

## **Decentralisation and Local Discretion**

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### **Abstract**

Representative local governments are the basic institutional elements of decentralization, accountable to higher levels of government and to citizens as allowed by their discretionary space. This paper presents an analytical framework for studying the accountability implications of decentralization reform. In many developing countries, decentralization reforms are promoting changes in governance structures that are reshaping the relationship between local governments and citizens. Decentralization reforms grant local governments new powers and responsibilities in three dimensions: political, administrative, and fiscal. It identifies the accountability implications of decentralization reforms and brings the supply and demand sides together. Achieving this goal requires efficacious mechanisms for strengthening downward accountability along political, administrative and financial dimensions of decentralization.. It is essential to conduct systematic analyses of country-specific local power structures, interests, and socioeconomic conditions.

**Key Words:** Decentralisation, Local Discretion & Accountability, local Government.

### **Introduction**

Decentralisation refers to the transfer of power, authority and responsibility for public functions from the central government to intermediate and local governments in an attempt to bring government 'closer to the people'. Since the late 1980s/early 1990s, a wide variety of countries throughout the developing world has experienced some degree of decentralization in its many forms (fiscal, administrative, or political decentralization). Decentralisation has been embraced by the international development community, domestic and international policy makers, and political activists alike on the assumption that strengthening local government structures increases government efficiency, promotes accountability, and fosters citizen participation.

**Conceptual Framework**

Decentralization in its largest notion can be considered as an institutional arrangement between the central government and sub-national units aiming to share legal competencies, resources and political power. The role of decentralization reforms in providing local governments with a discretionary space so that local governments can be responsive to citizens by using their discretion and be held accountable for their performances. Representative local governments with meaningful discretionary powers are the basic institutions of decentralization. Public officials have discretion to use their best judgment in applying rules and policies to meet the public interest. The premise is that public officials are knowledgeable and experienced in applying rules to particular situations, increasing the effectiveness of rules and policies, and improving performance. They are flexible and responsive to public needs and demands. Decentralization reforms grant local governments new powers and responsibilities that define such a discretionary space in three dimensions: political, administrative, and fiscal.

**Factors Defining The Local Political Setting**

The political dimension of decentralization sets the rules for local populations to elect and interact with their local leaders. Decentralization reforms can restructure the local political setting, reshaping local actor and voter incentives in many ways—such as changing the size of municipalities, reformulating local electoral legislation, and redefining formal relationships between the representative and the executive bodies (Keating 1995). They can also change the structure of legislative bodies, the balance between elected local authorities and local executives and administrators, the way councils are elected, the way executives are elected or appointed, and the structures for local legislative and executive bodies to relate to citizens. The ideal political setting in decentralization contexts requires a suitable environment for local elected leaders to act independently and in line with the demands of local populations, even if these demands are in conflict with their own parties or with the central government. Such a suitable local environment implies institutional arrangements for the separation of powers among the executive, legislative, and judicial bodies; election laws and electoral system; and existence and implementation/functioning of political party laws and party system.

**Factors Affecting Local Administrative Discretion**

Local governments gain greater administrative autonomy when they can pay their staff from their own budgets, have decisive control over staffing levels and skill mix, and can offer their staff enough incentives, flexibility, and opportunity in career advancement and performance outcomes. Each of these factors increases a local government's administrative autonomy and influences its accountability relationship with local bureaucracies. With adequate checks and balances, a decentralized framework for civil service management can break dependencies on higher levels of governments and promote downward accountability. Public accountability in the

administrative sphere refers to local civil servants being accountable to their top administrative officers and to such outside officials or entities as public audit officers, ombudsmen, regulators, a particular administrative agency, or a board or committee. Three major mechanisms that public sector approaches rely on to improve administrative accountability are structures within bureaucratic hierarchies, specially designed independent bodies, and administrative courts.

### **Determinants of Local Fiscal Discretion**

The fiscal dimension of decentralization is mostly associated with allocative efficiency arguments, postulating that local governments can provide differentiated public goods to heterogeneous populations at the local level. Fiscal decentralization requires assigning public services that have high local-public-good characteristics to local governments. Devolving expenditure responsibilities to local governments is an important step in increasing the participation of citizens in local decision-making. A genuine spirit of decentralization requires assigning a meaningful level of expenditure responsibilities to local governments with service autonomy so that they can respond to local needs. A clear assignment of service responsibilities requires a well-defined institutional framework that describes the roles and responsibilities of different levels of government. *Fiscal accountability* seeks transparency in the management of public funds. It also requires that governments manage finances prudently and ensure integrity in their financial reporting, control, budgeting, and performance systems.

### **Indian Context**

Since the early 1980s, decentralization has reemerged as a valued political and economic goal in most developing countries. Decentralisation calls for a sub-national government structure with several tiers with each tier delivering those services that provide benefits to those residing in their jurisdiction. The term 'decentralisation' encompasses political, economic or fiscal and administrative decentralization. Political decentralisation transfers policy and legislative powers from central government to autonomous, lower-level assemblies and local councils that have been democratically elected by their constituencies. Administrative decentralisation places planning and implementation responsibility in the hands of locally situated civil servants and these local civil servants are under the jurisdiction of elected local governments. Fiscal decentralisation accords substantial revenue and expenditure authority to intermediate and local Governments decentralisation constitute a substantive shift in power from national or regional levels to more local spheres of political life. Decentralisation empowers new actors and creates conditions for new lines of participation and accountability. Accountability should be based on strong norms of communication and consultation between public officials and citizens. Accountability is a complex and multi-faceted concept that is made operational through relationships between individuals and organisations. the concept of accountability is the notion that one person is responsible to another, and is obliged to render an account of their decisions and actions to another party.

In the Indian context, it means providing a suitable legislative framework for establishment of elected bodies of self-government at local level and transfer of power from State Governments to democratically elected local bodies. The 73rd and 74th Constitution Amendment Acts 1992, supplemented by legislation/resolutions in the States in 1994, changed the structure of governance permanently from a two-tier to a three-tier system consisting of the Union, the States and the Panchayats/Municipal Bodies with a distinct developmental orientation. With these landmark Constitutional amendments, the units of local self-governments at various tiers/levels got a new lease of life and many far-reaching changes in the Constitution and the State laws were brought about to ensure proper functioning of democracy at the grassroots.

A new era has begun in the local bodies accounting and auditing with CAG (Comptroller & Auditor General) playing a more pro-active role and being increasingly perceived as an aid to management. The increased role of CAG is also in keeping with decentralized governance at the grass roots level and is expected to result in greater accountability in respect of public funds and more effective and efficient use of resources.

In keeping with the spirit of the 73<sup>rd</sup> and 74<sup>th</sup> amendments and the EFC (Eleventh Finance Commission) as well as TFC (Twelfth Finance Commission) recommendations, with more and more financial resources and responsibilities being transferred to the various levels of local governments, CAG's support to the strengthening of the entire accountability framework has become even more critical. Hence CAG's efforts should be directed towards capacity building of the primary auditors of the structure of local governance in States. Continued focus on training and extending of technical support and expertise would go a long way in ensuring this.

Traditionally, PRIs in India have been subjected to control by higher-level Governments. Since PRIs depend to a great extent on grants, this kind of upward accountability is inevitable and with the rise in the funding from the State and Central Governments, the accountability system needs to be further strengthened. CAG's initiatives have been largely in improving the accountability mechanism. However, a local government institution is not accountable to the State Government alone. Indeed, its primary accountability is to the local community. The oversight functions of the gram sabha needs therefore to be substantially strengthened. Similarly, ward committees in urban areas which are hampered by a limited citizen representation and an ambiguous mandate need to be reinvigorated. Apart from the formal accountability mechanism of audit, innovative tools and methods of accountability have been introduced in some of the States to make local governments more responsive to the electorate. These are social audit through the empowerment of gram sabha, neighbourhood committee and monitoring committee, beneficiary committees to execute public works schemes, providing for citizen's charter, creating a watchdog institution like the ombudsman to ensure fair play in the functioning of the local bodies and of course the Right to Information Act through which citizens could demand transparency and accountability. This Act empowers citizens to hold governments including local governments answerable to the people in all matters of public spending.

**Conclusion**

Representative local governments with meaningful discretionary powers are the basic institutions of Decentralization. Decentralization reforms grant local governments new powers and responsibilities in three dimensions: political, administrative, and fiscal. These dimensions give local governments discretionary space. Within their discretionary space, local governments would be accountable to higher levels of government (upward accountability) as well as to citizens (downward accountability). Public and social accountability approaches must be bridged to ensure that citizens have the ability and opportunity to demand accountability and that local governments have the means and incentives to respond to citizen demands for accountability and better service delivery.

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