**Country Name:**
India

**WB Project Involved: Name of Project and Project Code:**
- Kerala Local Government and Service Delivery ([P102624](#))
- West Bengal Institutional Strengthening of Gram Panchayats Project ([P105990](#))
- Karnataka Panchayat Strengthening Project I ([P078832](#)) and II ([P150288](#))

**Name and Date of Legislation/Policy:**
- *The Constitution (73rd Amendment) Act, 1992* (also known as the Panchayati Raj Act; Passed in December 1992 and came into force in April 1993)
- *The Constitution (74th Amendment) Act, 1992* (also known as the Nagarpalika Act; Passed in December 1992 and came into force in June 1993)
- *Panchayat Raj (Extension to Scheduled Areas) Act of 1996* (December 1996)

**NOTE - Other States’ PR Act can be found on the Ministry of Panchayati Raj’s website.**

**Description of Legislation/Policy:**

The 73rd and 74th Amendments formally introduced a basic framework for a minimum level of decentralization and democratic local governance in rural and urban areas across all states in India. After ratification by more than half of the State Assemblies, the Constitution (73rd Amendment) Act of 1992 (73rd Amendment), Constitution (74th Amendment) Act of 1992 (74th Amendment) established mandatory provisions for decentralization of local governments in India. While the 73rd Amendment provides provisions for rural local bodies, the 74th Amendment deals with primarily urban local bodies.

Key mandatory provisions of the 73rd Amendments include: 1) the creation of a three-tier local government structure, Panchayat Raj Institution (PRI); 2) regular PRI elections with seat reservation for Scheduled Castes/Tribes and women; 3) establishment of Gram Sabha (village assembly) to exert control over local government; and 4) periodic auditing of local governments’ accounts. Similarly, the 74th Amendment also provides for a three tier municipal system in the urban centers and requires the establishment of Ward Committees in municipalities.

For the Adivasi (tribal people) and Scheduled Areas that were not covered in the 73rd or 74th Amendments, the Panchayats (Extension to the Scheduled Areas) Act of 1996 (PESA) was enacted in December 1996 to provide the extension of the provisions of Part IX of the Constitution relating to...
the Panchayats. The Amendments give PRIs an important role in shaping local development with the goal of integrating the poorest and most marginalized into the mainstream decision-making process. These Amendments require having a quota of panchayat members and chairperson positions for Scheduled Castes/Tribes and women (no less than one-third of the total number of seats). This enables the marginalized individuals and groups to voice their problems and join in decision-making on matters affecting their lives.

The three-tier rural local government structure consists of Gram Panchayat (village council), Panchayat Samiti (intermediary or block), and Zilla Parishad (district council) while three categories of urban local bodies include Nagar Panchayat (area council, city council), Nagar Palika (municipality), and Mahanagar Nigam (municipal corporation). Each tier prepares plans for its areas of responsibility as defined through Activity Mapping. These plans along with plans of municipalities are consolidated by the District Planning Committees (DPC) as mandated in the Constitution.

The 73rd and 74th Amendments left issues of design and implementation of sectoral, administrative and fiscal devolutions to the States. Many state governments have proceeded incrementally to strengthen the PRI system set out in the Amendments. We describe three illustrative cases below where states are working on strengthening their PRI systems.

1. Kerala

The Government of Kerala passed the corresponding legislations, the Kerala Panchayat Raj Act 1994 and the Kerala Municipality Act 1994 and delegated many administrative functions to the local governments. Kerala has devolved more responsibilities and resources to local governments (the lowest levels of local government) than any other states in India. More particularly, in addition to their responsibilities for typical local services such as water, roads and sanitation, local governments in Kerala have been given (limited) functions in respect to health and education which are found in few if any other states.

On the fiscal side, the State has implemented the recommendations of successive State Finance Commissions (SFC), the most recent of which proposed that local government transfers constitute 25% of state tax revenue in 2003/04, with an increase of 10 percent a year thereafter. Moreover, Kerala has introduced an objective, formula-based approach to the horizontal distribution of SFC transfers between local governments, which other Indian states have yet to do.

The Government of Kerala launched the People’s Campaign for Decentralized Planning in August 1996 (later renamed as Kerala Development Plan), providing a framework for bottom-up planning and budgeting. The most localized plan is developed at panchayat/ward level through a Gram Sabha/ward convention under the leadership of the locally elected representative. Through a Gram Sabha/ward convention, community members are mobilized to identify local needs, prioritize them, and develop local development plans through a process of consultation and participation. These local development plans are compiled into municipal plans and then into the statewide five-year plan.

The campaign instituted a multi-staged participatory planning and budgeting process. At the lowest level (ward), the meetings are open to all participants. Subsequent meetings are attended by representatives selected by the functionary groups. Over the years, the Kerala Development Plan has adopted various approaches to strengthen participatory planning and budgeting, including Citizens Watch Committee at the local government level to conduct social audit and Gender Budgeting initiative for gender-sensitive monitoring and development programs. Kerala has become a role model for other states in the area of financial and functional devolution.
2. West Bengal

West Bengal already had a three-tiered government system originated in the 1973 West Bengal Panchayati Raj Act, which provided the legal basis for the establishment of directly elected local governments with limited functions and powers. Since the introduction of the 73rd and 74th Amendments, the Government of West Bengal has expanded and improved the legal and regulatory frameworks relating to PRI institutions by amending the 1973 West Bengal Panchayati Raj Act on multiple occasions and strengthening rules relating to local governance, participatory process, financial management, and other matters.

Even though the powers and functions of PRI have been gradually extended in some sectors, a number of line departments, such as health and education, deliver services locally through deconcentrated offices (normally at the District level). For example, Gram Panchayats (GPs; the lowest level of local government) have authority over water supply, public works (e.g. maintenance, repair, construction of public streets), sanitation, conservancy and waste management while collaboration with other levels of governments is necessary in other activity areas. GPs have the control and administrative responsibility of the Gram Panchayat Fund to implement local development schemes/projects and services to their community members; however, they do not have enough resources to execute their service delivery functions.

As for public participation at the lowest level (panchayat), the West Bengal Panchayati Raj Act mandates GPs to convey an annual meeting of Gram Sabha once every year in December. All community members are part of the Gram Sabha. At the Gram Sabha, community members review and discuss the budget of Gram Panchayat, annual plan, the last audit report, and the income and expenditures of the previous year. Questions, concerns and recommendations raised at the Gram Sabha are recorded in the resolution book, and they will be considered and followed up by the Gram Panchayat.

In addition to Gram Sabha, West Bengal has created Gram Sansad, consisting of voters of each electoral constituency of a Gram Panchayat. The Gram Sansad meets twice a year in May and November and provides guidance and advice to the Gram Panchayat in regard to the schemes for economic development undertaken or proposed to be undertaken in the panchayat. Despite of the achievements already made, West Bengal considers to enhance the level of devolution within the PRI system, with a particular focus on GPs, through legal and policy changes and providing additional resources to allow GPs to expand their service delivery activities.

3. Karnataka

Karnataka had a longer history of active local governments. It was a pioneer in certain initiatives of sub-state devolution and its 1983 reforms served as the basis for its Panchayat Raj Act, 1993. In 2002, the Government of Karnataka announced the decentralization strategy in the Report on Rural Decentralization as to improve rural governance and empowerment of local governments. Following this decentralization strategy, the state undertook a series of policy initiatives towards devolution, which included: 1) amendments to the Karnataka Panchayat Act; 2) devolution of 29 subjects and 28% of public expenditures to district, block and village governments; 3) clearer expenditure assignments; and 4) the introduction of Block Grants (BG) in the transfer system, along with improved financial management and planning guidelines.

Through a Government Order in 2004, the Government of Karnataka mandated its line agencies to transfer many of their activities to Panchayats. The state saw decentralization as a way to address
regional disparities, if it was pursued in an equalizing manner, by divesting more resources to the poorest blocks and villages and by developing capacity at the local level.

As to promote public participation at the local level, the Government of Karnataka created Ward Sabhas (neighborhood assemblies) as the lowest unit of constituent representation and participation to enhance accountability downwards in addition to Gram Sabha. Some key responsibilities of Ward Sabha include: 1) generating proposals and determining the priority of schemes and development programs; 2) forwarding the proposal to the Grama Sabha for inclusion of the Grama Panchayat’s development plan; 3) identifying the most eligible people for beneficiary oriented schemes and preparing the list of eligible beneficiaries; and 4) providing and mobilizing voluntary labor and contributions in cash and kind for development work. Even though Karnataka is one of the most devolved states in India, capacity building is necessary for the PRIs (particularly GPs) to effectively execute their powers and responsibilities.

Background of CDD/Local Government Project(s) involvement in Legislation/Policy. Type of TA provided:

As states are trying to strengthen their local government systems, the local government projects support the efforts to further operationalize the Panchayat Raj Acts and improve service delivery and local governance in Kerala, West Bengal and Karnataka. These projects are expected to generate lessons for one another and for the respective states’ approach to further decentralization.

1. Kerala
With the loan amount of US$200 million, the Kerala Local Government and Service Delivery Project provides support to the state and local governments to expand local expenditure autonomy and strengthen local government institutional capacity. The project introduces performance grants, which will be an integral part of the Kerala Local Government fiscal framework. Performance grants are additional discretionary funds for the creation and/or maintenance and operation of capital assets used in service delivery. Performance grants aim to improve GP and municipal performance in local governance and service delivery. The performance dimension where qualification for a grant is based on an annual performance assessment will be introduced in the second phase (from the third year of the project). The project will end in December 2015.

2. West Bengal
The West Bengal Institutional Strengthening of Gram Panchayats Project, with the IDA loan amount of USD$200 million, contributes to strengthening the capacity of local government institutions (particularly GPs) to improve governance and the effectiveness of their service delivery. The project assists establishing the block grant system for GPs. Under the project, the block grants are allocated to only one-third of GPs (about 1,000) in the state, but the state government intends to expand the block grant system to ultimately all GPs funded by the state on a regular and sustained basis. Grants provided by the project are going to be integrated with other untied GP revenues at the local level. They are accounted for using the Gram Panchayats Management System and audited as part of the annual GP certification audit conducted by the Comptroller and Auditor General’s local office. GPs that receive an adverse or disclaimed audit opinion will not receive funding. This project, which will also end in 2015, has already disbursed all funds.

3. Karnataka
The Karnataka Panchayat Strengthening Project is contributing to the operationalization of the state Panchayat Raj Act and the decentralization strategy. To be eligible for the block grants under the project, GPs had to put in place the financial management and accounting system prepared by
the state government and implement the new planning guidelines. It was also required for them to hold regular Gram Sabha meetings with open participation and public display of financial management and procurement information. The first phase of the project (IDA financing of US$120 million) has been completed: the second phase (IDA financing of US$220 million) is under preparation.

**Background Documents:**


Ministry of Panchayati Raj. 2014. *Ranking of States/UTs Based Devolution of Funds, Functions and Functionaries to PRIs*.


*World Bank’s Webpage on Decentralization in India.*

Email exchanges with Abdu Muwonge, Senior Economist, World Bank and Fara Zahir, Senior Economist, World Bank

Updated: June 19, 2015