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Financial Implications of Decentralisation: Issues Concerning Resource Mobilisation by Urban Local Bodies

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The Constitution Seventy-fourth Amendment Act 1992, which came into effect on 1 June 1993 is considered to a major breakthrough in the history of urban governance in India. It is considered to a significant initiative towards decentralisation. The present paper is an attempt to look into the aspect of decentralisation initiative in India in the form of 74th Amendment. The objective is two fold- firstly to look into the fact that how far decentralising is the decentralisation initiative, i.e., whether the decentralisation initiative has succeeded in empowering the city governments in true sense, specifically speaking in respect of their financial situation. Secondly, if there has been any empowering of the city governments, how has it got reflected in the resource generation capacity of the urban local governments. The impact of decentralisation is being studied on the basis of a decentralisation index constructed for the purpose.

I Introduction

With liberalisation and globalisation, decentralisation has also become a major plank of public policy over the World in the recent years. Decentralisation has very recently taken an important position in the administrative mechanism of the government. "Decentralisation basically refers to a situation where the sub-national (or sub-state) unit of government have the discretion to available to them to engage in effective (as opposed to illusory) decision making affecting their area" (Wolman and McCormic, 1994)[1]. The question now arises is why at all there is a need for decentralisation and what are its possible impacts. The need for decentralisation was a result of the fact that the global market has become more integrated due to the coming up of the trade liberalisation regime and opening up of the financial markets by the developing nations, that started during the late eighties and the early nineties. The complexities of expanding government activities and a new paradigm of development focussed on growth and equity became compelling factors to decentralise the authority of planning and development (Cheema and Rondinelli, 1983). Moreover, Central Governments are primarily concerned with managing macroeconomic policies and national political stability. They are often less

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[1] In a much narrower sense decentralisation is defined as the transfer from Central to lower levels of Government of the authority to plan, make decisions (including financial) and manage local public investments (Campbell, Peterson and Brakarz, 1999). Davey (1996) distinguishes three forms of decentralisation (a) deconcentration of authority to field offices, lower echelons etc. i.e., to officials within same organisational hierarchy; (b) delegation to separate legal persons, but ultimately under the same political direction and (c) devolution to a representative body provincial government or local authority, i.e., with independent political accountability.