultural activities
22. Markets and fairs
28. Public distribution system.
29. Maintenance of community assets

Source: ISPS, 2008: Annex 1

In Sikkim, activity mapping has been extensively studied and activities transferred to Zilla and Gram Panchayats following Notification 3/RMDD/P dated April 29th 2008 (RMDD, 2009: 15-23, 29-32). The twenty-nine functions were redistributed into 15 sectors (see Box 6-7). But at the moment, local accounting classified under these 15 sectors is not readily available. Given this a consequence is that it is very difficult to assess the sectoral priorities. Without such information, it would be hardly feasible to produce medium term village development plan: for development. One has to know for which function /sector and activities (function/sub-sector heads needed) the money goes. It is also necessary to have a larger view on local expenditure policies: treasury accounting and the listing of completed development projects are not sufficient. It needs an additional systematic aggregation function or sector wise.

Box 6-7 Function per Sector / Department in Sikkim (2008)

1. Agriculture and food security
2. Horticulture and cash crops
3. Animal Husbandry, Livestock, Veterinary Services
4. Education
5. Health and Family Welfare
6. Forests, Environment and Wildlife
7. Commerce and Industries
8. Disaster management
9. Irrigation
10. Cultural services
11. Rural Water supply
12. Rural bridges
13. Rural Sanitation
14. Cooperatives
15. Miscellaneous

Source: ISPS, 2008, Annex IV and RMDD, 2009: 15-23

A second and additional requirement for accounting in view of development planning and the choice of medium term priorities is the economic nature of expenditures and resources. For resources, this is partly accessible in Sikkim Gram Panchayats: the distinction between earmarked grants, CSS, State transfers, and in some places user charges and administrative fees corresponds to this categorisation. It only needs systematic entries in the books under the adequate heads. But this is not the case on the expenditure side. True, the social estimate of the work to be given to the Social-Audit-cum-Vigilance Committee requires that total cost indicates the various materials (RMDD, 2009: 50). But this is only a summary figure. It would be necessary to distinguish in works the expenditure on labour forces, purchase of material and equipment, or if the outlays are transfers of money received from the State to the beneficiary household.

Also important is the distinction between maintenance and investment expenditures. The objective of this categorisation is that it provides a clear measure how much expenditures goes to wages for employment or to individual

households in social aid or targeted transfers. It also allows a better control of what has been labelled as “contractor development projects” where too much is given for material and machines, with little left for people. The blueprint for the village development action provides a classification sector wise, and per categories of expenditures and revenues.

6.5 Recent development in the Accounting Structure

During the years 2007 and 2008, the Comptroller and Auditor General of India and the Ministry of Panchayati Raj mandated a special committee to issue formats “for the preparation of budget and account and database on finances of PRIs for exercising proper control and securing better accountability”. The Technical Committee on Budget and Accounting Standards for PRIs approved on January 29th, 2009, the “simplified format of accounts for the PRIs”.⁵ For information and reference, this sub-section has been added in the up-dated version of the Report. As a consequence, chapter 8 is adapted and partly rewritten. Sub-section 6.5.1 below summarises the salient features of the new accounting structure. Sub-section 6.5.2 analyses the Structure from the public expenditure side; sub-section 6.5.3 looks at the tax and non-tax receipts. Subsection 6.5.4 expresses some observations on the chosen structure which contains unnecessary complexities and could lead to confusion in the accounting and the public policy use of the accounts.

5 Although the 74th Amendment Act of the Indian Constitution, including the 11th Schedule decentralizing 29 functions, came into force in 1993, formats for the preparation of budget, accounts and database of finances of the PRIs were prescribed in 2002 only. These formats were further simplified in 2007 “for easy adoption at the grass root level”. The new format dates 2009 (Government of India, 2009: 1).

This document was not known at the RMDD head at the time of our visit in 2009 since the Finance Cell of the department was not involved in the project at this stage. A mimeo copy was provided to us during our visit in August 2010.

6.5.1 Main features of the 2009 Accounting Structure

The 2009 Indian Accounting Structure (IAS) and format of account permit the distinction between functions and the economic or object nature of receipts and expenditures. It includes the distinction between current account (“revenue account” in the Formats) and investment account (“capital account” in the Formats). It makes the necessary link between the functions listed in the 11th schedule of the Constitution and the major heads in the account. Minor heads permit to identify programme / unit expenditure. Central schemes have been given a distinct two-digit sub-head; this technique can also be operated for State schemes.

The accounting structure can be represented in a synthetic way as follows:

Box 6-8 The 2009 Accounting Structure

11 th Schedule 29 devolved functions	Programmes / unit of expenditure	Central Sponsored Scheme / State sponsored schemes	Economic nature of receipts and expenditures
MAJOR HEADS	MINOR HEAD	SUB- HEAD	OBJECT HEAD
<p>WFFF.PPP.SS.OO</p>			
F for <u>F</u> unction W (<u>W</u> hat and <u>W</u> here) is explained below	P for <u>P</u> rogramme	S for Centre and State <u>S</u> ponsored <u>S</u> cheme	O for <u>O</u> bject of the receipt or expenditure

According to the 2009 “Accounting Structure (Formats, Guidelines and List of Codes)”, the digit classification is defined as follow:

- [WFFF] The first four-digit classification is the major heads and represents functions enumerated in the 11th schedule of the Constitution.
- [PPP] The second three-digit classification, called minor head, represents the programme/unit expenditures.
- [SS] For better planning, decision making and monitoring, the central schemes (CSS Centrally Sponsored Schemes) have been given distinct two-digit sub-heads. Considering the number of State schemes and diversity among the States, sub-heads can also be operated for State schemes (but in “alpha-numeric” sub-heads).
- [OO] Two-digit standardised object heads are recommended for most commonly used items of expenditures and receipts.

6.5.2 Public Expenditures

Heads description is given in Table 6-9 for the Major, Minor Heads and for Sub-Heads concerning Central Scheme. Table 6-10 repeats separately Sub-Heads for Central Schemes and Table 6-11 indicates Object Heads. The three groups of heads, in Tables 6-9 (functions), 6-10 (Central Schemes) and 6-11 (Object Heads) are set at the national level and should be valid and implemented nationwide.

The implementation of the digit classification is straightforward. Take, for example, the wages paid for activities in Primary Health Centre, under the National Rural Health Mission (NRHM), a centrally sponsored scheme. The heads of account would be: 2210.101.15.02 wages for the period “t” (one month), that is

Function	2210	Health and Sanitation (Major Head)
Sub-Function	101	Primary Health Centre (Minor Head)
Central Scheme	15	NRHM (Sub-Head)
Object head	02	Wages (Object Head).

Table 6-9 Major and Minor (Sub-) Heads in the Accounting Structure for GPU

Function in the 11 th Schedule		FFF	Major Head nomenclature	PPP / SS	Minor Head nomenclature
	none	049	Interest payment	101 102 103	Interest on Provident Fund Int. on Insurance and Pension Fund Int. on other deposits and accounts
29	Maintenance of community assets	059	Maintenance of Community Assets	101 40 41 102 103 104	Maintenance and repairs Work charged establishment expend. Other maintenance expenditure Furnishing Lease charges Machinery and equipments
	none	071	Pension and other retirement benefits	101 102 103 104 105 106	Superannuation and retirement allowance Commutated value of pension Gratuities Family pension Leave encashment benefit Other pension benefits
17	Education, Primary Schools Secondary Schools	202	Education	101 18 19 102	Primary education Mid-day meal scheme Sarva Siksha Abhiyan Secondary education
19	Adult and non-formal education			103 104	Adult education Non formal education
18	Technical training and vocational education	203	Technical Training and vocational education	101 102 103 104	Assistance to universities/colleges for TT Technical schools Polytechnic colleges Vocational education
20	Libraries	205	Art, culture and Libraries	102	Public libraries
21	Cultural activities			101 103 104	Promotion of art and culture Public exhibition Sport and youth services
22	Markets and fairs	206	Market and Fairs	101 102	Market Fairs
23	Health (<i>and Sanitation – excluded see below</i>), including hospitals, primary health centres and dispensaries	210	Health and family welfare	101 15 102 103 104 105	Primary health centre NRHM (also under 102 to 104) Community health centre Hospitals and dispensaries Health sub-centres Other system of medicine
24	Family welfare			106	Family welfare services

Table 6-9 (follow 1) Major and Minor (Sub-) Heads in the Accounting Structure

Function in the 11 th Schedule		FFF	Major Head nomenclature	PPP / SS	Minor Head nomenclature
25	Women and child development	211	Women and child welfare	101 15 102 15	Women development programmes NRHM Child development programmes NRHM
11	Drinking water	215	Water supply and sanitation	101 102	Maintenance of water supply line Maintenance and repair of tubewells
23	Sanitation (separated from other Health heads)			103 17	Sewerage and sanitation Total sanitation campaign
10	Rural housing	216	Rural housing	101 14 102 103	House site for landless Indira Awas Yojana IAY (also under 102) Construction of houses Maintenance and repairs of houses
27	Welfare of the weaker section, of the scheduled Castes and the scheduled Tribes	225	Welfare scheduled Castes, scheduled Tribes and other weaker sections	101 40 41 42 43 102 103	Welfare of scheduled caste Scholarship to student for primary educ. Scholarship to student for secondary educ. Scholarship to student for technical educ. Maintenance of SC hostels (40, 41, 42, 43 also under 102 and 103) Welfare of scheduled tribes Welfare of other weaker sections
26	Social welfare, welfare of the handicapped and mentally retarded	235	Social security and welfare	101 102 103 104 105	Social welfare Welfare for handicapped Welfare for mentally retarded Assistance to voluntary organisations Deposit linked insurance scheme
2	Land improvement, land reforms, consolidation and soil conservation	402	Soil and water conservation	101 102 103 104	Land improvement Land reforms Land consolidation Soil and water conservation
4	Animal husbandry, dairying, and poultry	403	Animal husbandry, dairying, poultry and fuel and fodder	101 102 103 105 106 107	Cattle and buffalo development Piggery development Poultry development Insurance of livestock and poultry Dairy development projects/schemes Extension and training
12	Fuel and fodder			104	Fuel and fodder development

Table 6-9 (follow 2) Major and Minor (Sub-) Heads in the Accounting Structure

Function in the 11 th Schedule		FFF	Major Head nomenclature	PPP / SS	Minor Head nomenclature
5	Fisheries	405	Fisheries	101 102 103 104	Processing, preservation, marketing Fishery cooperatives Extension and training Development scheme
6	Social forestry and farm forestry	406	Forestry	101 40 42 102 103 104	Social forestry Economic plantation Forest conservation and development (40 and 42 also under 102) Farm forestry Zoological parks Public garden
7	Minor forest produce			105	Minor forest produce
28	Public distribution system	408	Public distribution system	101 102 103 26	Procurement and supply Assistance to cooperatives Storage and housing Maintenance of warehouses
1	Agriculture and agriculture extension	435	Agriculture and agriculture extension	101 40 41 42 43 44 102	Crop husbandry Extension of farmers training Crop insurance Scheme for small marginal farmers and agricultural labourers Horticulture and vegetable crops Assistance to farmer cooperation Watershed development programmes
16	Poverty alleviation programme	501	Poverty alleviation programme	101 11 102 103 104	Central schemes NREGS State schemes Panchayat Samity schemes Gram Panchayat schemes
		515	Panchayati Raj programmes	101 102 103	District Panchayat programmes Panchayat Samity programmes Gram Panchayat programmes
3	Minor irrigation, water management, watershed development	702	Minor irrigation	101 102	Minor irrigation projects Water management
14	Rural electrification, including distribution of electricity	801	Rural electrification	101 102 103	Purchase of power Transmission and distribution Maintenance of street light

Function in the 11th Schedule		FFF	Major Head nomenclature	PPP / SS	Minor Head nomenclature
15	Non conventional energy sources	810	Non conventional sources of energy	101 102 103	Bio-gas plants Solar energy centre Wind energy centre
8	Small scale industries including food processing industries	851	Village and small scale industries	101 102	Handloom industries Handicraft industries
9	Khadi, village and cottage industries			103 104 105 106 107	Khadi and village industries Sericulture industries Powerloom industries Food processing industries Other village industries
13	Roads, culverts, bridges, ferries, waterways and other means of communication	3054	Transportation	101 102 103 104 105 106	Roads Culverts Bridges Ferries Waterways Other means of transportation

Source: Government of India, 2009: 3-4, 12-19.

Table 6-10 List of Sub Heads for Central Schemes

11	NREGS	National Rural Employment Guarantee Scheme
12	SGRY	Sampoorna Gramin Rozgar Yojana
13	SGSY	Swaranjayanti Gram Swarozgar Yojana
14	IAY	Indira Awas Yojana
15	NRHM	National Rural Health Mission
16	ARWSP	Accelerated Rural Water Supply Programme
17	TSC	Total Sanitation Campaign
18	MDMS	Mid Day Meal Scheme
19	SSA	Sarva Shiksha Abhiyan
20	PMGSY	Pradhan Mantri Gram Sadak Yojana
21	IWMP	Integrated Watershed Management Programme
22	ICDS	Integrated Child Development Services

Source: Government of India, 2009: 9

Table 6-11 List of Standard Object Heads

01 Salaries	14 Petrol, diesel
02 Wages	15 Advertising and publicity
03 Overtime allowance	16 Other contractual services
04 Pensionary charges	17 Grants in aid
05 Honoraria	18 Contributions
06 Medical treatment	19 Subsidies
07 Travel expenses	20 Share of taxes, duties
08 Offices expenses	21 Motor vehicle, hiring charges
09 Rent, rates and taxes	22 Machinery and equipment
10 Audit fee	23 Major works
11 Printing	24 Write off, losses
12 Other administrative expenses	25 Deduct recoveries
13 Supplies and material	26 Maintenance
	27 Other expenditure

Source: Government of India, 2009: 8

6.5.3 Tax and Non-tax receipts

Format-I of the Accounting Structure (Government of India, 2009: 12 ff) contains the detailed enumeration of tax and non-tax receipts. Tax receipts are given under major heads 0028 to 045; interest receipts under 0049. From this major head onwards, the numbers correspond to the major heads FFF given in Box 6-8 for public expenditures. All major heads in the Tax first part of Format-I contains a minor head 901 “share of net proceeds assigned to Panchayats”: it is

therefore not repeated in Table 6-12 below. In the various major heads representing the main functions, we have selected 0215 “Water Supply” and 0515 “Panchayati Raj Programmes” as example of the system of classification. In fact, under the major heads, the PPP classification is purely numerical, starting with 101 as for the expenditures. There is no attempt of grouping tax and non-tax revenues according to an economic logical nomenclature. Table 6-12 summarizes.

Table 6-12 Nomenclature of tax and non-tax receipts

TAX RECEIPTS	
0028	taxes on profession, trades, etc
101	profession tax
102	trade tax
103	trade licence fees
901	share of net proceeds assigned to Panchayats
0029	land revenue
101	land revenue
102	surcharge on land revenue tax
103	tax on plantation
0030	stamps and registration fees
101	duty on transfer by sale
0035	taxes on property other than agriculture land
101	property tax on residential building
102	property tax on non-residential building
0041	101 taxes on vehicles (cycle / cart / non-motor vehicles)
0042	taxes on goods and passengers
101	toll tax
40	road, culvert bridge
41	ferry
42	water ways
43	other
102	on entry of goods into local area
103	taxes on passengers / pilgrim
0044	101 service tax
0045	taxes on duties and commodities
101	entertainment tax
102	advertisement tax
103	receipts under education cess
104	receipts under other acts
105	forest development tax

Table 6-12 (follow 1)

Non tax receipts	
0049	interest receipts
0059	from community assets (rent recovery from percentage charges, hire charges of machineries and equipments)
0215	water supply
101	from water supply schemes
102	fees, fines, etc
103	from sewerage and sanitation services
0515	Panchayati Raj Programmes
101	district panchayat
102	panchayat samiti
103	gram panchayat
	for the three of them:
40	licence fees
41	fees for use of quarry
42	fees for use of land
43	receipts from community development project
44	other rates and fees except tax receipts registration charges other than those not covered under respective functional
45	major heads
46	other service fees
47	other fines

6.5.4 Comments on the Accounting Structure

As said in the introduction of section 6.5, the new 2009 Accounting Structure is unduly complicated and may lead to confusion. A first analysis shows that it is wholly manageable from the point of view of pure accounting techniques and, no doubt, with capacity building and training, RDAs will master the accounting system. But it is not very convenient for evidencing the public policies provided at the local level: in practice it may well prove rather complicated for Gram Panchayats to present the result in a synthetic manner to Gram Sabhas. The complications and problems that emerge are the following.

Problem 1: the Major Heads WFFF

According to the Accounting Structure, the major heads represents the functions enumerated in the 11th Schedule of the Constitution (Government of India, 2009: 2). It has a four-digit classification. In fact, only three out of the four digits concern the classification of functions. The first digit, which is labelled W above in WFFF, gives information about the nature of the items (W for what?) to be written in the books and the nature of the account (W for where?), current or investment. When looking carefully at the Table giving the correspondence between the 11th Schedule and the Major Head (Government of India, 2009: 3-4), one sees that the information given by the first of the four digits is:

Revenue Account = current account		Capital Account = investment account	
receipts	expenditure	receipts	expenditure
0 FFF	2 FFF	?	4 FFF
	but 3 FFF for function 13 "Road, Culverts, Bridges, Ferries, Waterways and Other Means of Communication" in the 11 th Schedule = "Transportation" in the Accounting Structure	There is no head in the "Corresponding Major Heads" for receipts of the capital account; however in Format I (Gvt of India, 2009: 19) one finds 4000 for "capital receipts" and 800 (?) for "Other Receipts" in the capital account	But 5 FFF for function 13 "Road, Culverts, Bridges, Ferries, Waterways and Other Means of Communication" in the 11 th Schedule = "Transportation" in the Accounting Structure

that is always 0 for receipts and 2 for expenditures in the current account; and always 4 for expenditure in the investment account. The first digit W belongs from its very nature to Table 6-11 in the Standard Object Heads (it would have been: WOO in WFFF.PPP.SS.OO above, that is FFF.PPP.SS.WOO) because it does not indicate the functions (the following three FFF digits suffice) but what (0 for receipts, 2 and 4 for expenditures) and where (2 in the current, 4 in the capital account).

A second observation can be made: the system does not include investment receipts. Does it mean that there will be none in the future? Yet, in Format I, receipts in the capital account receive also a first head 4FFF, which confuses with expenditure, and an alternative “800 Other Receipts” of the capital account – which is even more confusing since it contains only three digits.

In the logic declination of the system, the first digits should have been

- 0FFF receipts, current account (why not start with 1?);
- 2FFF expenditures, current account;
- 3FFF receipts, capital account;
- 4FFF expenditure, capital account;

with no exception to avoid any sort of confusion.

Problem 2: Correspondence between Major Heads and the 11th Schedule

A second problem is the correspondence between the functions in the 11th Schedule and the nomenclature of the Major Heads. Refer to Table 6-9 where we have classified the functions in increasing major heads FFF:

[1] There are divisions of functions in the 11th Schedule which are ignored in the major heads, but reintroduced in the minor heads. One does not understand why this complication has been introduced?

Thus, for example, functions “17 Education, including primary and secondary schools” and “19 Adult and non-formal education” in the 11th Schedule are grouped under the major head 202 in the Accounting Structure (Government of India, 2009: 3), then separated again in the minor heads 101 for Primary Education, 18 for Mid-day Meal Scheme and 19 for Sarva Siksha Abhyian; and 102 “Secondary Education” in the Accounting Structure which correspond to function 17 in the Eleventh Schedule and 103 “Adult Education” and 104 “Non-formal Education” in the Accounting Structure which correspond

to function 19 “Adult and Non-formal Education” in the Eleventh Schedule (Government of India, 2009: 13).

In the same vein, functions 20 and 21 of the 11th Schedule are grouped under main head 205 of the Accounting Structure; 23 and 24 under 210; 11 and 23 under 215; 4 and 12 under 204; 6 and 7 under 406; and finally 8 and 9 under 851.

In all these cases, the sub heads in the Accounting Structure re-divide the functions following the original 11th Schedule in the sequence:

distinct functions in the 11th Schedule
 ⇩
grouped in the major head in the Accounting Structure
 ⇩
returned by division to the same functions as in the 11th Schedule.

[2] There is also the inverse. Major heads 501 and 515 are separate functions in FFF, but unique under “16 Programme poverty alleviation” in the Eleventh Schedule.

The document “Accounting Structure” does not give an explication for the reason of proceeding as in [1] or [2] above.

[3] Finally, in some places, functions listed in the Eleventh Schedule in one Major function are shifted to another Head in the accounting nomenclature. For example, “Watershed development” is listed under function 3 “Minor Irrigation, Water management and watershed development” in the Eleventh Schedule; but this function does not appear in any Major Heads in the nomenclature. It appears as a minor head 2435.102 under 2435 Agriculture including Agriculture Extension – which is function 1 and not 3 in the Eleventh Schedule (Government of India, 2009: 3 and 17). This is very confusing.

Problem 3: Numbering of Minor Heads

The numbering of Minor Head simply follows a cardinal order starting with 101, 102 and up. This is unfortunate since in this way any additional information which could have been gained in a simplified form in combination with the Major heads is lost. Moreover, the chosen form is totally dependent from major heads: it contains no information as such. To be clear, “101 Primary Education” can only be understood with “2202 Education”, thus 2202.101 since 101 could also mean “promotion of art and culture”, but this time with the major heads “2205 Art, Culture and Libraries”. It could have been made simpler in combining the major and minor heads in a four digit system, leaving out the W digit with the Object heads.

Problem 4: Overlapping in Sub Heads for Central Schemes and Object Heads

A fourth observation is the overlapping in the numbering of Sub Heads for Central Schemes and Objects Heads. Compare Table 6-11 to Table 6-10: object heads run from 01 to 26, whereas heads 11 to 22 are the “proposed scheme code for simplified accounts for PRIs” (Government of India, 2009: 8 and 9). This can be very confusing for Gram Panchayats in their endeavour to explain the financial situation to the Gram Sabha, if not for RDAs who will assist GPs in budgeting and accounting (see Chart 6-4). One first immediate solution to avoid confusion would be that the various formats of consolidated abstract should specify the heads of accounts in separate columns (one for each category of heads) and not in one column only (see, for example, Government of India, 2009: 25 and 27).

There is also the use of different numbers in the SS digits: whereas the logic of the digit is given in the Central or State sponsored scheme (Table 6-10) from 11 to 22 (Government of India, 2009: 9), numbers 40 to 44 appear in some places in Format-I (for example under 2435 Agriculture including Agriculture Extension – 101 Crop Husbandry) without these numbers being explained in the document. What is the logic behind these unexplained digits?

Problem 5: Structure and presentation of Formats

The fifth problem appears in the structure and presentation of the formats. Format-II of consolidated abstract, Format-IV of receivable and payable, use “Heads of Accounts” in one column only. This is unduly restrictive not from a strict accounting point of view, but with regard to the information needed both in monitoring local public policies and the effective exercise of local participation and accountability. The all-in-one-column structure does not take into consideration all the potential uses in public finance and public policies management. With the WFFF.PPP.SS.OO digit system, the distribution of the accounting information in 5 columns would be much more appropriate. It would allow sorting out and classifying accounting entries

- W in the current or capital account;
- FFF the functions according to the 11th schedule of the Constitution;
- PPP regarding the function per sector in the Sikkim nomenclature and activity mapping;
- SS the Central or State sponsored schemes;
- OO and finally according to the economic nature of the entries.

Problem 6: nomenclature of tax and non-tax receipts

The nomenclature of receipts is quite tortuous. The tax nomenclature follows an ad hoc classification for the particular purpose of this accounting structure, but does neither refer to some kind of economic nature of the receipts – except for the tax/non –tax nature nor does it follow recognised international standards (for example that of the IMF or the OECD).⁶ Under the major functional heads, it uses the cardinal numbering starting with 101 as for the expenditures.

6 International Monetary Fund, Government Finance Statistics, 2001, Washington D.C.; Organisation for Economic Cooperation and Development, Revenue Statistics, 2004, Paris, Annex I “The OECD classification of Taxes and interpretative Guide”, pp. 271-311.

Another problem emerges from this classification. One sees in Table 6-12 that tax and non-tax revenues are listed in cardinal order (tax, fees, charges, rent, etc). The equivalent nomenclature for expenditures uses the object heads OO. Here the digit entries are placed in the second position, that is of minor heads (PPP in the form given) which “represent the programme / unit of expenditure” (Government of India, 2009: 2). Thus, 2215.101 “maintenance of Water Supply Line” is a programme; but one cannot say that 0215.101 “receipts from water supply schemes” is a programme: they are in-coming cash for the local service “water supply”, but neither a service nor a programme on its own. Again, this mix between PPP digits for programmes on the expenditure side and PPP for the nature of receipts (where it should be OO) in these same programmes can be solved from a technical accounting implementation, but it is confusing from a participative point of view at the grass roots democracy in the discussion of functions, costs and priorities at the Gram Panchayat and Gram Sabha level.

7

Methodology: from diagnosis to practice

The methodology developed in this section is founded on the simplified institutional planning process proposed in the previous Section Six. It aims at transposing the previous suggestions from diagnosis to practice in order to construct later the blueprint village development plan for Aritar. From the point of view of local public finance, the methodology is developed in four stages, as it is the practice in five-year planning in Swiss municipalities. Of course, they have to be adapted to the context of local government in Sikkim. These are:

- data collection;
- selecting activities with high development potential and prioritizing;
- feasibility analysis;
- PPBS for Programming Planning Budgeting System.

Parallel to the techniques of planning, the institutional setting must be considered. Put directly: who will be responsible and accountable for which stage? In the proposed simplified development plan in Section Six, the answer is straightforward: the Gram Planning Forum would be the place where the four stages, before implementation of the selected and accepted projects, have to be realised. This simplification allows us to concentrate on the local public finance methodology.

Box 7-1 *Blueprint plan for one GPU: what can economists say?*

The political economy of fiscal federalism and decentralisation, including local public finance, are relevant for organising data collection, not from the point of view of statistical techniques, but to fix the target, objectives and aims of data collection. Objectives are not to publish nice statistical comprehensive data, but to have data that are useful for managing public policies at the local level. The analysis and interpretation of the collected data help in that purpose.

In the same vein, PPBS lies in the realms of fiscal federalism and local public finance. That is, once the strategic choices have been made and priorities given, the PPBS technique helps to transfer to the general program the cost estimation of each single project and its integration in the five-years planning and in the annual budget. Dynamic planning completes the PPBS approach: it helps to control on an annual basis whether the tendencies and hypothesis made in planning are verified at the closure of each successive fiscal year.

What the political economy of fiscal federalism and local public finance cannot do is: discuss the activities, set the priorities and analyse the technical feasibility of project. Of course, economic analysis can help, but it is not a substitute for discussion at the grassroots level. For example: if “tourism” is one activity that would be selected for its growth potential, the political economy of tourism will help to put questions as to the pertinence of this choice and can help in analysing the growth potential – but it cannot guide the choice of “tourism” in the first place.

7.1 First institutional step: Re-install the Gram Planning Forum

The State should first reactivate the Gram Planning Forum in its exact functions as described now, not just for the five-year planning but also for the preparation of projects proposals in the annual plans that follow. Compared to the present situation, functions and responsibilities would remain the same. There is no fundamental institutional change, except in the membership of the GPF. Its [proposed] membership composition, and [existing] functions and responsibilities are:

[Proposed] Member Composition of GPF

- All elected members of GP (GP President is Chairman);
- The concerned elected member of Zilla Panchayat;
- Ex-officio: the Block Development Officer;
- a minimum of 3 members and a maximum number equal to the number of wards. Members to be identified by elected Panchayats and approved by the Gram Sabha.

The Rural Development Assistant serves as secretary (but is not a member of the GPF), writes the proposals, and prepares the plan document and the tentative budget as per the decisions of the GPF.

[Present] Functions and responsibilities

Functions and responsibilities of the GPF in the preparation of the plan (periodical / annual) are not changed compared to the present situation (RMDD, 2008: 45):

- a) Respect State government guidelines;
- b) Collection of data and information;
- c) Development goals in perspective planning, identifies ways and means to achieve it;
- d) Preparation of project proposals;
- e) Find out technical feasibility, financial norms, viability (with the help of planning cell and DTSC);
- f) Selection (prioritisation) based on fund availability, (own) resources and capacity to do it;
- g) Finalizing the plan for the GP for approval by the Gram Sabha;
- h) Timely submission of the approved plan do the BDO for consolidation and, if needed horizontal coordination

Before exposing in detail the four stages of planning, a straightforward comparison of this list of function and the four stages shows that the

methodology proposed does not change the fundamentals of the present system if it were properly applied.

- Function b) in the list above corresponds to the first stage described below: data collection.
- Function c) and Stage 2 “selecting activities” overlap.
- Function e) scrutinizes the technical feasibility, which covers Stage 3 “feasibility analysis”.
- And finally, Functions d), f) and g) are other ways to express “Programming Planning Budgeting”; but the technical content is the same.

One of the main objectives in Stage 1 below, “data collection”, is to collect all information about Gram Panchayat finance resources, from all origin (grants, transfers, own revenues), for the previous 5 years to identify the amounts which were at their disposal and the actual outlays. Gram Panchayat will understand the concept of budget constraint and Gram Sabhas will be more likely to stop making annual wish lists with too many and possibly even unrealistic projects. This correspond to function f) above. We strongly recommend that the Gram Planning Forum be reactivated for annual plans and do exactly what it was meant to do in the Government design of local planning. Box 7-2 presents a summary.

Box 7-2 Comparing Methodology: Proposed to Present Design

Methodology proposed	Present design (but not in practice)
Stage 1: data collection	b) Collection of data and information
Stage 2: selecting activities with high development potential and prioritizing	c) Development goals in perspective planning, identifies ways and means to achieve it
Stage 3: feasibility analysis	c) Identifies ways and means to achieve it; e) Find out technical feasibility, financial norms, viability (with the help of planning cell and DTSC).
Stage 4: PPBS for Programming Planning Budgeting System.	d) Preparation of project proposals; f) Selection (prioritisation) based on fund availability, (own) resources and capacity to do it; g) Finalizing the plan for the GP for approval by the Gram Sabha.

7.2 Stage one: data collection in a dynamic planning

At the moment, GPUs' accounting system is cash based. Cash accounting does not produce two sorts of information that are of utmost importance if devolution is to be strengthened and democratic participation enhanced. The two missing pieces are

[1] functional / sectoral expenditures and revenues, and

[2] the economic nature of the outlays and revenue yields.

Without such information, it would be hardly feasible to produce medium term village development plan. For development, one has to know for which function /sector and activities under each function / sub-sector the money goes. It also necessary to have an overview of local expenditure policies, treasury accounting

and the listing of completed development projects are not sufficient. It needs an additional systematic aggregation function or sector wise.

In the GPUs visited, local finances are generally characterised by the absence of own revenues, tax and non-tax (though there are some encouraging exceptions and progress has been made in several GPU where water user charges and administrative fees are collected). Residents' unwillingness to pay taxes – even if the local administration could correctly assess them and send the bill – was explained by the political reasoning (“we will not be re-elected”) or through lack of information (“we don't know where the money goes”). It is difficult to appreciate how much of the difficulty is objectively founded on the lack of information or driven by sheer free rider behaviours of taxpayers (the so-called “free lunch” situation).

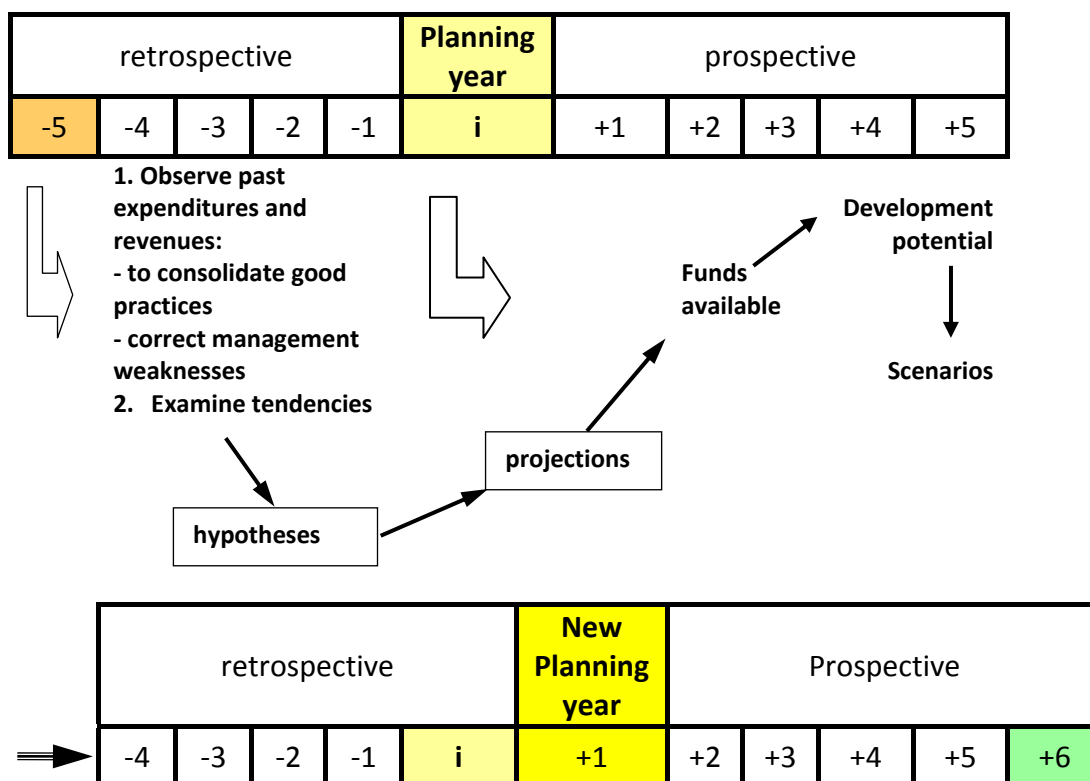
Local authorities can hardly answer the question because they have neither the methodology nor the ability to trace the relation between resources and outlays. Accounting and reporting systems are cash-based. Multiple cashbooks for the same GPU are not consolidated and do not give an overall view of outlays and revenues. Under the present circumstances, panchayats do not fully capture the extent of the financial resources they handle; there is no linkage between resources and expenditures, and no linkage between budgeting, accounting and the annual plan. Distinction between current and capital expenditure does not exist; when classified, expenditures are listed according to their source of finance, not the functions. The one-entry hand-written accounting system makes it impossible to know how much is spent annually for each of the 29 functions (Box 6-5) or the 15 sectors in Sikkim (Box 6-6), let aside the calculation of unit costs of individual functions or projects. Medium-term monitoring of local public policies is impossible. But this is exactly what is needed for planning.⁷

7 The absence of adequate data bases is not particular to Sikkim, but is a general problem of decentralization in India. On this, Dafflon B., 2009, section 2.2 on local budgets. Also, see RMDD, 2008: 67 which indicates that capacity building is needed for the "management of accounts and finances of PRIs".

Since Panchayats do not know at the time of the annual plan the funds that will be at their disposal in the coming fiscal year, the only way to obtain this information is to consolidate at the GPU level this information, bringing together in one document the past expenditures and sources of revenues in order to estimate the future budget position of the GPU. Without these basic documents, GPUs will be unable to compare estimated project proposals with available funds. Democracy at the grassroots level will not function properly nor mature as “free lunches” lead on to wish lists. With a budget constraint, with some information in advance on how much can be realised with the budget at hand, project proposals will be limited, and the democratic discussion about their necessity and the priorities will be enhanced. This is exactly what is expressed in function f) (Box 7-2): *“selection (prioritisation) based on fund availability, (own) resources and capacity to do it”*.

The concept for collecting data for planning in GPU can be best represented with the following Figure 7-3.

Figure 7-3 Retrospective – prospective analysis for Local Planning



Data on local public expenditures and revenues (CSS, State transfers or revenues from own sources) should be collected for the previous five fiscal years before the planning year: year “-5” to “-1” as shown in Figure 7-3, that is from 2004-05 to 2008-09 for example. What are needed here are effective expenditures and revenues and not the promised funds available for specific project. Observing monetary outlays sector wise for the last five years will permit the analysis of the practices of the scrutinized GPU in order to consolidate good practice and correct for management weaknesses. Collection of data should be sector and sub-sector wise (see Sections 6.4 and 6.5 above on Budget and Accounting) so that it should permit examination of whether the GPU already had sectoral priorities in the past annual plans, maybe without being aware of them. Functional expenditures (based on major and minor heads – see section 6.5) will also permit to specify future development strategies and scenarios.

The analysis of past years is then used to formulate hypothesis and projections for the next five years so that medium-term planning is possible. As already expressed above, one hypothesis, for example, would be that the GPU will require in the next fiscal year at least the same total amount of funds from Central and State transfers – but this need not be always the case if restrictions are announced in the State budget. So the hypotheses will take into consideration tendencies in the last fiscal years corrected for any State announcement that could be given at the time of planning [letter a) in the list of the present functions of GPF]. From the side of revenues, of course the budget constraint has to be taken into consideration. Funds from the State are limited so funding is close-ended. In this case, there is no point to have long annual open-ended wish lists. This is not to say that the situation is conservative and financially blocked. Past trends will show that there have been substantial increases in funding (RMDD, 2008: 13). The data to be collected at Aritar will show whether this affirmation is verified.

Once the available funds are estimated, then the next stage will be to analyse the development potentialities and possible scenarios. Note that the planning process is dynamic: at the end of one fiscal year, the data for the new years are introduced in the data base whereas the oldest year of the retrospective period (“-5” in light brown in Figure 7-3) is no longer considered. The whole process is moved forward by a year. The new planning year is the first of the exercise (+1 in bright yellow in Figure 7-3). In practice, the accounts of the last fiscal year (2008-2009) are closed; the current fiscal year (2009-10) is the planning year, with fiscal year 2010-11 becomes the first in the prospective period. This exercise enables us to establish whether the good practices are confirmed, how difficulties in management have been remedied, and whether the tendencies, hypotheses and projections are verified. In the affirmative, a new year is added. In the negative, the situation is newly assessed; if necessary, corrections and changes are proposed.

7.3 Stage Two: selecting activities with development potential

The second stage of planning is the selection of activities with development potential and prioritizing. It is possible that the projects in the five retrospective years were already concentrated in a few sectors and within sector on a few sub-sector activities. In this case, the GPU is in a situation of “implicit” prioritizing. The question is: are these priorities consistent with the foci that a GPU wishes to give to its development projects. If not, Panchayats have to debate and reflect which avenues are best suited for expenditure strategies with a higher development potential.

This is by no means an easy enterprise. It cannot be conducted in absence of national and State specific regulations and guidelines that have to be respected and without considering the particular GPU under analysis. Contrary to the present situation where Ward Sabhas and Gram Sabhas are producing open-ended wish lists without budget constraint, then complaining that only part of the proposals are accepted, the room for manoeuvre for Panchayats and the GFP will be limited. It is not appropriate to elaborate in detail here all possible constraints – this will be done in the blueprint for one village development plan action. But let us consider here at least the two following restrictions:

[1] In Section 5.7 Table 5-2, we mentioned three groups of local public expenditure categorized per nature: community (collective) services, targeted “interest group” activities and individual targeted aids. Part of the interest group activities and individual targeted aid under CSS and State schemes are earmarked for specific purposes. Of course, moving from earmarked to sectoral block grants would improve the room of manoeuvre for Panchayats and Sabhas, but only in a limited way. But this would not apply to CSS (RMDD, 2008: 69-82 which gives the list of 23 earmarked central and State schemes for PRIs).

[2] Available funds for a fiscal year cannot be entirely allocated to new projects. Salaries have to be paid. Repairs of civil works and maintenance of building and infrastructures have to be financed.⁸

Thus, the algorithm is:

transfers from the Centre	
+ transfers from the State	
+ own revenues from user charges and fees	
+ revenues from GPU's properties and economic activity	
<hr/>	
total disposable funds	
- wages and administrative costs	
- amounts that are earmarked for Central or State Schemes	
- current costs of functions paid by user charges (user charges are earmarked to the local service for which they are levied and cannot be diverted for general needs)	
- other repair and maintenance expenditures	
<hr/>	
net total for development projects = NT	

The result will be that new development projects can be considered only insofar that funds are available. The function is:

maximise [(DP1 × w1) + DP2 × w2) + (DP3 × w3) +... (DPn × wn)] submitted to constraint NT,

where DP stands for "Development Project"

w is the weight attached to the project so that the sum of "w" = 1,

NT the net total amount for development projects.

The GPF can select a first development project (DP1) attached with a weight (w1) [another manner to fix priorities] and then a second, a third, etc. only insofar that they can be funded through the net total amount available after the other expenditures have been paid (NT). The blueprint will probably reveal

⁸ The list of repairs of civil works in the activities under Gram Panchayats contains: irrigation channels, rural water supply, rural bridges, sanitary latrines and bathing cubicles, soil conservation works; maintenance of infra-structure in agriculture and storage facilities horticulture crops, community nurseries in forestry, medical plan gardens, fuel wood plantation, parks and public gardens. The list of building for which GPU must pay for maintenance contains: primary health sub-centre, ICDS Centres, Lower Primary and Primary Schools (RMDD, 2008: 14-23).

that *NT* will not be a very large proportion of the local budget and does not allow a wide choice of new projects. Therefore it is most important that projects with the maximum potential for growth are selected.

Note that Stage 2 and 3 are iterative. It is probably while analysing the technical feasibility of a project that its design will be known in more detail and the costs evaluated more accurately.

There is a further dilemma. Project selected for their growth potential may not necessarily address the poorest in the GPU. Therefore in choosing the priorities, a trade-off must be envisaged between projects with a high potential for development and social aid projects. Transfers in social aid combined with incentive complements would bridge the two approaches.

7.4 Stage three: Feasibility Analysis

Stage three analyses the feasibility of the projects from the technical point of view. In the present situation, it is unlikely that the GPFs have the technical abilities to scrutinize the feasibility of the projects even though its members know what the possibilities are at the local level and in the wards. Proximity to problems is not substitute for technical expertise. Feasibility analyses would be conducted at the Block level since they involve line departments required for technical support. This corresponds to the respective functions and responsibilities which we proposed in the new institutional design, phase 1 (see Section 6.1, Chart 6-1). External expertise may be needed sector wise. Box 7-4 below gives some short examples.

Box 7-4 The political economy of choices, priorities and feasibility: selected examples

As we wrote in the introductory box of this chapter, economists can contribute to organising the collection of statistical data in a way that is useful for framing local public policies and to PPBS. However, their contribution to the choice of projects, priorities and to the analysis of feasibility is more limited and marginal. But, a modest contribution is possible in the form of questioning choices, priorities and feasibility from a political economy point of view. Three examples are given below with increasing complexity in the questioning.

Agriculture: seed selection

In this choice, the only problem is of technical nature: is the farming land in the GPU such that growing agriculture crops for seed selection is possible? Political economy would place only three questions: incentive, market competition, time pressure.

Incentive: how much should selected seed crops be paid to induce farmer to divert from traditional crops? Farmer would no longer be producing for self-consumption neither for selling their traditional crop on the market (if there is a market). They take an entrepreneurial risk: how much should be the payment for this risk?

Market competition is absent. Seed crops are bought by the State and will serve for the next season. There is no pressure for quality and efficiency from the national market. Normative controls would be needed which add bureaucratic burden and costs of the scheme.

Time pressure is weak: seed crops are intended for the next season. There is no need to access the market rapidly to ensure freshness of the product. The economic problem is the construction and maintenance of storage facilities.

Floriculture

The second example is floriculture. As in agriculture, the first problem relates to the nature of the land and climate suitable for floriculture. But this is only the first part of the story. Here, questions related to the economic nature of the business will help.

Competitive markets are a first issue: where are the customers, within the State, in Delhi or other large Indian cities? What is the demand: cut flowers, flowers in pots, which varieties? Are there other producers in a better competitive position; where?

Time pressure is high: if the demand is for cut flowers, the time lag between the crop and the sale must be minimized to ensure best quality and freshness. This raises the question of distance, roads facilities and proximity to the new airport. What are the transport costs direct and indirect? Direct costs are those to transport the goods from the place of production to the market. Indirect costs are the opportunity costs in the building and maintenance of express road connections – that is: better roads than the usual since the flowers have to be brought without delay on the market. For this reason, road links are to be kept open “at any cost” otherwise the product is no longer acceptable for sale: but what does “at any cost” means and who is paying for it?

From a macroeconomic point of view (State), unless the demand is totally internal, it could be wise to specialise floriculture for specific segments of the demand where external concurrence is not too important, and to localise the specialised production in GPUs that match criteria of distance and rapid access to the market.

Tourism

In many places in Sikkim, we have heard that tourism is one of the most promising development prospects. True, but it is also more complex than many other economic activities. In one GPU visited, the number of hotels has increased from 3 to 23 within a decade. But asked about the tourism development strategy in their unit, Panchayats were embarrassed, in fact they had none. Which sort of tourism can have priority in a GPU: traditional, family-friendly, environmental-friendly, trekking, thermal? There are several possibilities, but they have to be scrutinized in a very careful way. Who are the potential customers: people from Sikkim, Indian families, tourists from abroad, individual trekkers etc. ? It is obvious that owing to the geographical position of the GPU, topography, altitude and climate, tourism strategies can no longer be left to spontaneous development – in particular with respect to the conservation of forest, environment and wildlife. So the vocational position of individual GPU with regard to tourism will vary greatly from one place to another according to the natural facilities at disposal. It has also to be coordinated and integrated in the overall tourism strategy of the State (for example: Sikkimtourism.com and the Tourism Department brochures mention four trek routes: Rhododendron, Singalia, Kanchendzonga and Monastic with specific geographical boundaries; other specific activities are rafting, kayaking, angling, rock climbing, festivals, all situated in definite places). In other words, for a sound State tourism strategy, it is not possible to do anything anywhere. Coordination is needed: the technical feasibility of an individual GPU tourism proposal has to be coherent with the State macro-strategy.

Translation of the local tourism strategy into physical projects and capacity training are two additional challenges. What are the new investments, public and private, which tourism development will require in the GPU (all weather roads securing travel to places of interest, hotel accommodation, guest rooms in private houses with independent sanitation facilities, as examples)? A crucial problem is infrastructure management: some tourism investments can be very onerous; the question is “does the tourism season be long enough for amortising and profitability of the invested capital”? Are there any possible complementarities between regional / local tourism infrastructures, how and how long? How is the road connectivity between those facilities?

Another problem is human resources and acquiring professionalism in the tourism industry. Who will select for and where will capacity training take place (labour forces in hotel or accommodation services, competent service drivers, local guides with historic, tradition, environmental knowledge, etc)? A characteristic of the Model Villages Scheme is the provision of a guest room in each Model house, cafeteria, dispensary, shopping complex, foot paths and street lights. But it is naïve to believe that this simply will “*help in promoting rural tourism*” (RMDD, 2008: 73). Guest room, cafeteria, dispensary, shopping complex, etc are common to most tourist places. Since concurrence will arise with more GPU aiming at tourism development, what will make the difference and attract people in this particular GPU is the core question?

7.5 Stage four: Programming Planning Budgeting

PPBS or Programming Planning Budgeting System is the shortest way to describe the implementation of the chosen development strategies. Strategies must be translated into projects. Strategies cannot be implemented overnight, in one fiscal year. Projects are to be realised on an annual basis and announced to Gram Sabha in the budget of the next fiscal year. In addition to the technicalities of the PPBS, there are two issues that deserve attention: the time dimension and the spatial dimension.

Time dimension

Assume that the GPF has made its choice in selecting sectoral priorities and, within the chosen sectors / sub-sectors it has prepared a list of projects. Suppose further that these projects are technically feasible and funded. Then, the policy options have to be translated into specific programmes. Enunciating projects and priorities, sector or sub-sector wise, is not sufficient. Each policy option must enumerate in detail the individual projects that will be necessary to implement the chosen strategy. Since no one policy will be achievable in one planning year, the time sequence in the realisation of projects is needed. In the methodology proposed, the planning horizon is five years, that is medium-term. This implies that, at least for those projects which belong to the GPU's development strategy, there should be a strong link between the contents of the five-year planning and that of the annual plan, the latter being the annual mirror of the five-year planning. This is not to say that there cannot be changes in the meantime: as we have seen in Section 7.2, planning is dynamic and must be re-evaluated at the end of each fiscal year. Additional projects can be proposed as long as they are funded and respond to the development strategy. Corrections are possible.

Spatial dimension

The spatial dimension of projects is twofold: internal, within the GPU in the wards; and external, between neighbouring GPUs.

Internal.- One recurrent question is the spatial distribution of projects between wards. In the interaction meetings, answers were that funds would be equally distributed to wards; in some cases there would be (hard) negotiation between elected members as to where the funds should be allotted; in one case, wards are selected in turn. Equal distribution leads to waste and inefficiencies, because it does not guarantee that one single project can be completed: too often, only parts of projects are realised here and there, and often destroyed before completion of the project, notably because of the climate and meteorological conditions.

In efficient planning, it is rational to complete a project in one ward, and to distribute equally the funds between the wards on a medium term (five-years planning maybe) so that each of them can have one or more project(s) realised and completed in a durable way.

External.- The second spatial dimension is external and concerns the coordination of similar policies that could be necessary between neighbouring GPUs. An example will explain the situation. Imagine that tourism has a good development potential for a GPU, yet within this broad definition it is a specific kind of trekking which is of interest for tourists. Trekking however requires movement from one place of interest to another, in a chain-like sequence. It is obvious that one GPU's prospects will depend not only on its own efforts, but also on the quality of the tourist offer from other GPUs located before and after in the chain. The reputation, general interest and quality will be that of the trek, and not that of a particular village. This is a typical situation of geographical externalities. If one village does not keep up to the expectation of the demand, the total chain will suffer. Investment in infrastructures, maintenance, capacity training and quality services must be ensured along the entire chain, and each GPU contributes to the quality of the offer. At this stage, the BDO, possibly DDO, should be one of the key actors ensuring that coordination happens between the GPUs in the chain.

8

Blueprint plan for Aritar

In September 2009 when we first reported our findings in analysing the institutional design of decentralization in Sikkim and made proposals for budgeting and planning in Aritar, we ignored – and were not informed – that the “Technical Committee on Budget and Accounting Standards for PRIs approved the “Simplified Format for Accounts for the PRIs” on January 29th, 2009. This was later published in a mimeo form under the title “Accounting structure (Formats, Guidelines and List of Codes) for Panchayati Raj Institutions”, Comptroller and Auditor General of India and Ministry of Panchayati Raj Government of India. We received this document during our visit in September 2010. The new accounting structure is discussed in sections 6.4 and 6.5 above.

From this situation two possibilities emerge: either chapter has to be completely adapted to the new structure and rewritten or leave the chapter in its first version and give a grammar for comparison between the text in this chapter and the new structure.

For reason of visibility and transparency in our analysis, we decided to leave chapter 8 in the original text: the reason is that it brings in the forefront the nature of the changes that are needed for an efficient budgeting – accounting system in order to implement decentralization and promote democratic participation and political accountability at the local level. The second reason is that the new accounting system is not totally adequate for budgeting and planning at the GP level in Sikkim. As we have analysed in section 6.5 above, there remain a lot of technical issues and problems of coherence in the proposed new structure. These have to be evaluated and corrected in practice rather than from the desk. The Annexure which prepares the Aritar blueprint take into consideration the new accounting structure.

At the time of writing this report, only the first stage for a blueprint of development plan for one GPU, can be realised. Following the proposed methodology, the selected GPU, Aritar, would have to be organised and form its Gram Planning Forum. Then, with the help of the following matrices, collecting statistical data on past expenditures and revenues is the next step. The analysis of the results shall permit to draw a number of conclusions on the local public finance position of Aritar. Stage one will be completed in interaction between Aritar Panchayats, including the RDA who is in charge of the accounting, the RMDD contact person and the Swiss expert in the mission.

After this, stages 2 and 3 would follow. These stages can only take place within Aritar institution in the GPF. The concerned BDO will coordinate the discussion so that line department expertise can be called upon to scrutinize the technical feasibility of the development policies selected and the detail programmes and steps necessary to implement them. Economic analysis will resume in Stage four.

8.1 Preparing Data Collection for Local Public Expenditures

The matrix for expenditure data collection and recapitulation is organised on the basis of the functional (in Sikkim: sector wise) classification of local responsibilities combined with the economic nature of the expenditures. In the case of the Swiss communes, the classification combining functions and the economic nature of the expenditures also corresponds to the accounting standards.

The general form is:

FFF.EEE where F stands for function and FF for sub-functions;
and EEE for the economic nature of the expenditure.⁹

Transposed to the Sikkim context where the list of activities transferred to Gram Panchayats is named according to Sector / Department, the equivalent general form is **WFFF. PPP. SS. OO** where FFF in the Swiss model HBAS1 in

9 This classification on two-digits FF allows for 99 functions and sub-functions. If needed it could be extended to FFF, that is 999 sub-functions. The EEE classification per economic nature allows 999 specific entries. In Switzerland, the harmonized budgeting-accounting system (HBAS) introduced in 1981 is based on FFF.EEE and is used at the three levels, federal, cantonal and local. The system has been vertically integrated without collision or big coordination problems. After 30 years of experience and progresses, an enlarged system (HBAS II) will be introduced on a voluntary basis from 2012 in the communes (the Confederation has already adopted it and many cantons are making the change). The new system is fundamentally the same, but it integrates some new accounting requirement of the European Accounting System (EAS95) due to the bilateral treaties between the European Community and Switzerland, and also some IPSAS norms (for International Public Sector Accounting Standards) (www.iasb.org.uk).

fact combines FFF.PPP of the Indian accounting structure, and EEE stands for WOO for the distinction between current and capital budget / account and for the object heads.

For example, in the Government 2008 Notification on Activity Mapping for PRIs (RMDD, 2008: 15) Agriculture and Food Security appears under number 1 (See Box 6-6 above). With the enumerated sub-sector activities, this gives the following functional classification:

- 1 Agriculture and food¹⁰
 - 10 Organic manure production
 - 11 Crop competition and exhibition
 - 12 Organic Farming
 - 13 Maintenance of infrastructures
 - 14 Motivation of agriculture production
 - 15 Administrative functions (yield data, crop losses, etc)
- 2 Horticulture and Cash Crops
-

Compare with the 2009 Accounting Structure for the same function (Government of India, 2009: 17):

- 2435 Agriculture including Agriculture Extension
 - 101 Crop Husbandry
 - 40 Extension of Farmers Training
 - 41 Crop insurance
 - 42 Scheme for small marginal farmers and agricultural labourers
 - 43 Horticulture and vegetable crops
 - 44 Assistance to farmer cooperation
 - 102 Watershed development programmes.¹¹

10 This classification in sub-sector activities does not exactly compare to the designation of the activities in the Notification No 35(2) 97-98/38/RDD/P(II) from May 13, 1998 on the transfer of activities pertaining to various development departments to Zilla and Gram Panchayats and Gram Sabha. But the later should be included in the former. One faces here difficulties in the absence of coherence in the vocabulary used for the designation of devolved functions.

11 Note that 102 Watershed development programmes are place under the major head 2435 Agriculture, whereas in the 11th Schedule of the Constitution, these programmes are classified in the main function 3 Minor Irrigation and Water Management and not under 1 Agriculture. See section 6.5.2 above. Also, Horticulture which is the second major head under the Activity Mapping is not classified as a major head, but minor (2435.43) in the Accounting Structure. It means that a "Task Force" on decentralization in Sikkim will have to give a very careful lecture of the accounting system in relation to the assignment of responsibilities and functions to the GPUs.

One can observe from this simple comparison the difficult task of implementing functional decentralization since the State Activity mapping and the national Accounting Structure so much diverge one from the other. In the prepared matrix of local public expenditures in Annexure 1, we have maintained the description of activity mapping in RMDD (2008: 15-23); we are not referring to the national Accounting Structure. Only the practical exercise in Aritar will confirm or infirm whether using separate digit columns and the new WFFF.PPP digit classification makes sense and is of utility for better local governance. Adjustment to the new accounting structure can be burdensome, but is not as such a problem. What is a **problem** in the immediate future and what needs close scrutiny before embarking in filling the matrix is whether the whole FF reference in both formulas is correct. As we have seen in sub-section 6.4.2 in Boxes 6-6 and 6-7, the list of the 29 functions in the Eleventh schedule (Art 243G) differs from the Sikkim list of activities in Notification 3/RMDD/P dated April 29th, 2008. In addition, these also differ from duties of Gram Panchayats as enumerated in Sections 34 and 35 of the 1993 Sikkim Panchayat Act (RMDD, 2008: 29-30).¹²

The economic nature of local public expenditures, that is **EEE**, **respectively OO** in the formulas above, is given on the basis of Table 6-10 List of Standard Object Heads above. The objective of the classification as per economic nature is to gain transparency in the monitoring of local public policies and strengthen accountability. First, by allowing a difference between expenditures for persons (01 to 06), material and services (06 to 16), transfers with regard to CSS and State schemes for which the local government only plays a role of relay

12 In sum, there are five documents where local functions (Gram Panchayat or Gram Sabha) are enumerated: [1] the Eleventh Schedule, Art. 243G of the Indian Constitution; [2] the Sikkim Panchayat Act, 1993, Section 34 (ISPS, 2008: 12-13; RMDD, 2009: 29-30); [3] the Notification of May 13, 1998, on the activities pertaining to various departments and will have to be transferred to GPs and Gram Sabha (ISPS, 2008: 16-22); [4] the Notification of April 29, 1998 which lists the activities transferred to the Zilla and Gram Panchayats (RMDD, 2009: 15-23); [5] the List of Codes for Functions, Programmes and Activities of PRIs in the 2009 Accounting Structure for RPIs (2009: last part of the mimeo). The problem of coherence is open for debate: are all stakeholders in the devolution process familiar with the various nomenclatures; do the words have the same meaning for each one, and if not, can the confusion be traced and corrected?

(17 to 19), finances (20), other outlays in equipment and services (21 to 23, 26) and accounting techniques (24 and 25); also in making the difference between current ($W = 2$) and investment ($W = 4$) expenditures, the accounting system and the data set based thereupon offer information on the local public sector activities. When considered for a time period of five years, as in the proposed planning blueprint, this information will enable the analyst to have robust estimate on expenditure trends, past and future, with the result that hypotheses and scenarios in development prospect can be more accurate and targeted.

Other classifications are possible: both the I.M.F. and the O.E.C.D. propose a classification of outlays and resources as per their economic nature. If it also exists at the State level, one should examine whether it can be adapted for local finances.¹³ The principle would be to adapt an economic classification which is suitable for the purpose of planning, without too many complications at this stage. Details about the nature of local expenditures should already be available in GPUs since this requirement already appears in several documents in use (RMDD, 2008: 50, 89-93). Also, details should be given to the Social-Audit-cum-Vigilance Committee in the form of a copy of the social estimate of the work / schemes so that it may have a clear knowledge about the materials issued for the work (sections 4.4 and 6.4 above; also RMDD, 2008: 50). The purpose of the data base matrix is to organise the information in a systematic way on a period of time of five years.

¹³ In the Accounting Structure, Paragraph 3 of section 8 of the Guidelines does not exclude the use of another State budgeting and accounting structure, though the exact terms of the exception are not clear. It says explicitly: *"In order to extend flexibility to states which want to retain their own existing classification relating to the schemes, the software will provide mapping of the state-specific classification to the revised classification proposed by the CAG. This will enable the panchayats in those states to carry on with their ongoing accounting classification while at the same time enabling Government of India to view the accounting details of the PRIs as per the classification prescribed by the CAG."* Is the retained classification possible only for the schemes? But is not "ongoing classification" larger than schemes? Yet the classification is "prescribed" which is more directive than the room of maneuver that appears opened at first glance.

8.2 Data Collection for Local Public Revenues

The collection of data for local revenues should be simpler than expenditure data collection since at the moment the accounting system is cash-based. Every amount received from the Centre and from the State is written in the cash book, so that an extended repertory of revenues already exists. In addition, “utilization certificate” (UC) are issued to confirm that *“the amount received from... department for Rupees ... for implementation of Scheme during the financial year Has been utilized fully for the execution of the same scheme during the year ... ”* (RMDD, 2008: 84). In other word, the utilization certificates not only give the indication of source, but also indication of the scheme under which it was obtained. This information is used to construct the data base matrix of local revenues (Annexure 2).

Since in the particular context in Sikkim, with no tax at the local level for the moment, the economic classification of revenues (using for the moment the Swiss HBAS) can be simplified as follow:

- 42 Revenues from properties, sales
- 43 User charges, fees, tolls
- 44 General Block grants
- 46 Earmarked Grants-in-aid received to fund own local expenditures
 - 460 from the Centre
 - 461 from the State
- 47 Transfers received for redistribution to household, individuals, etc.
 - 470 from the Centre
 - 471 from the State.

In the matrix, entries are organised on the basis of the CSS and the State schemes. General resources and revenues from own sources follow. Column 1 gives the classification as per economic nature. For CSS there would be normally only two possibilities: 460 for Central grants that are at the disposal of the GPU for its own expenditures (“community” services – see above section 5.7 Table 5-2), and 470 for those financial transfers that only transit through the GPU but are for individual beneficiaries, farmers or households, depending on the scheme

(targeted “interest group” activities and individual targeted aid in Table 5-2, section 5.7 above). For State Schemes, the logic of the numbers is the same: 461 for own expenditures and 471 for transfers obtained that have to be disbursed to individual beneficiaries.

For “own revenue sources”, we have indicated – as example – the FFF.PPP combination that is relevant: water distribution user charges combine function 11 “Water Supply and Sanitation” in the activity mapping for PRIs, and 430 for user chargers, thus 11.430. Note that in the final matrix, this entry will be placed under the head of function 11 so that there will be an indication of the relation between expenditures for water supply and revenues in the form of user charges for that specific function. For example, for the receipt of user charges in water distribution, the code would be 11.430 in the logic of the HBAS1, that is 11 for the function “water distribution” and 430 for “user charges”; in the 2009 Accounting Structure, it would be 0215.OO with 215 for “water supply and sanitation, 0 (before 215) for receipt in the current account, and OO (unknown ??) for the object heads [unknown since the Accounting Structure does not give any sort of information on receipts in the form of user charges (Government of India, 2009: 8 and 15)].¹⁴

Under “General funding”, one will find “0515.800 for cost of tender forms”. RMDD gives the information that: *“The cost of tender form shall be deposited in the Head 0515 – Other Rural Development Programme – 800 Other Receipts – cost of Tender Forms... The Gram Prasashan Kendra is required to keep*

¹⁴ The Aritar blueprint will have to adapt this account nomenclature to that of the 2009 Accounting Structure for Panchayati Raj Institution. It is where confusion arises: in the simple HBAS used in Switzerland, the combination is straightforward: FF (11) for the function and EEE (430) for user charges. In the 2009 Accounting Structure, one finds first WFFF (0215): in fact, only 215 is relevant for the function, since 0 indicates that it is a receipt in the current (revenue) account. Then, the three-digit PPP (101) is the minor head for “programme / unit of expenditure”. But “receipts from Water Supply Scheme” are no “programme”, but a source of finance. In addition, this is money coming from the Rural Water Supply Scheme (RMDD, 2008: 71-72). There is no object head for user charges in the list of standard object heads (Government of India, 2009: 8) and no indication in Format-I (Government of India, 2009: 15).

accounts of all such deposits..." (RMDD, 2008: 90). Thus, it appears that there already exists some form of accounting classification. It has to be scrutinized whether this classification is suitable for the purpose of the blueprint or can be adapted. We did not find such evidence in the visited Gram Panchayat local administration.

We also indicate an entry under FF.407 for "Statutory deduction like VAT". In the Guidelines for financial aspects of the working of the Gram Prasashan Kendras, it is noted that for the work completed, when the Completion Certificate is established before clearing the final bill, a "*deduction of 2% is to be operated on the Gross amount on almost every bill*" (RMDD, 2008:86). Thus three-digit entry is needed (EEE), normally under the functional head FF for the sector in which the works were realised.

In sum, the matrix of revenues for GPUs will provide a fairly wide spectrum of information about the nature of the resources at their disposal. It will allow estimating the financial autonomy of GPUs and, at the margin, the room of manoeuvre for improving revenue generation by GPUs. It will become evident that the more local finance depends on earmarked transfers from CSS, the lesser the room for own decision in development projects. CSS must be accepted as constraint: Gram Panchayats may contribute in the selection of beneficiaries and programme monitoring at the local level, but central money cannot be diverted for other choices. The same applies for State Schemes, unless a general evolution towards sectoral block grants is envisaged (see section 5.7 above).

8.3 Expenditure Planning for new development projects Sector wise

The last matrix prepared for the moment is the "expenditure planning for new development projects". This matrix (Table 8-1 below) assembles in one document various information that have to be distributed in the present design

of planning to the Gram Planning Forum (RMDD, 2008: 45), then to the participants in Gram Sabha (RMDD, 2008: 34-35), to the Social-Audit-cum-Vigilance Committee (RMDD, 2008: 50), and finally in the “Sanction Schedule” for the works that have been decided in Gram Sabha (RMDD, 2008: 90). Nothing very new appears at first sight in the composition of this matrix. What will be added and new are: columns 1 and 2 which will give the FF.EEE classification which permits calculation of tendencies and prospective development in an organised manner, and also columns 6, 7 and 8 which identifies the nature of the development project.

Table 8-1 Planning new development projects (*new information in italic*)

Column)	content	GPF	Audit-cum Vigilance Committee	Gram Sabha	Sanction Schedule for work decided in Gram Sabha
1	<i>Functional classification / Sector</i>				Budget head
2	<i>Economic nature of outlays</i>	In part			
3	Description of the work	X	X	X	X
4	Estimated cost	X	X	X	X
5	Ward for realisation			X	
6	<i>Nature of the project: Community service</i>				
7	<i>Targeted interest group</i>			X	
8	<i>Individual households</i>			X	
9	Technical feasibility	X	X	X	
10	Priority	X		X	
11	Funding	X		X	
12	Decision in Gram Sabha: date			X	X
13	Probable year of implementation				

*) For simplification in reading the matrix, the matrix columns are presented here in rows. But in the matrix in effective use, these rows will read from left (1) to right (13) in columns and the information about content, GPF, etc in rows.

The innovations in this matrix will ensure three outcomes. First, with most information in one document, it will increase transparency, awareness and accountability. Second, the same matrix is used with additional information once

the projects are realised for Asset Register and for the follow up of the project (up keeping and maintenance). Third, the matrix will be used for dynamic planning. It will recapitulate development projects, selected for their potential, as it should result from the discussion of new projects and priorities in Stage Two and their feasibility in Stage Three of the methodology. Thus, Table 8-1 will serve as basis for Stage Four PPB, implementation and monitoring of the projects in the successive plan years.

8.4 Next steps in the Agenda for strengthening planning and budgeting at the Gram Panchayat level

The following steps are necessary for the implementation of decentralization at the grass roots level. Details of the role and process of implementation at each step are not repeated here. The reader will refer to the main sections of this study for details. Note that the cardinal numbering of the following proposals is intended to give transparency and clear limited description in the step-y-step process; it does not reflect priorities. Several points can be performed in parallel if rapid progress is envisaged.

[1] At the State Level, constitution of a **Task Force** on decentralisation, which would assemble all stakeholders in the process: representatives of the State government, at the political and administrative level, BDOs and Gram Panchayat. The Task Force would act as a think-tank on devolution regarding the following items and recommend the agenda to the State government:

- (i) reviewing the institutional design;
- (ii) introducing a new budgeting and accounting structure (with the help of the State Finance Commission);
- (iii) examining the coherence in the description and content of the functions and responsibilities devolved to GPUs;
- (iv) reforming revenue sources, that is finding the most adequate structure of grants at the State level, the introduction of user charges, then some simple forms of taxes;

(v) deciding and implementing the local budget constraint (current versus investment budget, investment maintenance cost and financing, the recurrent costs attached to new investments, the amortisation policy).

[2] Examine the needed reform in the institutional design in order to reduce the noise of line ministries and functionaries, and other external interferences.

[3] At the local level, re-install the **Gram Planning Forum** as the main planning-budgeting body within the GPUs.

[4] Adopt an adequate and coherent **budgeting-accounting structure**. This structure should not only give robust data for monitoring decentralisation at the State level, but provide Gram Panchayats with all the information required for the exercise of self-government at the local level. The structure has to be simple and straightforward for transparency of the decision process, accountability of the elected Panchayats and for participative democracy at the grass roots level.

[5] Collection of expenditure and revenue data over a five-year period. These data will be used for budgeting and planning at the local level, for monitoring and measuring the decentralisation progress at the State level. Despite the great difficulties it faces, the Aritar blueprint is the first step in this direction.

[6] Adoption of clear, explicit criteria for redistribution of the State aid targeted to interest groups or individual households. Criteria should not exceed three to four items in each schedule if simplicity and transparency is the objective. Explicit criteria give security in the selection of beneficiaries at the local level; it also avoids long debates on who should be elected for earmarked aid and, at the same time, avoids patronage. Also, under a hard budget constraint which does not allow serving all beneficiaries, the criteria help to select priorities for the poorer of the poor.

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Annexure

The following annexure were given with the first version of this Final Report, in September 2009. We have decided to maintain the Annexure in the original form in the last edition of the Report, January 2011. The main reasons are that the following Tables have been constructed on the basis of the Swiss HBAS 1981:

- (i) it follows a logic in the organisation of the three-digit heads (FFF.EEE) one cannot find in the 2009 Indian Accounting Structure (in part due to the delineation between PPP and OOO which has still to be mastered);
- (ii) the functional classification follows the Sikkim division in 15 sectors (see Box 6-7) with which GPUs are familiar;
- (iii) there are object heads in the HBAS which we do not find in the list of standard object heads in the 2009 IAS (for example user charges for water distribution).

The Aritar blueprint will have to give the connexion from one system to the other.

Annexure 1 (pages 126 - 131)

- Column 1 Function as in the list of activities transferred to Gram Panchayats (RMDD, 2008: 15-23 and Box 6-6 above).
- Column 2 Sub-sector digit: our computation on the basis of the RMDD 2008 list of activities under Gram Panchayat (subject to modification and adjustment in the Aritar blueprint).
- Column 3 Object heads according to their economic nature.
For the moment, the object head used are those of the Swiss HBAS 1981 – subject to adaptation to the “list of Standard object heads” of the 2009 Indian Accounting Structure.
- Column 4 Description of the expenditure
- Column 5 Five years results in the accounts (NOT in the budget): that is to 9 effective outlays and not budget’s expenditure; effective receipts and not those who were provisioned in the budget.

Annexure 2 (page 132)

The second Annexure concerns the revenue side. Columns 1 to 3 and 8 to 12 have the same characteristics and content than columns 1 to 3 and 5 to 9 in Annexure I. Differences are given in column 4, which contains the description of the receipt and in columns 5 to 7 which describe the characteristics of the funding (block or earmarked transfers or own resources).

- Column 1 Function as in the list of activities transferred to Gram Panchayats (RMDD, 2008: 15-23 and Box 6-6 above).

- Column 2 Sub-sector digit: our computation on the basis of the RMDD 2008 list of activities under Gram Panchayat (subject to modification and adjustment in the Aritar blueprint).
- Column 3 Object heads according to their economic nature.
For the moment, the object head used are those of the Swiss HBAS 1981 – subject to adaptation to the “list of Standard object heads” of the 2009 Indian Accounting Structure.
- Column 4 Description of the receipt
- Column 5 Funding characteristics: block transfer (column 5); earmarked to 7 (column 6) and own revenue sources (column 7).
- Column 8 Five years results in the accounts (NOT in the budget): that is to 12 effective outlays and not budget’s expenditure; effective receipts and not those who were provisioned in the budget.

Annexure 3 (page 133)

The third Annexure concerns new (development) projects that have to be prepared by the GPF for discussion and decision in the local Gram Sabha. Its content and intent are to give full and transparent information about each new development project: what is the project (description), its estimated cost, the nature of the beneficiaries, the technical feasibility, and finally its funding.¹⁵

- Column 1 Function as in the list of activities transferred to Gram Panchayats (RMDD, 2008: 15-23 and Box 6-6 above).
- Column 2 Object heads according to their economic nature.
For the moment, the object head used are those of the Swiss HBAS 1981 – subject to adaptation to the “list of Standard object heads” of the 2009 Indian Accounting Structure.
- Column 3 Description of the individual project.
- Column 4 Estimated cost.
- Column 5 Ward concerned.
- Column 6 Nature of the project: community, targeted interest group or to 8 individual (see Table 5-2).
- Column 9 Technical feasibility (see Chart 6-1 and explanation thereof).
- Column 10 Priority as decided by Gram Sabha.
- Column 11 Funding (this must correspond to the characteristics of columns 4 to 7 in Annexure 2 above).
- Column 12 Date of decision by Gram Sabha. This piece of information permits thereafter to refer to the minutes of the Gram Sabha meeting in which the decision was taken (see Section 6.1). The two documents – minutes of the meeting for the political decision and annexure 3 for the financial content of the decision – are intended

¹⁵ For the rational of these requirements in order to promote local accountability and sustainability, see Dafflon and Beer-Töth, 2008.

to enhance the accountability of local elected and the GFP. In addition, it will serve as the base for monitoring and controlling in the implementation phase (see Section 6.3).

Column 13 Probable year of implementation. The objective here is to link the local decision to the availability of funds, when the proposal is financed through State money transfers. It also gives a strong signal for the vertical top-down return of information as soon as the annual budget passes through the Legislative Assembly (see Sub-section 6.2).

Annexure 1 Aritar past expenditures sector / sub-sector wise, in Rupees, fiscal year 2004-05 to 2008-09

Function (sector) digit	Sub- sector digit	Object head Economic nature of the expenditure	Description of the expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
F	FF	EEE						
1	2	3	4	5	6	7	8	9
0			Administration					
	01		Gram Panchayats					
		30	honorarium					
		31	material and equipment, services					
	02		Gram and Ward Sabha and Commissions					
		30	honorarium					
		31	material and equipment, services					
	03		Administrative management					
		30	wages, expenditures for personal					
		31	material and equipment, services					
	04		Panchayat Kendra					
		30	wages, expenditures for personal					
		31	material and equipment, services					
		310	maintenance					
		311	new equipment					
			Sub TOTAL ADMINISTRATION					

Annexure 1 (follow 1) Aritar past expenditures sector / sub-sector wise, in Rupees, fiscal year 2004-05 to 2008-09

Function (sector) digit	Sub-sector digit	Object head Economic nature of the expenditure	Description of the expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
F	FF	EEE						
1	2	3	4	5	6	7	8	9
1			Agriculture and food					
	10		Organic manure production					
		30	wages, expenditures for personal					
		31	material and equipment, services					
		310	maintenance					
		311	new equipment					
		37	transfers					
		372	transfer to other GPU					
		373	transfer to own establishment					
		374	transfer to local cooperative					
		375	transfer to privately own companies					
		376	transfer to individual household					
		50	new investment					
	11		Crop competition and exhibition					
		for each sub-sector, the EEE-digit object head are repeated						
	12		Organic farming					
	13		Maintenance of infrastructures					
	14		Motivation for agriculture production					
	15		Administrative functions (yield data, crop loss, etc)					
			Sub TOTAL					

Annexure 1 (follow 2) Aritar past expenditures sector / sub-sector wise, in Rupees, fiscal year 2004-05 to 2008-09

Function (sector) digit	Sub-sector digit	Object head Economic nature of the expenditure	Description of the expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
F	FF	EEE						
1	2	3	4	5	6	7	8	9
2			Horticulture and crash crops					
	21		Organic farming					
	22		Crop competitions and exhibitions					
	23		Storage facilities					
	24		Administrative fuctions (statistics, crop loss, etc)					
			Sub TOTAL					
3			Animal Husbandry, Livestock, Veterinary Services					
	31		Monitoring and Regulation of wastes					
	32		Distribution of fodder					
	33		Market, production-collection centres					
	34		Management functions (training, supervision)					
			Sub TOTAL					
4			Education					
	40		Lower Primary School					
	41		Primary School					
	42		Administrative functions (supervision, literacy, etc)					
			Sub TOTAL					
5			Health and Family Welfare					
			entries should indicate the CSS, the National and State Health					
	50		Health and Sanitation					
	51		Family Welfare					
			Sub TOTAL					

Annexure 1 (follow 3) Aritar past expenditures sector / sub-sector wise, in Rupees, fiscal year 2004-05 to 2008-09

Function (sector) digit	Sub-sector digit	Object head Economic nature of the expenditure	Description of the expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
F	FF	EEE						
1	2	3	4	5	6	7	8	9
6			Forest, Environment and Wildlife					
	61		Community Nurseries					
	62		Medical Plants Gardens					
	63		Control of Forest Fire					
	64		Soil conservation works					
	65		Green Mission works					
	66		Fuel Wood Plantation					
	67		Parks and Gardens					
	68		Administrative functions (grazing, JFMC coordination, etc)					
			Sub TOTAL					
7			Commerce and Industries					
			Sub TOTAL					
8			Disaster Management					
			No indication: the activity mapping repeat the same activities that for Sector 6. To be verified					
			Sub TOTAL					
9			Irrigation					
			Sub TOTAL					
10			Cultural Activities					
	101		Fold art, Traditions, customs					
	102		Village libraries					
			Sub TOTAL					

Annexure 1 (follow 4) Aritar past expenditures sector / sub-sector wise, in Rupees, fiscal year 2004-05 to 2008-09

Function (sector) digit	Sub-sector digit	Object head Economic nature of the expenditure	Description of the expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
F	FF	EEE						
1	2	3	4	5	6	7	8	9
11			Rural Water Supply					
			Sub TOTAL					
12			Rural bridges					
			Sub TOTAL					
13			Rural Sanitation					
	131		Waste Management					
	132		Individual Sanitary facilities					
			Sub TOTAL					
14			Cooperatives					
			No indication. To be verified					
			Sub TOTAL					
15			Miscellaneous					
			Entries for expenditures under this head should go under Function 0 "General Administration" of the GPU. Centrally Sponsored Schemes should be written under the head that correspond to the nature of the aid. See also Function 50 and 51 above.					
			Sub TOTAL					

Annexure 1 (follow 5) Aritar past expenditures sector / sub-sector wise, in Rupees, fiscal year 2004-05 to 2008-09

Function (sector) digit	Sub- sector digit	Object head Economic nature of the expenditure	Functions and Sectors	2004-05	2005-06	2006-07	2007-08	2008-09
F	FF	EEE						
1	2	3	4	5	6	7	8	9
0			Administration					
1			Agriculture and Food					
2			Horticulture and Cash Crops					
3			Animal Husbandry, Livestock, Veterinary Services					
4			Education					
5			Health and Family Welfare					
6			Forest, Environment and Wildlife					
7			Commerce and Industries					
8			Disaster Management					
9			Irrigation					
10			Cultural activities					
11			Rural Water supply					
12			Rural Bridges					
13			Rural Sanitation					
14			Cooperatives					
15			Miscellaneous					
			GRAND TOTAL					

Annexure 3 Aritar Expenditure Planning for new development projects, Sector wise

sector / function number	economic nature	description of individual project	estimated cost in Rupees	ward	nature of the project			technical feasibility	priority	funding	date of decision by Gram Sabha	probable year of implementatio n
					Commu -nity	targeted interest group	Indivi- dual	if yes: date of feasibility report				
1	2	3	4	5	6	7	8	9	10	11	12	13

information required for the GPF (RMDD, 2008: 45)

information required for the Audit-cum-Vigilance Committee (RMDD, 2008: 50)

sanction schedule for development works decided by Gram Sabha (RMDD, 2008: 90)

Gram Sabha (RMDD, 2008: 34-35)

9

Preliminary status analysis on local public finance in India

In January 2009, the author was asked by the Swiss Agency for Development and Cooperation to undertake a preliminary status analysis of local public finance in India, at the level of Gram Panchayati Raj Institution. The mission in India took place between January 12 and 24. It resulted in a short report, delivered in February 2009: the present chapter. It is included in this study because we believe that this very first preliminary report already points out some problems in the monitoring of decentralisation at the grass roots level in the visited States which are of relevance for Sikkim.

9.1 General setting***Background***

The terms of reference for the mission pursued in India were described as follows. In India, locally elected bodies are the Panchayat Raj Institutions (PRIs) at the district (Zilla Panchayat), block (Taluk Panchayat) and village (Gram Panchayat) levels. These bodies have been mandated through the 73rd Amendment Act of the Indian Constitution (1992)¹⁶ that establishes provisions for decentralisation to local governments in rural India. The provisions include:

- (i) Creation of a three-tier local government structure at the district, block and village levels;
- (ii) Constitution of state election commissions and state finance commissions;
- (iii) Regular PRI elections with reserved seats for marginalised sections of the population (women, Dalits and tribals);
- (iv) Establishment of Gram Sabha (village assembly) to exert control over local government;
- (v) Periodic auditing of local government's accounts.

16 The 73rd constitutional amendment came into force on April 24, 1993 after ratification by more than half the State Assemblies.

The countrywide experience of implementing the Constitutional Amendments over the past thirteen years has revealed a number of challenges. Most significantly, the Amendments have delegated responsibilities for the design and implementation of decentralisation to the States. This has implied an uneven and ambiguous devolution process across the different States. While political decentralisation has been successful, administrative and fiscal decentralisation has been lagging in many States. At the grass roots level, mechanisms of accountability remain weak and PRIs do not always have the capacity to implement assigned functions, which remain *de facto* under the control of the State and line ministries.

In relation to devolution of funds, the Constitution of India has provided for the creation of the Central Finance Commission (CFC) every five years to make recommendations to the central government on transfer of finances to the states. Similarly, the Constitution has provided for the State Finance Commissions (SFC) to be set up every five years to make recommendations to State governments on how to progress with the devolution of finances from the State level to the three tiers of Panchayats. The Constitution has mandated the CFC to base its recommendations on augmenting the resources of the Panchayat on the recommendations made by the SFC. By doing so the Constitution has established an organic link between the CFC and the SFC.

With regards to acceptance by the State governments of the recommendations made by the State Finance Commissions on strengthening Panchayat Finances, the experience so far for majority of the states can be summarised to be that of "inaction" and "passiveness". Most States do not take follow up action in terms of legislative and administrative measures, very few States honour their commitment for the release of additional resources against the recommendations of the SFC and even where budgetary provisions are made, they fall short of the amounts needed by the local bodies.

Overall purpose of the mission

- Undertake a preliminary status analysis of public finance management as it exists presently at the state level and below in India.
- Assess the relevance of Swiss experiences in fiscal decentralisation for India and share good practices immediately relevant for India and/or suggest improvements that could be made in specific areas relating to devolution of taxation, revenue mobilisation and expenditure management.
- Consultatively assess the feasibility of developing an India – Switzerland Knowledge Exchange on Strengthening Fiscal Decentralisation and outline future possibilities.

Tasks

- Undertake a preliminary review of literature available for India on the Mission subject.
- Meet with relevant stakeholders at the national, state and sub state level (Elected representatives, Bureaucrats, State bodies such as State Finance Commissions, Civil Society Organisations, Research institutions) to understand the present state of affairs with respect to management of finances by rural and urban elected bodies in India
- and make presentations on the Swiss system of public finance management at canton and sub canton level.
- Identify experiences from Switzerland relating to strengthening fiscal decentralisation relevant to India.
- Share about the Swiss experience with relevant stakeholders and jointly identify good practices which may be relevant to Indian states.
- Attend workshop/s organised in the state/s as well as at the National level in Delhi for identifying potentials for developing a collaborative learning programme between relevant stakeholders in the two countries in the future.
- Make recommendations on Exchange Programmes / Courses in Switzerland that select stakeholders could benefit from attending.

Review of literature

For the preparation of the mission in India, one assigned task was a preliminary review of literature available for this country on fiscal decentralization at the State level and below. In fact, though a lot of academic and case studies exist on Indian fiscal federalism at the State level, it is much more difficult to find studies on local public finance that are relevant for the area covered by the mission. One of the main reasons is the lack of reliable and robust

statistical data on local public expenditures organised on the basis of the functions (29 in rural and 18 in urban PRIs) decentralized to the Panchayat Raj Institutions (PRIs) by the 73rd Amendment of the national Constitution. This means that most academic papers and case studies on local decentralized public finances are related to their financial resources, or to public expenditures categorised according to their sources of finances (own revenues, financial transfers from the State or the Centre in the form of block or earmarked grants, or CSS for centrally sponsored schemes).

The following have served:

- Bandyopadhyay D., 2003, "Twelfth Finance Commission and Panchayat Finances", in *Economic and Political Weekly*, June 7, 2003, pages 2242-2243.
- Fernandes A., 2003, "Aggrandiser Government and Local Governance", in *Economic and Political Weekly*, July 5, 2003, pages 2873-2879.
- Jena P.J. and Gupta M., 2008, "Revenue Efforts of Panchayats: Evidence from Four States", in *Economic and Political Weekly*, July 26, 2008, pages 125-130.
- Oommen M.A., 2004, "Fiscal Decentralization in Kerala", The World Bank, *op. cit.* 2004, pages 107-161.
- Rajamaran I. and Sinha D., 2007, "Functional Devolution to Rural Local Bodies in Four States", in *Economic and Political Weekly*, June 16, 2007, pages 2275-2283.
- Rao G., 2000, *Fiscal Decentralization in Indian Federalism*, mimeo, Institute for Economic and Social Change, Bangalore, 37 pages.
- Rao G. et al., 2004, "Fiscal Decentralization in Karnataka", in the W.B., *op. cit.* 2004, pages 43-83
- Sethi G. (ed.), 2004, *Fiscal Decentralization to Rural Government in India*, Oxford University Press, Oxford and The World Bank, Washington D.C.
- World Bank, 2004, *Fiscal Decentralization to Rural Government in India*, Sethi G. (ed.), Oxford University Press, Oxford, New Delhi and New York.

Meeting with relevant Stakeholders

During the mission six conferences or workshops were organised on various themes related to decentralization and had thirteen meetings or individual interviews. At four occasions, I was asked to present some aspects of

decentralization at the local level in Switzerland or to comment on local public finance issues in comparing the Indian and Swiss (European) situations. These encounters can be classified as follows:

- At the level of the Centre:

- National Conference of District Planning Committees,
- Interactive meeting of the State Finances Commissions.

On both occasion I was asked to participate to the debate, relating the Swiss experience in topics that were presented and discussed in the plenary sessions.

- At the State level:

- meeting with Kerala Minister of Finance,
- Kerala State Finance Commission,
- Kerala State Department of Local Self-Government,
- former Chairman of the Punjab State Finance Commission,
- former Chairman of the Haryana State Finance Commission.

- At the Panchayat Raj Level:

- Kerala Gram Panchayat Association,
- Trivandrum District Panchayats,
- Kudamanakunnu Gram Panchayat, Kerala,
- Mahroli Gram Panchayat, Punjab.

- Civil Society representatives:

- in Trivandrum, Kerala,
- in Chandigarh, Penjab

In the latter meeting: presentation of the Swiss situation on tax autonomy at the local level.

- Individuals:

- Prof. Georges, formerly School of Management Studies, Cochin University of Science and Technology,
- Prof. Oommen, Chair of Development Economics and Decentralised Planning ISS and formerly at the University of Calicut,
- Prof. G. Mathews, Institute of Social Sciences, New Delhi.

- PRIA:

- workshop on local governance, Delhi,
- PRIA, Mr Rajesh Tandon, President and Mr Manoj Rai, Director,
- NIPFP and Centre Ministry of GPIs, workshop on State Finance Commission experiences.

In the latter case, podium discussion comparing Indian and Swiss related institutions.

9.2 Functions and Finance in decentralized India

Expenditure assignment, consolidation of expenditure schemes within the realm of PRs, planchayat own resources, redesigning transfers are issues that have been discussed at length in several reports and studies – from the State Finance Commissions to academic articles, by national as well as external institutions and NGOs. Further similar or extended studies will still be needed for debates and implementation of decentralization at the grass roots level. But this cannot be discussed without robust and reliable statistical data. In turn, statistical data on local functions, public expenditures and resources cannot be obtained without an appropriate budgeting and accounting system for providing the correct numbers. In the visited GPs and State bureaux, there was no evident sign that this issue was on the table or apprehended as a first preoccupation. Thus, our perception of the problems of local public finance in India has focused on this particular issue. We have been preoccupied not so much by the economic issues of fiscal federalism (assignment of responsibilities and tax sources, function mapping, formula based transfer system, equalization, and so forth) but rather by the institutional design of the local tier for the purpose of their own public finance management. Our questioning has been to scrutinize whether the fundamentals exist in managerial capacity and tools for a true devolution in rural Gram Panchayats.

9.2.1 Decentralized functions

According to Eleventh Schedule, twenty-nine functions should have been devolved at the local level for rural gram panchayats (see Box 6-6). But, whereas political decentralization exists, the decentralization of responsibilities in the autonomous choice and delivery of local public services and the necessary administrative decentralization that should correspond, are far from being realised. The fundamental distinction between de-concentration, delegation and devolution is blurred: thus the concept of decentralization used in general also

covers line ministries command over local public service. Also decentralization is characterized by vertical line ministries, principal-agent relations and horizontal overlapping functions. The horizontal local level is characterized by a proliferation of parallel schemes and implementation bodies besides elected Panchayats.

The overlap of functional responsibilities, horizontal and vertical, reduces the accountability of the local elected councillors. Voters and residents do not know who (elect, parallel bodies, line ministries) is responsible for what. Local elect feel they can elude responsibility by putting on "others" the blame for poor management and delays. Gram Panchayats have no general and coordinated views of the functions that should be performed at the local level and services that should be delivered. The insight I gained from the different meetings I had at the local level is that it appears difficult in the medium term to change the situation because of the resistance of State bureaucracy to abandon line ministries prerogatives and because political patronage is easier when spreading expenditure benefits across many interest groups.

Building administrative capacity at the GP level would help local elect and administrative personal to better understand the complexity of this web, start to pair responsibilities and functions, sorting out who is responsible for what at the local level and, eventually also start pushing for a more integrated and coordinated ways of doing things at their level. The objectives are

- to assemble local function under one umbrella, that of the elect,
- organise the delivery of local services more simply, reducing step by step the number of parallel bodies and earmarked finance so as
- restore the role of village assemblies and local councillors, and thus
- increase the effectiveness and accountability for programmes that are now delivered separately in an unrelated way.

9.2.2 Local Finances

Local finances are best characterised through a very low level of own revenues, tax and non-tax (in most cases, less than 5 % of the total – though there are a few exceptions and progress are on the way in several States). During my visits, attitudes towards taxation attracted my attention and were further scrutinized. One attitude is the residents' unwillingness to pay taxes – even when the local administration correctly assessed them and send the bill – because "we don't know where the money goes". It is difficult to appreciate how much of the difficulty is objectively argued by the lack of information or driven by the sheer free rider behaviour of taxpayers.

Local authorities can hardly answer the question because they have neither the methodology nor the ability to trace the relation between resources and outlays. Accounting and reporting systems are outmoded, cash-based; and different drawing officers at the upper two tiers of local government maintain multiple cashbooks for the same Gram Panchayat fund accounts with the treasury. No one knows the balances on weekly or even monthly bases. Under this situation, it is not surprising that GPs do not fully capture the extent of their financial resources or the link between resources and expenditures. Budgeting is a routine to secure funding through State transfers, it is not a process guiding expenditures and policy priorities. Double entry bookkeeping rules and a standardised budgeting accounting structures for GPs are necessary at the State level. This would introduce general information about functions and finance, allow an adequate financial management and respond to the need for information in participative democracy, thus enhancing local accountability of the elect.

In our discussion with former chairpersons or members of the State Finance Commission, in the three States we visited, and also in the various workshops and meetings in which we were invited, one recurrent problem is the

absence of reliable information on the revenues and expenditures of the GPs. This situation raises questions about the effectiveness of the proximity argument in participative democracy, the ability of the local elect to appreciate the cost-benefit of local projects and services, to know in a reliable way the revenue amount available to them, to fix priorities in their policy choices. It also questions the capacity at the State level to lead decentralization programmes. Any concept of budgeting and planning, rule of (hard) budget constraint, and the resulting accountability may be irrelevant when based on unreliable statistical data.

During our visit, Prof. Oommen¹⁷ inferred that most studies concentrate on the revenue side of decentralization in India because expenditure data per function are unreliable; thus his assertion that he would never draw expenditure policy conclusions and guidance from these data. He also stated that it is almost impossible to find studies organised along the 29 local public functions enumerated in the 74th constitutional Amendment Act. This was later confirmed by Prof. Rao¹⁸ at the "National Consultation of Status of Devolution and State Finance Commission" in Delhi, on January 22, 2009 claiming in the opening session that *"local public expenditures data published in many State Finance Commission Reports were inappropriate, if not simply wrong"*. At the same meeting, Prof. Srivastava presented a paper on the "Status of the State Finance Commissions: ways forward". This was mainly a paper about the organisation, the responsibilities and the means that should be at the disposal of future SFCs in view of past experiences - out of which, the following seems of central importance:

17 Prof. Oommen wrote the report on "Fiscal Decentralisation in Kerala" for the World Bank (2004: 107-161) and also chaired the Kerala GP Association's Task Force which prepared a memorandum submitted to the Third Kerala State Finance Commission.

18 Prof. Rao is Director of the National Institute of Public Finance and Policy, in New Delhi. He co-authored the chapter on "Fiscal Decentralization in Karnataka", for The World Bank (2004: 43-83)

"It has been noticed by most of the SFCs that a majority of the data so obtained had to be discarded or corrected being apparently inconsistent and unreliable... The tenth FC has observed that the compilation of disaggregated data in a time series is the need of the hour for the SFCs to be able to assess the income and expenditure requirements of the local bodies. The Controller and Auditor-General have already prescribed the format for this purpose. The States are required to collect and collate these data in the prescribed format constantly and make them available to the SFCs..."

This state of affair was confirmed in the meeting we had with former members of State Finance Commissions (Kerala, Punjab and Haryana). All were complaining that

- (i) too much time was used for gathering local public finance data;
- (ii) collected data were not reliable;
- (iii) data collection and adjustment for comparison should be the permanent duty of the States at the Ministry of Finance or at the Ministry of Local Self-Government. These complaints were already expressed by the 2nd State Finance Commissions, but without following.

Rethinking and modernising outmoded accounting and reporting systems are at the core of future progresses in decentralization at the local tier in India. Without an adequate harmonised budgeting-accounting system for GPs, without the administrative ability to apprehend the issues, it will be very difficult to make new effective steps in devolution. Participative democracy will be at a stand because no information is available on a systematic and regular base; local elect will bypass their responsibilities and will continue to reject accountability for the reason that they do not have the adequate tools; SFCs will go on complaining the lack of reliable data; and line ministries will perpetuate earmarks and vertical transfer dependence of GPs.

Under the present circumstances, Gram Panchayats do not fully capture the extent of the financial resources they handle; there is no linkage between resources and expenditures, and no linkage between budgeting, accounting and

the annual plan and, obviously, no link between annual plans and the five-year planning that GPs are supposed to produce each five years. Distinction between current and capital expenditures does not exist; when classified, expenditures are listed according to their source of finance, not the functions. Recurrent expenditures following investment are simply not considered. The one-entry hand-written accounting system makes it impossible to know how much is spent annually for each of the 29 functions, let aside the calculation of unit costs of individual functions or projects. Medium-term monitoring of local public policies is impossible.

9.3 Avenues for improvement

In these circumstances, the interrogation is: which new avenues for improvement of local governance should be considered from the SDC point of view? My general appreciation is that the present stand of decentralisation at the local level in India is one of "*should-do*" federalism. At the local level: "we should have more own revenue", "we should have more autonomy in deciding local public services"; "we should have less earmarks and more block grants"; at the SFC level, "panchayats should have more room of manoeuvre for decision", "... should better exploit their own tax resources", "... should introduce user charges for certain services", and the like. But responses to "*how and when*" remain vague and timely undetermined. From the many reunions I attended, I got the conviction that the questions and issues of participative democracy are well understood and much progress has been made and is on the way, thanks to institutions like PRIA. Further progresses are still necessary and efforts in this direction are most welcome. But I do not see where – for this purpose – new financial incentive would be efficient. NGOs and Indian Institutions in the field are perfectly aware of the situation and are in a position to maintain the momentum in this domain.

External financial incentives should initiate a new step, from "*should-do*" decentralization to "*how to do it*" at the local level. For this purpose, new capacities have to be built, not only at the immediate level of GPs, but also for trainers of new methods of local management, budgeting and accounting. Three avenues could be considered: (i) administrative capacity; (ii) technical capacity; (iii) budgeting and accounting.

9.3.1 Administrative capacity

Building administrative capacity should not simply consist in training local employees to use new computer techniques to facilitate and increase output efficiency. Training should also include the understanding of vertical and horizontal administrative interactions and the functional overlapping of line ministries and of parallel bodies acting at the local level and providing local public services and facilities. For example, in the visited Gram Panchayats, the local administration did neither have a synoptic written document listing the various parallel bodies or scheme active in their jurisdiction, nor an agenda of the shared responsibilities in the 29 decentralized functions with the indication of who is in charge of what. The elect have not the overview of local public services and policies in their own jurisdiction. The objectives of the training would be:

- in the first place to create the willingness and the commitment for the coordination of local functions and responsibilities between the parallel institutions;
- in the second place to initiate a drive from GPs to reassemble in one authority, the Gram Panchayats in rural areas, the multiple local schemes, earmarks and parallel bodies.

In the medium term perspective, building administrative capacity would endeavour devolution in place of deconcentration.

9.3.2 Technical capacity

In many functions, the exercise of local authority needs some competences in technical management due to the nature of the production function, material equipment or capital investments. Small local government units do not have this capacity and will not find the adequate human resources within their jurisdiction. An anecdote can illustrate this point. In one visited Gram Panchayat, my curiosity was aroused from the description, then the visit in the place, of a simple infrastructure project (drainage work for a road and arranging the downstream pound). Familiar with this kind of project due to my own experience as municipal councillor, obviously the description given there overlooked basic technical rules that makes one doubt whether the public money was properly spend and how long this DIY amenity will last. But the elect were either reticent to ask for expertise at the State department or simply ignore this possibility. PPP is not considered; and most individual GPs are too small to hire the required technical competence. One could suggest that this would be a new role for Block Administrative Centres.

Although this second avenue for development would be welcome to give full authority to GPs and allow distance between them and the interference of line ministries, technical capacity building as such is not – to my appreciation – a first priority. In a first step, it could be integrated in administrative capacity building: make aware local elect and administrative persons when technical competences are necessary and where to find these competences in State departments. In a second medium-term step, technical capacity building would have the objective to regroup Gram Panchayats needs at the block level so that their finance position would be strengthen and allow them to hire the services of professionals. This could also be a first step towards the voluntary amalgamation of too small Gram Panchayats.

9.3.3 Budgeting and accounting

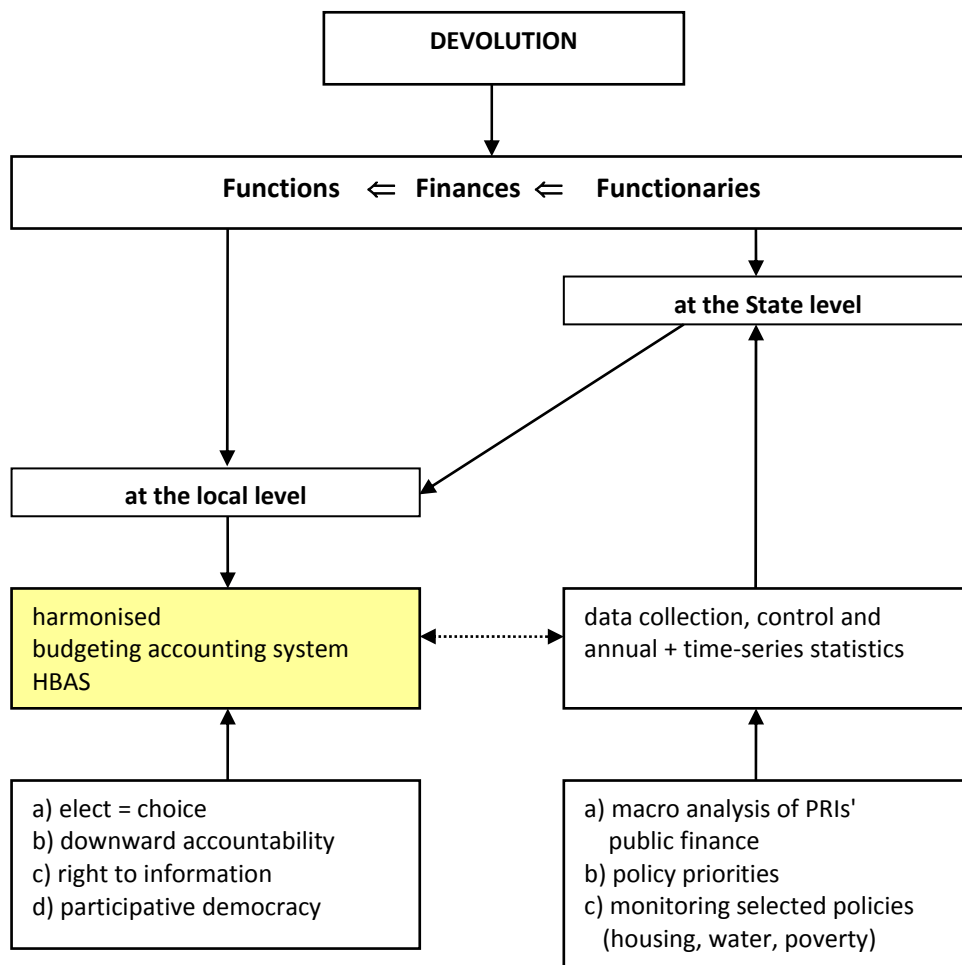
The evidence resulting from my visits in rural gram panchayats is that the accounting system and the presentation of the budget and annual account needs to be redesigned so that appropriate financial reporting is made possible for various purposes – such as ongoing monitoring, performance evaluation, cost calculation of individual services. This should be given first priority (yellow shaded in Figure 9-1).

In addition to the above traditional functions of any accounting system, a second important objective is providing automatic and regular information for democratic participation. For example, a process of confidence building is necessary for communities to be willing to pay significant taxes and user charges for services received from GPs. But how is this confidence to be built when first-hand information is not available on "how much is paid for what"? The accounting system is the first place to recapitulate expenditures and revenues information. Published annual accounts and balance sheets accessible to residents are the first and essential tool for disseminating the information. Box 2 summarizes this issue.

Third, the collection of reliable data at the local government level presents a formidable challenge. Inadequate accounting results in poor economic analysis: one entry cash based accounting, multiple cashbooks for the same panchayat, no distinction between maintenance and capital expenditure, no functional classification along the 29 local responsibilities, are serious concerns for fiscal and financial management, the design and monitoring of State policies for the local tier, efficiency in the delivery of local public services. True to say that some efforts have been made at the State level, mainly through the SFCs, to gather statistical data on local public finance. But as long as the prescribed format is organised only for the statistical purpose of the SFCs and State ministries, there will be no incentive given to GPs to do the job swiftly and in a proper manner.

The approach should be reversed. There should be a budgeting and accounting system which first serves the needs of GPs. And this should be organised not from a technical accountancy and auditing point of view but with the view that it should be accessible to citizens for participative democracy and serve local accountability. Then and only then reliable and sustainable statistical data will be made available.

Figure 9-1 Devolution as a process: the central role of HBAS



This was the way the harmonised accounting system was introduced for local governments in 1981 in Switzerland (HBAS1), currently reformed and improved with the HBASM2 (decided in 2008; voluntary introduction recommended for 2012 at the latest). At the local level, this permits to

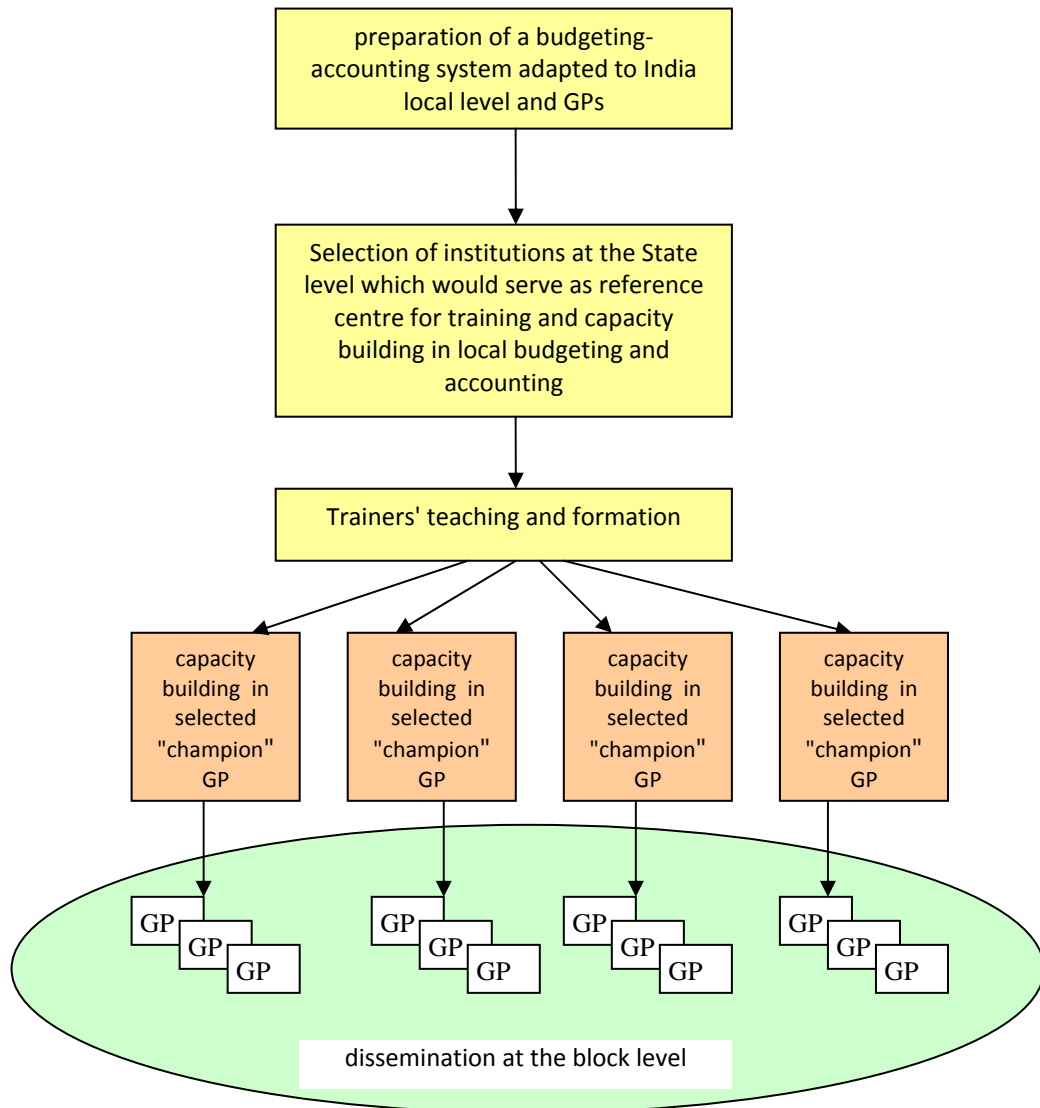
understand where does the money come from, be it tax, nontax revenues, user charges or transfers; and where the money goes, in which functions and expenditure categories (current, capital; wages, maintenance and so on). Thereafter the Cantons have been in a position to collect data from the LGs' accounts to inform common State-local issues such as revenue-raising capacities, expenditure-needs differences, fixing standard requirements for certain services, enhancing efficiency by comparative benchmarking studies. The graph below summarizes this issue. With now more than twenty-five years of experience in the use of the harmonised system of accounting at the local level in Switzerland, the HBAS1 could serve as a base for developing an equivalent system contextualised to the Indian local Gram Pachayats. Hand-written one entry cash-based accounting was the most used system by Swiss communes in the seventies, which corresponds approximately to the present accounts in gram panchayats; thus the necessary adaptation to a new system and the computerisation of a new system have been experienced there and could serve here.

Thus we propose that in the next round of financial aid, the SDC should focus on capacity building in avenues 1 and 3 above. Building administrative capacity could follow the actual line in contributing to participative democracy at the grass-roots level. I am confident that the same aided institutions can take over this objective and built on the actual expertise gained in democracy enhancing.

The third avenue is a greater challenge since it means that before building up this kind of expertise and capacity, trainers have first to be formed. The sequence (summarized in Figure 9-2 below where the shaded area have the following meaning: first priority in yellow, second priority in rose and third priority in light green) would be:

- 1) Selection of institutions that would be ready to take up this challenge and selection of future trainers to be formed. In order to comply with the engagement towards a true devolution, institutions should be chosen at the level of State, in three or four States so as to concentrate energy and financial means with a high probability of success.
- 2) The formation of future trainers could take the form of intensive workshop on which they could receive a basic curriculum in local public finance and be introduced to new accounting methods. Part of the workshop should be devoted to the contextualisation of the system to their own State.
- 3) Voluntary Gram Panchayats could be then selected for building capacity in budgeting and accounting at their level. The local selected personal would be accompanied in the introduction of new methods until they gain self-confidence in their own capacity to manage the system. This would openly show that a reform in this field is possible and how financial management at the local level can improve.
- 4) Champion Gram Panchayats in this field can serve as reference point and start a process of dissemination of the system for neighbouring Gram Panchayats, at the block level for example.

Figure 9-2 Capacity building in HBAS



Box 9-3 Final Suggestions	Term
Implementation should follow the following path (accepting that the present "should-do" endeavours in decentralization should be pursued):	
<i>1. Building administrative and managerial capacities</i>	
i] Training in computer techniques = teaching objective is mastering the HBAS;	Short
ii] Training in functional design = teaching objective is understanding vertical and horizontal administrative interactions and overlapping in the delivery of local public services.	Short
Policy objectives:	
A] Commitment for the coordination of local functions between PRs and parallel bodies;	Medium
B] Reassemble in one authority, the Gram Panchayats in rural areas, the multiple local schemes, earmarks and parallel bodies.	Medium
<i>.2 Building technical capacities</i>	
i] Integrated in administrative capacity building: make aware local elect and administrative persons when technical competences are necessary and where to find these competences in State departments.	Short
ii] In a second medium-term step, technical capacity building would have the objective to regroup Gram Panchayats needs at the block level so that their finance position would be strengthen and allow them to hire the services of professionals.	Medium
<i>3 HBAS</i>	
i] Preparing a budgeting-accounting system adapted to GPs and local institutions so that traceability of functions and resources can be effective;	Short
ii] Selection of institutions at the State level which would serve as reference centre for training and capacity building in local budgeting and accounting	Short
iii] Trainers' teaching and formation	Short
iv] Capacity building in selected "champion" GPs	Medium
v] dissemination at the block level	Medium

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Abstract

The objective of democratic decentralization is to enable institutions at the grassroots level to take decisions in matters related to the day to day life of the people. Transparency and accountability do not happen on their own: they have to be promoted and delivered by performing institutions.

In Sikkim, the focus on empowering the Panchayats (local governments) was initiated in 2002-3 with the devolution of specific functions, transfers of more grants and posting suitable personnel to the Panchayats. But attitudinal changes take long to obtain, and resistance to such changes and processes are inevitable and deep rooted.

This Report opens roads of thinking for improving and accelerating the decentralization process in Sikkim with a view of better participative democracy, budget accountability and governance.

Keywords

Local public finance, local political institution, assignment of functions, intergovernmental transfers, local budget, local finance, planning

JEL Classification

H70, H72, H73

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