

THE CRITICAL ROLE OF DECENTRALISED RESPONSES

Relevant for: Indian Polity | Topic: Devolution of Powers & Finances up to Local Levels and Challenges therein - Panchayats & Municipalities

The [novel coronavirus pandemic](#) has brought home the critical role of local governments and decentralised responses. In terms of information, monitoring and immediate action, local governments are at an advantage, and eminently, to meet any disaster such as COVID-19. While imposing restrictive conditionalities on States availing themselves of the enhanced borrowing limits (3.5% to 5% of Gross State Domestic Product, or GSDP) for 2020-21 is unwarranted, the recognition that local governments should be fiscally empowered immediately is a valid signal for the future of local governance. This article makes some suggestions to improve local finance and argues that the extant fiscal illusion is a great deterrent to mobilisation.

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[COVID-19](#) has raised home four major challenges: economic, health, welfare/livelihood and resource mobilisation. These challenges have to be addressed by all tiers of government in the federal polity, jointly and severally. Own revenue is the critical lever of local government empowerment. Of course the several lacunae that continue to bedevil local governance have to be simultaneously addressed. One, the new normal demands a paradigm shift in the delivery of health care at the cutting edge level. Two, the parallel bodies that have come up after the 73rd/74th Constitutional Amendments have considerably distorted the functions-fund flow matrix at the lower level of governance. Three, there is yet no clarity in the assignment of functions, functionaries and financial responsibilities to local governments. Functional mapping and responsibilities continue to be ambiguous in many States. Instructively, Kerala attempted even responsibility mapping besides activity mapping. Four, the critical role of local governments will have to be recognised by all. A few suggestions for resource mobilisation are given under three heads: local finance, Members of Parliament Local Area Development Scheme, or MPLADs, and the Fifteenth Finance Commission (FFC).

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Property tax collection with appropriate exemptions should be a compulsory levy and preferably must cover land. The Economic Survey 2017-18 points out that urban local governments, or ULGs, generate about 44% of their revenue from own sources as against only 5% by rural local governments, or RLGs. Per capita own revenue collected by ULGs is about 3% of urban per capita income while the corresponding figure is only 0.1% for RLGs. There is a yawning gap between tax potential and actual collection, resulting in colossal underperformance. When they are not taxed, people remain indifferent. LGs, States and people seem to labour under a fiscal illusion. In States such as Uttar Pradesh, Bihar and Jharkhand, local tax collection at the panchayat level is next to nil. Property tax forms the major source of local revenue throughout the world. All States should take steps to enhance and rationalise property tax regime. A recent study by Professor O.P. Mathur shows that the share of property tax in GDP has been declining since 2002-03. This portends a wrong signal. The share of property tax in India in 2017-18 is only 0.14% of GDP as against 2.1% in the Organisation for Economic Co-operation and Development (OECD) countries. If property tax covers land, that will hugely enhance the yield from this source even without any increase in rates.

Land monetisation and betterment levy may be tried in the context of COVID-19 in India. To be sure, land values have to be unbundled for socially relevant purposes.

Municipalities and even suburban panchayats can issue a corona containment bond for a period of say 10 years, on a coupon rate below market rate but significantly above the reverse repo rate to attract banks. We are appealing to the patriotic sentiments of non-resident Indians and rich citizens. Needless to say, credit rating is not to be the weighing consideration. That the Resurgent India Bond of 1998 could mobilise over \$4 billion in a few days encourages us to try this option.

The suspension of MPLADS by the Union government for two years is a welcome measure. The annual budget was around 4,000 crore. The Union government has appropriated the entire allocation along with the huge non-lapseable arrears. MPLADS, which was avowedly earmarked for local area development, must be assigned to local governments, preferably to panchayats on the basis of well-defined criteria.

A special COVID-19 containment grant to the LGs by the FFC to be distributed on the basis of SFC-laid criteria is the need of the hour. The commission may do well to consider this. The local government grant of 90,000 crore for 2020-2021 by the FFC is only 3% higher than that recommended by the Fourteenth Finance Commission. For panchayats there is only an increase of 63 crore. The commission's claim that the grant works out to 4.31% of the divisible pool and that it is higher than the 3.54% of the FC-XIV is obviously because the size of the denominator is smaller. Building health infrastructure and disease control strategies at the local level find no mention in the five tranches of the packages announced by the Union Finance Minister. The claim for a higher award to LGs is loud and clear.

The ratio of basic to tied grant is fixed at 50:50 by the commission. In the context of the crisis under way, all grants must be untied for freely evolving proper COVID-19 containment strategies locally. Further the 13th Finance Commission's recommendation to tie local grants to the union divisible pool of taxes to ensure a buoyant and predictable source of revenue to LGs (accepted by the then Union government) must be restored by the commission.

Flood, drought, and earthquakes are taken care of by the Disaster Management Act 2005 which does not recognise epidemics, although several parts of India experienced several bouts of various flus in the past. The new pandemic is a public health challenge of an unprecedented nature along with livelihood and welfare challenges. The first Report speaks of mitigation funds and even prepared a disaster risk index, to map out vulnerable areas. These are redundant in the present context. The 2005 Act may have to be modified to accommodate the emerging situation.

COVID-19 has woken us up to the reality that local governments must be equipped and empowered. Relevant action is the critical need.

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

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