Study of Panchayat Finances in Karnataka

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Executive Summary

An event of almost epochal importance in the recent history of local government institutions in India is the enactment of the 73rd and 74th Constitutional amendments. In the main these acts conferred upon Panchayat Raj Institutions/PRIs and Urban Local Bodies/ULBs constitutional status for which a demand had been being articulated for several decades.

Karnataka is often cited as an important example of a pro-decentralisation state. This is mainly due to the earlier legislation passed by the state during 1983 which was regarded as a landmark step. After the 73rd Amendment to the Constitution, Karnataka was the first State to pass the Karnataka Panchayat Raj Act, 1993, as per the 73rd Amendment and conducted elections to gram panchayats in December that year. This was the beginning of a full-fledged three-tier system of panchayat raj in Karnataka, making use of the 11th Schedule in the Constitution to decentralise power and functions to panchayat raj bodies at all the three levels.

The principal aim of the study is to assess the fiscal performance of PRIs in Karnataka over a period of four financial years starting from 2005-06. The study is based on the secondary data that was made available by the DAC. Gram Panchayat-wise secondary data on income and expenditure for the years 2005-06 to 2008-09 and the socio-economic profile of panchayats as on 2005 has been made available by the DAC. Similarly secondary data on income and expenditure of TPs and ZPs has also been made available. Apart from this the Team also had discussions with the elected representatives and officials at the Gram Panchayat level that was essential to capture the nuances of fiscal decentralization. A primary survey was also conducted in the districts – Bidar, Dharwad, Udupi, Gulbarga, Ramanagara and Chamaraja Nagar districts, to capture the effectiveness of the functioning of the Gram Panchayats. An effort has also been made to capture the comparative perspectives on the fiscal related issues from the states of West Bengal and Tamilnadu. The analysis of the Gram Panchayat finances is restricted to 4566 GPs for which data was available for all the four years.The analysis of the data was handicapped by certain limitations of the data made available to the Institute.

The key findings based on the analysis of the secondary data can be summarized as follows:

- The data available on the receipts and expenditure of Zilla Panchayats indicates that the funds released have increased during the study period. The details of receipts and expenditure under different schemes/heads indicates that sectors like Education, Health and Family welfare and rural development programmes get the maximum share of the receipts. The percentage of utilization of funds is also significant in these sectors and schemes.

- The details of capital account expenditure shows that the Water Supply and Sanitation sector, Welfare of SCs/STs/OBCs followed construction of Roads and Bridges get the maximum share under the head. However there has been a drastic reduction in the outlay available for the water supply and sanitation sector. A possible reason for this could be that the maintenance of all water supply schemes were transferred from ZP to Gram Panchayats. Overall figures indicate that the capital outlay available to the Zilla panchayats constitutes a small percentage of the total receipts for the year.

- There are few sectors where the percentage of utilization of funds exceeds the receipts and the same needs close scrutiny. During the period the opening balance at the treasury has not shown much variation but the same with the banks have increased by nearly 16 times.

- The analysis of the receipt and expenditure of Taluk panchayats also shows that certain areas which have recorded impressive performance across all categories of taluks. The capital account expenditure across the taluks is not significant.

- The analysis of the Taluk panchayat data on the receipt and expenditure under various development heads indicate that they do not receive sufficient grants to take up any meaningful development works in the taluks. The picture is the same across all categories of taluks. Even where the funds are released it is mainly related to salary related expenses or the funds which are released to the gram panchayats through the Taluk panchayats.
- There has been a significant increase in the opening balance of Gram Panchayats over the years. The reasons for this can be traced to the increased flow of funds to the Gram Panchayats especially under the MNREGS, delays in the utilization of funds etc. Discussions with the GP officials during field visits indicated that this is also due to late release of funds by the State and Central governments for various development schemes during the end of the financial year.
- The own source of revenue of the Gram Panchayats have improved by more than 50 per cent between 2005-06 to 2008-09. This increase has taken place across all the districts in the states and different categories of taluks.
- The percentage of own source of revenue to total funds available with the gram panchayats shows a decreasing trend which may be possibly due to increased grants for various development schemes released to the Gram Panchayats.

- Resource mobilization through taxes by the Gram Panchayats as percentage to total funds (includes the opening balance) has decreased and Non-tax revenue also shows a similar trend. The data shows that though the tax and non-tax sources have been increasing across the districts during the period.
- Percentage of Tax revenue to total own source of revenue has marginally increased where as there has been a decrease in the non-tax revenue mobilization by the gram panchayats over the years.
- The general picture that emerges from the analysis of the per capita income across the GPs in the districts in the state indicates that over the period in a majority of the districts the per capita tax mobilization has increased over the period. There are districts which have shown significant improvement in the tax mobilization efforts.
- Property Tax is one of the important sources of revenue even though it constitutes a small percentage of the total revenue of the gram panchayats. A noteworthy feature across many districts is that the per capita property tax mobilisation has shown significant increase during the study period.
- The Total Own Source resource mobilization by the Gram Panchayats across all the districts of the state have shown increasing trend during the study period.
- Expenditure by the Gram Panchayats has been showing a steady trend during the study period. The district wise expenditure shows variations from year to year. The point to be noted is that the larger issues related to devolution of functionaries to the Gram Panchayats along with adequate freedom in expenditure decisions need to be addressed at the policy level.

In all the above dimensions the performance of taluks under the broad categories recommended by the D.M.Nanjundappa Committee Report has been analysed and the patterns that emerge are no different from the above analysis except that in some parameters inter region differences could be found.

A few suggestions emerge from the analysis of the fiscal data. These are related mainly towards improving the potential for mobilization of more resources by the Gram panchayats.

- Widening the tax base in rural areas is one of the important issues that need to be addressed. The Gram Panchayats do not have updated list of properties and periodic up gradation of such a list and levying property tax on such buildings would go a long way in widening the tax base
- State Government had issued orders along with guidelines for periodic revision of taxes by the Gram panchayats. It has been found that such a revision is not taking place. It should be ensured that the revision takes place on a regular basis (once in five years) and this should be put in place as the newly elected body comes into existence at the Gram Panchayat.
- The elected representatives and functionaries do not have adequate information on the importance of resource mobilization efforts by the Gram Panchayat as also the scientific revision of the taxes. All efforts should be made to ensure that the capacity building initiatives are put in place on this issue.
- The data base to be maintained by different tiers of PRIs needs to be streamlined. The data sets available with the RDPR and other agencies like the State Accounts Department need to have uniformity. The suggestion and the formats proposed by the Thirteenth Union Finance Commission can be the beginning for ensuring a proper data base. A beginning in this direction has been made at the Gram Panchayat level where the Panchatantra software captures uniform database from the Gram Panchayats. Similar software should be planned for the Taluk Panchayats and Zilla Panchayats.
- There is a need to initiate more capacity building programmes for the functionaries of the gram panchayats especially for bill collectors who play a crucial role in resource mobilisation efforts.
- The capacity building programmes should also be extended to other functionaries like nodal officers of Jamabandi exercise, auditors of the State Accounts Department and Chartered Accountants and their staff where they have been involved in the double entry accounting system.

This would go a long way in overcoming the problems in the data set discussed in the limitations of the study.

- Double Entry Accounting System has been put in place at the Gram Panchayat Level. The hand holding support provided to the Gram Panchayats by the Chartered Accountants needs to be streamlined with a proviso that CA firms need to provide all the services envisaged strictly adhering to the agreement. There is also a need to put some restriction clauses in the payment for the services not rendered by these agencies as per the terms of reference.
- The Double Entry Accounting System exercise needs to be undertaken at the Taluk Panchayat and Zilla Panchayat also in order to ensure that all the three tiers of PRIs are operating under the same set of accounting rules.
- The State Government has recently constituted the Task Force to monitor the implementation of the SFC recommendations. The members of the SFC have been made the members of this Task Force. Such a Task Force could monitor the Decentralisation related issues both functional and fiscal issues in an effective manner. The task force could monitor such issues both for rural and urban local bodies.
- The Decentralisation Analysis Cell needs to be expanded with a mandate to monitor the functioning of the Gram Panchayats as per the provisions of the Karnataka Panchayat Raj Act by using the formats designed under the PEAIS (Panchayat Empowerment Assistance and Incentive Scheme) and keep a track on the changes that are taking place in the PRIs both functionally as well as financially.

At a more fundamental level several problems arise principally because the centrality of the Panchayat system is yet to take root. By way of comparison there is a need to draw attention to the place occupied in the 50s and 60s of the past century by the planning process and therefore the Planning Commission. Such a situation does not exist with respect to panchayats and this perhaps explains the needless proliferation of parallel organizations and agencies. However there is a need to keep addressing issues related to PRIs through better monitoring and supervisory mechanisms without harming the autonomy of these bodies as enshrined in the Constitution. It is here that the Decentralisation Analysis Cell could play an important role by addressing the issues raised in this study.

1. Introduction

An event of almost epochal importance in the recent history of local government institutions in India is the enactment of the 73rd and 74th Constitutional amendments. In the main these acts conferred upon Panchayat Raj Institutions/PRIs and Urban Local Bodies/ULBs constitutional status for which a demand had been being articulated for several decades. In fact historically the demand was first advocated in independent India in the Constituent Assembly (for a detailed discussion see Natraj et al 2006). The principal concern of this paper is with PRIs. What the constitutional amendment did was to enable them to enjoy a sense of legitimacy and authority that was lacking earlier. Perhaps the most important contribution it has made is to stipulate by law that elections are held once in five years. Again this does not guarantee that in practice this is followed but since the law mandates it there is always the prospect of approaching the judiciary seeking enforcement of the provision. Further the fact that the judiciary is now demonstrably activist makes the position of PRIs potentially strong. The important features of the Constitution as it stands now in respect of PRIs may be summarized as under:

- Panchayats are recognised as "institutions of local self-government"
- The Constitution specifically mandates that they shall be constituted at the district, intermediate and village levels in every state (with an exemption for the second tier in states with a population of less than twenty lakhs)
- A mandatory quinquennial State Finance Commission
- Panchayats may be endowed with power to levy taxes
- Reservation for women, Scheduled Castes and Scheduled Tribes
- Elections every five years

In many states panchayats under the post-73rd amendment Act more than one term has been completed by the PRIs. Some of the states are at the threshold of conducting the next round of elections to the panchayats and some have recently completed the elections. The State Finance Commissions in most states have submitted reports to the respective state governments. The state governments except in some states have already taken action on these reports. Theoretically and to an appreciable degree the process of functional and financial devolution to panchayats has gained momentum.

Karnataka Scenario:

Karnataka is often cited as an important example of a pro-decentralisation state. This is mainly due to the earlier legislation passed by the state during 1983 which was regarded as a landmark step. After the 73^{rd} Amendment to the Constitution, Karnataka was the first State to pass the Karnataka Panchayat Raj Act, 1993, as per the 73^{rd} Amendment and conducted elections to gram panchayats in December that year. This was the beginning of a full-fledged three-tier system of panchayat raj in Karnataka, making use of the 11th Schedule in the Constitution to decentralise power and functions to panchayat raj bodies at all the three levels.

The Karnataka Panchayat Raj Act, 1993 provides for three tier structure of PRIs – Zilla Panchayats at district level, Taluk Panchayat at intermediate level and Gram Panchayat at village level. The other salient features are providing reservation for women, Other Backward Classes and Scheduled Castes and Scheduled Tribes. This reservation applies not only to election of members but also to the election of office-bearers or chairpersons of these institutions. The gram sabhas and the ward sabhas in Karnataka are the soul of panchayat raj and the idea is to progressively strengthen their functioning to ensure full participation of the people and accountability.

Karnataka has been a pioneering state in nurturing PRIs. Prior to the 73^{rd} amendment to the Constitution, Karnataka had put in place a unique two-tier system of decentralized local governance, through the Zilla Parishads and Mandal Panchayats. In the wake of the 73^{rd} Amendment, which nationally institutionalized Panchayat Raj as a distinct tier of Governance, Karnataka was the first state in the country to enact the Karnataka Panchayat Raj Act, on May 10, 1993 within a few days of the 73^{rd} Constitution Amendment being adopted. The last elections to the three tiers of panchayat raj institutions have been completed during 2010. Politically, there is a broad consensus in favour of decentralisation that finds a place in the ideologies of all political parties in the State.

Aims and Objectives

The principal aim of the study is to assess the fiscal performance of PRIs in Karnataka over a period of four financial years starting from 2005-06. The study is based on the secondary data that was made available by the DAC. Based on the discussions with the officials of DAC it has been specifically broken down into specific objectives as listed below.

Objectives

1. Nature of Panchayat Finances: Although the powers of the PRIs are virtually determined by the Constitutional scheme under Part IX of the Constitution the precise position as it obtains in Karnataka has to be delineated. Under this head we shall concern ourselves with the powers of taxation of GPs, the admittedly limited powers of TPs to raise resources etc. Against this backdrop at the end of the study suggestions may be made for strengthening the revenue-raising capacity of the different tiers of PRIs. Time permitting some lessons may be drawn from other states two of which have been studied by some members of the present team a few years ago.
2. Analysis of income and expenditure of PRIs. In relation to this it has to be noted that the autonomy available to PRIs is severely limited even in respect of expenditure. In fact autonomy in expenditure can be used as one of the important tests of the freedom and powers enjoyed by Panchayats. This must include an inquiry into the degree to which the available autonomy has been utilized by Karnataka PRIs. There are important areas of inquiry here such as what GPs utilize their resources for and the influences that determine expenditure decisions.
3. Next comes the effort made by PRIs to raise resources despite the constraints under which they have to operate. An interesting dimension would be the extent to which taxation (by GPs) is influenced by the degree to which other sources of revenue are available. For instance whether a GP which has access to ready revenue from, say, rental incomes, is less energetic about raising tax revenue? An earlier study in MIDS showed some evidence to this effect. This will help focus attention on the Own Resources mobilized by PRIs.
4. Related to this is the issue of differences among GPs with respect to revenue raising efforts and patterns of expenditure.
5. An overarching concern will be the general level of financial decentralization in Karnataka.
6. Based upon the analysis described above the study will offer suggestions for improving the financial health and performance of Panchayats in the state.

Methodology and Area of study:

Gram Panchayat-wise secondary data on income and expenditure for the years 2005-06 to 2008-09 and the socio-economic profile of panchayats as on 2005 has been made available to the Study Team by the DAC. Similarly secondary data on income and expenditure of TPs and ZPs has also been made available. Apart from this the Team also had discussions with the elected representatives and officials at the Gram Panchayat level that was essential to capture the nuances of fiscal decentralization. A primary survey was also conducted in the districts – Bidar, Dharwad, Udupi, Gulbarga, Ramanagara and Chamaraja Nagar districts, to capture the effectiveness of the functioning of the Gram Panchayats. The information on the functioning of GPs as per the provision of the Karnataka Panchayat Raj Act was collected by the field investigators in at least 10 Gram Panchayats in each of the districts. This was done through a structured questionnaire.

An effort has also been made to capture the comparative perspectives on the fiscal related issues from the states of West Bengal and Tamilnadu.

Sample Size

The district-wise number of Gram Panchayats covered in the study is as follows:

Name of the District	No. of Gram Panchayats	Percentage
Bagalkote	88	1.93
Bangalore Rural	90	1.97
Bangalore Urban	63	1.38
Belgaum	450	9.86
Bellary	106	2.32
Bidar	135	2.96
Bijapur	97	2.12
Chamaraja Nagara	109	2.39
Chik Ballapur	103	2.26
Chikmagalur	223	4.88
Chitradurga	138	3.02
Dakshina Kannada	177	3.88
Davanagere	227	4.97
Dharwar	120	2.63
Gadag	47	1.03
Gulbarga	194	4.25

Hassan	186	4.07
Haveri	98	2.15
Kodagu	96	2.10
Kolar	141	3.09
Koppal	104	2.28
Mandya	224	4.91
Mysore	186	4.07
Raichur	39	0.85
Ramanagaram	125	2.74
Shimoga	254	5.56
Tumkur	299	6.55
Udupi	146	3.20
Uttara Kannada	200	4.38
Yadgir	101	2.21
Total	**4566**	**100.00**

Distribution of the Gram Panchayats across categories of taluks identified by D.M.Nanjundappa Committee is as follows:

Type of Taluk	**No. of Gram Panchayats**	**Percentage**
Most Backward	1097	24.03
More Backward	988	21.64
Backward	833	18.24
Relatively Developed	1648	36.09
Total	**4566**	**100.00**

Limitations of the study:

The major limitations of the study follows from the limitations of the data made available to the Institute. The data on Statutory Grants provided under Section 206 of KPR Act far exceeds the amount stipulated/mandated by the Government. It is possible that grants released for other purposes or development activities have also been included in this. It appears that in some cases this amount has been given after deductions made towards the payment of electricity dues and in other cases it is not. This discrepancy makes it difficult for analyzing the fiscal health of gram panchayats and also their responsibility in discharging basic duties assigned to them. The state has been deducting the electricity dues from this grant and the same is not properly reflected in the data. Similarly the data set does not include the demand, collection and balance statement on the resource mobilisation by the gram panchayats. The same would have helped in clear assessment of the fiscal performance of the panchayats. Another major problem that the panchayats in the state are facing is payment of salary to the panchayat staff. The data on this is clubbed with other heads under general administration and this would again lead to difficulties in analyzing the data. The fiscal performance to study the surplus and deficit status of Gram Panchayats across different categories of Taluks could not be undertaken because of the above limitations. A note on the Fiscal data set provided by the containing the details are enclosed in Annexure 1.

2. Devolution of Powers – Constitutional Provisions

In contemporary analysis of devolution reference is frequently made to the three Fs, namely, functions, finances and functionaries, more precisely their devolution to PRIs. One of the tests of devolution is the degree of autonomy with which these three components are made available to PRIs. By implication the success of decentralization is thought to be dependent on whether PRIs have access to adequate resources as well as the staff who are required to carry out the functions assigned to each tier in the system. Also considered is the specificity in the delegation of functions to Panchayats. Before taking up the detailed discussion of the issues mentioned above it is necessary to describe the constitutional position which will serve as a useful background to the study.

The relevant Articles are 243(G) and 243(H). The former states as follows:

"Subject to the provisions of this Constitution the legislature of a state may, by law endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon panchayats, at the appropriate level, subject to such conditions as may be specified therein, with respect to –

a) the preparation of plans for economic development and social justice,
b) The implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.

Article 243 (H) reads as follows:

"The legislature of a state may, by law-

a) authorize a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
b) assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State government for such purposes and subject to such conditions and limits;
c) provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State and;
d) Provide for constitution of such funds by crediting all moneys received respectively, by or on behalf of the Panchayats and also for the withdrawal of such moneys there from, as may be specified in the law."

In addition Art.243(I) makes it incumbent upon states to constitute a quinquennial Finance Commission to review the financial position of the Panchayats and "to make recommendations to the Governor as to –

a) the principles which should govern

i) the distribution between the State and the Panchayats of the net proceeds of taxes, duties, tolls and fees leviable by the State, which *may be divided between them under this part* and the allocation between the Panchayats at all levels of their respective shares of such proceeds;

ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Panchayats;

iii) the grant-in aid to the Panchayats from the Consolidated Fund of the State;

b) the measures needed to improve the financial position of the Panchayats;

c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats"

In a broad sense this is similar to the quinquennial Finance Commission that the President has to constitute for determining the sharing of revenue between the Centre and the States. There are, however, some differences. Consider Art 280 which mandates the constitution of the Finance Commission by the President. It states, *inter alia*, as follows:

> "It shall be the duty of the Commission to make recommendations to the President as to—
>
> a) the distribution between the Union and the States of the net proceeds of taxes *which are to be, or may be, divided between them,* under this chapter"

In contrast the Commission constituted under Art 243(I) is to concern itself only with the proceeds of taxes etc "*which may be divided between the States and Panchayats".* This results from the fact that the Constitution does not provide for taxes etc which are to be compulsorily shared between the States and Panchayats while this is provided for between the Union and the States. For instance, until the eightieth amendment to the Constitution came into effect retrospectively from 1996 the proceeds of income tax were compulsorily shared between union and states while the proceeds of union excise duties were permissively shared. In other words there is a qualitative difference in the scope of the two Finance Commissions. This is notwithstanding the fact that after the eightieth amendment the distinction between compulsorily and permissively shared taxes in the divisible pool has virtually disappeared. The reason for this statement is that even at this point of time the Constitution does not specify which taxes, tolls, fees etc are to be mandatorily shared by the states with Panchayats. It may be noted that the National Commission to Review the Working of the Constitution has not suggested any major overhaul in financial relations between the union and the states or between the latter and Panchayats.

There is another difference between the Finance Commissions under Articles 243 (I) and 280. Both are to be constituted quinquennially but in respect of the latter the relevant Article contains the following proviso:

> "The President shall within two years from the commencement of this constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute the Finance Commission---- ".

In contrast the former Article is content to state as follows:

> "The Governor of a State shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) and thereafter at the expiration of every fifth year, constitute a Finance Commission …"

What is missing here is the enabling provision for the Governor to constitute the Commission earlier than at the expiration of five years. The Eleventh Finance Commission felt it advisable that the two Commissions should function coterminously [EFC Report]. For this purpose the Commission suggested an appropriate amendment to the Constitution. Further it suggested that the state governments should place before the legislature an Action Taken Report within six months. However some authorities on devolution argue that nothing in the Constitution prevents the Governor from constituting the Finance Commission earlier than the specified period of five years. Be that as it may there is sound logic to the recommendation of synchronizing the two Commissions. As for the requirement that the ATR should be placed before the legislature within a period of six months, it may be noted that there is no such stipulation in the case of the Commission under Art.280.

The discussion will be incomplete without reference to another set of factors which impinge, and do so adversely at that, on financial devolution. Almost on the heels of the 73rd Amendment [December 1993, exactly one year after the 73rd amendment bill was approved by parliament], the union government proposed a scheme under which members of Parliament would be entitled to a constituency grant or more correctly the Members of Parliament Local Area Development Fund/MPLAD. Several state governments have followed suit by giving a similar though smaller grant to members of the legislature. This ought to be seen as cutting at the root of financial devolution. Apart from this the gross abuse of the scheme for purposes expressly prohibited, underutilization of funds, and scant attention to financial propriety have all been analysed recently by Era Sezhiyan, himself a former member of Parliament. [2005]. It also needs to be taken into the reckoning that these development grants are generally utilized without reference to the PRI concerned, there is the complaint from elected representatives at the latter level that they are forced to incur expenditure on maintaining amenities etc that have been constructed without reference to them or to their needs. Further, in states like Karnataka there is the existence of boards and corporations which in a sense duplicate the work of PRIs, indeed it is the case that they also affect the primacy and centrality of PRIs which was the stated objective of conferring on them constitutional status. To this may be added that there are other forms of interference in the autonomy of PRIs such as minister in charge of a district as also a secretary in the secretariat who is designated Secretary in-charge of a district.

Macro-level trends in Financial Devolution:

The main macro trends in relation to financial devolution are described below. Nearly 94 per cent of the own revenues of PRIs comes from village panchayats. This is illustrative of the importance of this tier. Proceeding to the place of local bodies, rural as well as urban, in the federal structure of public finance we notice the following. The total expenditure of local bodies as a percentage of the combined expenditure of union, states and local bodies is a mere 4.7 per cent. “This is the best measure of expenditure decentralisation and it shows how negligible has been local finance in the fiscal structure of India” (M.A.Oommen, 2005). Given the differences in performance across states it is all too likely that in some laggard states the share of local bodies in total expenditure is even less than 4.7 per cent. Further, the tax revenue of local bodies as a percentage of the combined tax revenue of states and local bodies is just 1.6 per cent. This, it will be seen, is less than the figure for expenditure decentralisation. As a percentage of GDP the tax revenue of local bodies is only 0.26 per cent.

In the debates on the 73rd amendment in parliament there was not much discussion on the financial devolution envisaged. It would appear that in the euphoria generated by the prospect of a third tier of governance practically all parties were content not to get involved in details. One result of the 73rd amendment was that Art 280 of the Constitution had to be amended to include provisions that would deal with the consequences of the constitution of state finance commissions. The Article in question now contains specific references to “the measures needed to augment the

Consolidated Fund of a State to supplement the resources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State".

The Constitution envisages Panchayats as "units of self-government". However, it is up to the States to devolve upon them the powers required to perform this role. We have observed the subtle but, in our view, important differences between the Finance Commissions under Articles 243 (I) and 280. In a somewhat similar fashion the Constitution contains appreciably little by way of specifying which powers the states are to devolve upon Panchayats. As an illustration we may consider the Eleventh Schedule of the Constitution. This contains 29 subjects that the states may devolve upon Panchayats. However, this is at the discretion of the states since the relevant Article employs the expression *may*. There is no firm statement enjoining the states to devolve powers, much less are the powers specified. A further problem relates to the precise areas of operation of the different tiers. Taking Karnataka as an example there was until recently no demarcation of the spheres of the three tiers in relation to the subjects enumerated. Recently the state government has brought out an activity map, which may answer this requirement. In passing we may compare the provision discussed above with the phraseology of Arts.243D dealing with reservations and 243E which deals with elections. The language in these Articles is expressly mandatory.

Taxation issues:

All state governments have conferred powers of taxation only on the lowest rung of the ladder, namely, the Village Panchayat. The Constitution does not preclude this power from being given to the other higher tiers. This raises several questions. The fundamental point is that in terms of a taxable base the lowest rung hardly qualifies to be a taxing centre. It is arguably the least viable in view of the relatively low volume of transactions as well as the openness of the system. Also it runs counter to what we see in respect of the Union-State matrix. There the complaint of the states is that the more elastic sources of taxes are the preserve of the Union and the literature on this is formidable. We may comment on the fact that it is only by dint of the eightieth amendment to the Constitution that the distinction between compulsorily shared and permissively shared taxes was done away with but even to this day the Union appropriates to itself all revenues accruing by way of surcharge on income and other taxes [Art. 270]. It is worth speculating on the reasons for the states, by unspoken agreement as it were, to restrict the power of taxation only to the lowest tier. A proposition frequently advanced is that proximity to the taxed is likely to act as a deterrent to the levy and collection of tax, yet we find that the reverse is being practiced. We wish to draw attention to the fact that the Union-state and state-Panchayat financial devolution scenarios appear to present quite opposite pictures. In order to further the analysis we offer two explanations as to why this may be so though we recognise that they appear not to work in tandem.

One explanation is that the states do not wish to create a competing source of power, which is likely to emerge if district Panchayats, for instance, were to be endowed with powers of taxation. Indeed one of the first evidences in this behalf is what the then state of Madras did way back in 1958 when District Panchayats were abolished. If the level immediately below the state, namely, the district level body, were to be 'empowered' it would be in a position to seek more politico-administrative power. It is obvious that the states are not inclined to part with more power than is strictly required, indeed much of the available evidence attests to this quite strongly. The second explanation is that the states as well as higher-level PRIs are understandably willing to let the lowest rung bear the burden of unpopularity that may result from taxation. Incidentally neither in Karnataka nor Tamilnadu was this issue deliberated upon with any measure of seriousness when the conformity legislation was passed. The position was no different in West Bengal. As between these two explanations it would appear to us that the threat of an alternate and competing centre of power is the more acceptable. In support we point out later how the then chief Minister of Tamilnadu, MGR, as a member of the Ashok Mehta committee dissented from the majority with respect to an elected district level body. Further there is evidence in Karnataka of rivalry developing between the state (legislature) and Panchayat levels. This is apart from inter-tier rivalry and competition.

There is no state in India where any unit other than the village panchayat has been endowed with meaningful taxation powers. Also in the three states being examined in this study there is a remarkable similarity in terms of taxes raised at the level of the village panchayat. And this is quite likely true at the all India level also. In all three states it is house tax which is really the most important source of tax revenue at the village level. In spite of this in Tamilnadu for instance house tax averages just over 5% of the revenue of village panchayats. It will also be readily appreciated that in the very nature of things house tax cannot be very steep. The area and quality of buildings being what they are in villages, high rates of taxation would not be feasible. Although the expression commonly used is house tax it is actually a tax on buildings and lands. It also needs to be added that in all three states the village panchayat is mandated to levy a house tax. Tamilnadu and Karnataka provide for incentives to village panchayats in the collection of house tax. In West Bengal, the First SFC suggested certain incentive schemes for the local bodies to encourage them for the augmentation of their own incomes. It spelt out that since 1995-96, the GP which raised its own income by 5 per cent or more in a financial year would be rewarded with an incentive from the district level incentive fund. Following the same pattern the ZP and the Panchayat Samiti would be rewarded as well. Simultaneously, it recommended creation of a common incentive pool for the Municipalities and Panchayats in a district by setting aside two percent of the total entitlement due to the district in a year. This incentive mechanism however has not resulted in any major increase in the resource mobilization by the panchayats.

Co*mparative Analysis*

In relation to the principal issues delineated above we present a comparative analysis, admittedly brief, of Karnataka, Tamilnadu and West Bengal. We believe that this comparison will help the importance of the issues germane to the discussion.

The first point to note is that in all three states it is only the Village Panchayat, which is endowed with the power to tax. Suffice it to add that this power being devolved upon the unit with the least taxable capacity runs counter to some recognised norms in the field of public economics. However the fact remains that in many senses the least viable body alone is empowered to tax. Secondly, it is generally agreed that certain policy measures inclusive of taxation are better administered when the unit of governance is at some distance from the electorate. We have already offered some explanations for this phenomenon of the lowest rung being empowered to levy tax. To this may be added the following.

This power being devolved upon the panchayats with the least taxable capacity runs counter to some recognised norms in the field of public economics. One of them is the following. "In most countries, the Constitution provides for a much greater degree of decentralisation and expenditure responsibilities than the power to raise resources. The reason for this asymmetry, as we know, is that while expenditure decentralisation is both desirable and feasible, efficiency considerations lead to a considerable degree of centralisation of taxing powers. (The fact that the basis of important taxes is mobile and that the centre can more efficiently collect taxes with nationwide basis are the main considerations) The limits of decentralisation of taxing powers along with substantial decentralisation of spending responsibilities creates the familiar problem of vertical fiscal gap" (Raja Chelliah, 2005). Secondly, it is generally agreed that certain policy measures inclusive of taxation are better administered when the unit of governance is at some distance from the electorate. For, proximity to electors may act as an inhibiting factor in the levy and collection of taxes. In this context we may make reference to the statement of a former chief minister of

Karnataka who stated that since village panchayats are closer to the people they would be in a better position to levy and collect taxes. This statement was made in the context of demands from Zilla panchayats to secure powers of taxation. As argued earlier the reluctance of state governments to confer powers of taxation on Zilla Panchayats is more probably a reflection of the apprehension that this would enable these units to become a countervailing force to state governments. We would also like to draw attention to the fact that in all the three states Karnataka, Tamilnadu and West Bengal, the debates in the legislature spent precious little time on the devolution of financial powers to PRIs.

Comparative Picture of States:

The important findings of the study based on the situation in the three states can be summarized as follows:

- Sources of revenue of the panchayats in the three states are described in ***Annexure 3***. In all the states the Gram /Village panchayats have been given powers of taxation. Roughly the sources of revenue of village panchayats are the following:

    - taxes, fees, tolls, cesses etc
    - tied and untied grants from union and state governments.
    - devolution from Finance Commissions – both Union and State
    - public contribution to various development programmes [This is being made mandatory in respect of several programmes]

- The most important source of tax revenue is house tax; technically it is a tax leviable on land and buildings. It is mandatory for the Panchayat to levy house tax. Also the respective Acts prescribe the scale and specify the exemptions. In Tamilnadu the government makes a matching grant. Until fairly recently, the state government used to give an incentive grant of 300 per cent to panchayats where the house tax collection was 100 per cent. However, following complaints that some panchayat presidents themselves contributed any shortfall, this was modified to 125 per cent as a standard incentive. It is learnt that the state government is in the process of modifying this also. Karnataka has a somewhat similar provision but West Bengal does not. In Karnataka recently detailed guidelines have been issued on classification of all buildings and lands and the Gram Panchayats have been given powers to adopt the ARV and to finalise the percentage of tax on ARV to be levied in its limits.

In addition to house tax the following are important taxes in the three states.

Tax on advertisements/hoardings is mandatory in Tamilnadu and optional in Karnataka and finds no mention in West Bengal

Duty on transfer of property: a surcharge at prescribed rates is mandatory in Tamilnadu and West Bengal, it is not provided for in Karnataka but the surcharge is levied and collected by government and the proceeds shared with the Taluk Panchayats. . Stamp duty on admission to any form of entertainment at prescribed rates is mandatory in West Bengal, optional in Karnataka except that cinema is an exempted category and not provided for in Tamilnadu

Tax on profession/trade/calling is mandatory in Tamilnadu, the tax is actually levied by the state government and collected and appropriated by the village panchayats. Such a proviso does not exist in West Bengal and Karnataka. In certain panchayats in Tamilnadu the profession tax is almost twice as important as house tax but obviously this depends upon the number of taxable units available within the area of a panchayat. In some cases there appears to be an inverse relationship between collection of house tax and the proceeds from profession tax. In the case of the latter collection is at source and therefore the panchayat does not have to make any special effort to collect this tax and the VP is not the levying authority whereas house tax is both levied and collected by the village panchayat. Therefore a house tax involves both a certain amount of political risk and administrative effort.

- Tax *qua* tax it is house tax that dominates the financial picture in all the three states. In all three the Village Panchayat has to levy house tax—S 199 in Karnataka, Sections 171 and 172 in Tamilnadu and S 46 in West Bengal. In all three the rate is prescribed under the respective acts. Exemptions are also specified. Also all three provide for taxes on lands. Tamilnadu has a provision for local cess charged on land revenue payable but the other two have no such provision.

    - All three states list a large number of taxes/fees etc which may be levied by the Panchayat. These include:

Water rates, market fees, registration of cattle for sale, vehicles other than motor cars with exceptions but in Tamilnadu this power was taken away by an amendment enacted in 1999, seignorage fees collected by government for quarrying for road material (only in Tamilnadu).

- Both Karnataka and West Bengal authorize PRIs at all levels to raise loans or form a sinking fund but with the difference that in the former permission of government is required whereas West Bengal has no such stipulation. Tamilnadu does not contain this provision.

3. Major SFC Recommendations

In all three states two SFCs have made recommendations and in Tamilnadu and Karnataka the third one has also been constituted. The important recommendations of the State Finance Commissions in Karnataka, Tamilnadu and West Bengal are briefly discussed here. A summary highlighting the crucial recommendations are as follows:

State Finance Commission Recommendations - *Tamil Nadu*

First State Finance Commission

Tamil Nadu Government follows the principle of global sharing transmitting across the broad buoyancy instead of shared individual taxes. This makes the level of devolution more predictable since the total revenues do not fluctuate as much as proceeds from each tax item. The major recommendations including the financial devolution were accepted and implemented by the State Government. The funds devolved to the local bodies have been grouped by the State Finance Commission under two headings viz Pool –A and Pool-B.

Under **Pool A,** assigned revenue from surcharge on stamp duty, Local Cess, Local Cess Surcharge and 90 per cent of the entertainment tax based on place of origin of the tax is distributed to the Rural Local Bodies.

Pool B (Global Sharing), the State Finance Commission has grouped all the State taxes except entertainment tax and has recommended that 8 % of this should be shared with the local bodies in 1997-98. State government is devolving only 8 per cent of its revenue mobilized from state own tax revenue to local bodies.

Out of 100 per cent global sharing prescribed under Pool B for each year, 15 per cent shall be set apart as Reserve, Equalisation and Incentive Funds, remaining 85 per cent is shared among the rural and urban local bodies at the ration of 55:45. The 55 % allocated to the rural local bodies were shared between Village Panchayats, Panchayat Unions and District Panchayats.

Allocation between rural local bodies is shared between Village Panchayats, Panchayat Union and District Panchayats in the ratio of 47:45: 8.

The Equalisation and Incentive Grant is shared at the ratio of 60:40 among the rural and urban local bodies. The Equalisation and Incentive Grant is unique in the sense that financial and infrastructurally weak local bodies are assisted to bring about an equitable development. Therefore, it also extended to areas prone to natural calamities.

In 1999-2000 the ***Equalisation and Incentive Grant*** were distributed to the Village Panchayats and Panchayat Unions on the basis of the following purposes.

- Payment towards electricity charges by weaker Village Panchayats
- Creation of infrastructure facilities in less development Panchayats
- For Weaker Panchayat Union which could not meet the administrative expenses.
- Repair of 2000 Noon Meal centers
- Incentives for collection of House Tax
- Incentives for Village Panchayats which are maintaining common community, burial and burning ground for use of all communities.
- Awards for best performing Village Panchayats, Panchayat Unions and District Panchayats.

Further House Tax matching incentive is extended to the Village Panchayats at the rate of Rs.2 for every one rupee of house tax collected. It may be emphasized that these transfers are being done without transferring the cost of the Government Employees to the local bodies under Rural Development Department and other key sector Departments.

20 per cent of the SFC devolution to the Gram Panchayats has been reserved for capital works.

Apart from State Finance Commission (SFC) devolution, various plan, non-plan and discretionary grants and government loans etc are transferred from State government to local bodies every year.

Non plan discretionary grants to the local bodies in Tamilnadu are, maternity grants, social education grants, etc and plan grants such as *Anna Marumalarchi Thittam, Namakku Name Thittam*, Golden Jubilee water supply scheme grants to agency functions, schemes relating to Panchayat raj institutions etc., These funds are passed on to the local bodies outside the devolution package recommended by the SFC.

Second State Finance Commission (SSFC)

SSFC recommended a change in the Pool-B as follows. "The Commission recommends that the approach of global sharing is the proper mechanism for devolution from State to local bodies. The percentages of global sharing from out of SOTR after excluding Entertainment Tax shall be as under:

2002-03 8%

2003-04 8%

2004-05 9%

2005-06 9%

2006-07 10%".

But the state government keeping the SFC grants as 8 % only.

Karnataka

In Karnataka the second state finance commission submitted its report during December 2003. The commission was asked to determine the total share of PRIs and ULBs in the revenue of the State Government. It had to suggest the principles governing the allocation of the revenue among the three tiers of PRIs and among the ULBs. It recommended the system of devolution of funds based on "Non-Loan Gross Own Revenue Receipts" [NLGORR] of the state. The NLGORR includes all taxes levied and collected by the State Government, interest receipts, all duties, fees and other non-loan non tax receipts levied and collected by the state. This concept has already been accepted by the state government on the recommendation of the First State Finance Commission.

The Second State Finance Commission has taken note of what has been released as devolution of funds to PRIs and ULBs during the last five years. As against 36 per cent of NLGORR recommended by the First State Finance Commission as the share of PRIs and ULBs, the commission has recommended that this share should be increased to 40 per cent of NLGORR of the State Government.

The devolution of funds is based the indicators – population, area and index of backwardness which consists of illiteracy rate, proportion of SC and ST population and population per bed in Government hospitals. The commission also examined the feasibility of including the population below the poverty line and per capita income as indicators. However, due to limitations in the availability of the data for a divide between rural and urban areas, the indicators could not be used.

Share of PRIs

As against the allocation of 30.6 per cent to PRIs and 5.4 per cent to ULBs out of the NLGORR of the State as recommended by the First SFC, the Second SFC recommended 32 per cent [i.e. 80 per cent of 40 per cent of NLGORR] should go to PRIs and 8 per cent to ULBs.

The devolution scheme recommended by the First SFC in the ration of 40:35:25 to ZPs, TPs and GPs was not accepted by the state government. The second SFC has decided that the divide between the plan and non-plan allocation has to be recognized and taken into account in the context of the following ground realities:

1. Zilla Panchayats and Taluk Panchayats do not have their own source of revenue
2. Major allocation under non-plan has to be sustained

The second SFC decided to keep the allocation under non-plan intact and decided to apply the same only of plan funds. Accordingly the commission decided that 65 per cent of plan funds should go to ZPs and 35 per cent to TPs.

As far as GPs are concerned a fixed amount is being realized as untied each year by the state government The commission recommended the same to be continued. Therefore, the application of indicators and weightages is not resorted to in respect of GPs. The state should provide a uniform rate of block grants with an incremental increase every year. In the first year, the allocation should be Rs.3.5 lakhs and in the subsequent four years it should be increased at the rate of Rs. 25000 every year. The State Government has already accepted this recommendation and an order allocating Rs.5 lakhs to each of the GPs in the state were issued.

West Bengal

The First State Finance Commission recommended that entitlements to local bodies will be financed by sharing of taxes. (LBs are left with the most inelastic and trivial sources of taxation). In lieu of sharing individual taxes, the Commission suggested that 16 percent of the net proceeds of all tax collected by the State in a year should be transferred to local bodies. These will be untied funds at the disposal of the local bodies. As far as the distribution of entitlement funds among the PRIs is concerned, The First Finance Commission recommended the following norms. Of the total entitlements going to Panchayats the proportional allocations between three tiers are: ZP 30 percent, all PSs together 20 percent, and all GPs together 50 percent.

In compliance to the constitutional provisions of the Articles 243(I) and 243(Y), the First State Commission (SFC) was formed in West Bengal in May; 1994.The Commission submitted its report to the State Government in November, 1995. It was entrusted with the onus of determining the principles of resource distribution between the State and the local self-governments (LSGs) as well as to suggest the means of own resource mobilization of these LSGs.

The First SFC identified the following sources of revenue of the districts-

1. Plan grants/funds.

2. Non-plan grants /funds.

District plan grants can be divided into two parts according to the Commission

1) grants i.e., tied grants which are sponsored by the Central and State governments. It is obligatory for the State to match its grants with that of the proportion of devolved Central grants.

2) Entitlements in the form of untied grants which are devolved down by the State. Besides, the State should have adequate funds to meet the special needs of some areas of the districts. On this ground of special needs, the State distributes funds between the LSGs in accordance to its discretion.

The three tiers of panchayat, namely, Zilla Parishad (ZP), Panchayat Samiti (PS) and Gram Panchayat (GP), and Municipalities have three sources of revenue-grants (tied), entitlements (untied) and own income including donations.

1. Grants-these are financed by both the Central and State governments. This apart, GPs receive tied grants from ZP and PS to discharge tasks assigned to the former by the latter.

2. Entitlements-untied grants provided by the State to the LSGs.

3. Own income including donations-own mobilized resources of the LSGs and voluntary contributions from the local residents.

Devolution of taxes

The First SFC emphasized the following with regard to taxation-

1. Instead of collection of entertainment tax by the State government, LSGs should collect it.

2. ZPs should collect the irrigation charges.

3. Urban land tax and multi-storied building tax should be transferred to Calcutta Municipal Corporation.

Entitlements

The Commission recommended transfer of 16 percent of net collected taxes of the State in a year to the LSGs as entitlements. Further, it opined in favour of freedom of the LSGs in utilizing these untied grants in accordance to the priorities of development work to be determined by themselves.

Second State Finance Commission

The Second SFC was formed in July 2000.Several new recommendations were made by it. These were as follows-

Entitlements

- Rs 700 crores allocation in State budget as entitlements.
- The entitlement share of GPs, PSs and ZP will be 60, 20 and 20 percent respectively.
- ZPs and PSs should allocate a part of their untied grants to the villages struck by calamities and suffer from inaccessibility problem.
- LSGs in the hilly regions are to be provided an additional 0.04 percent of the total state taxes to be met out of entitlement fund.

Instead of adhering to First SFC's recommendation of devolving funds, the State government allotted a part of the plan fund from different departmental budgets to the LSGs as lump sum grants-in-aid.

Incentives

First SFC's recommendation of forming a district level incentive fund was replaced by its recommendation of State level incentive fund. It is to be constituted of 2 percent of total (16 %) untied fund.

Devolution of taxes

In the observation of the Second SFC, the State has devolved the power of collection of almost the entire amount of entertainment tax to the LSGs in line of the First SFC's recommendations. But the recommendations of assigning this tax to the LSGs and empowering them with discretionary powers for rate fixation have not been put into practice. With respect to this matter, the Second SFC opined that the arrangement of sharing the entertainment tax with the LSGs may be continued but the recommendations of the First SFC should be modified to that extent.

LSGs should be given the powers of collecting land revenue and cesses.

Own income of the LSGs

The Commission suggested mobilization of unutilized resources like land, water bodies, livestock, trees etc for both income generation and employment creation.

One feature of the SFCs is that in Tamilnadu the Commission is headed by a civil servant which is not the case in the other states. However, the second SFC in Karnataka was headed by a politician who expired while the Commission was still at work and thereupon the chairmanship was passed on to a civil servant who was a member.

In Tamilnadu 8 per cent of the net own tax revenue of the state is assigned to the local bodies even though the second SFC had recommended 10 per cent to be transferred by the end of 2006-07. In West Bengal it is 16 per cent of the net tax revenue of the state. This was recommended by the first SFC and endorsed by the second Commission also. In Karnataka the first SFC had recommended 36 per cent of the NLGORR(Non-Loan Gross Own Revenue Receipts) to be transferred to the local bodies and the second Commission has increased this to 40 per cent. Also in Karnataka the second SFC had recommended a statutory grant of Rs 3.5 lakhs to every Gram Panchayat to be increased by Rs.25000 annually over the next five years. However the state government has raised this amount to 6 lakhs per annum.

The Third State Finance Commission constituted by the Karnataka Government has already submitted its report. The committee has recommended that 33 per cent of Net Own Revenue Receipts of state should be distributed to PRIs, the relative share of Rural and Urban Local bodies being 70:30. The Commission has also suggested that the Statutory Development Grants to the Gram Panchayats be distributed ranging from Rs. 9 lakhs to Rs.15 lakhs which is based on weightage to population. It has also suggested additional grants to the relatively backward Gram Panchayats.

4. Overview of PRI Finances – At State level

In this Part, an overview of the PRI finances specially with respect to the Zilla and Taluk panchayats are analysed apart from the discussions on the inter governmental transfer of resources. In a sense, a time-series analysis (over a period of time) of fiscal data – basically drawn from secondary sources has been done to see how the allocation of funds to PRIs has been done over the years. From a fiscal decentralization perspective, the under lying aim is to provide a broad idea on the transfers of funds to rural local bodies that might be helpful to the policy makers at the state level who would like to track rural local government finances and to evaluate the different policy reform options. The centre and state finance commissions would find this fiscal information as a powerful tool in the resource allocation decision process. To the citizens such fiscal information can help inform on allocation patterns to PRI – at all levels, thereby providing a powerful took to empower them to hold authorities accountable.

The rural local governments – in particular, the district and the intermediate tier as discussed earlier doesn't enjoy much of fiscal autonomy due to the fact that they are largely dependent on the state and central governments for revenues often referred as intergovernmental transfers. However, the third tier namely the gram panchayats do have certain fiscal autonomy in the form of own sources of revenues [through taxes and non-taxes] mobilized locally. The policies on intergovernmental finance can be understood only with the knowledge of the design and implementation of intergovernmental transfers. Further, it is noted that compiling the information on the variables such as revenues, expenditures and transfers is particularly important to estimate fiscal capacities and needs, and to evaluate the equity and efficiency of the transfer system. Finally, the state government must have a facility to monitor the progress of its intergovernmental fiscal system and evaluate the impact of alternative reforms.

Intergovernmental transfers in Karnataka:

The most important source of revenue to the PRIs is the intergovernmental transfers. This essentially means making institutional arrangements for rectifying the vertical and horizontal imbalances arising in intergovernmental fiscal relations. Transfers to carry out some agency functions on behalf of a higher government (it could be a federal or a state government) do not strictly form part of the general transfer system. Thus, the task of a good inter-governmental transfer system is (a) to determine normatively the size of the divisible pool which ideally has to be related to the expenditure responsibilities a government has to shoulder and the revenue potential and performance which of course has to be normatively screened to discourage imprudence and (b) to equitably distribute the pool among the sub-national governments, keeping the objectives of decentralization laid out in the constitution or mandated by the state legislature. By providing for the creation of the institution of State Finance Commission (SFC) at the state level through the $73^{rd}/74^{th}$ constitutional amendments, India has created an important necessary condition towards rationalizing state-local fiscal relations and transfer arrangements [M.A. Oomen, 2008].

In India the quality and effectiveness of the sub-state level transfer system depends a great deal on the quality of SFC recommendations. Given the reality that Indian rural local governments consists of a large net work of village panchayats at the cutting edge level which need be carefully fostered, the transfer system should be simple and transparent. It is important to avoid complicated grant allocation formula that cannot be supported adequately by existing data, local taxes that are structured to accomplish other goals than revenue-raising, conditional grants that require a monitoring of the use of funds and expenditure mandates that have stringent compliance requirements [Bahl, 1999].

Box-1: Method of examining transfers has been done as per recommendation of SSFC:

Year	Total NLOGRR (Actuals) (Rs in Crores)	40 % of NLOGRR (in crores)	Allocation* made to PRIs (Rs in Crores)	Percent to NLGORR	Actual releases from Govt (Rs in crores)	Percent to NLOGRR
2002-03	10439.71	4687	3903.5	37.4	3959.5	37.9
2003-04	12570.13	6211	4119.9	32.7	4119.9	32.7
2004-05	16072.32	11738	4525.4	28.1	4525.4	28.1
2005-06	18631.55	9003	5965.3	32.0	6489.2	34.8
2006-07	23301.03	10960	6755.0	28.9	7417.8	31.8
2007-08	25896.76	11738	8294.5	32.0	N.A	-

* As per link document – only state's share (plan & non-plan).

Source: www.kar.nic/finance. Annual report of RDPR

While the reasons for the Centre and the State in retaining buoyant revenue handles can be justified, the local governments are often constrained in their ability to raise revenues. In order for the local government to deliver basic minimum services to the local people, the Constitution has found a mechanism through the Central Finance Commission and the State Finance commission to compensate the PRIs. In Karnataka, the State Finance commission constituted once in five years is supposed to review the financial position of ZPs, TPs and GPs. The SFC is to make recommendations on the sharing of the proceeds from state taxes between the state government and the panchayats; the assignment of revenues to panchayats and the grants to be paid to them from the consolidated fund of the state government. The First State Finance Commission recommended[1] the distribution of the funds among the various panchayats units on the basis of certain indicators. However, the state government did not implement these recommendations; and at the end of the year 2000-01, it decided to cut the general-purpose grants in the wake of fiscal pressure [Govinda Rao, et al, 2004].

The recommendation of Second State Finance Commission [2001-02] was accepted by the state government that suggested the earmarking of 40 percent of NLGORR revenues of the state government to rural local bodies. Accordingly, in terms of absolute figures, the grant entitlement to PRIs was about Rs 4531 crores[2] for the year 2002-03. However, one needs to ascertain on whether the amount have been devolved to PRIs during the five year period of 2001-02 to 2005-06. This is because; the state government had accepted the recommendations of second SFC. A quick method of cross-checking whether the transfers from the state to rural local bodies have been taken place or not is provided in Box-1[3]. Though, this method might not be so accurate or consistent, yet this would provide just an outline on whether the government has transferred more than (in case, if so) recommended by SSFC. Accordingly, it clearly emerges from the table is that though the transfers from the state government to PRI is well below the recommended percent of share by SSFC – except for 2002-03 where it was 37.9 percent, rest of the years it was below 35 percent in par with recommendation of the first SFC. Nevertheless, it was able to release more than the budgeted allocations in almost all the years from 2002-03. This evidently shows that there was no curtailment. Similarly, the Third State Finance Commission [2006] has submitted its recommendations to the state government.

[1] The recommendations of second and third state finance commission of allocation of funds based on proposed certain criteria along with this the allocations under Gadgil's formula is also provided in Annexure at the end of this section.
[2] That is 40 percent of Rs 11327.76 crores (the Revised estimated figures as shown in SSFC report, Pp 108) is Rs 4531.01 crores.
[3] The method shown in Box-1 was voluntarily conceived by DAC. Later on, it was learnt that the same method incidentally had been adopted the SSFC in their report (refer Pp 129, Table 6.7) to calculate for years from 1997-08 to 2002-03.We take this opportunity to duly acknowledge the method by SSFC for having used this method a prior.

As like the State Finance commission, the central government also gives the state transfers to strengthen local bodies on the recommendation of the Central Finance Commission (CFC). In the Eleventh Finance Commission (EFC) –the recommendations are for a five-year period (from 1999-2000 to 2003-04), Karnataka was entitled to receive Rs 78.72 crores for the period 2000-05 from the Central government [Govinda Rao, et al, 2004]. Similarly, as per the Twelfth Finance Commission (from 2005-10), Karnataka is entitled to receive Rs 888 Crores (see Chapter-8, Pg 157, Report of 12th Finance Commission Report) for rural local bodies constituting to about 4.4 percent of all the states[4] in India. The increase is more than ***ten fold*** as compared to 11th finance commission. With such a substantial increase in this grant (which is provided by the state government), the PRIs would definitely expect some economic developments – during this period. How far this has been achieved would be known if it is measured qualitatively – through empirical studies and secondly to certain extend by looking at the devolution of actual transfers under 12th finance commission[5].

This mechanism of intergovernmental transfers supplements local revenues by intergovernmental fiscal transfers - without impinging their ability to collect their own taxes, fees and user charges. While existing powers of the local government to collect taxes, fees and user charges can create constituent pressure for good local performance, intergovernmental transfers to the PRIs can be designed to create Central and State government pressure for local performance. On the other hand, intergovernmental transfers might create pervasive incentives for revenue mobilization. The Chinese case is an example in which the fiscal structure acts as good tool for local development by providing the "correct" incentives (Chang 1998; Jin 1999; Bahl 2003; Hsu 2004; Ping 2005). The literature reviews that China's fiscal contracting system provides local governments with strong fiscal incentives and at the same time improves horizontal distribution across provinces in budgetary spending. The review of the Chinese experience in the literature shows that strong fiscal incentives — in the form of high marginal revenue retention rate — has lead to a fast development of non-state enterprises and reform in state-owned enterprises. Furthermore, it is also argued that in China governments face strong fiscal incentives to pursue local prosperity, as their local expenditures are made closely linked to the revenues they generate.

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[4] Among the southern states, the highest allocations under the 12th finance commission grant is being received by Andhra Pradesh (Rs 1587 Crores) followed by Kerala (Rs 985 Crores), Karnataka (Rs 888 Crores) and Tamil Nadu (Rs 870 Crores) for the year 2005-10.

[5] In this regard DAC has gathered fiscal information on the devolution of money under 12th finance commission to Gram Panchayats for a period of three years [from 2005-06 to 2007-08]. This is presented in Chapter-IV.

Karnataka was the first state in the country to enact the Panchayat Raj Act, during 1993 and has transferred 29 subjects to PRIs.[6] Though uniquely placed in regard to the empowerment of PRIs and echoed as among the leading states in decentralization in India assigning all the 29 expenditure subjects prescribed in the Constitutional Amendment, including rural drinking water, primary and secondary education, primary health, as well as assigned funds and functionaries (state employees at the panchayat level), whereas in Kerala only 18 subjects have been transferred to gram panchayats, there are still institutional constraints[7] that impede realization of the vision enshrined in the 73rd constitutional amendment in Karnataka as compared to Kerala.

It is worth mentioning from the notes on the report on fiscal decentralization in India edited by M.A. Oomen, on the transfer of subjects to PRIs. There is need for role clarity to avoid duplication and overlapping. Unless there is role clarity between the activity domain of the state on the one hand and the urban local bodies and the three tiers of PRIs on the other, decentralization can only result in more confusion, delay in implementation and increasing the difficulties in evolving an efficient transfer system. While all states have passed conformity Acts following the 73rd Amendment, some of them have just repeated the 29 subjects mentioned in the 11th Schedule as functions of all the three Panchayat tiers. Only a few states like Andhra Pradesh, Karnataka, Kerala, Gujarat and Madhya Pradesh have broken into activities and sub-activities. Among these states only Kerala has put this into practice.

Implementation of fiscal Transfers:

Panchayats receive the funds from both the consolidated fund of the state as well as that of the central government to implement district sector and central schemes. With regard to implementation of fiscal transfers, it is known that the transfers are devolved in the form of schemes. In Karnataka, the process of making PRIs accountable for their specific roles is also tied up with the initiative on rationalization of schemes. This has resulted in a reduction from 399 schemes [before rationalization] to 221 schemes [after rationalization] under plan schemes, while there was reduction of schemes from 255 to 114 under non-plan sector [inclusive of state and central schemes]. Thus combined together, the total schemes which was 654 was curtailed to 335 – which according the government was done in giving greater flexibility to address local priorities[8]. Well, even 335 schemes still looks a bigger number in terms of devolution of finance, where there could

[6] Sikkim is the only the other state after Karnataka, where all 29 subjects are transferred to PRIs. The details of the functions and functionaries devolved to PRIs are provided in Annexure-- of chapter-IV.
[7] For more details, see Roy Bahl, Geetha Sethi et. al "India, Fiscal Decentralization to Rural Governments", Vol-I, January 7, 2004, The World Bank.
[8] "Empowering Villages - Panchayat Raj Institution in Karnataka" RDPR, GoK, Pp25.

be an overlapping of functions between any two schemes and also adds to complication of accounting and tracking of the fiscal system[9]. This brings us to the analytical part of the intergovernmental transfers in Karnataka over eight years [from 2001-02 to 2008-09] which is presented in the following sections. Before looking into allocations to PRIs in a holistic scenario at the macro [state] level based on the data sources, a clarification on different sources used in the tables relevant to this part is provided in Box-2.

Box-2: Clarifications regarding the sources of fiscal data gathered:

DAC has collected the Actual Receipts and Payments account details of District Level, Taluk Level and GP level from 2005-06 to 2007-08. In a sense, the actual receipts vis-à-vis the corresponding expenditures audited by SAD and CAG is being collected by DAC. The fiscal data thus collected is analysed and presented in Chapter IV. However, in this part, as the data is analysed from 2001-02 on towards, the source is taken from the link document. In the absence of actual expenditures or outlays, the transfers [the allocation] provided in the link document in approximation are considered as estimated outlays. Yet, DAC was able to collect the actual outlays/expenditures that have been carried by PRIs from the Finance Department for the year 2005-06 to 2007-08. Hence, we would like to clarify that wherever the source is mentioned as finance department under the respective tables provided in this part, it is the expenditure recorded by the finance department. Otherwise, the source is from the link document. Thus, the actual receipts devolved to three tiers of PRIs might perhaps be lower than that is budgeted in the link document.

[9] This is exactly what the academicians – such Prof. Roy Bahl, Sally Wallace, Govinda Rao, Vinod Vyasulu and others have been suggesting in their writings on the issue of complex grant allocation system existing in Karnataka.

Table 1: Estimated allocations to rural local bodies in Karnataka: 2001-02 to 2008-09:

Year	Percent of State's Plan Outlay				Percent of Total Rural Local Bodies								
	PLAN				Plan Outlay			Non-Plan Outlay			Sub-total (Plan + Non-plan)		
	ZP	TP	GP	Sub-Total	ZP	TP	GP	ZP	TP	GP	ZP	TP	GP
2001-02	11.0	12.1	4.7	27.8	15.0	16.4	6.5	23.2	38.9	-	38.2	55.3	6.5
2002-03	8.6	5.9	3.7	18.2	12.9	9.0	5.5	25.3	47.3	-	38.2	56.3	5.5
2003-04	9.5	5.0	3.1	17.6	14.9	7.8	4.8	24.5	48.0	-	39.4	55.8	4.8
2004-05	7.8	4.7	3.1	15.6	15.4	9.3	6.1	21.7	47.5	-	37.1	56.8	6.1
2005-06	10.3	6.9	8.7	25.9	16.8	11.2	14.1	18.8	39.1	-	35.6	50.3	14.1
2006-07	7.4	5.9	7.4	20.7	15.3	12.2	15.4	20.2	36.9	-	35.5	49.1	15.4
2007-08	8.8	4.8	8.3	22.0	14.7	8.0	13.9	20.4	41.7	1.3	35.1	49.7	15.2
2008-09*	11.6	3.7	6.2	21.5	19.7	6.3	10.6	19.8	42.5	1.1	39.5	48.8	11.7

Year	Percent of Total State Outlay									Overall percent of Rural local bodies (ZP,TP, GP) to Total State Outlay (both Plan and Non-plan)	Percent of rural local bodies allocation to GSDP (@ current prices)
	Plan Outlay			Non-Plan Outlay			Sub-total (Plan + Non-plan)				
	ZP	TP	GP	ZP	TP	GP	ZP	TP	GP		
2001-02	3.3	3.6	1.4	5.1	8.5	-	8.3	12.1	1.4	**21.8**	4.3
2002-03	2.4	1.7	1.0	4.7	8.8	-	7.1	10.4	1.0	**18.5**	3.7
2003-04	2.0	1.1	0.7	3.4	6.6	-	5.4	7.6	0.7	**13.7**	3.6
2004-05	2.2	1.3	0.9	3.1	6.9	-	5.4	8.2	0.9	**14.5**	3.3
2005-06	3.3	2.2	2.8	3.7	7.7	-	7.0	9.8	2.8	**19.6**	3.7
2006-07	2.8	2.2	2.8	3.7	6.7	-	6.4	8.9	2.8	**18.1**	4.0
2007-08	3.0	1.6	2.8	4.1	8.5	0.3	7.1	10.1	3.1	**20.3**	4.2**
2008-09*	4.3	1.4	2.3	4.1	9.2	0.2	8.4	10.6	2.5	**21.5**	4.4***

Source: Link Document, GoK, 2001-02 to 2007-08. For total State Outlay – www.kar.nic/finance

* Revised Estimate. ** Quick Estimate. *** Anticipated Estimate.

The budget allocation or the estimated transfers to local rural bodies out of the State's total outlay from 2001-02 to 2008-09 shows the allocation [see Table 1] to panchayats [inclusive of all tiers] which was 21.8 percent in 2001-02 or about five percent of GSDP. This was declined in the following years to 18.5 in 2002-03 and to 14.5 in 2003-04 showing a reduction in state's share to rural local bodies. A sharp increase to 19.6 was noticed during 2005-06 and again oscillating between 18.6 percent in 2006-07 and then to about 20 percent in 2007-08 and marginally increased to 21 percent in 2008-09. This emphatically indicates that the overall share of rural bodies from the state's outlay over eight years has not increased more than 20 percent over the eight year period. Comparing the allocation share of rural local bodies to GSDP (at current prices) [based on quick estimates] for the year 2007-08, it is 4.2 percent and this was risen to 4.4 percent (based on anticipated estimates) for the year 2008-09, which broadly indicates that transfers or the allocations perhaps has not been made by considering inflation into account in most of the years. In a sense, the pattern of transfers over the years might have been carried out on some thumb rule of increasing by a small percent – say about 10 percent or so over the previous year, mostly set by the planning unit at the state level.

With regard to the total rural outlay (see Table 1), firstly the share of Zilla Panchayat has remained in the range of 35 percent and 39 percent of the total allocation to rural bodies from 2001-02 to 2008-09. This perhaps shows that there might not be any demand from the district level to significantly increase the transfers nor the state planning unit might have suggested the district rural planning unit to by and large keep the same percent as the previous year. The story remains the same for taluk panchayats also. In a sense, the percent of estimated allocations to taluk panchayats remained in the range of 49 percent to 56 percent from 2001-02 to 2008-09. Interestingly, the percent has reduced from 2005-06 onwards suggesting that there is a gradual shift in allocations to gram panchayats where is a sharp increase in allocations from 6.5 percent in 2005-06 to 14.1 percent to 15.2 in 2007-08. This again is a good sign towards the effective fiscal decentralization where in the third tier has been given much more importance in recent times in Karnataka. However, a decline (to 11.7 percent) was seen in 2008-09 for the allocation of gram panchayats.

The significant part of PRI fiscal analysis at the state level, is the analysis of plan allocations [or outlay] that is being made during eight year period [from 2001-02 to 2008-09] to the rural local bodies. This is because of the fact that most of the developmental works are taken under plan head From Table 2, it is seen that the percent fluctuating between 15.6 percent to 27.8 percent with beginning from 27.8 percent in 2001-02 and then declined to 15.6 percent in 2005-06 suggesting that not more emphasis was laid to plan allocations. However, a sign of improvement was seen during 2006-07 to 25.6 percent and sliding down to about 22 percent during 2007-08. This clearly indicates that about one-fourth of the state's plan outlay under is being earmarked to rural bodies in Karnataka over last eight years. Now the question is that whether it is enough to fill the raising demand for developmental works in key socio-economic activities such as health, roads and bridges, drinking water supply etc., of the rural economy. This needs to be debated by the stakeholders mentioned above and try to participate more actively in budget processing through District Planning Committee (DPC) formed at all the districts in the state.

In the accounting system of the PRIs the transfers from the state and centre are classified as receipts and the expenditure is further classified as plan and non-plan expenditure. Own source revenue discussed earlier is also classified under revenue receipts.

Box-2:

A Study on '*Tribal Population in Gram Swaraj Project Area – Their inclusion and fiscal devolution in Panchayat Raj Institution– An empirical study'* conducted by DAC as part of this project showed the absence of better health and drinking water facilities in rural areas. This study was conducted in one taluk in the state. With the lack of proper facility pertaining to health, the tribal people situated remotely are facing difficulty. However, the private hospital is doing a better job in this taluk with regard to tribal population. Similarly, another study entitled *'Participation of weaker section in decision making of gram panchayats'* conducted in a backward taluk namely Sandur, the health situation is very pathetic. Since, mining (extracting iron ores) activities being carried out on a massive scale, the health of the people is affected adversely. This is coupled with bad infrastructure facilities such as roads, drinking water supply and sanitation. It seems both the taluk and the district panchayats has totally neglected this taluk in solving the issues of the people. More details on these two studies along with other field studies undertaken out by DAC are available on www.rdpr.gramswarajproject/DAC/

Table 2: Share [in percent] of plan and non-plan allocations under each tier of PRI system:

	Zilla Panchayat Schemes			Taluk Panchayat schemes			Gram Panchayat schemes		
Year	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
2001-02							100	-	100
2002-03	37.9	62.1	100	14.5	85.5	100	100	-	100
2003-04	37.7	62.3	100	14.0	86.0	100	100	-	100
2004-05	41.5	58.5	100	16.3	83.7	100	100	-	100
2005-06	47.2	52.8	100	22.2	77.8	100	100	-	100
2006-07	43.0	57.0	100	25.0	75.0	100	100	-	100
2007-08	42.0	58.0	100	16.0	84.0	100	91.41	8.59	100
2008-09	49.8	50.2	100	14.0	86.0	100	90.8	9.20	100

Source: Link Document – 2001-02 to 2008-09, GoK.

Although between 2005-06 and 2006-07 the GPs were not provided with the non-plan expenditure as the functionaries were paid their salaries from the taluk panchayats. In 2007-08 and 2008-09 there was a marked change where the State allocations to GPs were toward both plan and non-plan. This shift in the grant policy corresponds to the level of increasing autonomy divested in the GPs. An interesting observation is that the taluk the plan transfers have remained more or less constant at about 23 percent between 2005/06 and 2006/07, [see table 2] but dropped to 16 percent in 2007-08. This perhaps shows that a gradual shift is taking place from plan to non-plan transfers is increasing as the year progressed at the taluk level which evidently showing that salary component is sharply increasing over the years. This is seen especially in education sector where majority of the expenditures is towards the salary of teachers.

Table 3: Allocation to District Sector Plan Outlay in Karnataka: 2001-02 to 2007-08:

Year	Percent of District Sector* Allocations to Total State Plan Outlay			Percent of District sector plan allocations to GSDP (at current prices)		
	State	Central Sector	Total	State Plan	Central Sector	Total

	Plan	and CSS			and CSS	
2001-02	17.35	12.03	29.38	1.0	0.7	1.6
2002-03	9.69	9.80	19.49	0.5	0.5	1.0
2003-04	9.33	8.32	17.65	0.5	0.5	1.0
2004-05	9.22	6.43	15.65	0.6	0.4	1.0
2005-06	17.99	7.88	25.88	1.1	0.5	1.5
2006-07	13.16	7.59	20.75	1.1	0.6	1.7
2007-08	13.78	8.18	21.96	1.0	0.6	1.5
2008-09	12.58	8.90	21.47	0.9	0.7	1.6

Source: Link Document – 2001-02 to 2008-09, GoK.

Non-plan transfers at the district level have increased over the three year period at a rate from 8 percent between 2005-06 and 2006-07 to 1.8 percent between 2006-07 and 2007-08. On the other hand, plan transfers at the district seem to have declined sharply by 9.7 percent over the period 2005-06—2006-07 and further increased declined by 2.4 percent in 2007/08. Assuming 2005-06 as the base for comparison, there is an overall decline of 12.4 percent in plan transfers.

Further, on the allocation of district sector[10] plan allocations, it emerges from Table-3 that there has been a steady decline in the total outlays from 2001-02 to 2004-05 (declining from 29.38 percent to 15.65 percent). Further, with an increase during 2005-06 to 25.88 percent is again dropped systematically over the years and fell to 21.5 percent in 2008-09. As compared to GSDP, the district sector plan allocations declined from 1.6 percent in 2001-02 to about one percent in 2004-05. The decline is seen both in state plan as well as in allocations to panchayats for central sector and CSS up to 2004-05. However, a sign of marginal improvement was noticed from 2005-06 to 1.5 percent and almost remained at the same level until 2008-09 suggesting a progressive attrition in the assistance given to the PRIs. This also suggests that all PRIs tend to spend the transfers received in the same fiscal year. It could also suggest that the transfers have been periodically for the GPs to spend within the fiscal year.

[10] Here the District sector is cumulative of Zilla Panchayat, Taluk and Gram Panchayats allocations.

However, there is the absence of reliable information on revenues and expenditures of local bodies which is a striking weakness in decentralized fiscal management in the state. If a rational fiscal policy is to be implemented, information on revenues and expenditures of local bodies must be complied on a priority basis by the state government. Further, certain studies analysing some specific aspects of fiscal decentralization are often based on unreliable data or data selected from a handful of unrepresentative sample panchayats. This is partly due to the fact that fiscal decentralization below the state level is not significant. More important, there is hardly any information available on the extent of fiscal decentralization[11].

The total funds transferred to the different tiers of PRIs and also the own resources mobilised along with the expenditure incurred is given in the following tables.

Table 4. Zilla Panchayat Fiscal Data (amount in crores)

Year	OB	Grant in Aid (Receipt)	OSR	Total Revenue	Expenditure	CB
2005-06	1160.31	4939.35	-	6099.66	4572.33	1527.33
2006-07	1451.04	4736.55	-	6187.59	4356.90	1830.69
2007-08	1637.92	4983.84	-	6621.76	4581.55	2040.21
2008-09	2014.77	5562.48	-	7577.25	4873.29	2703.96

Taluk Panchayat Fiscal Data (amount in crores)

Year	OB	Grant in Aid (Receipt)	OSR	Total Revenue	Expenditure	CB
2005-06	261.30	3166.91	-	3428.21	2935.57	478.57
2006-07	429.51	3852.47	-	4281.98	3381.70	868.48
2007-08	415.63	4323.60	-	4739.23	3977.05	762.18
2008-09	577.15	5432.24	-	6009.39	5273.11	736.28

Gram Panchayat Fiscal Data (amount in crores)

[11] See "Fiscal Decentralization to Rural Governments in India", by Prof. M. Govinda Rao, H.K. Amarnath, B.P. Vani, edited by Geetha Seth, Page 44, The World Bank.

Year	OB	Grant in Aid (Receipt)	OSR	Total Revenue	Expenditure	CB
2005-06	99.73	787.31	135.38	1022.42	781.14	241.34
2006-07	235.24	1331.97	158.72	1725.94	1271.02	454.92
2007-08	439.65	1444.05	190.93	2074.62	1570.69	503.92
2008-09*	431.33	1608.93	189.18	2229.44	1606.80	622.55

Source : Audit Reports

PRI expenditures

A comparison of transfers and actual expenditures (see Table 4) shows that actual expenditures tend to be higher over the estimated transfers (receipts) mentioned in the link document. This discrepancy is due to the non-availability of actual transfer figures. This analysis is consistent with World Bank (2004) where it was observed that the share of rural local bodies in expenditure allocation reported in the link document are approximate of the financial devolution by the state government. But as gram panchayats have their OSR, the actual expenditure could be higher than the estimated transfers.

Table 4 shows the fiscal shares of different levels of government in Karnataka for 2005/06, 2006/07 and 2007/08. The analysis reveals that although 66 percent of the state population reside in rural areas, the average expenditure of rural local governments is about 23 percent. An earlier report showed that PRI expenditure in Karnataka was about 20 percent (World Bank, 2004). The expenditure of the State is slightly above 70 percent per annum, but has declined consistently over the period. On the other hand, there is a gradual increase in the shares of the expenditure of both urban and rural local governments. In comparison the share of PRI expenditure in Kerala and West Bengal was about 30 percent and 17 percent respectively.[12] However, it should be noted that in Kerala there no rural-urban divide.

Moreover, despite PRIs having a large portion of the population, their share in Gross State Domestic Product (GSDP) remains low. Between 2005-06 and 2007-08, State expenditures averaged about 22 percent and that of PRIs averaged about 5 percent. Furthermore, the GP share in SGDP on average is less than 0.6 percent.

[12] World Bank (2003); World Bank and Government of West Bengal (2007).

Out of the total PRI expenditure, Taluk Panchayats spent more than both the districts and the GPs. This is explained by the fact that the Taluk Panchayats pay the salaries of the staff at both the Taluk and the GPs. In addition, the Taluk incurs a large portion expenditure on development work mostly through line departments. Similarly, districts do have a larger share than the GPs due to their salary component and development works at the district headquarters only. However, GPs that possess more fiscal autonomy over both tied and untied funds than districts and Taluks. Table 3.4 shows that the total Taluk expenditure declined from 52 percent, 51 percent and 45.3 percent in 2005/06, 2006/07 and 2007/08 respectively. Over the same period GP expenditures were 11.4 percent, 11.9 percent and 10.8 percent. The combined averaged for 2005-06, 2006/07 and 2007/08 district expenditures about 36.9 percent, 37.7 percent in 2007-08.

Table 5: Distribution of Public Finances Among Levels of Government in Karnataka: 2005 - 2007

Level	Percent of population			Percent of own source revenue in total revenue*			Percent of total Expenditure**			Per capita expenditure (in Rs)			percent expenditure to GSDP		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
State	100	100	100	74.1	72.8	71.3	72.8	72.2	70.7	5310	6382	7078	20.2	22.6	22.6
Urban	34	34	34	25.4	26.7	-	4.1	4.9	5.1	645	913	1072	0.8	1.1	1.2
PRI of which	66	66	66	0.46	0.50	-	23.0	22.8	24.1	1881	2346	2593	4.6	5.2	5.5
District	-	-	-	-	-	-	36.5	36.7	37.7	679	814	561	1.7	1.9	1.2
Taluk	-	-	-	-	-	-	52.1	51.4	51.5	968	1138	1174	2.4	2.6	2.5
GP	-	-	-	100	100	100	11.4	11.9	10.8	234	394		0.5	0.6	0.6

Source: ** For state level, the total Expenditure heads (revenue account, [plan and non-plan]) minus Compensation and Assignments to Local and Bodies and Panchayati Raj Institutions. The source is RBI.

For the percent of expenditures of under PRIs – District, Taluk and GP for three years, the source is from Finance Department, GoK where the actual expenditures is recorded.

*Includes only revenue receipts. Excludes capital, contingency fund and public accounts.

Box 3: Plan and Non-plan Outlay [expenditure]:

Plan expenditure, also referred to as capital expenditure, refers to the expenditure incurred by the Central and State government on Programmes/projects, which are recommended by the planning commission. On the other hand, non-plan expenditure also referred to as recurrent or current expenditure consists of many items of expenditure, which are obligatory in nature and also essential obligations of a state. Items of expenditure such as salaries, interest payments, pension, statutory transfers to states come under the obligatory nature. The distinction between 'Plan' and 'non-plan' expenditure is purely an administrative classification and is no way related to economic or national accounting principle. For instance, in many cases, 'plan expenditure' becomes non-plan expenditure, after the plan is over. Again, an item of plan expenditure during a particular five year plan becomes 'non-plan' in the following plan, if its responsibility is shifted on the state governments as in the case of centrally sponsored schemes and central sector schemes or if the expenditure spills over from one plan to the next or the expenditure is agreed to be incurred outside the plan outlay of the state governments approved by the planning commission.

In per capita terms, generally there has been an increase in expenditures across the State. Table 5 shows that between 2005/06 and 2007/08 the per capita expenditure of the state has increased by an average of 15 percent from Rs. 5300 to Rs. 7000. Likewise, PRIs expenditures increased by an average of 18 per cent from Rs. 1800 to Rs. 2500. However, it does not necessarily follow that an increase in per capita expenditure is a reflection of improved welfare. This is because total expenditure includes both plan and non-plan (for definition of plan and non-plan Outlay, see Box-3), with the later constituting a fairly large portion towards payment of salaries and pension.[13] Table 6 shows percentage of plan and non-plan expenditure as a percentage of total expenditures over the three year period.

Table 6: Percent Expenditure of Rural local bodies in Total Expenditure of the State: 2005-06 to 2007-08

Year →	2005-06			2006-07			2007-08		
PRI ↓	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
Districts (N =29)	44.8	55.2	100	44.5	55.5	100	42.6	57.4	100
Taluks	21.1	78.9	100	20.0	80.0	100	12.0	88.0	100

[13] Note that GPs receive only plan Outlay. However Taluks and districts receive both plan and non-plan Outlays.

(N = 176)									
GPs	100	-	100	100	-	100	82.2	17.8	100

Source: Finance Department, GoK.

Note: if one takes from the link document, the transfers figure as an approximation to outlays or expenditures, this percent would slightly vary as the figures in the link document is estimation.

Between 2005-06 and 2006-07, both plan and non-plan expenditure at the district and taluk remained almost constant. However, between 2006/07 and 2007/08 while the plan component of both the district and taluk has declined, the non-plan component has shown an increase. Obviously, the non-plan expenditure items have increased. For example, the percentage share for education sector is about 75 percent for combined three years. Out this expenditure, majority of the expenditure is towards the salary which is non-plan expenditure. This typically shows that the larger share of outlays is earmarked on non-plan spending – especially at the taluk level.

PRI Revenues:

Total PRI revenues comprise of tax and non-tax revenue; but a major share comes in the form of intergovernmental transfers from both the center and the state. Of all PRIs only GPs have the mandate to collect tax revenues. However, all PRIs can collect certain non-tax revenues. Box 4 shows the potential sources of revenue available for the PRIs. As shown in Table 3.4 above, the percentage of PRIs own source revenue to total revenue is less than 0.5 percent. On the other hand, State own source revenue on an average are as high as 73 percent per annum over 2005-06—2006-07. Note that there has been a gradual decline in the State's OSR relative to total revenue during the years 2005-06, 2006-07 and 2007-08 respectively.

Box-4: The potential sources of Revenues available apart from transfers for PRIs in Karnataka:

District	Taluk	Gram Panchayat
Nil	Stamp duty surcharge, Rents from shops owned by TPs.	Property tax, Tax on Vehicle, Tax on Non-Agriculture Land (Land Tax/Cess), Pilgrim Tax, Tax on Entertainment excluding cinematograph shows, Tax on Advertisement, Education, health, library cess as percentage of property tax or land tax, Fees from cattle grazing on land belongings to the panchayat, Rent for the use of shops, stalls pens or stand in public markets, Market fees, Rent from erecting temporary sheds on land belonging to the panchayat, General water rate/tax, Street lighting rate/tax, License for opening of private market, Trade license for dangerous and offensive trade and factory, Fees for sanction of building plan,

The low own source revenue of the PRIs can be attributed to several factors such as: (i) State government retains the power of collecting taxes from buoyant sources (e.g. sales tax (VAT), cinematography, road taxes, and state excise duty); (ii) low effort to collect both tax and non-tax revenue at GP level due factors such as low capacity, fluctuation in local economy due to drought and political factors, not much of economic activities at the grass root level etc.

With regard to PRI per capita expenditure, it shows an average of about Rs 2222 during 2005-06 to 2007-08 with an annual average growth rate of 11.5 percent. Further, the average per capita expenditure with respect to three tiers of PRI. Accordingly, at the district or Zilla Panchayat level, it increased from Rs 679 in 2005-06 to Rs 814 in 2006-07and declined to Rs 561 in 2007-08. The annual average growth in per capita expenditure was 6.57 percent and going by a simple average, this amounts to Rs 684 per year for the period 2005-06 to 2007-08. Similarly, at the taluk level, the per capita expenditure has increased during three year period with an combined average of Rs 1093 which compared to district level is much higher. The reason is perhaps due to larger devolution of money towards non-plan expenditures at the taluk level.

From the perspective of reform options, firstly, the pattern or the methodology of allocations or transfers that is being followed by the planning unit at the state level need to be re-looked again. This is because, the fiscal devolution at macro level suggests that the percentage of devolution to rural local bodies remained almost at the same percent over eight year period with not a significant increase between the years. This might help in making a better planning process and make fiscal devolution more realistic and pragmatic. In order has more financing to rural local bodies, the possibility of additional taxing powers could be assigned to urban local bodies, and a commensurate shift in the amount of the distributable grant pool form urban local government to gram panchayats could be undertaken. This reform is in the right policy direction but it could exacerbate the financing problems of urban local bodies, and would have significant political costs. As best, this would cover only a small part of the financing gaps of PRIs in the state [Roy Bahl and Sally Wallace, 2007].

On the subject of numerous schemes operating currently even after the steps of rationalizing taken by RDPR, still it requires more rationalization in future. It would be good enough, if this is brought down to less than one-third or even one-fourth of the existing, perhaps it might be helpful not only for easy accounting classification but also become more simplified for the stakeholders – especially the elected representatives. Furthermore, it might also fasten the process of auditing the accounts which in most of cases are overdue. In a sense, if one would want to avail the fiscal data for latest years, it would not be possible as the auditing of might have not finished.

There is a sheer lagging behind of the tracking system. One of the reasons that are attributed for the delay is due to existence of more number of schemes being prevalent in the system.

Highlights of various types of formula for the devolution of funds from Central to State and to Panchayati Raj Institutions

Original Gadgil Formula (1969) **From Central to State** – Non Special Category state	**Modified Gadgil Formula Revised (1991)** **From Central to State** - Special category states	**Formula as per First State Finance commission (1996) - Karnataka** (State to PRI)	**Formulas as per Second Finance Commission (Karnataka) (2001)** (State to PRI)	**Formula as per Third State Finance Commission* (2006) – Karnataka** **(State to PRI)**
Weightages: Population = 60 % Per Capita Income = 10 % Major irrigation & Power projects = 10 % Performance of which Tax effort = 10 % ------------------------ Total =100 ------------------------	Weightages: Population = 60 % Per capita Income = 25 % Performance Of which (a) Tax effort = 2.5 % (b) Fiscal Mgt = 2.0 % (c) National Objectives (i) Popn Control = 1.0 % (ii) Elimination Of female Illiteracy = 1.0 % (iii) On-time Project Completion = 0.5 % (iv) Land reforms = 0.5 % (v) Special Problems = 7.5 % ------------------------------ Total = 100 ------------------------------	Weightages: Population = 33.3 % Geographical Area =33.3 % Backwardness = 33.3 % (seen in terms of road length, hospital beds and illiteracy). ------------------- Total = 100 -------------------	Weightages: Population = 30 % Geographical Area = 30 % Backwardness = 40 % (seen in terms of road length, hospital beds and illiteracy). ---------------- Total =100 ----------------	Weightages: Population = 40 % Geographical Area = 40 % SC & STs = 10 % Population Illiteracy = 10 % ---------------- Total =100 ----------------

5. Overview of Finances of Zilla and Taluk Panchayats

The major functions and financial powers of the Taluk and Zilla panchayats in the state have been discussed in detail in this section.

The major source of funds to the Zilla Panchayats is transfers from the State Government under plan and non-plan for its various activities. Further the Zilla Panchayat also gets grants from Central Government for under Centrally Sponsored Schemes.

The major functions and financial resources assigned to the Zilla Panchayats are as follows:

Sl.No in 11^{th} Schedule	Subjects in 11^{th} Schedule	Functions			Funds
		Planning & Implementation	Supervision	Assistance	
1	Agriculture including agriculture extension	Yes		Yes	Yes
2	land improvement, implementation of land reforms, land consolidation and soil conservation	Yes			Yes
3	Minor irrigation, water management and watershed development	Yes	Yes	Yes	Yes
4	Animal Husbandry, dairying and poultry	Yes	Yes	Yes	Yes
5	Fisheries	Yes	Yes	Yes	Yes
6	Social Forestry		Yes	Yes	
7	Minor Forest Produce	Yes	Yes	Yes	Yes
8	Small Scale Industries	Yes		Yes	Yes
9	Khadi, village and Cottage Industries.	Yes		Yes	Yes
10	Rural Housing	Yes		Yes	
11	Drinking Water	Yes	Yes	Yes	Yes

12	Fuel and fodder			Yes	Covered under the Animal husbandry
13	Roads, culverts, bridges, ferries, waterways and other means of communication	Yes		Yes	Yes
14	Rural Electrification including distribution of electricity.			Yes	
15	Non Conventional energy resources	Yes		Yes	
16	Poverty alleviation programmes	Yes		Yes	Yes
17	Education including primary and secondary schools	Yes		Yes	Yes
18	Technical training and vocational education			Yes	
19	Adult and non-formal education	Yes			Yes
20	Libraries			Yes	
21	Cultural activities			Yes	
22	Markets and fairs			Yes	Yes
23	Health and sanitation including hospitals primary health centers and dispensaries	Yes		Yes	Yes
24	Family welfare	Yes			Yes
25	Women and child development	Yes		Yes	Yes
26	Social welfare including welfare of the handicapped and mentally retarded	Yes		Yes	Yes
27	Welfare of the weaker sections and scheduled castes and scheduled tribes	Yes		Yes	Yes
28	Public distribution system				
29	Maintenance of community assets.		Yes		

The major functions of the Taluk panchayats can be listed as follows:

- Preparation of Annual Plans for the Taluk
- Consolidation and Integration of annual plans of all Gram Panchayats in the Taluk and submitting the same to the Zilla Panchayats
- Preparation of the annual budgets for the Taluk

The financial resources available for discharging the above functions are as follows:

- Grants from the Government
- Share of Stamp duty and others
- State and Central Plan grants

Role of Taluk Panchayats in discharging the functions assigned

Sl.No in 11th Schedule	Subjects in 11th Schedule	Functions			Funds
		Planning & Implementation	Supervision	Assistance	
1	Agriculture including agriculture extension	Yes		Yes	Yes
2	land improvement, implementation of land reforms, land consolidation and soil conservation	Yes			Yes
3	Minor irrigation, water management and watershed development	Yes		Yes	Yes
4	Animal Husbandry, dairying and poultry	Yes	Yes	Yes	Yes
5	Fisheries	Yes	Yes	Yes	
6	Social Forestry	Yes		Yes	
7	Minor Forest Produce			Yes	
8	Small Scale Industries				Yes
9	Khadi, village and Cottage Industries.			Yes	
10	Rural Housing	Yes			Yes

11	Drinking Water	Yes		Yes	Yes
12	Fuel and fodder			Yes	Covered under the Animal husbandry
13	Roads, culverts, bridges, ferries, waterways and other means of communication	Yes		Yes	
14	Rural Electrification including distribution of electricity.			Yes	
15	Non Conventional energy resources	Yes		Yes	
16	Poverty alleviation programmes	Yes			Yes
17	Education including primary and secondary schools	Yes		Yes	Yes
18	Technical training and vocational education	Yes		Yes	Yes
19	Adult and non-formal education	Yes			
20	Libraries			Yes	
21	Cultural activities			Yes	
22	Markets and fairs	Yes		Yes	
23	Health and sanitation including hospitals primary health centers and dispensaries	Yes	Yes	Yes	Yes
24	Family welfare			Yes	
25	Women and child development	Yes	Yes	Yes	Yes
26	Social welfare including welfare of the handicapped and mentally retarded		Yes		Yes
27	Welfare of the weaker sections and scheduled castes and scheduled tribes				Yes
28	Public distribution system				

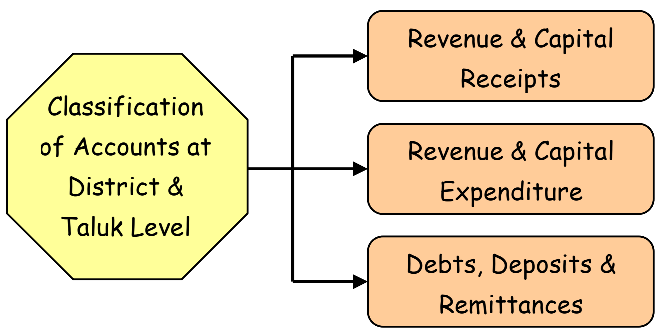
29	Maintenance of community assets.			Yes	

The data made available for the study has to be analysed in the backdrop of the functions assigned to them and the funds allocated for discharging these functions. Here it may be observed that both Taluk Panchayats and Zilla Panchayats face problems since functions have been assigned without devolution of funds.

Finances of Zilla and Taluk Panchayats

Before venturing into fiscal analysis, it would be prudent to know about the classification of accounts in which the fiscal transactions are maintained. This is shown in Chart-1 [shown adjacent]. Accordingly, it is broadly classified into three major components via. Receipts – further divided into Revenue and Capital, Expenditure (further classified as revenue and capital) and finally the Debts, Deposits and Remittances (DDR) Accounts.

Chart 1: Classification of Accounts of District & Taluk Panchayats:



The Classification of accounts maintained by CAG is uniform to both Zilla and Taluk Panchayats.

Finances of Zilla Panchayats

The data available on the receipts and expenditure of Zilla Panchayats indicates that the funds released have increased from Rs.4279 crores to Rs.5515 crores during the period 2005-06 to 2008-09. The expenditure also has increased from Rs. 4572 crores to Rs.4801 crores during the period. The percentage of utilization of funds has increased from 80.3 per cent to 87.05 per cent during these years (Table 1). The details of receipts and expenditure under different schemes/heads indicates that sectors like Education, Health and Family welfare and rural development programmes get the maximum share of the receipts. Water Supply and Sanitation which received nearly Rs. 402 crores funds during the year 2005-06 received Rs. 2.86 crores during 2008-09 due to transfer of schemes to the Gram Panchayats. The percentage of utilization of funds is also significant in these sectors and schemes. However data on the expenditure incurred under the plan and non-plan would have thrown more interesting results.

The details of capital account expenditure (Table 2) shows that the Water Supply and Sanitation sector, Welfare of SCs/STs/OBCs followed construction of Roads and Bridges get the maximum share under the head. However there has been a drastic reduction in the outlay available for the water supply and sanitation sector from Rs.348 crores in 2005-06 to Rs.1.90 crores during 2008-09. A possible reason for this could be that the maintenance of all water supply schemes were transferred from ZP to Gram Panchayats. Overall figures indicate that the capital outlay available to the Zilla panchayats constitutes a small percentage of the total receipts for the year.

There are few sectors where the percentage of utilization of funds exceeds the receipts and the same needs close scrutiny. During the period the opening balance at the treasury has not shown much variation but the same with the banks have increased by nearly 16 times from Rs.50 crores to nearly Rs.814 crores during the period 2005-06 to 2008-09 (Table 3).

The district wise details of receipts and expenditure, Capital Account outlay receipts are enclosed in Annexures 4, 5 and 6. The summary abstract of ZP finances district wise is enclosed in Annexure 7.

Table 1 : Income and Expenditure of Zilla Panchayats from 2005-06 to 2008-09

Activities	Total Income				Total Expenditure				% of Expenditure to Total			
	2005-06	2006-07	2007-08	2008-09	2005-06	2006-07	2007-08	2008-09	2005-06	2006-07	2007-08	2008-09
Public Works	296.28	99.38	112.60	133.18	96.58	94.82	105.34	116.24	32.60	95.41	93.55	87.28
General Education	1016.41	1025.33	1213.95	1492.23	984.08	926.62	1190.13	1271.61	96.82	90.37	98.04	85.22
Sports and Youth Services	1.41	2.55	1.34	1.56	5.39	5.99	8.52	9.28	381.16	235.22	636.95	594.46
Art & Culture and Library	0.47	3.61	0.12	0.11	37.38	51.19	0.53	0.58	8029.54	1417.65	444.48	517.06
Medical and Public Health	316.25	340.99	437.72	460.49	337.26	328.87	356.27	375.09	106.64	96.45	81.39	81.45
Family Welfare	96.35	138.72	167.31	219.97	95.13	132.87	157.58	178.53	98.73	95.78	94.18	81.16
Water supply and Sanitation	402.28	128.05	20.62	2.86	70.37	35.70	23.08	6.48	17.49	27.88	111.93	226.94
Housing	67.63	32.03	6.87	8.53	102.05	52.92	36.02	8.89	150.89	165.24	524.15	104.21
Welfare of SC/STs/ OBC	66.05	86.17	131.53	199.24	224.27	273.16	364.97	411.24	339.53	316.99	277.47	206.41
Labour and Employment Scheme	0.10	1.45	4.40	4.20	0.18	4.61	6.31	7.10	171.59	318.55	143.40	168.90
Social Security and Welfare	59.09	53.65	79.10	95.68	50.36	53.39	75.51	76.35	85.22	99.51	95.45	79.80
Nutrition	3.42	0.00	0.00	0.00	11.30	0.00	0.00	0.00	330.11	0.00	0.00	0.00
Crop Husbandry	129.40	139.76	163.30	172.32	130.03	144.42	133.11	122.19	100.49	103.33	81.51	70.91
Soil and Water Conservation	50.14	32.59	9.16	7.29	77.45	83.99	40.12	41.10	154.48	257.72	438.19	564.10
Animal Husbandry	56.60	57.14	76.06	85.40	62.07	61.24	69.91	74.43	109.67	107.18	91.91	87.16
Fisheries	9.72	9.11	14.85	14.50	9.94	9.38	13.11	12.90	102.29	102.93	88.28	88.97
Forestry and Wildlife	16.35	17.33	23.13	45.94	19.46	20.15	23.97	43.23	119.01	116.25	103.65	94.10
Co-Operative	0.43	1.98	2.54	2.71	0.12	0.39	0.49	0.50	27.35	19.83	19.19	18.47
Special Programmes for Rural	20.04	12.12	7.64	21.85	76.05	71.83	70.05	17.79	379.50	592.49	917.26	81.41
Rural Employment (SGRY)	48.22	24.39	37.50	12.91	250.40	231.82	165.99	37.38	519.32	950.34	442.64	289.51
Other Rural Development	556.18	658.21	431.01	75.19	92.76	83.94	116.36	63.92	16.68	12.75	27.00	85.01
Minor Irrigation	17.74	15.71	16.00	18.64	14.54	15.81	16.53	16.67	81.97	100.63	103.30	89.40
Bio-gas	2.72	1.63	0.00	0.05	0.42	0.23	0.00	0.00	15.47	14.03	0.00	0.00
Village and Small Industries	40.38	45.00	67.30	69.65	45.15	48.10	64.52	58.23	111.79	106.87	95.88	83.60
Industries	14.47	14.39	1.99	0.95	2.43	2.38	2.63	2.72	16.79	16.57	132.28	287.11
Sericulture	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Roads and Bridges	129.14	226.55	263.63	418.72	137.47	229.53	251.47	403.69	106.45	101.32	95.39	96.41
Secretariat Economic Services	3.48	4.54	2.86	2.25	5.09	5.71	6.36	7.36	146.08	125.70	222.05	327.30
Food & Civil Supplies	0.15	0.18	0.29	2.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Social Services	146.72	183.44	231.59	227.46	18.50	8.36	0.00	0.00	12.61	4.56	0.00	0.00

Other General Economic Services	1.09	0.86	2.43	2.61	0.42	7.93	1.02	0.90	38.83	926.59	42.09	34.62
Hill areas	11.84	2.98	2.37	3.99	11.45	2.99	3.16	3.35	96.68	100.35	133.11	83.79
Other Agricultural programmes	11.50	10.40	5.00	3.59	0.00	0.00	0.48	0.44	0.00	0.00	9.59	12.27
Other Scientific Research	0.28	0.20	0.94	1.46	0.30	0.36	0.34	0.93	104.69	179.73	36.36	63.73
Value of food grains	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transferred to TP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other receipts	43.08	5.55	9.71	11.26	14.16	0.58	13.54	0.45	32.88	10.43	139.41	3.99
Suspense account	39.71	0.00	0.00	0.00	-5.37	0.00	0.00	0.00	-13.52	0.00	0.00	0.00
Stamps and Registration	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-Total	3675.15	3375.99	3544.87	3819.12	2977.18	2989.29	3317.43	3369.57	81.01	88.55	93.58	88.23
Bank transactions /CSS	601.55	820.53	1307.01	1694.41	459.40	723.14	932.87	1431.56	76.37	88.13	71.37	84.49
SGRY Food Grains and Scarcity	2.95	8.26	6.98	2.15	0.00	3.66	2.86	0.11	0.00	44.31	41.01	5.15
Grand Total	**4279.66**	**4204.78**	**4858.85**	**5515.68**	**3436.58**	**3716.09**	**4253.16**	**4801.24**	**80.30**	**88.38**	**87.53**	**87.05**

Table 2: Details of Expenditure Capital Accounts – Part - I

Activities	Total Capital Expenditure in Crores				% to Total			
	2005-06	2006-07	2007-08	2008-09	2005-06	2006-07	2007-08	2008-09
Miscellaneous Capital Outlay	0.00	0.00	0.00	0.00	0	0	0	0
Capital Outlay on Education	18.04	4.98	0.67	0.28	4.54	3.15	1.74	1.41
Capital Outlay on Medical and Public Health	0.59	0.55	1.54	1.43	0.15	0.35	3.98	7.19
Capital Outlay on Family Welfare	6.97	0.00	0.00	0.00	1.76	0.00	0.00	0.00
Capital Outlay on Water supply and sanitation (W.B Assistance)	348.49	127.62	25.09	1.90	87.73	80.81	64.98	9.55
Capital Outlay on SC/STs/OBC	1.47	5.34	4.29	3.07	0.37	3.38	11.12	15.41
Capital outlay on women & Child-RIDF	0.09	0.04	0.10	0.10	0.02	0.03	0.26	0.51
Capital Outlay on Fisheries	0.40	0.10	0.15	0.00	0.10	0.06	0.39	0.01
Capital Outlay on Co-Operation	0.24	1.31	1.24	1.26	0.06	0.83	3.22	6.32
Irrigation GP Programme NB)	0.56	0.00	0.00	0.00	0.14	0.00	0.00	0.00
Capital Outlay on Village and Small Industries	0.17	0.19	0.22	0.26	0.04	0.12	0.56	1.28
Capital Outlay on Roads and Bridges	17.77	10.47	4.36	11.60	4.47	6.63	11.29	58.25
Capital Outlay on General Economic Services	0.01	6.16	0.01	0.02	0.00	3.90	0.01	0.08
Capital outlay Social Security & Welfare	1.09	0.54	0.27	0.00	0.27	0.34	0.70	0.00
Capital outlay on Minor irrigation	1.35	0.61	0.68	0.00	0.34	0.39	1.76	0.00
Total	**397.24**	**157.92**	**38.61**	**19.92**	**100.00**	**100.00**	**100.00**	**100.00**

Table 3: Receipt and Expenditure of Zilla Panchayats – Summary Sheet (Amount in Crores)

Receipt and Expenditure			Total			
			2005-06	2006-07	2007-08	2008-09
RECEIPT	Part-I (Receipt)	Treasury	3675.15	3375.99	3544.87	3819.12
		Bank	601.55	820.53	1307.01	1694.41
		Food grains	2.95	8.26	6.98	2.15
		Sub-total	4279.66	4204.78	4858.85	5515.68
	Part-II (Capital Account)		3.02	0.00	0.00	7.00
	Part-III (Debts, Deposits and Remittance		656.65	531.77	124.99	39.81
	Total Receipt		4939.33	4736.55	4983.84	5562.48
EXPENDITURE	Part-I (Expenditure)	Treasury	2977.18	2989.29	3317.62	3369.57
		Bank	459.40	723.14	932.87	1431.56
		Food grains	0.00	3.66	2.86	0.11
		Sub-Total	3436.58	3716.09	4253.35	4801.24
	Part-II (Capital Account)		397.24	157.92	38.61	19.92
	Part-III (Debts, Deposits and Remittance		738.51	482.89	289.58	52.13
	Total Expenditure		4572.33	4356.90	4581.55	4873.29
Opening Balance		Treasury	1109.77	1043.53	1075.29	1121.29
		Bank	50.07	406.05	561.31	814.77
		Food Grains	0.47	1.46	1.31	78.71
		Sub-Total	1160.31	1451.04	1637.92	2014.77
Closing Balance		Treasury	1414.13	1378.76	1202.70	1594.07
		Bank	112.71	450.54	833.91	1026.64
		Food Grains	0.47	1.39	0.45	83.25
		Sub-Total	1527.32	1830.69	2037.07	2703.96
Grand Total			6099.64	6187.59	6621.76	7577.25

Finances of Taluk Panchayats

The analysis of the receipt and expenditure of Taluk panchayats also shows that certain areas which have recorded impressive performance across all categories of taluks. The capital account expenditure across the taluks is not significant. The summary sheet analysis of the details are given in the table.

Table 4: Taluk Panchayat Finances - Summary (In Crores)				
Details	Year			
	2005-06	2006-07	2007-08	2008-09
Treasury Receipt				
Most Backward	711.18	831.32	930.00	1164.19
More Backward	608.97	671.24	811.07	855.68
Backward	575.21	648.13	777.66	987.02
Relatively Developed	1077.10	1364.79	1310.80	1851.67
Total	2972.47	3515.48	3829.53	4858.56
Bank Receipt				
Most Backward	36.15	72.00	105.35	113.96
More Backward	8.96	30.56	52.87	91.16
Backward	5.90	18.18	65.06	73.82
Relatively Developed	15.91	24.99	67.28	128.72
Total	66.91	145.74	290.56	407.65
Food grains Receipt				
Most Backward	0.00	1.51	0.00	0.00
More Backward	0.00	0.25	0.15	0.00
Backward	0.00	0.21	0.24	0.00
Relatively Developed	0.00	0.22	0.62	0.00
Total	0.00	2.19	1.00	0.00
Sub-total Receipt				
Most Backward	747.33	904.84	1035.35	1278.15
More Backward	617.93	702.05	864.09	946.84
Backward	581.12	666.52	842.96	1060.84
Relatively Developed	1093.00	1390.00	1378.70	1980.38
Total	3039.38	3663.40	4121.10	5266.21
Part-II Capital Account Receipt				
Most Backward	0.06	0.14	0.10	0.04
More Backward	0.02	0.12	0.14	0.05
Backward	0.48	0.18	0.01	0.07
Relatively Developed	0.31	0.00	0.05	0.07
Total	0.87	0.44	0.30	0.24
Part-III Debts, Deposits and Remittance Account Receipt				
Most Backward	6.27	8.51	4.81	0.01
More Backward	9.59	8.93	1.70	0.20
Backward	8.11	8.58	1.81	0.22
Relatively Developed	23.33	31.20	2.71	0.06
Total	47.30	57.22	11.02	0.48
Total Receipt				
Most Backward	753.66	913.49	1040.26	1278.20

More Backward	627.54	711.10	865.93	947.09
Backward	589.71	675.28	844.78	1061.13
Relatively Developed	1116.64	1421.19	1381.45	1980.52
Total	3087.55	3721.06	4132.42	5266.93
Treasury Expenditure				
Most Backward	646.66	707.95	833.48	954.69
More Backward	557.22	578.46	771.39	763.57
Backward	520.80	573.18	684.86	821.92
Relatively Developed	1021.22	1189.05	1213.80	1645.85
Total	2745.89	3048.64	3503.53	4186.03
Bank Expenditure				
Most Backward	28.88	62.78	97.50	116.64
More Backward	11.29	45.34	47.33	89.91
Backward	8.52	17.79	52.77	79.49
Relatively Developed	13.24	42.49	61.57	133.95
Total	61.93	168.41	259.17	419.99
Food grains Expenditure				
Most Backward	0.00	1.53	0.00	0.00
More Backward	0.00	0.10	0.15	0.03
Backward	0.00	0.14	0.00	0.00
Relatively Developed	0.00	0.21	0.30	0.00
Total	0.00	1.98	0.45	0.03
Sub-Total Expenditure				
Most Backward	675.54	772.25	930.98	1071.34
More Backward	568.51	623.91	818.87	853.51
Backward	529.32	591.11	737.63	901.40
Relatively Developed	1034.46	1231.75	1275.68	1779.79
Total	2807.83	3219.03	3763.16	4606.04
Part-II Capital Account Expenditure				
Most Backward	0.19	0.27	0.39	0.25
More Backward	0.18	0.66	0.90	0.24
Backward	0.24	0.50	0.62	0.62
Relatively Developed	0.82	0.31	0.64	0.57
Total	1.44	1.74	2.55	1.69
Part-III Debts, Deposits and Remittance Account Expenditure				
Most Backward	8.02	11.78	6.63	0.04
More Backward	9.87	8.96	2.46	0.22
Backward	8.00	12.85	5.87	0.22
Relatively Developed	25.38	47.90	19.81	0.36
Total	51.26	81.50	34.77	0.84
Total Expenditure				
Most Backward	683.75	784.30	938.00	1071.63
More Backward	578.56	633.53	822.23	853.97
Backward	537.56	604.47	744.11	902.25
Relatively Developed	1060.66	1279.97	1296.13	1780.72
Total	2860.52	3302.27	3800.47	4608.57
Treasury OB				
Most Backward	43.73	77.21	74.70	65.92
More Backward	45.70	47.70	63.33	44.01
Backward	61.77	77.99	74.93	92.63

Relatively Developed	80.18	137.90	118.41	154.23
Total	231.37	340.80	331.37	356.79
Bank OB				
Most Backward	0.88	25.44	22.19	36.70
More Backward	0.28	10.66	13.92	34.00
Backward	0.11	11.40	15.80	36.47
Relatively Developed	2.00	11.34	19.92	47.81
Total	3.28	58.84	71.83	154.98
Food Grains OB				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.03
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.02	0.00
Total	0.00	0.00	0.02	0.03
Sub-Total OB				
Most Backward	44.61	102.65	96.89	102.62
More Backward	45.98	58.36	77.25	78.03
Backward	61.88	89.39	90.73	129.10
Relatively Developed	82.18	149.23	138.35	202.04
Total	234.65	399.64	403.22	511.80
Treasury CB				
Most Backward	105.84	199.49	173.77	270.81
More Backward	87.66	121.27	97.67	135.74
Backward	112.69	140.74	167.19	250.11
Relatively Developed	131.00	274.58	198.08	358.71
Total	437.19	736.08	636.72	1015.37
Bank CB				
Most Backward	1.83	32.62	25.37	38.39
More Backward	1.91	14.44	23.25	35.41
Backward	0.24	19.54	24.21	37.87
Relatively Developed	1.77	16.05	25.58	43.13
Total	5.75	82.65	98.42	154.80
Food Grains CB				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.03	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.01	0.00	0.00
Total	0.00	0.01	0.03	0.00
Sub-Total CB				
Most Backward	107.68	232.11	199.15	309.19
More Backward	89.57	135.71	120.95	171.15
Backward	112.93	160.28	191.40	287.98
Relatively Developed	132.77	290.64	223.67	401.84
Total	442.95	818.74	735.17	1170.16
Grand Total				
Most Backward	798.27	1016.14	1137.15	1380.82
More Backward	673.52	769.46	943.18	1025.12
Backward	651.59	764.67	935.51	1190.24
Relatively Developed	1198.82	1570.43	1519.80	2182.56
Total	**3322.20**	**4120.69**	**4535.64**	**5778.73**

The analysis of the data on the receipt and expenditure under various development heads indicate that they do not receive sufficient grants to take up any meaningful development works in the taluks. The picture is the same across all categories of taluks. Even where the funds are released it is mainly related to salary related expenses or the funds which are released to the gram panchayats through the Taluk panchayats.

Table 5: Category-wise Receipt and Expenditure by Taluk Panchayats

RECEIPTS (In Crores)	Year			
	2005-06	2006-07	2007-08	2008-09
Public Works				
Most Backward	0.00	14.11	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.02	0.00	0.00
Relatively Developed	0.00	0.00	0.05	0.00
Total	0.00	14.14	0.05	0.00
General Education				
Most Backward	253.93	312.28	375.76	666.31
More Backward	241.09	328.05	396.75	494.21
Backward	300.15	340.36	378.96	520.72
Relatively Developed	475.54	828.83	749.23	1229.24
Total	1270.71	1809.53	1900.70	2910.48
Sports and Youth Services				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	13.94	0.00	0.00
Total	0.00	13.94	0.00	0.00
Art & Culture and Library				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.04	0.03	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.04	0.04	0.00	0.00
Medical and Public Health				
Most Backward	2.23	1.90	2.21	3.51
More Backward	2.33	2.69	3.84	4.28
Backward	2.42	2.14	2.38	3.17
Relatively Developed	5.00	5.57	5.45	8.53
Total	11.99	12.31	13.87	19.50
Family Welfare				
Most Backward	0.01	0.01	0.00	0.00
More Backward	0.13	0.01	0.00	0.00
Backward	0.56	0.74	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.70	0.76	0.00	0.00
Water supply and Sanitation				
Most Backward	0.49	0.26	0.33	0.34

More Backward	0.46	0.85	0.83	0.51
Backward	0.43	0.83	0.24	0.37
Relatively Developed	1.50	2.49	1.88	1.41
Total	2.87	4.43	3.28	2.62
Housing				
Most Backward	0.00	0.07	0.00	0.15
More Backward	4.40	3.39	0.08	1.28
Backward	6.77	0.24	0.00	0.07
Relatively Developed	2.88	0.73	0.03	0.48
Total	14.06	4.42	0.11	1.98
Welfare of SC/STs/OBC				
Most Backward	14.04	14.36	18.25	31.44
More Backward	4.81	15.53	19.22	23.48
Backward	5.82	8.53	9.22	18.91
Relatively Developed	19.27	40.87	38.38	68.09
Total	43.94	79.28	85.07	141.92
Labour and Employment Scheme				
Most Backward	0.01	0.07	0.02	0.02
More Backward	0.04	0.02	0.04	0.03
Backward	0.05	0.02	1.09	0.17
Relatively Developed	0.15	0.35	1.85	0.08
Total	0.25	0.47	3.00	0.30
Social Security and Welfare (Women and Child Development)				
Most Backward	12.63	17.07	24.26	32.97
More Backward	12.64	19.74	24.59	28.10
Backward	9.44	12.09	15.78	21.73
Relatively Developed	27.26	39.10	45.22	70.03
Total	61.96	88.00	109.85	152.84
Nutrition				
Most Backward	10.67	25.85	27.10	36.06
More Backward	10.44	20.38	28.16	26.03
Backward	8.32	16.12	22.58	17.51
Relatively Developed	15.03	32.28	32.77	49.92
Total	44.47	94.62	110.61	129.52
Crop Husbandry				
Most Backward	6.77	7.78	8.77	11.79
More Backward	4.65	6.25	9.37	8.44
Backward	6.07	6.52	6.43	7.93
Relatively Developed	10.15	12.65	14.74	21.01
Total	27.66	33.20	39.31	49.18
Soil and Water Conservation				
Most Backward	0.26	0.09	0.19	0.46
More Backward	0.52	0.01	0.01	0.02
Backward	0.20	0.52	1.12	0.01
Relatively Developed	0.03	0.21	0.03	0.05
Total	1.01	0.83	1.35	0.54
Animal Husbandry				
Most Backward	6.57	8.94	11.62	18.99
More Backward	6.53	8.68	12.98	15.19
Backward	6.41	7.69	10.10	15.47
Relatively Developed	12.74	20.38	21.07	33.08

Total	32.25	45.68	55.78	82.72
Forestry and Wildlife				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00
Co-Operation				
Most Backward	0.05	0.08	0.09	0.13
More Backward	0.05	0.09	0.10	0.13
Backward	0.13	0.11	0.12	0.13
Relatively Developed	0.25	0.39	0.26	0.45
Total	0.48	0.68	0.56	0.84
Special Programmes for Rural Development				
Most Backward	1.96	3.45	0.17	0.09
More Backward	1.31	3.31	6.65	0.08
Backward	1.53	1.15	0.97	0.04
Relatively Developed	1.82	3.81	2.85	0.62
Total	6.62	11.72	10.64	0.83
Rural Employment (SGRY)				
Most Backward	1.32	1.93	1.63	0.03
More Backward	2.09	1.59	4.70	0.04
Backward	1.66	2.59	1.86	0.00
Relatively Developed	3.38	3.18	2.33	1.37
Total	8.44	9.28	10.51	1.44
Other Rural Development Programmes- DRDA				
Most Backward	367.26	398.48	434.93	334.53
More Backward	280.20	240.31	305.13	220.89
Backward	168.52	199.06	263.98	336.32
Relatively Developed	406.94	310.81	409.65	238.85
Total	1222.93	1148.66	1413.69	1130.59
Minor Irrigation				
Most Backward	0.01	0.00	0.00	0.00
More Backward	0.02	0.00	0.00	0.00
Backward	15.66	18.30	0.00	0.00
Relatively Developed	0.11	0.00	0.00	0.00
Total	15.80	18.30	0.00	0.00
Bio-gas				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.01	0.00
Total	0.00	0.00	0.01	0.00
Village and Small Industries				
Most Backward	0.03	0.03	0.04	0.08
More Backward	0.05	0.06	0.10	0.06
Backward	0.05	0.04	0.04	0.10
Relatively Developed	0.09	0.07	0.06	0.07
Total	0.22	0.20	0.24	0.31
Industries				
Most Backward	0.00	0.00	0.00	0.00

More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.01	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.01	0.00
Sericulture				
Most Backward	0.01	0.01	0.02	0.01
More Backward	0.01	0.01	0.02	0.00
Backward	0.00	0.01	0.01	0.00
Relatively Developed	0.01	0.03	0.03	0.04
Total	0.04	0.05	0.07	0.05
Roads and Bridges				
Most Backward	0.22	0.25	0.53	1.02
More Backward	0.28	0.27	0.56	1.03
Backward	0.28	0.31	0.56	0.73
Relatively Developed	0.43	0.64	1.17	1.33
Total	1.21	1.48	2.83	4.11
Other Social Services				
Most Backward	5.48	10.47	15.98	17.82
More Backward	10.78	8.31	16.65	12.45
Backward	14.24	16.06	19.81	13.54
Relatively Developed	24.72	39.19	30.75	25.19
Total	55.21	74.03	83.19	69.00
Other General Economic Services				
Most Backward	0.00	0.00	0.00	0.03
More Backward	0.00	0.00	0.04	0.10
Backward	0.00	0.00	0.02	0.03
Relatively Developed	0.00	0.00	0.01	0.07
Total	0.00	0.00	0.07	0.23
Hill areas				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00
Other Agricultural programmes				
Most Backward	0.27	0.30	0.01	0.02
More Backward	0.54	0.61	0.00	0.01
Backward	0.04	0.03	0.00	0.01
Relatively Developed	1.46	1.51	0.45	0.00
Total	2.30	2.46	0.46	0.04
Other Scientific Research				
Most Backward	0.00	0.00	0.00	0.00
More Backward	2.19	2.73	0.00	0.01
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	2.19	2.73	0.00	0.01
Value of food grains				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.08	0.26	0.00
Backward	0.00	0.00	0.00	0.14
Relatively Developed	0.00	0.75	0.00	0.00

Total	0.00	0.83	0.26	0.14
Other receipts				
Most Backward	26.83	12.68	7.75	6.48
More Backward	29.41	16.62	-8.61	34.91
Backward	26.39	14.47	42.39	29.44
Relatively Developed	68.30	26.49	28.48	154.60
Total	150.92	70.26	70.01	225.42
Suspense account				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.86	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.18
Total	0.00	0.00	0.86	0.18
Stamps and Registration				
Most Backward	0.13	0.87	0.35	1.92
More Backward	0.01	0.08	0.16	1.06
Backward	0.02	0.14	0.00	0.48
Relatively Developed	0.03	0.14	0.31	1.35
Total	0.19	1.23	0.82	4.81
Sub-Total				
Most Backward	711.18	831.32	930.00	1164.19
More Backward	614.99	679.67	822.47	872.34
Backward	575.21	648.13	777.66	987.02
Relatively Developed	1077.10	1384.42	1387.08	1906.06
Total	2978.48	3543.54	3917.21	4929.60
Bank transactions/CSS				
Most Backward	36.15	72.00	105.35	113.96
More Backward	8.96	31.15	52.87	92.57
Backward	5.90	18.18	65.06	73.82
Relatively Developed	15.91	26.00	82.66	130.73
Total	66.91	147.34	305.94	411.07
SGRY Food Grains and Scarcity				
Most Backward	0.00	1.51	0.00	0.00
More Backward	0.00	0.25	0.15	0.00
Backward	0.00	0.21	0.24	0.00
Relatively Developed	0.00	0.22	0.62	0.00
Total	0.00	2.19	1.00	0.00
Grand Total				
Most Backward	**747.33**	**904.84**	**1035.35**	**1278.15**
More Backward	**623.95**	**711.07**	**875.49**	**964.90**
Backward	**581.12**	**666.52**	**842.96**	**1060.84**
Relatively Developed	**1093.00**	**1410.64**	**1470.36**	**2036.79**
Total	**3045.40**	**3693.07**	**4224.15**	**5340.67**

EXPENDITURE (In Crores)	**Year**			
	2005-06	**2006-07**	**2007-08**	**2008-09**
Public Works				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	19.22	0.00	0.00	0.00

Relatively Developed	0.00	0.00	0.00	0.00
Total	19.22	0.00	0.00	0.00
General Education				
Most Backward	484.23	498.07	558.58	715.70
More Backward	413.33	396.77	533.41	572.74
Backward	370.76	417.01	480.28	624.79
Relatively Developed	778.21	905.20	960.14	1295.43
Total	2046.54	2217.04	2532.40	3208.65
Sports and Youth Services				
Most Backward	0.01	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.07	0.06	0.00	0.00
Relatively Developed	5.06	5.12	0.00	0.00
Total	5.14	5.18	0.00	0.00
Art & Culture and Library				
Most Backward	0.00	0.01	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.02	0.00
Total	0.00	0.01	0.02	0.00
Medical and Public Health				
Most Backward	4.66	3.39	3.36	4.07
More Backward	5.56	3.45	4.67	5.05
Backward	4.10	2.57	3.12	3.81
Relatively Developed	8.37	6.44	6.61	8.57
Total	22.68	15.85	17.75	21.50
Family Welfare				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.01	0.00	0.00	0.00
Total	0.01	0.00	0.00	0.00
Water supply and Sanitation				
Most Backward	0.48	0.37	0.36	0.26
More Backward	0.39	0.41	0.49	0.51
Backward	0.22	0.53	0.55	0.50
Relatively Developed	1.31	1.82	2.26	1.59
Total	2.40	3.12	3.67	2.84
Housing				
Most Backward	0.00	0.16	0.00	0.21
More Backward	2.24	2.18	0.46	0.68
Backward	4.18	0.79	0.00	0.14
Relatively Developed	3.35	0.92	9.61	1.93
Total	9.77	4.05	10.07	2.96
Welfare of SC/STs/OBC				
Most Backward	37.77	42.42	50.25	63.44
More Backward	30.14	30.89	42.15	43.38
Backward	26.00	27.85	46.09	51.92
Relatively Developed	47.96	62.45	78.27	94.70
Total	141.86	163.60	216.76	253.44
Labour and Employment Scheme				

Most Backward	0.02	0.06	0.91	0.02
More Backward	0.02	0.02	0.01	0.01
Backward	0.08	0.06	0.04	0.08
Relatively Developed	0.17	0.11	0.07	0.11
Total	0.29	0.25	1.04	0.23
Social Security and Welfare (Women and Child Development)				
Most Backward	26.64	29.24	35.03	43.81
More Backward	24.48	24.51	31.07	37.56
Backward	22.47	24.47	29.23	39.91
Relatively Developed	46.11	49.91	53.87	78.60
Total	119.70	128.13	149.19	199.87
Nutrition				
Most Backward	28.90	46.13	45.75	53.32
More Backward	25.02	34.48	41.52	40.96
Backward	23.53	31.13	34.88	40.54
Relatively Developed	39.81	58.28	58.02	78.52
Total	117.27	170.02	180.18	213.34
Crop Husbandry				
Most Backward	12.85	11.46	12.74	14.86
More Backward	9.65	8.28	11.19	10.22
Backward	8.96	8.77	8.76	10.87
Relatively Developed	15.48	15.33	18.07	21.31
Total	46.95	43.83	50.76	57.26
Soil and Water Conservation				
Most Backward	1.92	0.90	0.49	0.03
More Backward	0.01	0.02	0.02	0.02
Backward	0.21	0.11	0.02	0.03
Relatively Developed	0.15	0.13	0.05	0.05
Total	2.28	1.15	0.58	0.12
Animal Husbandry				
Most Backward	14.21	16.40	20.04	24.24
More Backward	11.81	12.93	19.17	19.73
Backward	11.33	13.70	16.75	20.11
Relatively Developed	21.57	27.19	31.95	40.07
Total	58.91	70.23	87.91	104.15
Fisheries				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.01	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.00	0.01	0.00	0.00
Co-Operation				
Most Backward	0.10	0.15	0.10	0.12
More Backward	0.05	0.10	0.12	0.16
Backward	0.09	0.14	0.11	0.18
Relatively Developed	0.21	0.22	0.53	0.30
Total	0.46	0.61	0.87	0.76
Special Programmes for Rural Development				
Most Backward	2.10	2.76	1.18	0.65
More Backward	1.55	2.73	2.26	0.15
Backward	2.85	3.09	1.76	0.23

Relatively Developed	4.27	3.68	3.08	1.72
Total	10.77	12.27	8.28	2.75
Rural Employment (SGRY)				
Most Backward	5.60	6.35	2.19	0.32
More Backward	7.02	11.12	21.72	0.06
Backward	5.44	3.72	1.97	1.12
Relatively Developed	7.02	5.31	13.58	7.42
Total	25.08	26.51	39.46	8.92
Other Rural Development Programmes- DRDA				
Most Backward	21.85	30.31	71.35	30.27
More Backward	22.16	43.72	39.47	29.45
Backward	18.57	19.13	41.37	26.48
Relatively Developed	32.54	36.39	41.57	51.95
Total	95.12	129.55	193.77	138.16
Minor Irrigation				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.01	0.00	0.00	0.01
Backward	0.01	0.00	0.00	0.00
Relatively Developed	0.02	0.00	0.00	0.00
Total	0.03	0.00	0.00	0.01
Bio-gas				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.05	0.15	0.00	0.00
Total	0.05	0.15	0.00	0.00
Village and Small Industries				
Most Backward	0.08	0.08	0.06	0.08
More Backward	0.10	0.11	0.14	0.11
Backward	0.08	0.08	0.19	0.12
Relatively Developed	0.07	0.09	0.09	0.09
Total	0.33	0.37	0.47	0.39
Industries				
Most Backward	0.03	0.00	0.03	0.00
More Backward	0.00	0.00	0.01	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.03	0.00	0.04	0.00
Sericulture				
Most Backward	0.01	0.01	0.01	0.00
More Backward	0.01	0.01	0.02	0.00
Backward	0.00	0.01	0.01	0.00
Relatively Developed	0.02	0.03	0.03	0.01
Total	0.05	0.06	0.06	0.02
Roads and Bridges				
Most Backward	0.31	0.36	0.77	0.99
More Backward	0.39	0.38	0.78	0.75
Backward	0.38	0.44	0.86	0.88
Relatively Developed	0.68	0.80	1.47	1.55
Total	1.75	1.98	3.88	4.17
Other Social Services				

Most Backward	0.56	0.65	0.74	0.77
More Backward	3.65	2.92	5.62	11.37
Backward	1.01	1.24	1.57	0.03
Relatively Developed	4.99	8.64	8.59	8.31
Total	10.22	13.45	16.51	20.48
Other General Economic Services				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.04	0.10
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.04	0.10
Hill areas				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00
Other Agricultural programmes				
Most Backward	0.28	0.27	0.00	0.00
More Backward	0.56	0.55	0.00	0.00
Backward	0.01	0.00	0.00	0.00
Relatively Developed	1.01	1.10	0.00	0.00
Total	1.87	1.92	0.00	0.00
Other Scientific Research				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.00	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00
Value of food grains				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.00	0.00	0.23	0.00
Backward	0.00	0.00	0.00	0.00
Relatively Developed	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.23	0.00
Transferred to TP				
Most Backward	0.00	0.00	0.00	0.00
More Backward	0.04	0.00	7.74	0.00
Backward	0.13	2.17	0.01	0.00
Relatively Developed	0.00	0.26	3.07	0.00
Total	0.17	2.43	10.82	0.00
Other receipts				
Most Backward	3.67	18.14	29.35	1.22
More Backward	4.11	8.94	18.42	0.15
Backward	0.88	15.97	17.29	0.06
Relatively Developed	2.02	17.05	13.98	0.28
Total	10.69	60.10	79.03	1.71
Stamps and Registration				
Most Backward	0.38	0.26	0.19	0.33
More Backward	0.03	0.00	0.11	0.11
Backward	0.21	0.14	0.00	0.14

Relatively Developed	0.74	0.87	0.99	1.40
Total	1.36	1.27	1.29	1.98
Sub-Total				
Most Backward	646.66	707.95	833.48	954.69
More Backward	562.34	584.51	780.81	773.29
Backward	520.80	573.18	684.86	821.92
Relatively Developed	1021.22	1207.47	1305.92	1693.91
Total	2751.01	3073.11	3605.07	4243.81
Bank transactions/CSS				
Most Backward	28.88	62.78	97.50	116.64
More Backward	11.29	45.98	47.33	91.04
Backward	8.52	17.79	52.77	79.49
Relatively Developed	13.24	43.40	62.91	135.65
Total	61.93	169.95	260.51	422.81
SGRY Food Grains and Scarcity				
Most Backward	0.00	1.53	0.00	0.00
More Backward	0.00	0.10	0.15	0.03
Backward	0.00	0.14	0.00	0.00
Relatively Developed	0.00	0.21	0.30	0.00
Total	0.00	1.98	0.45	0.03
Grand Total				
Most Backward	**675.54**	**772.25**	**930.98**	**1071.34**
More Backward	**573.63**	**630.60**	**828.29**	**864.33**
Backward	**529.32**	**591.11**	**737.63**	**901.40**
Relatively Developed	**1034.46**	**1251.08**	**1369.13**	**1829.56**
Total	**2812.95**	**3245.05**	**3866.04**	**4666.62**

6. An Overview of Finances of Gram Panchayats

Ground Realities

Resource mobilization by the panchayats constitutes only a small amount compared to their total income. A point to be highlighted here is that even within the districts, there are efficient resource mobilizing panchayats in the backward districts and poor resource mobilizing panchayats in developed districts.

Karnataka state has brought out activity mapping clearly laying down roles and responsibilities for different levels of PRIs. West Bengal has recently taken the initiative in this direction and has finalized the activity mapping for a few departments. In Tamilnadu, no such initiative has been taken so far. In the absence of clear activity mapping and devolving Functions, Functionaries and Funds to the PRIs, there is no clear-cut expenditure assignment between the state and the panchayats. Even in Karnataka where the 3Fs have been transferred to the PRIs in respect of all the 29 activities and activity mapping has been prepared, there still exist inter-tier disparities. A number of initiatives have been taken by the Karnataka state government transferring some of the important schemes to the Gram Panchayats (like planning and implementation of all housing schemes and drinking water schemes). However, this has resulted in Zilla Panchayats and the MLAs protesting against such transfers to the Gram Panchayats.

Due to a number of factors the realization of property tax has been poor in the states. The important among them are:

- small size of the panchayats in terms of population and area
- lack of secretarial and other administrative resources
- insufficient time and energy
- potential unpopularity if taxes are collected in their wards / localities
- unwillingness of the local people to pay taxes if the panchayats fail to provide certain basic amenities in rural areas.

The discussions on resource mobilization indicate that the following factors play an important role in analysis of the fiscal health at the grassroots levels.

- Non-property tax revenue (either per capita or per household) was positively correlated with general levels of prosperity (backward district / developed district) i.e. panchayats in developed districts raised more non-property tax revenue. Property tax revenue was inversely correlated with prosperity – panchayats in backward areas mobilize more taxes. The possible explanation for this may be that the panchayats have compulsorily to raise resources to meet some of their expenditure obligations like payment of salary to clerk/bill collector. Such a situation prevails both in Karnataka and Tamilnadu. However in West Bengal, the salaries of all the panchayat staff along with some other expenditure are directly reimbursed by the state government. On the contrary Karnataka has stringent expenditure guidelines. One of the possible consequences of having such guidelines is that the panchayats are under pressure to raise certain minimum resources on their own. But looking at the performance of the states in the area of resource mobilization, according to the recent figures, Karnataka which has only 2 per cent of the total panchayats in India mobilizes almost 11 per cent of the total resources mobilized by the panchayats in the country. In Karnataka there is a hard budget constraint because of these guidelines on Panchayats and to a certain extent in Tamilnadu too whereas the WB situation is quite different. Possibly this is one of the reasons in Karnataka that the GPs are likely to turn out to be more 'responsible' in their financial management.
- Property taxes are generally low and difficult to collect, practically and politically. Panchayat leaders, in both political and administrative roles tend to prefer to seek revenue from other sources and do not wish to rely on property tax.
- If the other revenue resources are scarce – in poor, small and predominantly agrarian areas –if the basic costs of running the panchayat are to be met out of the GP's own resources then there is little choice but initiate efforts into collection of more property tax. It is possible that the tax effort may result in unpopularity for the Panchayat.
- The Property Tax in the three states is based on the annual value (market value) or annual rental value of the property. In West Bengal the tax is levied on the "annual value" of the property (land and buildings) which is determined at 6 per cent of its market value. The tax is calculated at 1 per cent if the annual value does not exceed Rs.1000 and 2 per cent if it exceeds Rs.1000. All properties with annual value of less than Rs.250 are exempted from the taxation. The Karnataka government in May 2003 introduced a new policy which standardised the rules for all Gram Panchayats to fix property tax. This was aimed at overcoming some of the fundamental problems in property tax valuation, the important amongst them being :

- arbitrary fixation of the value of the property
- lack of proper guidelines and the ignorance of the staff
- poor people were found to be paying more property tax per Sq.ft while the rich were not paying at proportionate rates.
- even where people were willing to pay, the collection machinery was not active
- there were significant number of properties which were not enumerated

The new rules made the process of property measurement and valuation more transparent and ensured people's participation in the tax determination process. This ensured that the inequities seen in the earlier procedure were removed and provided for systematic enumeration to plug tax leakage.

The new guidelines envisage that all buildings within the Gram Panchayat area are classified into three categories depending on the kind of construction. The most easily recognizable proxy for value of property in rural areas is the quality and type of roof construction adopted; therefore it was proposed that properties would be classified as concrete or slab roofed, tile roofed or thatched.

- The extent of area in each property under each kind of construction as listed above was to be measured,
- Buildings were also classified on the basis of end use into residential or commercial use,
- From the band of maximum and minimum ARV values suggested for each Gram Panchayat by a committee headed by the CEO, in which the concerned Gram Panchayat was also a member, the Gram Panchayat was to fix a rate per square foot for each category as specified above;
- The rate fixed per category was to be extrapolated for the area under each category to arrive at the annual lettable value,
- The Gram Panchayat was to apply a percentage of tax (up to 10 percent as prescribed under the law) to the annual lettable value as arrived at above, in order to arrive at the property tax leviable on each property. [Raghunandan, 2006]

- Simultaneously the state government also took a number of measures for simplification of and streamlining the flow of funds to the PRIs. Significant among them were :
    - Reduction in the number of scheme heads of accounts from 658 to 338

- Direct release of funds through banks to the Gram Panchayats
- Reconciling the long pending electricity dues of the Gram Panchayats

Tax Administration:

The Gram Panchayat Panchayat Development Officer (newly recruited), GP Secretary and the bill collector in Karnataka and the Executive Assistant in West Bengal are entrusted with the collection of all panchayat revenues. These should be deposited in a scheduled or a cooperative bank located within the panchayat area. The Adhyaksha and the Secretary in Karnataka are the joint signatories for operating the transactions. Property tax being the major source of revenue in Karnataka, the assessment is done by the Secretary and the bill collector as per the circular issued by the Government and the decision taken at the panchayat meeting. An interesting point to be noted here is that in Tamilnadu, the tax assessment is done by the elected representative – Adhyaksha of the panchayat himself. The assessment is done in an arbitrary manner in all the three states without adherence to any rules or guidelines that are in force. In Karnataka, a detailed circular was issued in 2003 on assessment of property tax with annual rental value as the important criteria. However the revision is still to be taken up in most panchayats. During the course of the focus discussions with elected representatives, the members strongly protested against the state government issuing such guidelines when the powers of taxation have been vested with the panchayats. Some of them raised the question whether the panchayat should adhere to the resolution of the Gram Sabha or should follow the government guidelines? There were also a number of instances where the meetings of the GPs decided against the revision of the taxes as per the government guidelines.

Incentive mechanisms:

A mention has already been made in the earlier section on the incentive mechanism introduced in the three states to improve the resource mobilization efforts by the panchayats. In Tamilnadu, the panchayats are provided with matching grants equivalent to 125 percent of the house tax collected by the panchayat. Earlier, this was 300 percent. However, this matching grant has not been released on a regular basis by the state government and streamlining of procedure to provide the incentive requires immediate attention. In Tamilnadu, a number of instances of misuse of the scheme have also been noticed. The Adhyaksha and the clerk pool in their own money to show 100 percent tax collection to get the incentive grant from the state government. In West Bengal, the First SFC suggested certain incentive schemes for the local bodies to encourage them for the augmentation of their own incomes. It spelt out that since 95-96, the GP which raised its own income by 5 percent or more in a financial year would be rewarded from the district level incentive fund.

In Karnataka, a new incentive scheme has been announced for the panchayats which perform exceptionally well in resource mobilization subject to certain conditions. Accordingly, the panchayats who achieve the following by the end of December every year would be provided with a cash incentive of Rs. 50000/-

- 75 per cent of house tax collection
- 75 per cent of water tax collection
- clearance of dues on all electricity bills

In order to improve the resource mobilisation in rural areas in Karnataka, the services of Stree Shakti Groups [Women's Self Help Groups] are being utilized.. They have been empowered to collect the taxes and credit 90 percent to the panchayats and retain the remaining 10 per cent.

Expenditure Guidelines / Restrictions:

An important issue which has to be looked into relating to the efficient functioning of panchayats is the extent of autonomy enjoyed by these institutions in expenditure decisions. Financial autonomy has to be seen against the degree to which the Panchayat can take independent decisions regarding expenditure. Through guidelines issued from time to time, the Karnataka government has placed certain restrictions on the expenditure which has to be met out of the resources mobilized by the GPs. Some of the important restrictions are as follows:

- If the Internal Resource Mobilisation by the GP is less than Rs.30000/- per annum, it cannot recruit a Bill Collector or Clerk
- The salaries of the Bill Collector and the Clerk should be paid out of own sources
- Honorarium of Adhyaksha and Upadhyaksha and their TA and DA bills should be paid out of the own resources mobilized
- 20 per cent of the resources should be spent on Development Schemes for SCs and STs
- 10 per cent of the amount should be compulsorily spent on social forestry schemes and protection of environment

- Staff pattern and their salaries are fixed by the Government. Even if the own resource mobilization is very good, the staff cannot be paid higher salaries
- GPs should not spend more than 40 per cent of their own sources on salaries to Panchayat staff
- Expenditure incurred on capacity building programmes of Elected Representatives of GPs should be met out of their own resources
- Expenditure on stationery and telephone bills should be out of own resources
- GPs should contribute a proportion of the EFC grants from their own resources

Discussions with elected representatives, officials and people on their views on these restrictions, indicate that such restrictions are needed for the smooth functioning of the system. During the interaction with the elected representatives they blamed the officials for misusing the money and vice-versa. However a village leader in one of the panchayats remarked: “Left to themselves, both the elected representatives and officials join hands and misuse the panchayat money. If some control is exercised by way of restrictions, they will have relatively less scope for squandering the panchayat resources”. However, these guidelines / restrictions are not in place in Tamilnadu and West Bengal. To reiterate the point made earlier in West Bengal the government is quite protective of Panchayats and there is also a close Panchayat-party nexus. In Tamilnadu essentially the government is not supportive of panchayats and therefore the absence of restrictions has to be appraised against the backdrop of Panchayats having access to less resource than their counterparts in Karnataka.

Analysis of GP Fiscal Data:

The data related to the finances of the Gram Panchayats has been analysed in the following sections.

Table 1: District-wise Opening Balance of Gram Panchayats (in crores)

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	1.94	4.75	10.84	10.44
Bangalore Rural	1.69	4.46	8.52	12.08
Bangalore Urban	2.34	4.42	4.83	7.06
Belgaum	6.67	17.59	31.48	38.35
Bellary	0.93	3.93	11.64	17.99
Bidar	3.18	5.56	10.47	12.87
Bijapur	1.05	4.03	6.92	3.12
Chamaraja Nagara	4.18	6.61	13.93	12.77
Chik Ballapur	1.92	4.66	8.18	5.72
Chikmagalur	4.00	12.89	19.77	20.79
Chitradurga	3.98	11.28	15.61	16.07
Dakshina Kannada	4.55	10.55	16.78	13.48
Davanagere	2.94	8.77	25.16	29.91
Dharwar	2.84	7.25	7.57	8.88
Gadag	0.74	3.39	5.85	5.57
Gulbarga	3.47	7.88	26.62	24.52
Hassan	4.17	6.42	20.98	13.20
Haveri	1.52	4.42	6.08	5.43
Kodagu	1.31	4.05	5.08	8.13
Kolar	4.59	6.72	11.51	8.87
Koppal	1.66	2.40	7.41	10.19
Mandya	1.18	4.74	5.33	15.88
Mysore	5.39	8.89	15.70	21.03
Raichur	0.56	2.09	4.71	6.54
Ramanagaram	2.21	5.97	13.32	14.77
Shimoga	5.39	11.40	24.41	19.93
Tumkur	5.24	11.77	20.84	26.73
Udupi	4.98	10.98	5.57	14.10
Uttara Kannada	5.05	14.13	23.33	23.51
Yadgir	1.33	2.88	15.43	12.38
Total	**90.99**	**214.88**	**403.89**	**440.32**

Table 2: Opening Balance of Gram Panchayats according to Category of Taluk (in crores)

Category of Taluks	2005-06	2006-07	2007-08	2008-09
Most Backward	20.37	48.11	124.99	132.97
More Backward	18.03	43.47	77.59	89.01
Backward	13.78	32.76	63.08	62.86
Relatively Developed	38.80	90.53	138.23	155.48
Total	**90.99**	**214.88**	**403.89**	**440.32**

Tables 1 and 2 provide the data on the opening balance at Gram Panchayats across districts as also different categories of Taluks. There has been a significant increase in the opening balance of Gram Panchayats over the years. The reasons for this can be traced to the increased flow of funds to the Gram Panchayats especially under the MNREGS, delays in the utilization of funds etc. Discussions with the GP officials during field visits indicated that this is also due to late release of funds by the State and Central governments for various development schemes during the end of the financial year.

Table 3 : Grant in Aid to the Gram Panchayats (in crores)

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	16.82	25.06	27.14	41.66
Bangalore Rural	13.33	21.01	26.66	31.53
Bangalore Urban	9.42	12.11	18.34	16.14
Belgaum	64.57	95.11	117.36	167.05
Bellary	17.47	39.67	45.09	60.32
Bidar	22.56	42.80	58.23	99.33
Bijapur	14.80	21.11	24.21	40.86
Chamaraja Nagara	19.42	29.08	29.27	30.84
Chik Ballapur	20.95	24.10	19.74	25.19

Chikmagalur	36.33	51.91	49.17	57.67
Chitradurga	30.90	82.77	69.37	78.83
Dakshina Kannada	24.71	38.37	39.11	33.20
Davanagere	39.15	102.78	90.02	114.78
Dharwar	19.84	29.16	32.44	39.63
Gadag	11.95	15.50	10.62	19.88
Gulbarga	28.46	68.14	62.02	88.43
Hassan	24.45	42.37	45.28	46.74
Haveri	16.01	19.20	20.40	33.77
Kodagu	15.38	19.48	19.28	29.23
Kolar	26.31	30.18	31.58	35.08
Koppal	17.47	24.61	30.73	37.18
Mandya	20.57	24.36	60.97	53.95
Mysore	24.92	41.43	54.14	53.45
Raichur	7.02	15.34	19.53	26.14
Ramanagaram	19.39	33.36	41.07	31.39
Shimoga	36.40	61.45	52.30	90.09
Tumkur	46.00	72.68	95.45	98.81
Udupi	26.38	39.71	49.92	32.07
Uttara Kannada	31.19	44.92	51.65	56.21
Yadgir	13.63	38.65	36.09	49.65
Total	**715.81**	**1206.43**	**1327.18**	**1619.08**

Table 4 : Grant in Aid to the Gram Panchayats based on Category of Taluk (in crores)

Category of Taluk	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Most Backward	175.57	358.39	394.88	499.12

More Backward	153.80	261.72	291.86	345.94
Backward	123.01	174.57	204.72	253.41
Relatively Developed	263.43	411.75	435.72	520.61
Total	**715.81**	**1206.43**	**1327.18**	**1619.08**

The above Tables 3 and 4 provide the details of Grant in Aid to the Gram Panchayats across the state. It may be noted that there has been a significant in the fund flow over the years which has more than doubled during the period 2005-06. The Most backward taluks have received a greater share in the devolution of funds during the period which can be partly explained to the additional funds provided under the Gram Swaraj project

The own source of revenue of the Gram Panchayats have improved by more than 50 per cent between 2005-06 to 2008-09. This increase has taken place across many of the districts in the state and different categories of taluks (Table 5 and Table 6). It is possible that the Gram Panchayats over the years have been improving the collection of taxes and fees to mobilize more resources for meeting their expenditure.

Table 5: District-wise Own Source of Revenue of Gram Panchayats (in crores)

District	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Bagalkote	2.09	2.51	2.48	2.64
Bangalore Rural	7.68	10.96	13.43	12.65
Bangalore Urban	13.11	17.34	21.57	25.31
Belgaum	8.84	12.71	16.55	17.45
Bellary	2.56	3.09	3.90	5.04
Bidar	1.22	1.15	2.14	2.04
Bijapur	1.77	1.47	2.06	1.92
Chamaraja Nagara	1.25	1.92	1.39	1.31
Chik Ballapur	2.17	2.79	4.73	4.40

Chikmagalur	6.27	6.28	6.21	6.19
Chitradurga	2.53	2.42	3.49	3.45
Dakshina Kannada	6.72	7.98	8.66	14.31
Davanagere	4.14	4.15	4.77	5.56
Dharwar	1.89	2.31	2.64	2.78
Gadag	1.40	1.62	1.67	2.79
Gulbarga	3.11	3.30	4.44	4.30
Hassan	4.58	5.44	5.47	5.97
Haveri	3.02	3.18	2.40	4.39
Kodagu	3.87	4.22	5.30	4.82
Kolar	3.45	3.31	4.93	3.75
Koppal	1.69	1.58	2.72	5.12
Mandya	6.07	7.20	8.12	9.46
Mysore	5.59	6.70	12.47	9.28
Raichur	0.50	0.48	0.64	1.14
Ramanagaram	5.28	6.29	7.57	7.46
Shimoga	5.91	6.44	5.29	6.75
Tumkur	6.95	7.83	10.95	11.45
Udupi	6.38	7.38	9.11	9.86
Uttara Kannada	3.73	4.32	3.76	6.47
Yadgir	1.17	1.27	1.47	1.30
Total	124.94	147.66	180.32	199.38

Table 6 : Own Source of Revenue of Gram Panchayats according to Category of Taluks (in crores)

Category of Taluks	2005-06	2006-07	2007-08	2008-09
Most Backward	18.43	19.37	27.16	27.05
More Backward	20.83	24.84	31.62	31.00
Backward	23.63	29.23	35.33	42.23
Relatively Developed	62.04	74.23	86.21	99.10
Total	**124.94**	**147.66**	**180.32**	**199.38**

Table 7: Total funds available with the Gram Panchayats – District-wise (in crores)

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	20.85	32.32	40.47	54.73
Bangalore Rural	22.70	36.43	48.61	56.26
Bangalore Urban	24.87	33.88	44.74	48.51
Belgaum	80.08	125.42	165.40	222.84
Bellary	20.95	46.69	60.63	83.35
Bidar	26.96	49.51	70.85	114.24
Bijapur	17.61	26.61	33.31	45.91
Chamaraja Nagara	24.85	37.61	44.58	44.91
Chik Ballapur	25.04	31.56	32.64	35.31
Chikmagalur	46.59	71.08	75.16	84.66
Chitradurga	37.42	96.47	88.47	98.35
Dakshina Kannada	35.97	56.91	64.55	60.81
Davanagere	46.22	115.69	119.96	150.25
Dharwar	24.57	38.71	42.65	51.28
Gadag	14.09	20.52	18.15	28.25
Gulbarga	35.04	79.33	93.08	117.25

Hassan	33.20	54.23	71.73	65.91
Haveri	20.55	26.80	28.87	43.60
Kodagu	20.56	27.74	29.67	42.18
Kolar	34.35	40.21	48.02	47.70
Koppal	20.82	28.59	40.86	52.49
Mandya	27.82	36.30	74.43	79.28
Mysore	35.90	57.02	82.31	83.77
Raichur	8.08	17.92	24.89	33.82
Ramanagaram	26.88	45.62	61.96	53.61
Shimoga	47.70	79.29	82.00	116.77
Tumkur	58.18	92.27	127.25	136.99
Udupi	37.74	58.07	64.60	56.04
Uttara Kannada	39.97	63.37	78.74	86.19
Yadgir	16.13	42.80	52.98	63.32
Total	**931.73**	**1,568.98**	**1,911.52**	**2,258.61**

Table 8: Total funds available with the Gram Panchayats according to category of Taluks (in crores)

Category of Taluks	2005-06	2006-07	2007-08	2008-09
Most Backward	214.37	425.88	547.16	659.15
More Backward	192.66	330.03	401.06	465.95
Backward	160.42	236.57	303.14	358.49
Relatively Developed	364.27	576.51	660.15	775.01
Total	931.73	1,568.98	1,911.52	2,258.61

The total funds accrued to the Gram Panchayats in the state comprising of tax, non-tax, grants from State and Central governments have shown significant increase during the study period from 931 crores to 2259 crores during the years 2005-06 to 2008-09. This is due to increased flow of funds for development works under some of the flagship programmes of the State like MGNREGS, Rural Housing etc. Similar is the trend with respect to expenditure pattern by the Gram Panchayats which has increased across all the districts of the state. This is also due to the reason that the expenditure on development schemes has been increasing over the years at the grassroots level. The increase has taken across the districts and the Gram Panchayats in the most backward taluks the percentage funds available is much higher compared to other categories of taluks (Tables 7 and 8).

Expenditure by the Gram Panchayats has been showing a steady trend during the study period. The district wise expenditure shows variations from year to year. The point to be noted is that the larger issues related to devolution of functionaries to the Gram Panchayats along with adequate freedom in expenditure decisions need to be addressed at the policy level (Table 9 and 10).

Table 9: District-wise Total Expenditure by the Gram Panchayats (in crores)

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	16.20	21.57	30.23	43.63
Bangalore Rural	18.25	27.91	36.64	41.96
Bangalore Urban	19.93	29.64	37.19	38.55
Belgaum	60.62	93.96	125.19	162.24
Bellary	17.95	33.38	40.86	59.11
Bidar	21.38	39.05	55.96	99.03
Bijapur	13.45	18.47	23.85	32.12
Chamaraja Nagara	18.25	24.53	32.18	26.90
Chik Ballapur	18.88	23.26	27.13	22.35
Chikmagalur	32.85	50.67	54.33	62.53
Chitradurga	26.62	80.81	71.67	76.57
Dakshina Kannada	25.71	40.79	52.32	44.74
Davanagere	35.26	93.32	91.34	111.00
Dharwar	18.41	25.91	33.35	36.60

Gadag	11.12	14.48	13.26	21.36
Gulbarga	27.10	52.38	68.63	81.91
Hassan	27.16	38.76	53.18	44.86
Haveri	15.45	21.31	23.83	35.79
Kodagu	16.20	23.18	21.60	31.04
Kolar	24.47	28.60	36.55	33.61
Koppal	18.11	21.35	31.00	35.48
Mandya	21.76	30.95	58.64	59.68
Mysore	27.18	41.69	60.32	54.97
Raichur	6.34	12.85	18.62	22.88
Ramanagaram	21.30	32.00	47.19	38.41
Shimoga	35.96	55.66	62.68	80.57
Tumkur	46.53	71.39	99.71	86.12
Udupi	27.00	41.28	49.13	40.05
Uttara Kannada	25.89	40.62	55.28	59.13
Yadgir	13.26	26.94	40.58	44.76
Total	**708.58**	**1,156.71**	**1,452.50**	**1,627.95**

Table 10: Total Expenditure by the Gram Panchayats according to category of Taluks (in crores)

Category of Taluks	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Most Backward	166.70	298.06	408.35	468.23
More Backward	146.35	252.82	308.95	335.33
Backward	125.13	179.09	232.57	260.34
Relatively Developed	270.40	426.75	502.63	564.05
Total	**708.58**	**1,156.71**	**1,452.50**	**1,627.95**

Fiscal data on percentage of expenditure to the total funds available with the Gram Panchayats show a decreasing trend from nearly 76 per cent to 72 per cent during the study period (Table 11 and 12). This decrease has taken place across many districts and also Gram Panchayats localted in various categories of taluks. This is also one of the reasons for the rapid increase in the opening balance of the Gram Panchayats. A possible reason for this could be that the staff at the Gram Panchayat level are overburdened with the implementation of large number of schemes and also delays in getting necessary administrative and technical approval for various projects. However the administration needs to be toned up for effective utilization of funds.

Table 11: Percentage of Total Expenditure to Total Funds available with the Gram Panchayats – District-wise

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	77.72	66.75	74.71	79.71
Bangalore Rural	80.36	76.61	75.38	74.58
Bangalore Urban	80.16	87.50	83.14	79.47
Belgaum	75.69	74.92	75.69	72.81
Bellary	85.66	71.49	67.39	70.92
Bidar	79.29	78.86	78.99	86.68
Bijapur	76.36	69.41	71.60	69.97
Chamaraja Nagara	73.44	65.21	72.19	59.88
Chik Ballapur	75.38	73.72	83.12	63.28
Chikmagalur	70.51	71.28	72.29	73.86
Chitradurga	71.15	83.77	81.01	77.86
Dakshina Kannada	71.47	71.68	81.06	73.56
Davanagere	76.28	80.66	76.15	73.88
Dharwar	74.94	66.92	78.20	71.37
Gadag	78.88	70.55	73.09	75.64
Gulbarga	77.32	66.03	73.74	69.86

Hassan	81.82	71.46	74.14	68.06
Haveri	75.19	79.54	82.53	82.10
Kodagu	78.78	83.56	72.83	73.57
Kolar	71.22	71.12	76.12	70.46
Koppal	86.98	74.67	75.86	67.60
Mandya	78.21	85.27	78.79	75.27
Mysore	75.70	73.11	73.28	65.62
Raichur	78.47	71.71	74.83	67.66
Ramanagaram	79.24	70.15	76.17	71.65
Shimoga	75.39	70.19	76.44	69.00
Tumkur	79.98	77.37	78.36	62.87
Udupi	71.54	71.09	76.06	71.46
Uttara Kannada	64.77	64.10	70.21	68.60
Yadgir	82.23	62.94	76.60	70.68
Total	**76.05**	**73.72**	**75.99**	**72.08**

Table 12: Percentage of Total Expenditure to Total Funds available with the Gram Panchayats according to Category of Taluks

Cateogory of Taluks	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Most Backward	77.76	69.99	74.63	71.04
More Backward	75.96	76.60	77.03	71.97
Backward	78.00	75.70	76.72	72.62
Relatively Developed	74.23	74.02	76.14	72.78
Total	**76.05**	**73.72**	**75.99**	**72.08**

The percentage of own source of revenue to total funds available with the gram panchayats shows a decreasing trend from 13.41 per cent to 8.83 per cent. This is possibly due to increased grants for various development schemes released to the Gram Panchayats (Tables 13 and 14). Only Udupi and Dakshina Kannada districts have reported a marginal increase in the percentage own source of revenue. Gram Panchayats in other districts and different categories of Taluks have shown a significant decrease in their efforts at mobilizing own sources.

Table 13 : Percentage of Total Own Sources of Revenue of Gram Panchayats to Total Funds available – District-wise

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	10.01	7.77	6.14	4.83
Bangalore Rural	33.83	30.08	27.62	22.49
Bangalore Urban	52.72	51.20	48.21	52.18
Belgaum	11.04	10.14	10.01	7.83
Bellary	12.22	6.63	6.43	6.05
Bidar	4.54	2.32	3.02	1.78
Bijapur	10.02	5.53	6.19	4.19
Chamaraja Nagara	5.03	5.12	3.12	2.91
Chik Ballapur	8.68	8.86	14.48	12.46
Chikmagalur	13.46	8.83	8.26	7.32
Chitradurga	6.77	2.51	3.94	3.51
Dakshina Kannada	18.67	14.03	13.42	23.54
Davanagere	8.95	3.59	3.98	3.70
Dharwar	7.70	5.97	6.18	5.41
Gadag	9.96	7.91	9.22	9.89
Gulbarga	8.89	4.16	4.77	3.67
Hassan	13.79	10.04	7.62	9.06

Haveri	14.70	11.85	8.31	10.08
Kodagu	18.81	15.22	17.87	11.44
Kolar	10.04	8.24	10.27	7.86
Koppal	8.12	5.52	6.65	9.75
Mandya	21.81	19.83	10.91	11.93
Mysore	15.57	11.76	15.15	11.08
Raichur	6.17	2.70	2.56	3.36
Ramanagaram	19.65	13.79	12.21	13.91
Shimoga	12.39	8.12	6.45	5.78
Tumkur	11.95	8.48	8.61	8.36
Udupi	16.91	12.70	14.10	17.60
Uttara Kannada	9.33	6.82	4.78	7.51
Yadgir	7.26	2.96	2.77	2.05
Total	**13.41**	**9.41**	**9.43**	**8.83**

Table 14 : Percentage of Total Own Sources of Revenue of Gram Panchayats to Total Funds available according to Category of Taluks

Cateogory of Taluks	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Most Backward	8.60	4.55	4.96	4.10
More Backward	10.81	7.53	7.88	6.65
Backward	14.73	12.36	11.66	11.78
Relatively Developed	17.03	12.88	13.06	12.79
Total	**13.41**	**9.41**	**9.43**	**8.83**

Table 15 : Percentage of Tax Revenue of Gram Panchayats to Total Own Sources of Revenue – District-wise

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	77.71	74.87	66.24	68.41
Bangalore Rural	70.74	72.51	61.63	64.58
Bangalore Urban	63.40	63.55	78.73	82.20
Belgaum	71.23	73.75	54.66	69.88
Bellary	58.68	76.33	65.03	62.71
Bidar	77.08	89.67	68.65	99.87
Bijapur	64.14	67.92	58.44	90.62
Chamaraja Nagara	65.57	38.81	74.16	68.42
Chik Ballapur	61.92	44.84	35.65	58.69
Chikmagalur	57.80	62.00	72.08	69.04
Chitradurga	59.08	51.81	71.06	65.89
Dakshina Kannada	41.57	48.58	59.35	51.62
Davanagere	57.67	56.88	63.78	73.20
Dharwar	53.87	61.04	72.27	79.53
Gadag	62.46	40.08	36.06	31.15
Gulbarga	88.91	92.97	99.72	5.18
Hassan	75.87	83.05	78.03	82.13
Haveri	76.45	74.37	71.58	73.50
Kodagu	33.56	43.37	44.98	68.71
Kolar	62.93	63.83	46.75	63.64
Koppal	68.81	83.51	82.85	85.88
Mandya	48.84	42.37	55.00	57.20
Mysore	60.53	62.26	42.83	52.60

Raichur	89.35	72.88	53.23	69.47
Ramanagaram	67.09	76.82	60.54	64.44
Shimoga	51.44	51.67	65.62	62.37
Tumkur	55.79	58.27	55.79	51.23
Udupi	39.45	41.07	53.50	51.76
Uttara Kannada	62.41	55.35	79.80	39.48
Yadgir	76.30	68.20	100.00	4.36
Total	**60.65**	**62.21**	**62.40**	**63.50**

Table 16 : Percentage of Tax Revenue of Gram Panchayats to Total Own Sources of Revenue according to category of Taluks

Cateogory of Taluks	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Most Backward	66.29	67.88	62.47	54.43
More Backward	62.18	60.49	57.40	64.17
Backward	64.33	66.04	66.29	69.44
Relatively Developed	57.06	59.79	62.62	63.24
Total	**60.65**	**62.21**	**62.40**	**63.50**

Percentage of Tax revenue to total own source of revenue has marginally increased (Tables 15 and 16) where as there has been a decrease in the non-tax revenue mobilization by the gram panchayats over the years (Tables 17 and 18). There has been a significant drop in the percentage of tax revenue to the total own source revenue in Gram Panchayats located in the most backward taluks in the State. The figures related to the Non-Tax revenue indicates that the Gram Panchayats across districts and different categories of taluks have not taken adequate measures to strengthen their non-tax revenue base.

Table 17 : Percentage of Non-Tax Revenue of Gram Panchayats to Total Own Sources of Revenue – District-wise

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	22.29	25.13	33.76	31.59
Bangalore Rural	29.26	27.49	38.37	35.42
Bangalore Urban	36.60	36.45	21.27	17.80
Belgaum	28.77	26.25	45.34	30.12
Bellary	41.32	23.67	34.97	37.29
Bidar	22.92	10.33	31.35	0.13
Bijapur	35.86	32.08	46.95	9.38
Chamaraja Nagara	34.43	61.19	25.84	31.58
Chik Ballapur	38.08	55.16	64.35	41.31
Chikmagalur	42.20	38.00	27.92	30.96
Chitradurga	40.92	48.19	28.94	34.11
Dakshina Kannada	58.43	51.42	40.65	47.53
Davanagere	42.33	43.12	36.22	26.80
Dharwar	46.13	38.96	27.73	20.47
Gadag	37.54	59.92	63.94	68.85
Gulbarga	11.09	7.03	0.28	94.82
Hassan	24.13	16.95	21.97	17.87
Haveri	23.55	25.63	28.42	26.50
Kodagu	66.44	56.63	55.02	31.29
Kolar	37.07	36.17	53.25	36.36
Koppal	31.19	16.49	17.15	14.12
Mandya	51.16	57.63	45.00	42.80
Mysore	39.47	37.74	57.17	47.40

Raichur	10.65	27.12	48.83	30.53
Ramanagaram	32.91	23.18	39.46	35.56
Shimoga	48.56	48.33	34.38	37.63
Tumkur	44.21	41.73	44.21	48.77
Udupi	60.55	58.93	46.50	48.24
Uttara Kannada	37.59	44.65	20.20	60.52
Yadgir	23.70	31.80	0.00	95.64
Total	**39.35**	**37.79**	**37.67**	**36.43**

Table 18 : Percentage of Non-Tax Revenue of Gram Panchayats to Total Own Sources of Revenue according to category of Taluks

Cateogory of Taluks	2005-06	2006-07	2007-08	2008-09
Most Backward	33.71	32.12	37.99	45.57
More Backward	37.82	39.51	42.60	35.83
Backward	35.67	33.96	33.71	30.56
Relatively Developed	42.94	40.21	37.38	36.63
Total	**39.35**	**37.79**	**37.67**	**36.43**

Table 19: Percentage of Expenditure by Gram Panchayats on General Administration to Total Expenditure – District-wise

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	5.10	3.14	2.47	1.49
Bangalore Rural	18.09	13.20	7.38	7.58
Bangalore Urban	11.25	10.21	8.96	11.40
Belgaum	10.94	8.04	5.51	4.91
Bellary	4.54	3.15	4.78	2.42
Bidar	11.07	5.71	3.99	3.48

Bijapur	5.75	4.13	3.79	2.72
Chamaraja Nagara	8.79	10.39	7.34	7.65
Chik Ballapur	11.80	7.88	6.92	7.25
Chikmagalur	8.14	6.79	4.12	3.64
Chitradurga	9.14	3.61	3.61	3.76
Dakshina Kannada	10.67	7.37	6.46	9.33
Davanagere	9.07	3.94	4.16	4.55
Dharwar	10.49	8.82	8.20	8.54
Gadag	8.87	5.80	6.52	6.79
Gulbarga	16.29	9.86	5.01	4.61
Hassan	9.65	8.73	6.44	11.79
Haveri	10.18	6.03	9.07	4.08
Kodagu	10.43	7.98	5.85	4.80
Kolar	12.10	11.36	5.95	9.48
Koppal	12.79	12.07	4.78	2.17
Mandya	22.81	19.36	5.84	6.52
Mysore	13.71	13.13	8.52	10.56
Raichur	6.71	6.12	2.49	2.91
Ramanagaram	15.02	12.21	5.42	9.67
Shimoga	8.99	6.18	4.70	3.74
Tumkur	11.24	9.80	7.41	10.27
Udupi	11.27	9.15	7.71	9.22
Uttara Kannada	6.75	5.45	4.71	3.74
Yadgir	16.83	11.67	3.63	3.67
Total	**11.03**	**8.02**	**5.67**	**5.78**

Table 20: Percentage of Expenditure by Gram Panchayats on General Administration to Total Expenditure according category of Taluks

Cateogory of Taluks	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Most Backward	11.17	8.27	4.61	4.78
More Backward	10.08	6.83	5.19	5.77
Backward	12.50	9.58	6.36	6.26
Relatively Developed	10.77	7.90	6.51	6.38
Total	**11.03**	**8.02**	**5.67**	**5.78**

The percentage of expenditure by Gram Panchayats on General Administration to total expenditure across districts and different categories of Taluks indicate that there has been a significant drop in the administrative expenditure (Tables 19 and 20). This is possible because of the increase in the funds available with the Gram Panchayats for development expenditure in recent times. However, an important point to be noted is that across the state Gram Panchayats have been facing problems in prompt payment of salaries to its staff and number of instances where the salaries are due for more than a year could be seen.

Per capita calculations have been computed across Gram Panchayats located in all the districts and different cateogires of taluks with respect to Tax Collection, Non Tax Collection, Own Source of Revenue, Availability of funds and also Expenditure (Tables 21 to 30). An important observation here is that across all the parameters there has been an increasing trend during the study period. In all the above dimensions the patterns that emerge are no different except that in some parameters inter district differences could be found.

Table 21: Per capita Tax Collection – District-wise

District	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Bagalkote	26.90	31.21	27.31	29.99
Bangalore Rural	88.55	129.54	134.89	133.18
Bangalore Urban	172.88	229.27	353.22	432.78
Belgaum	20.93	31.17	30.08	40.52
Bellary	19.77	31.07	33.37	41.57

Bidar	10.48	11.42	16.32	22.61
Bijapur	16.76	14.79	17.84	25.79
Chamaraja Nagara	11.19	10.20	14.09	12.20
Chik Ballapur	20.68	19.26	25.90	39.68
Chikmagalur	39.98	42.94	49.36	47.17
Chitradurga	16.06	13.46	26.60	24.43
Dakshina Kannada	24.61	34.16	45.30	65.10
Davanagere	19.36	19.15	24.71	33.05
Dharwar	15.11	20.91	28.26	32.74
Gadag	32.49	24.11	22.36	32.25
Gulbarga	20.80	23.06	33.27	1.67
Hassan	32.79	42.68	40.27	46.32
Haveri	43.65	44.63	32.45	61.00
Kodagu	27.44	38.71	50.42	70.08
Kolar	24.13	23.52	25.62	26.54
Koppal	15.42	17.46	29.82	58.26
Mandya	20.77	21.37	31.29	37.90
Mysore	25.64	31.63	40.49	37.03
Raichur	13.68	10.83	10.42	24.22
Ramanagaram	44.98	61.35	58.13	60.99
Shimoga	28.98	31.72	33.10	40.10
Tumkur	19.87	23.36	31.32	30.07
Udupi	27.05	32.56	52.36	54.86
Uttara Kannada	23.60	24.26	30.45	25.93
Yadgir	13.22	12.77	21.67	0.84
Total	**26.99**	**32.72**	**40.08**	**45.10**

Table 22 : Per capita Tax Collection according to category of Taluks

Cateogory of Taluks	2005-06	2006-07	2007-08	2008-09
Most Backward	16.94	18.22	23.52	20.41
More Backward	20.85	24.19	29.22	32.02
Backward	30.03	38.13	46.26	57.91
Relatively Developed	36.94	46.31	56.33	65.40
Total	**26.99**	**32.72**	**40.08**	**45.10**

Table 23 : Per capita Non Tax Collection – District-wise

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	7.72	10.47	13.92	13.85
Bangalore Rural	36.63	49.10	83.97	73.05
Bangalore Urban	99.78	131.49	95.40	93.70
Belgaum	8.45	11.10	24.95	17.47
Bellary	13.92	9.63	17.95	24.72
Bidar	3.12	1.32	7.45	0.03
Bijapur	9.37	6.98	14.33	2.67
Chamaraja Nagara	5.87	16.09	4.91	5.63
Chik Ballapur	12.72	23.69	46.74	27.94
Chikmagalur	29.18	26.32	19.12	21.15
Chitradurga	11.12	12.52	10.83	12.65
Dakshina Kannada	34.59	36.17	31.03	59.94
Davanagere	14.21	14.52	14.03	12.10
Dharwar	12.94	13.35	10.84	8.43

Gadag	19.52	36.05	39.64	71.29
Gulbarga	2.59	1.74	0.09	30.65
Hassan	10.43	8.71	11.34	10.08
Haveri	13.44	15.38	12.88	22.00
Kodagu	54.34	50.54	61.69	31.92
Kolar	14.21	13.33	29.18	15.16
Koppal	6.99	3.45	6.17	9.57
Mandya	21.76	29.07	25.60	28.36
Mysore	16.72	19.18	54.04	33.36
Raichur	1.63	4.03	9.56	10.64
Ramanagaram	22.06	18.51	37.89	33.66
Shimoga	27.36	29.67	17.34	24.19
Tumkur	15.75	16.73	24.82	28.63
Udupi	41.52	46.72	45.51	51.12
Uttara Kannada	14.21	19.57	7.71	39.75
Yadgir	4.11	5.95	0.00	18.33
Total	**17.51**	**19.88**	**24.19**	**25.88**

Table 24 : Per capita Non Tax collection according to category of Taluks

Cateogory of Taluks	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Most Backward	8.61	8.62	14.30	17.09
More Backward	12.68	15.80	21.68	17.88
Backward	16.65	19.60	23.52	25.49
Relatively Developed	27.80	31.14	33.62	37.88
Total	**17.51**	**19.88**	**24.19**	**25.88**

Table 25: District-wise Per capita Own Source Revenue

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	34.62	41.68	41.22	43.84
Bangalore Rural	125.19	178.64	218.85	206.23
Bangalore Urban	272.66	360.76	448.63	526.47
Belgaum	29.39	42.26	55.02	57.99
Bellary	33.68	40.71	51.32	66.30
Bidar	13.60	12.74	23.77	22.64
Bijapur	26.13	21.77	30.53	28.46
Chamaraja Nagara	17.06	26.29	19.00	17.83
Chik Ballapur	33.41	42.95	72.64	67.62
Chikmagalur	69.16	69.26	68.48	68.31
Chitradurga	27.18	25.97	37.43	37.08
Dakshina Kannada	59.19	70.33	76.33	126.13
Davanagere	33.56	33.67	38.74	45.15
Dharwar	28.04	34.26	39.10	41.16
Gadag	52.01	60.16	62.00	103.54
Gulbarga	23.39	24.80	33.37	32.33
Hassan	43.22	51.40	51.61	56.40
Haveri	57.09	60.00	45.33	83.00
Kodagu	81.78	89.25	112.11	101.99
Kolar	38.34	36.85	54.81	41.70
Koppal	22.41	20.90	35.99	67.83
Mandya	42.53	50.44	56.89	66.27
Mysore	42.36	50.81	94.53	70.39
Raichur	15.31	14.86	19.57	34.87

Ramanagaram	67.04	79.86	96.02	94.65
Shimoga	56.35	61.39	50.44	64.30
Tumkur	35.62	40.10	56.13	58.69
Udupi	68.57	79.28	97.87	105.98
Uttara Kannada	37.81	43.83	38.16	65.68
Yadgir	17.33	18.72	21.67	19.17
Total	**44.51**	**52.60**	**64.23**	**71.02**

Table 26: Per capita Own Source Revenue according to category of Taluks

Cateogory of Taluks	2005-06	2006-07	2007-08	2008-09
Most Backward	25.55	26.84	37.65	37.50
More Backward	33.54	39.98	50.90	49.90
Backward	46.68	57.73	69.78	83.40
Relatively Developed	64.74	77.45	89.95	103.40
Total	**44.51**	**52.60**	**64.23**	**71.02**

Table 27 : District-wise per capita availability of funds with Gram Panchayats

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	345.90	536.22	671.37	908.05
Bangalore Rural	370.06	593.81	792.33	917.11
Bangalore Urban	517.19	704.60	930.55	1009.00
Belgaum	266.19	416.89	549.77	740.72
Bellary	275.64	614.27	797.58	1096.42

Bidar	299.50	549.96	786.96	1268.96
Bijapur	260.68	393.84	492.92	679.39
Chamaraja Nagara	339.39	513.75	608.95	613.47
Chik Ballapur	384.88	484.99	501.72	542.75
Chikmagalur	513.93	784.04	828.97	933.77
Chitradurga	401.75	1035.82	949.87	1056.00
Dakshina Kannada	317.00	501.46	568.82	535.88
Davanagere	375.13	938.92	973.54	1219.38
Dharwar	364.27	574.06	632.43	760.46
Gadag	522.22	760.49	672.49	1046.77
Gulbarga	263.23	595.87	699.12	880.70
Hassan	313.39	511.97	677.15	622.26
Haveri	388.29	506.35	545.59	823.83
Kodagu	434.68	586.54	627.19	891.83
Kolar	381.92	447.11	533.87	530.38
Koppal	275.91	378.77	541.30	695.40
Mandya	194.97	254.38	521.56	555.60
Mysore	272.17	432.25	623.99	635.06
Raichur	248.25	550.34	764.26	1038.57
Ramanagaram	341.16	578.92	786.23	680.35
Shimoga	454.70	755.75	781.63	1112.98
Tumkur	298.12	472.80	652.00	701.93
Udupi	405.64	624.05	694.25	602.24
Uttara Kannada	405.48	642.90	798.85	874.46
Yadgir	238.65	632.70	783.25	936.11
Total	**331.89**	**558.88**	**680.89**	**804.53**

Table 28 : Per capita availability of funds with Gram Panchayats according to category of Taluks

Cateogory of Taluks	2005-06	2006-07	2007-08	2008-09
Most Backward	297.15	590.27	758.38	913.60
More Backward	310.18	531.34	645.70	750.16
Backward	316.81	467.18	598.66	707.97
Relatively Developed	380.09	601.54	688.82	808.67
Total	**331.89**	**558.88**	**680.89**	**804.53**

Table 29 : Per capita Expenditure by Gram Panchayats – District-wise

District	2005-06	2006-07	2007-08	2008-09
Bagalkote	268.83	357.92	501.56	723.80
Bangalore Rural	297.40	454.94	597.29	683.98
Bangalore Urban	414.58	616.55	773.61	801.84
Belgaum	201.49	312.32	416.14	539.29
Bellary	236.11	439.12	537.52	777.61
Bidar	237.46	433.72	621.61	1099.99
Bijapur	199.06	273.37	352.93	475.38
Chamaraja Nagara	249.27	335.00	439.57	367.37
Chik Ballapur	290.12	357.52	417.01	343.46
Chikmagalur	362.37	558.84	599.29	689.65
Chitradurga	285.84	867.70	769.53	822.18
Dakshina Kannada	226.56	359.47	461.06	394.20

Davanagere	286.14	757.35	741.31	900.81
Dharwar	272.98	384.18	494.54	542.75
Gadag	411.94	536.56	491.49	791.76
Gulbarga	203.52	393.47	515.50	615.23
Hassan	256.40	365.88	502.07	423.53
Haveri	291.97	402.74	450.28	676.35
Kodagu	342.45	490.10	456.77	656.16
Kolar	272.02	317.97	406.41	373.73
Koppal	239.98	282.82	410.66	470.07
Mandya	152.48	216.92	410.96	418.20
Mysore	206.04	316.02	457.28	416.74
Raichur	194.80	394.65	571.94	702.69
Ramanagaram	270.33	406.09	598.83	487.47
Shimoga	342.80	530.50	597.49	767.95
Tumkur	238.43	365.81	510.90	441.28
Udupi	290.20	443.61	528.06	430.39
Uttara Kannada	262.62	412.11	560.85	599.89
Yadgir	196.25	398.24	599.96	661.67
Total	**252.41**	**412.03**	**517.39**	**579.88**

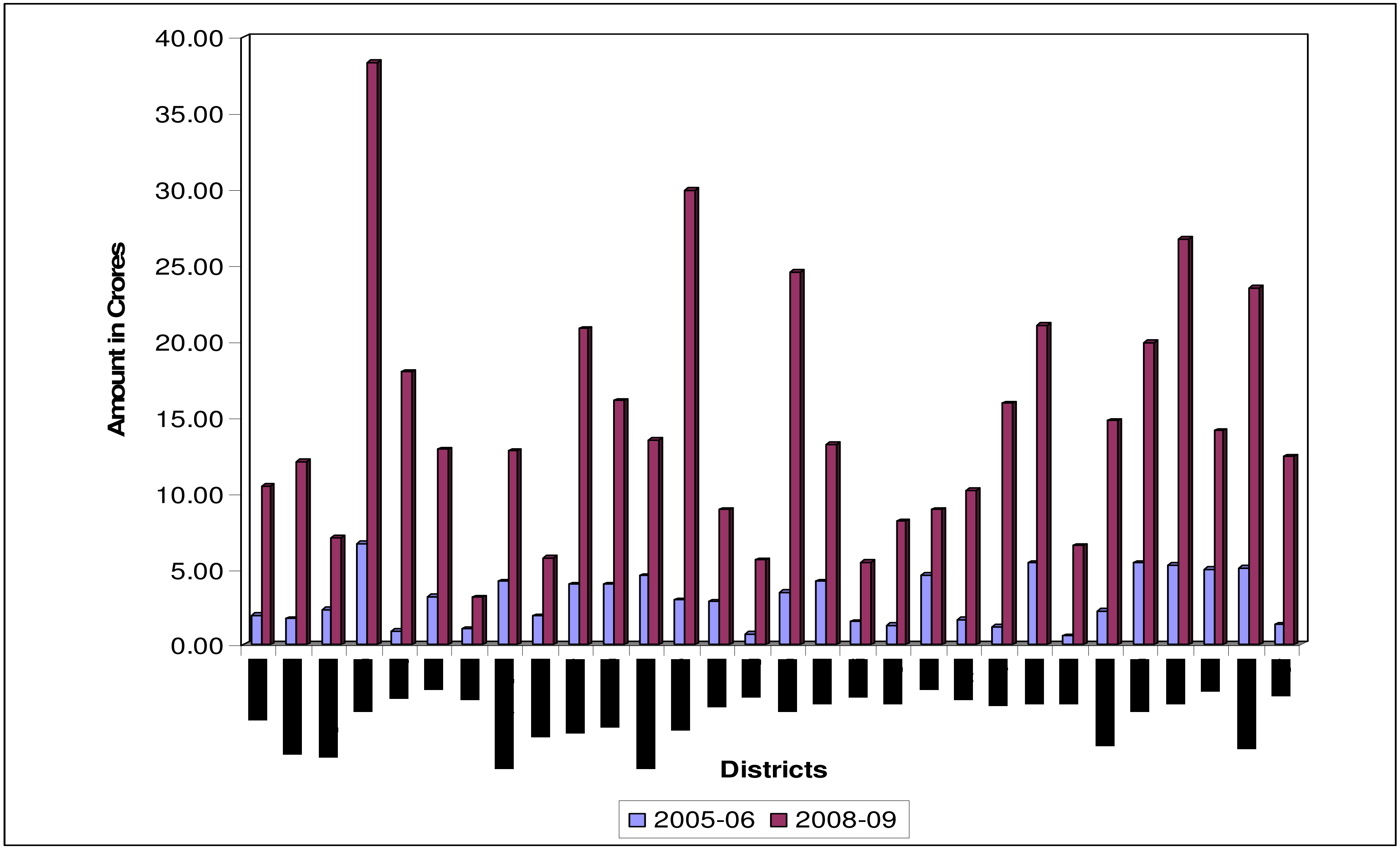
Table 30 : Per capita Expenditure by Gram Panchayats according to Category of Taluks

Cateogory of Taluks	2005-06	2006-07	2007-08	2008-09
Most Backward	231.07	413.12	565.98	648.98
More Backward	235.62	407.03	497.40	539.87
Backward	247.11	353.67	459.29	514.14

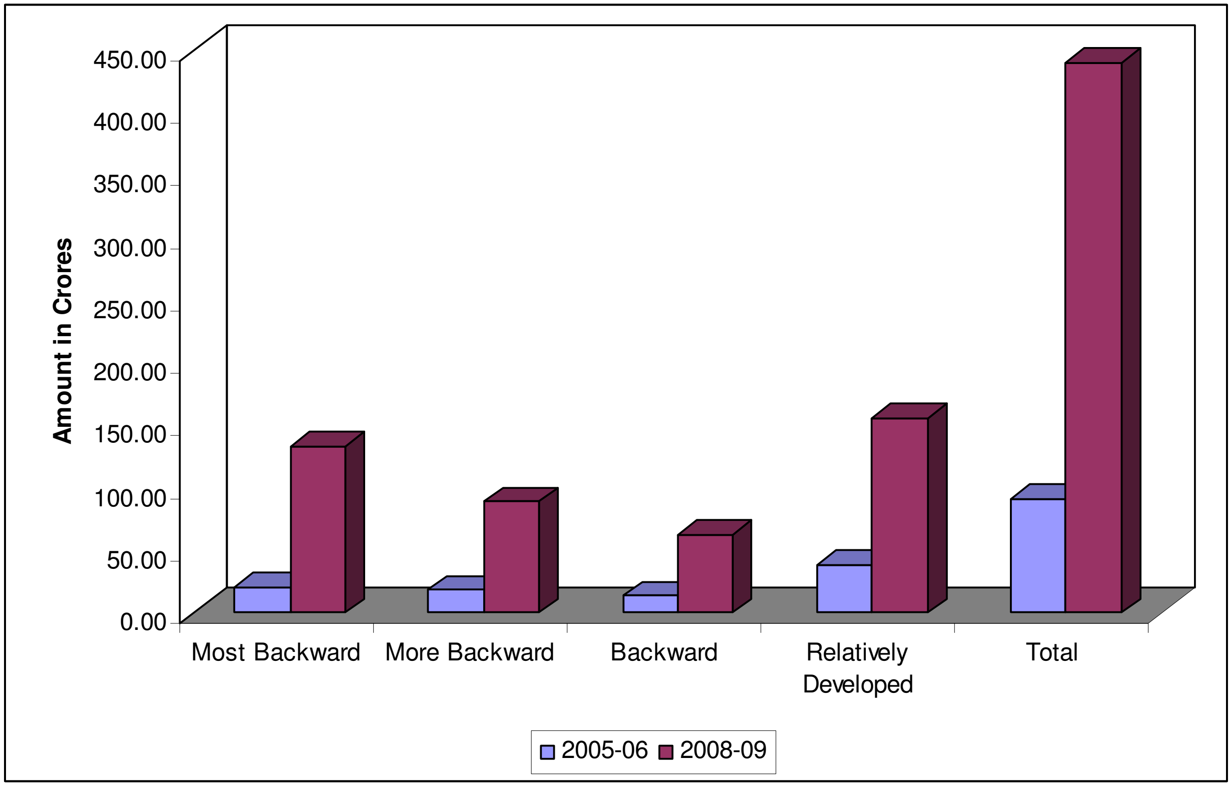
Relatively Developed	282.15	445.28	524.46	588.54
Total	**252.41**	**412.03**	**517.39**	**579.88**

The following Graphs and Thematic maps capture the changes in the performance of Panchayat finances during the reference years discussed in the earlier sections of this chapter.

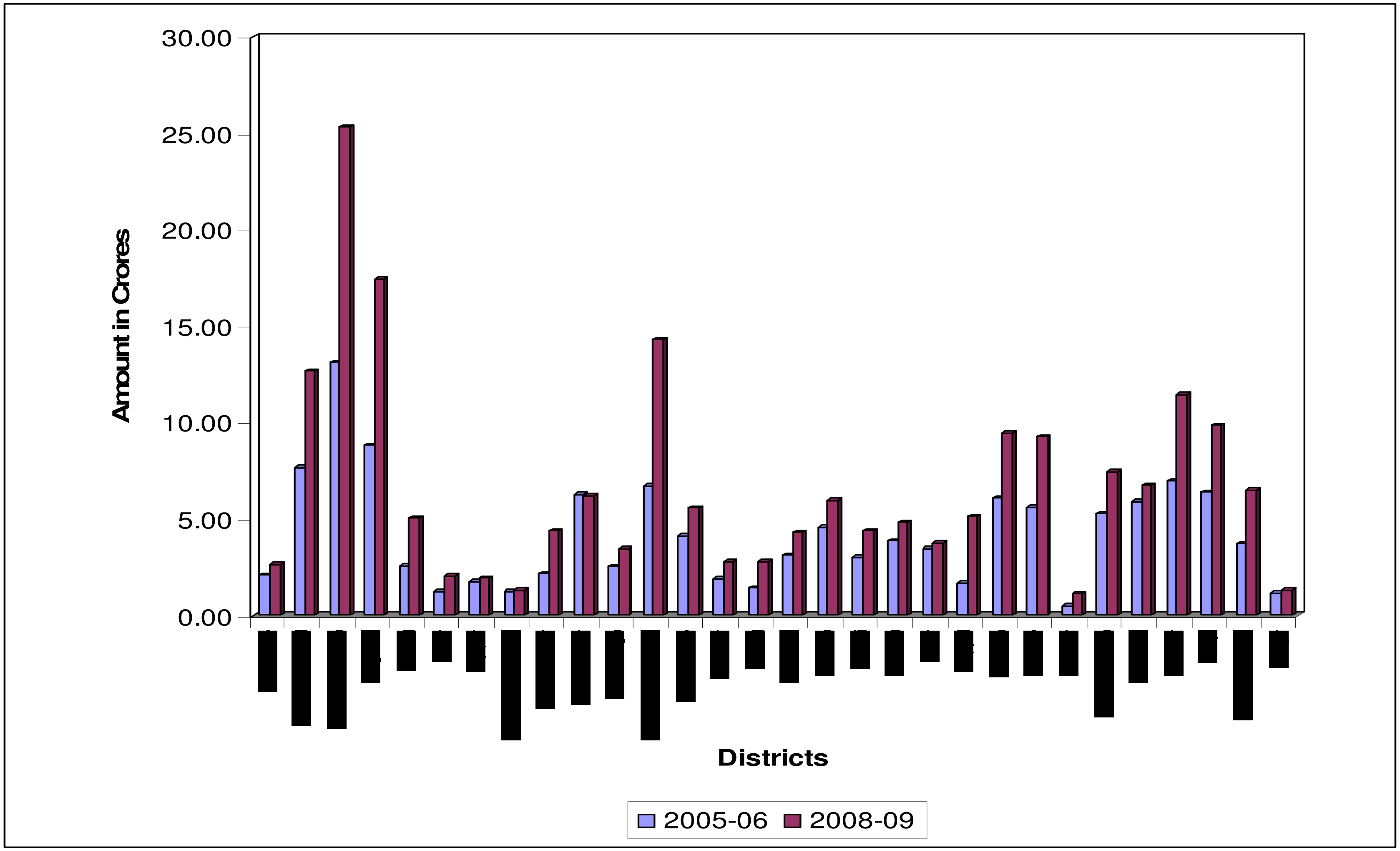
District-wise Opening Balance of Gram Panchayats



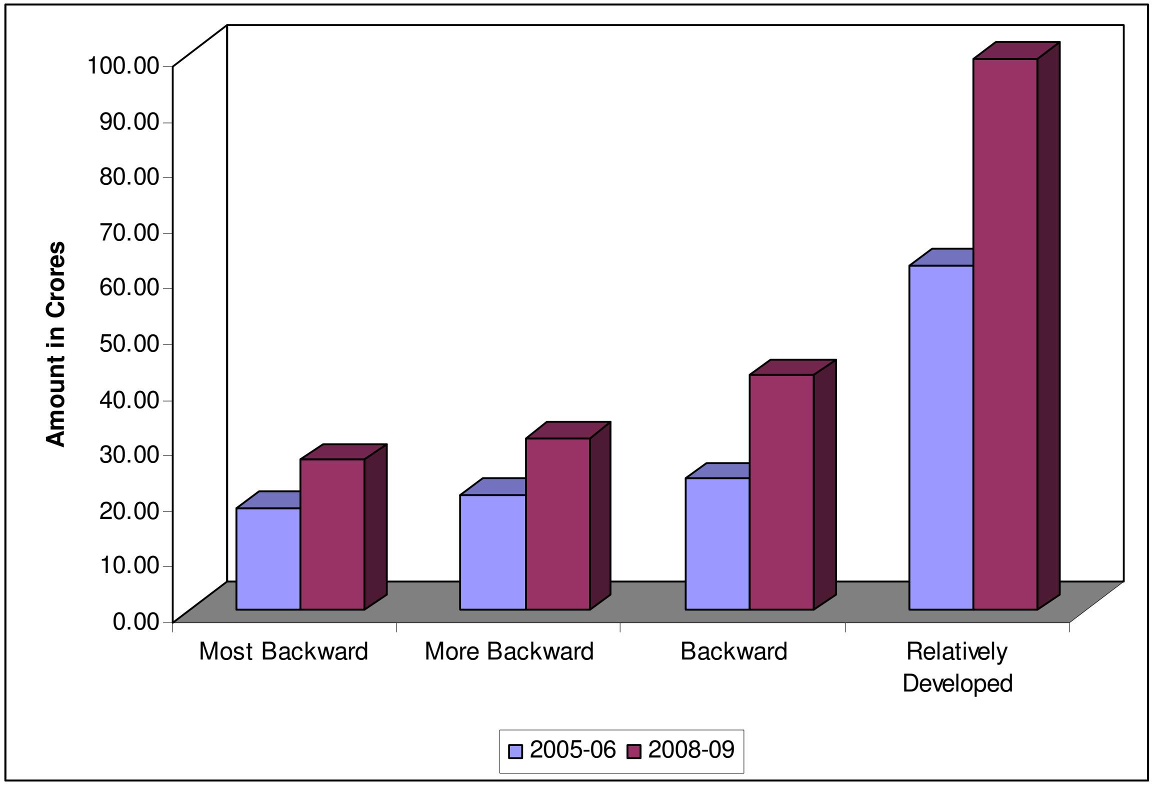
Opening Balance of Gram Panchayats according to Category of Taluk (in crores)



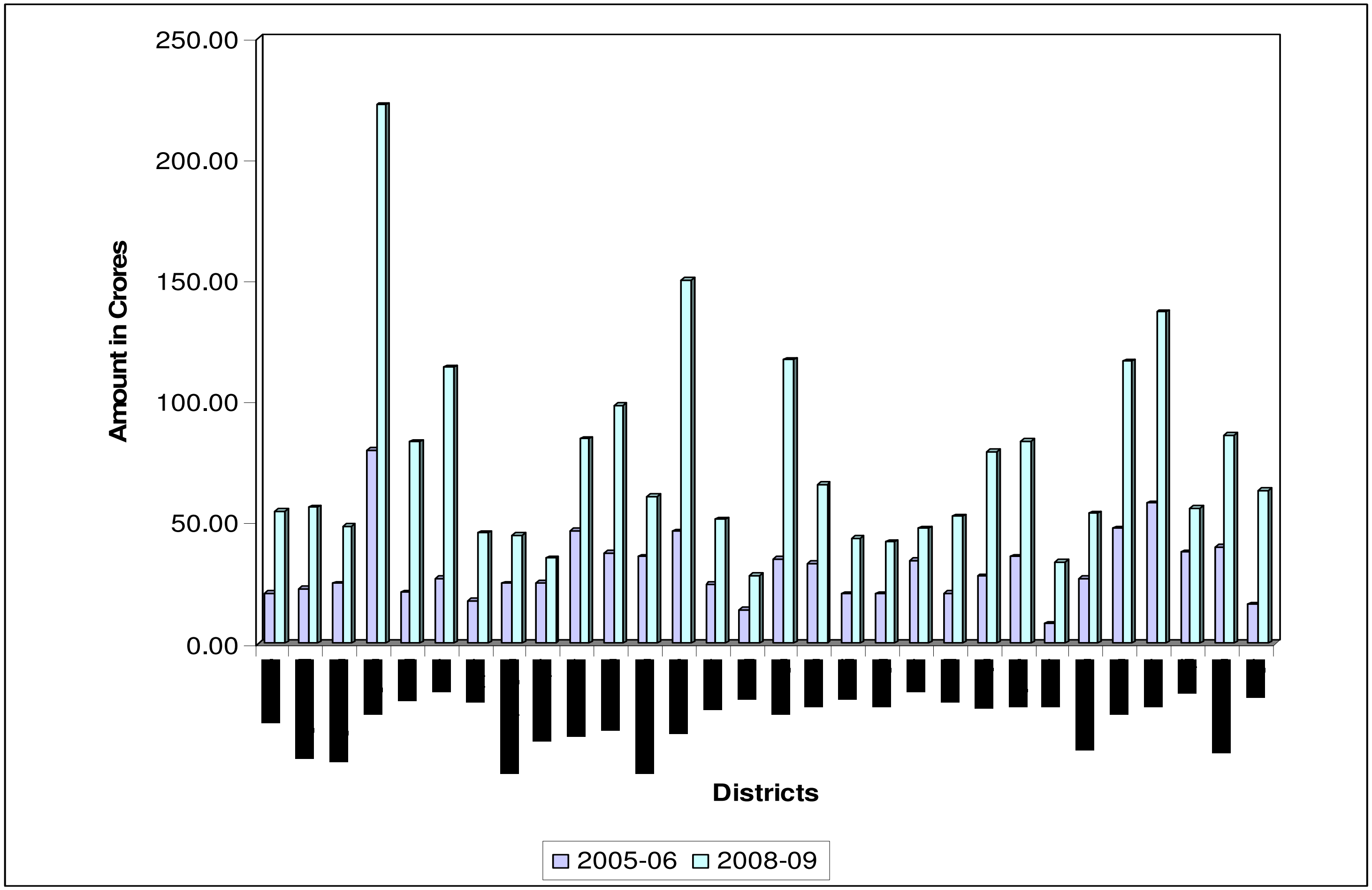
District-wise Own Source of Revenue (in crores)



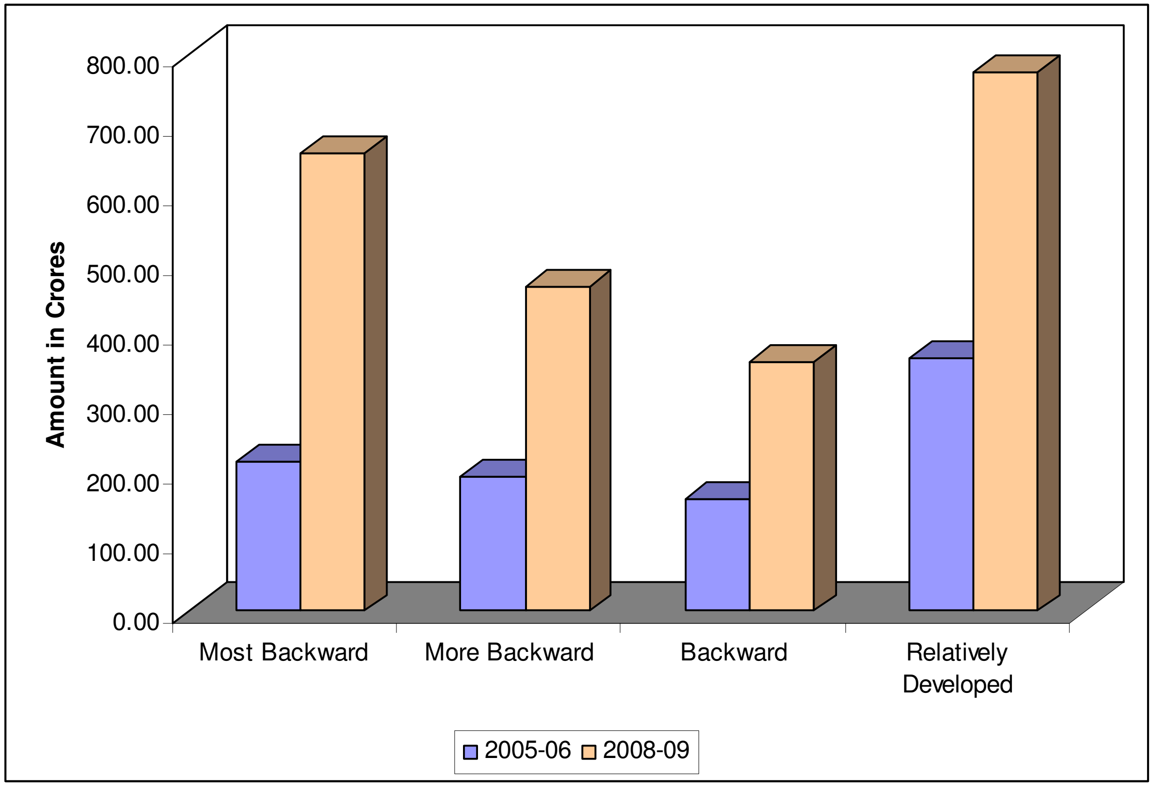
Gram Panchayats' Own Source of Revenue according to Category of Taluks (in crores)



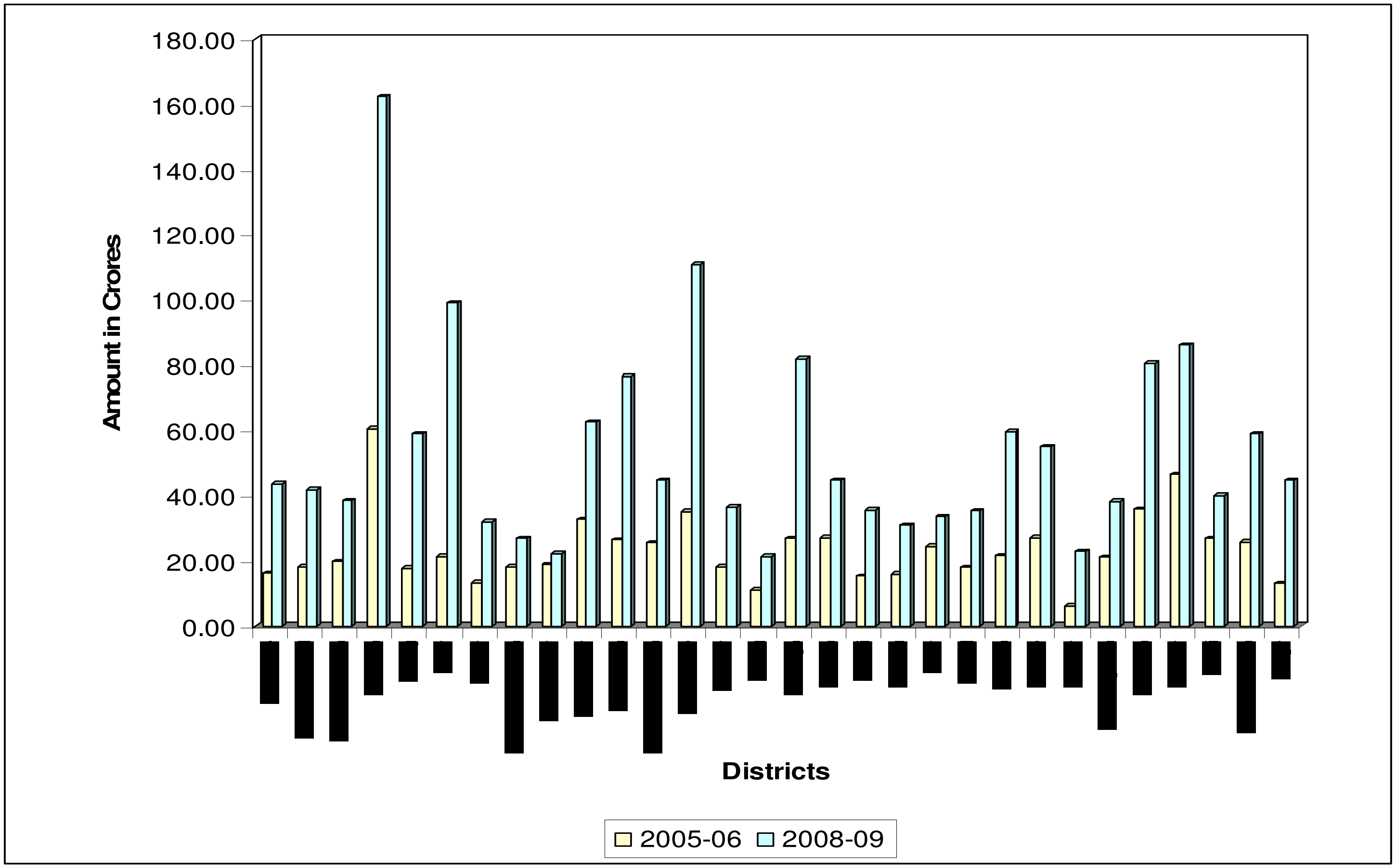
Total funds available with the Gram Panchayats – District-wise (in crores)



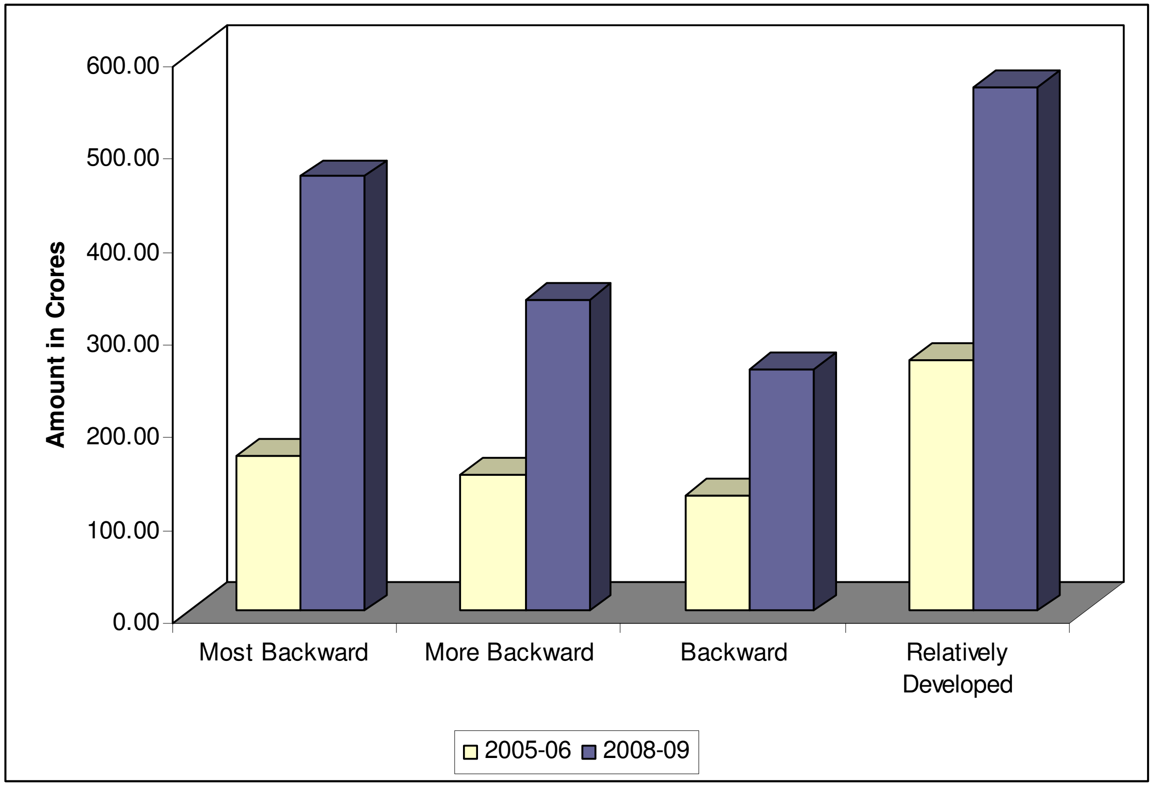
Total funds available with the Gram Panchayats according to category of Taluks (in crores)



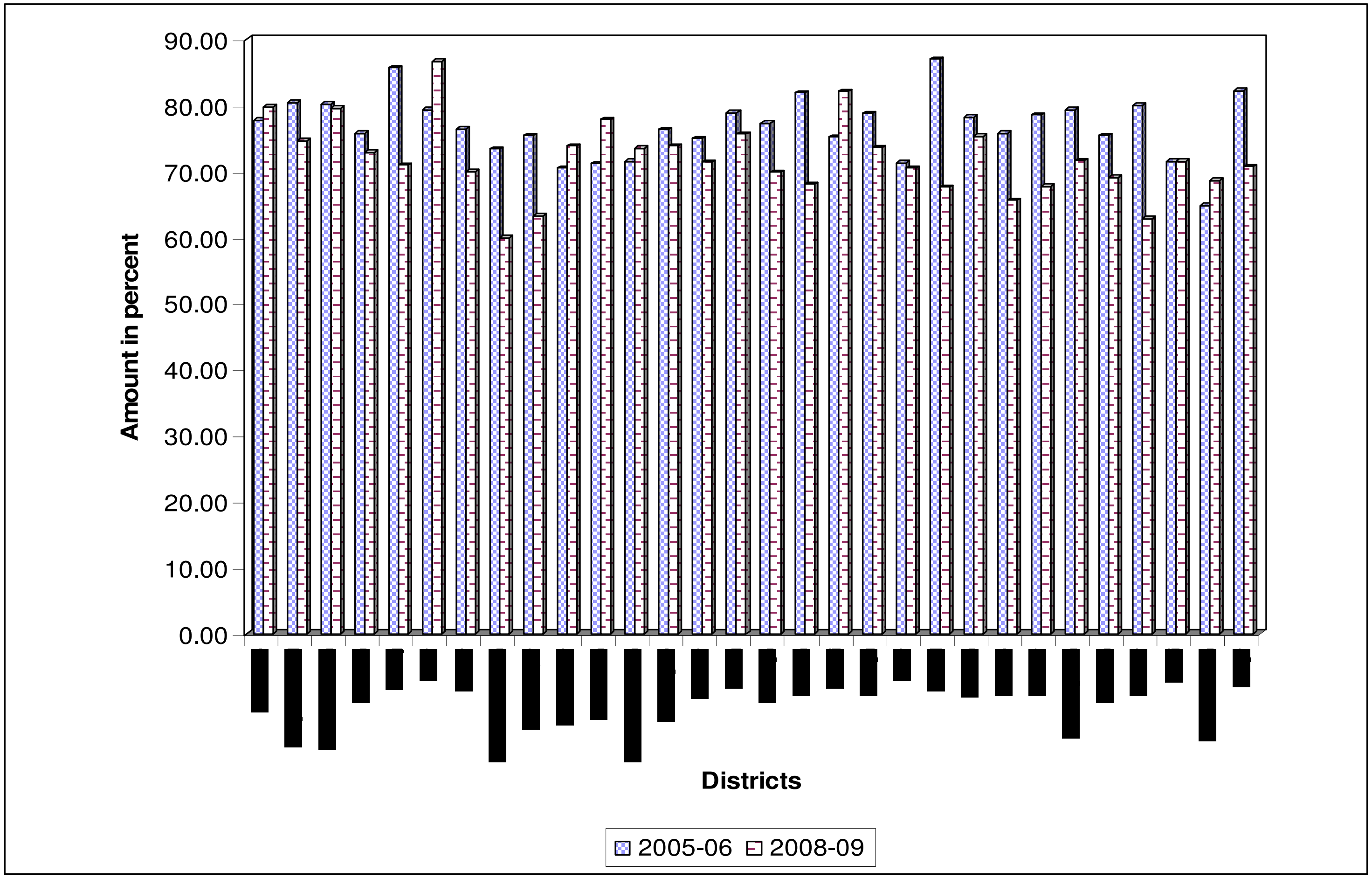
District-wise Total Expenditure by the Gram Panchayats (in crores)



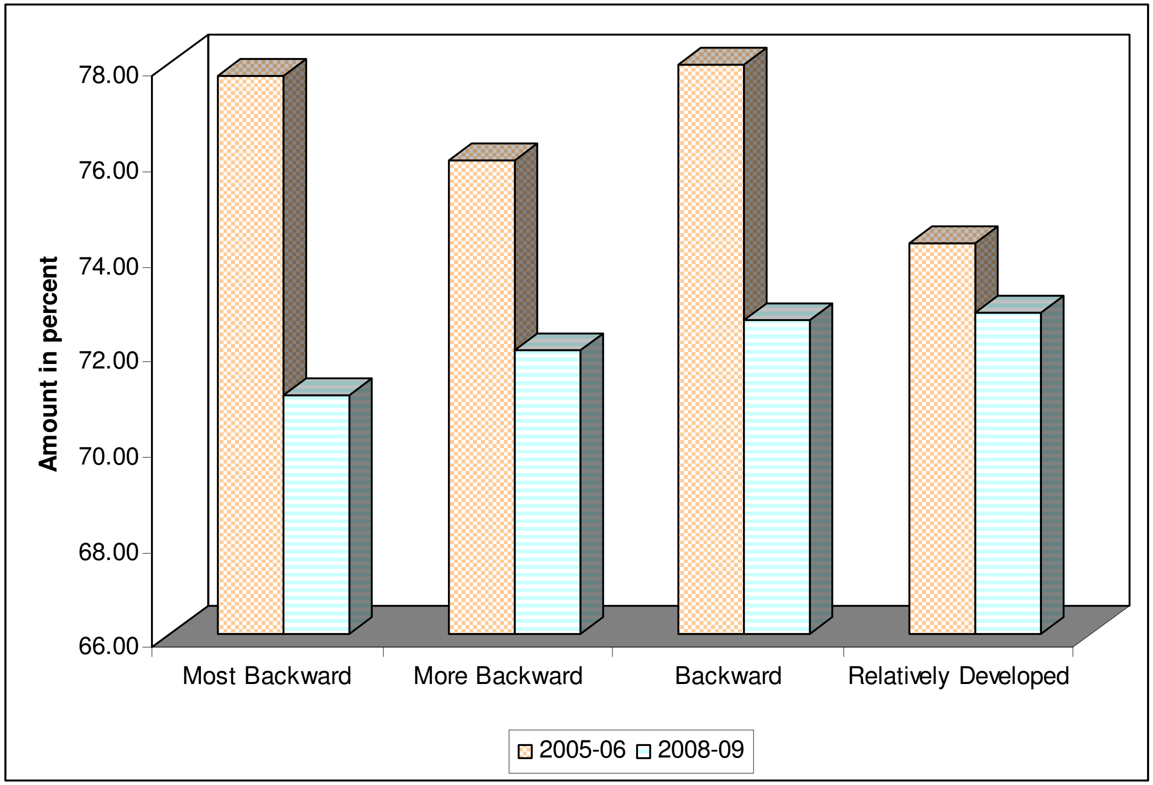
Total Expenditure by the Gram Panchayats according to category of Taluks (in crores)



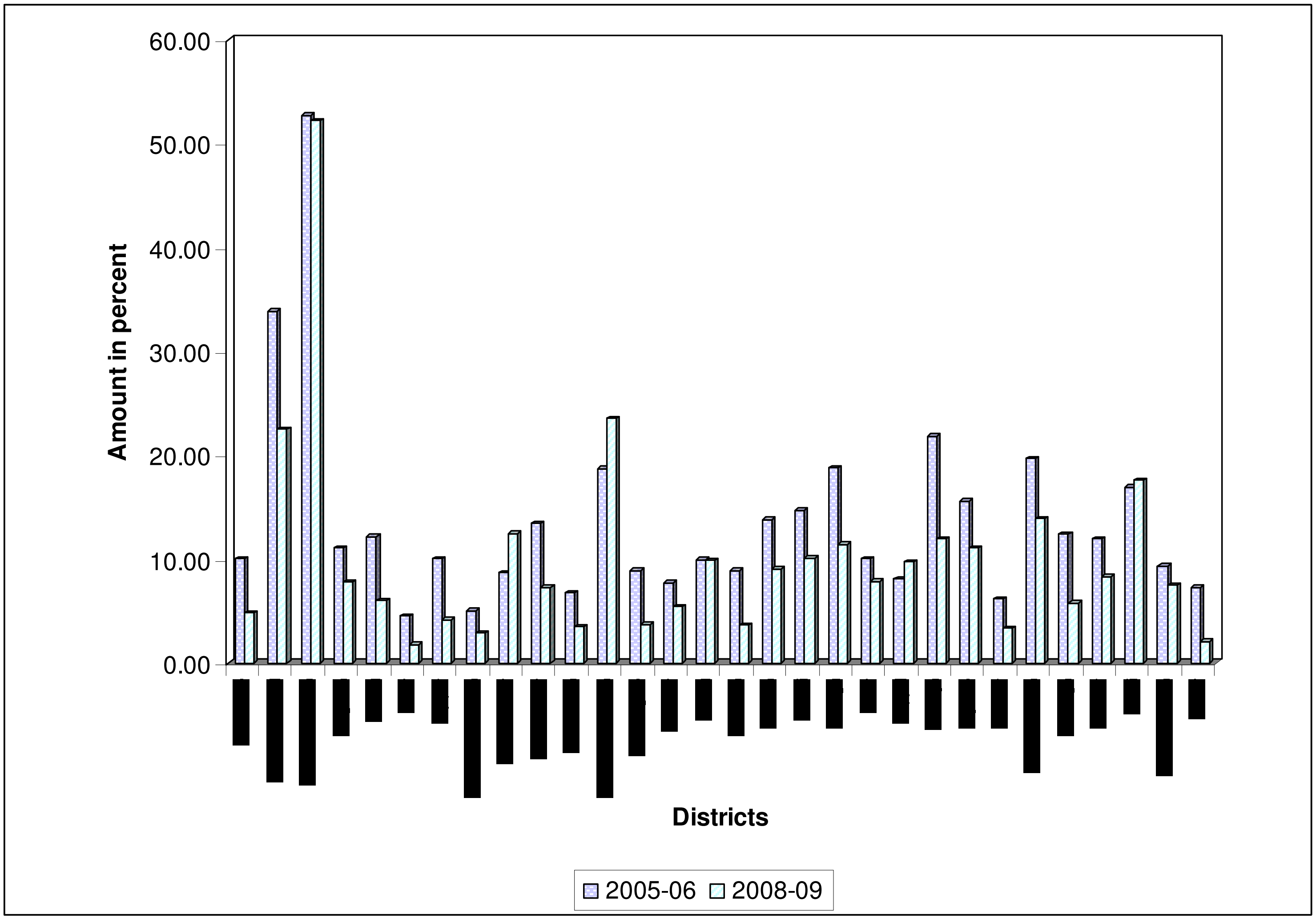
Percentage of Total Expenditure to Total Funds available with the Gram Panchayats



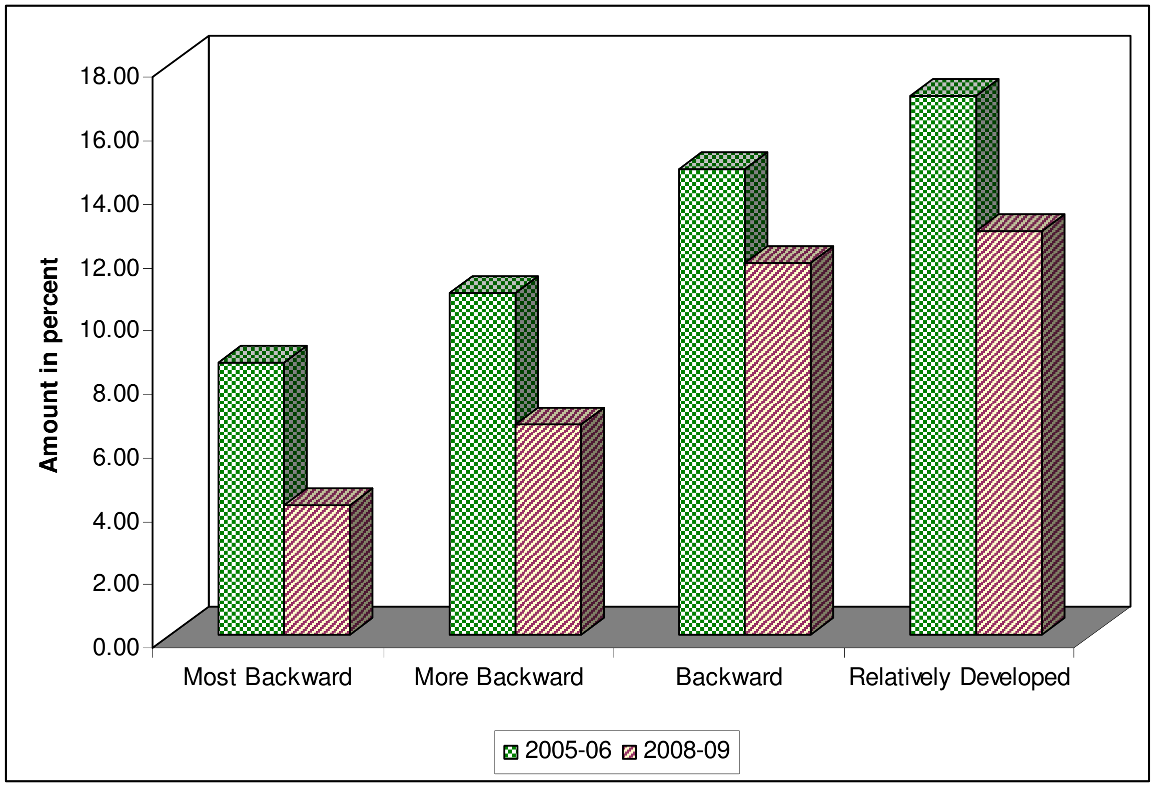
Percentage of Total Expenditure to Total Funds available with the Gram Panchayats according to Category of Taluks



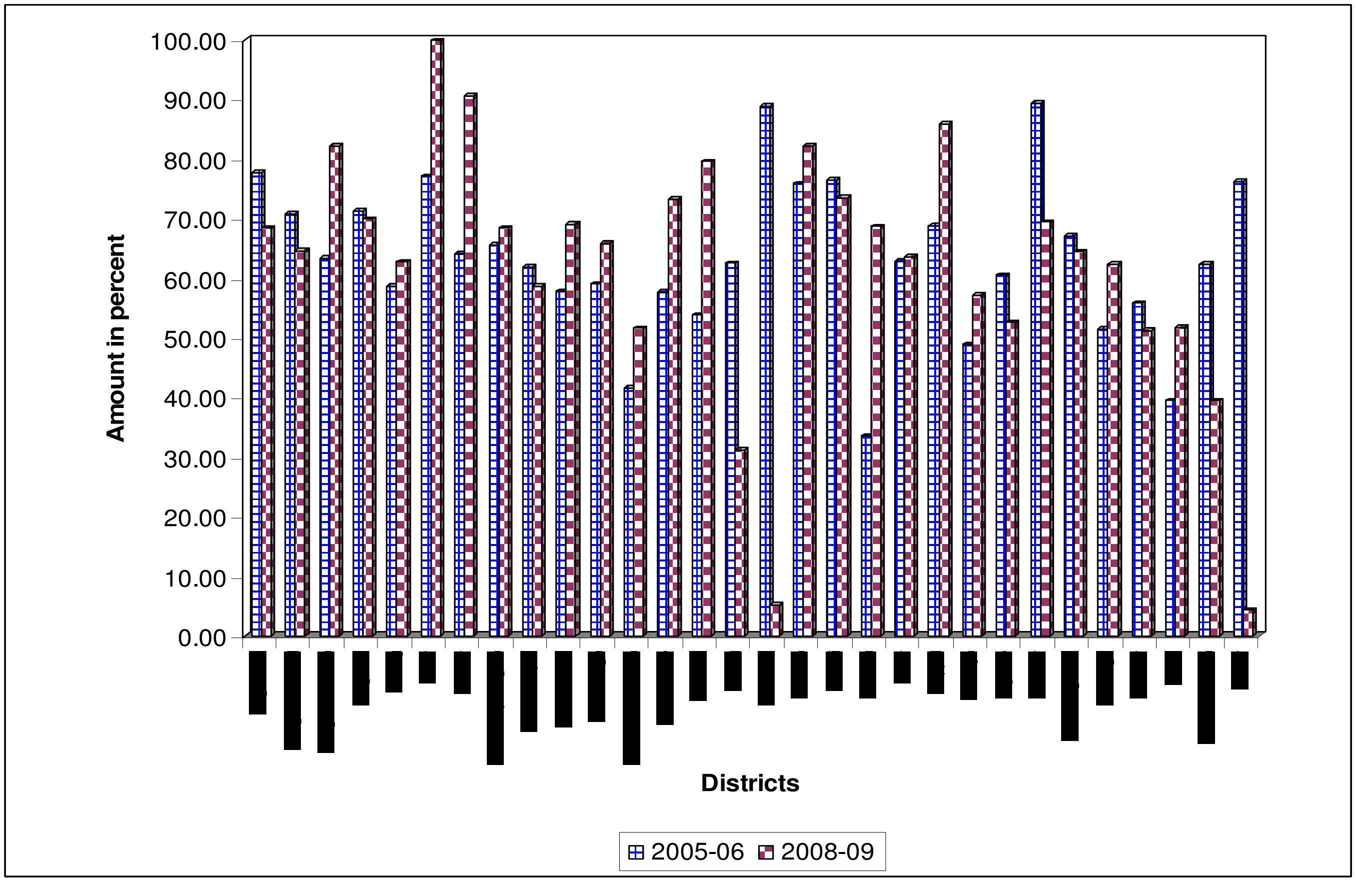
Percentage of Total Own Sources of Revenue of Gram Panchayats to Total Funds available



Percentage of Total Own Sources of Revenue of Gram Panchayats to Total Funds available according to Category of Taluks



Percentage of Tax Revenue of Gram Panchayats to Total OSR



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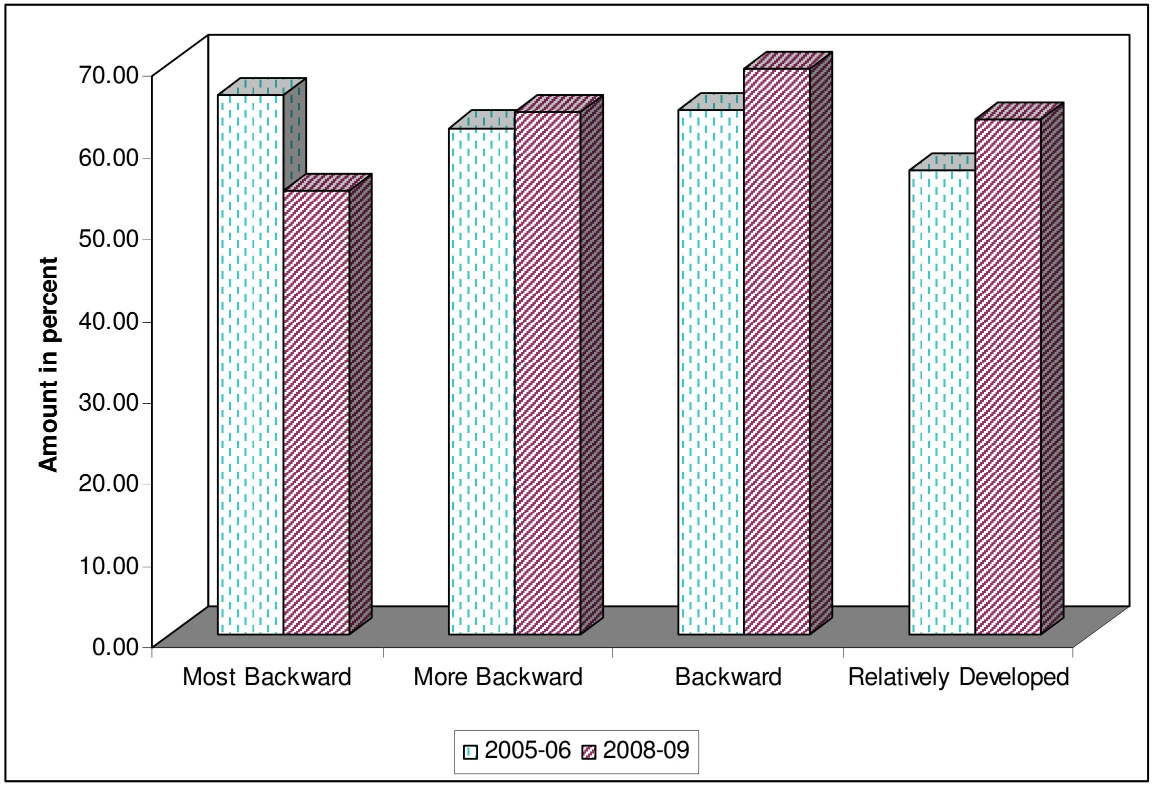
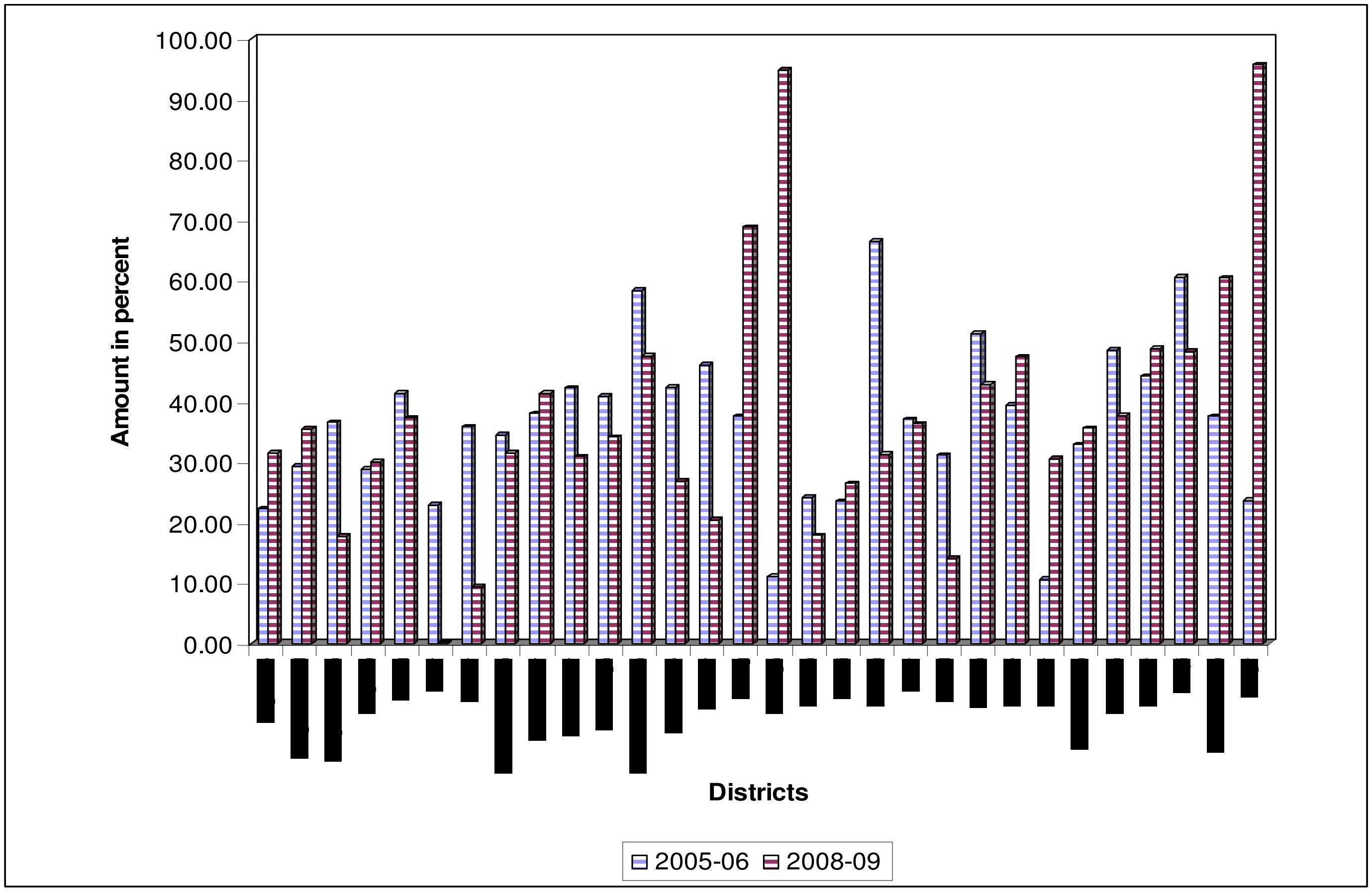
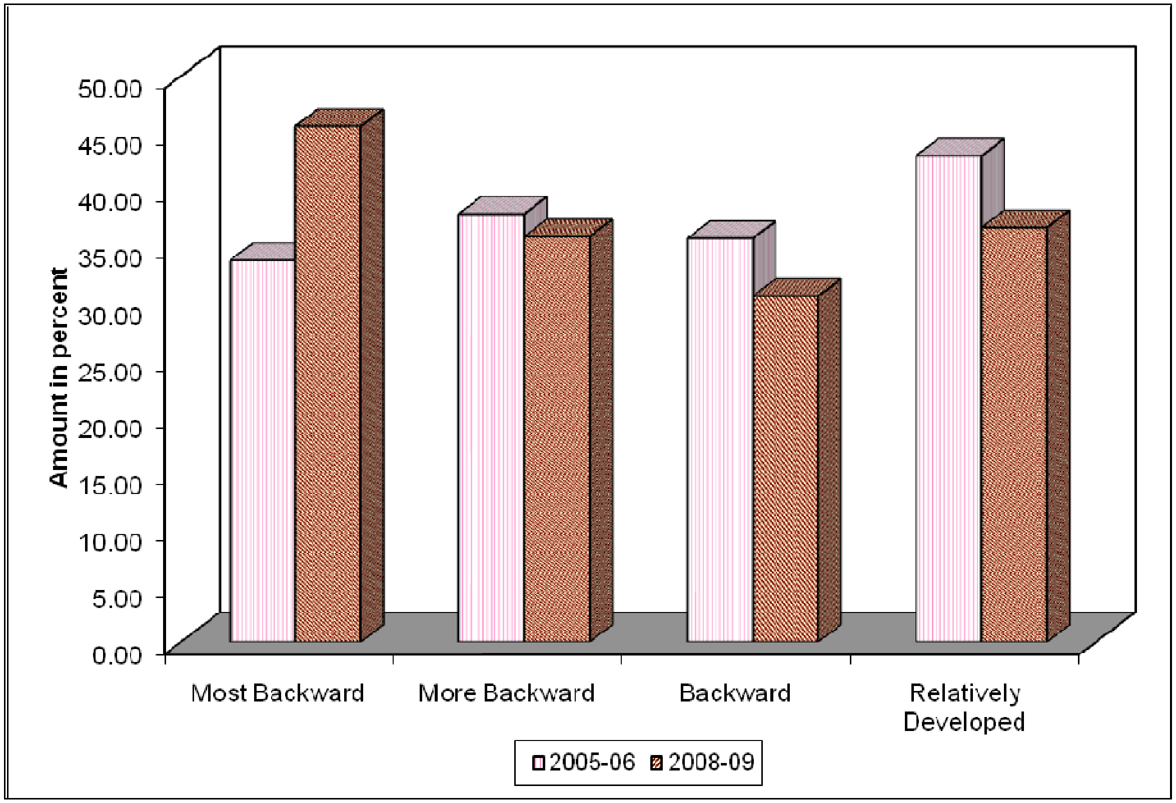
Percentage of Tax Revenue of Gram Panchayats to Total Own Sources of Revenue according to category of Taluks



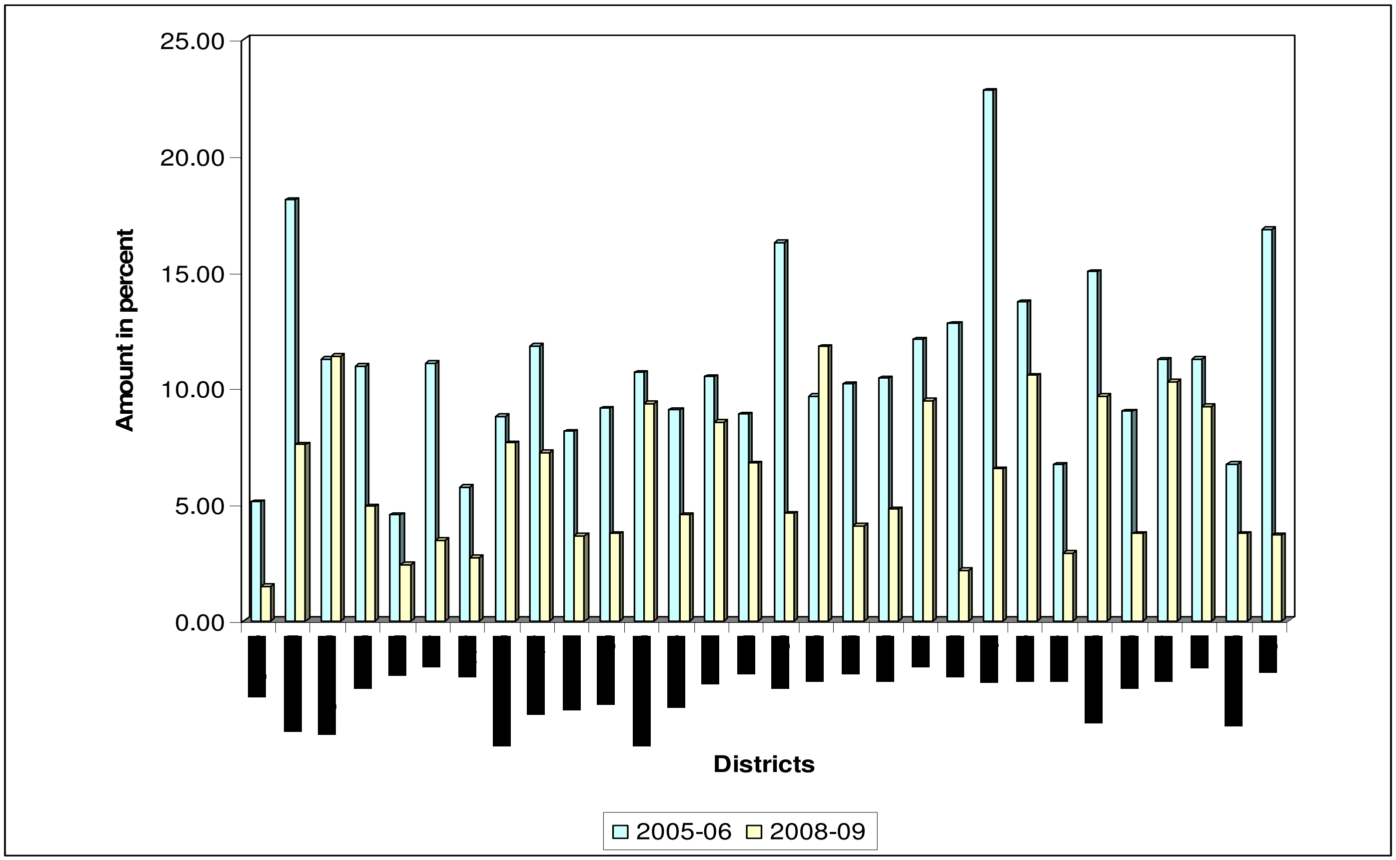
Percentage of Non-Tax Revenue of Gram Panchayats to Total Own Sources of Revenue – District-wise



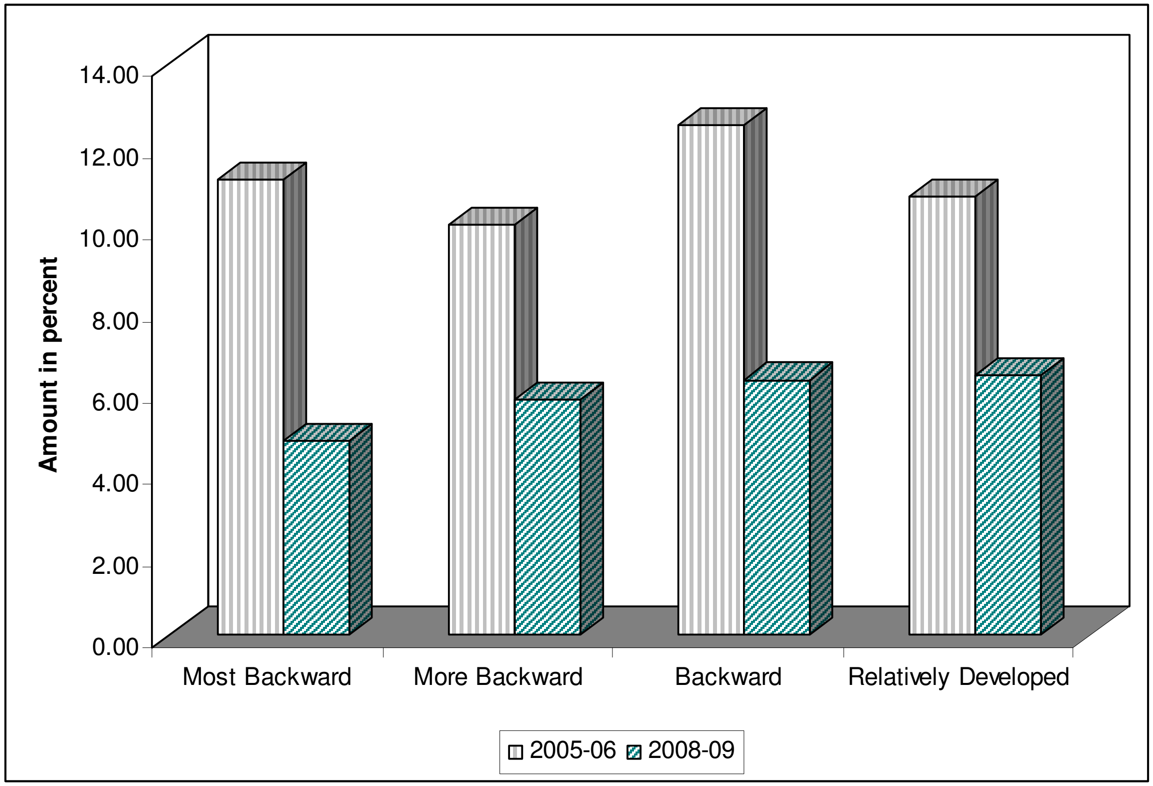
Percentage of Non-Tax Revenue of Gram Panchayats to Total Own Sources of Revenue according to category of Taluks



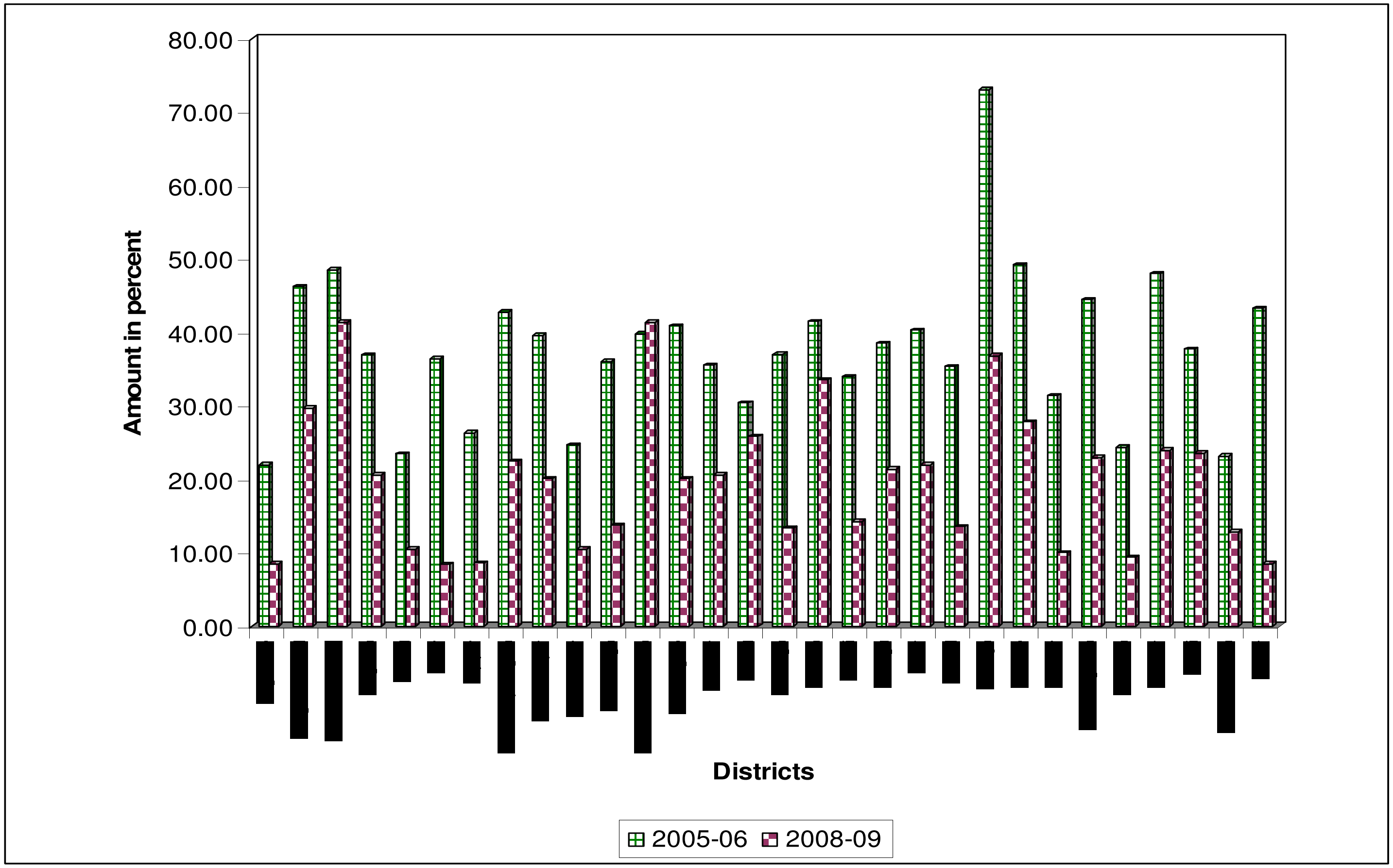
Percentage of Expenditure by Gram Panchayats on General Administration to Total Expenditure – District-wise



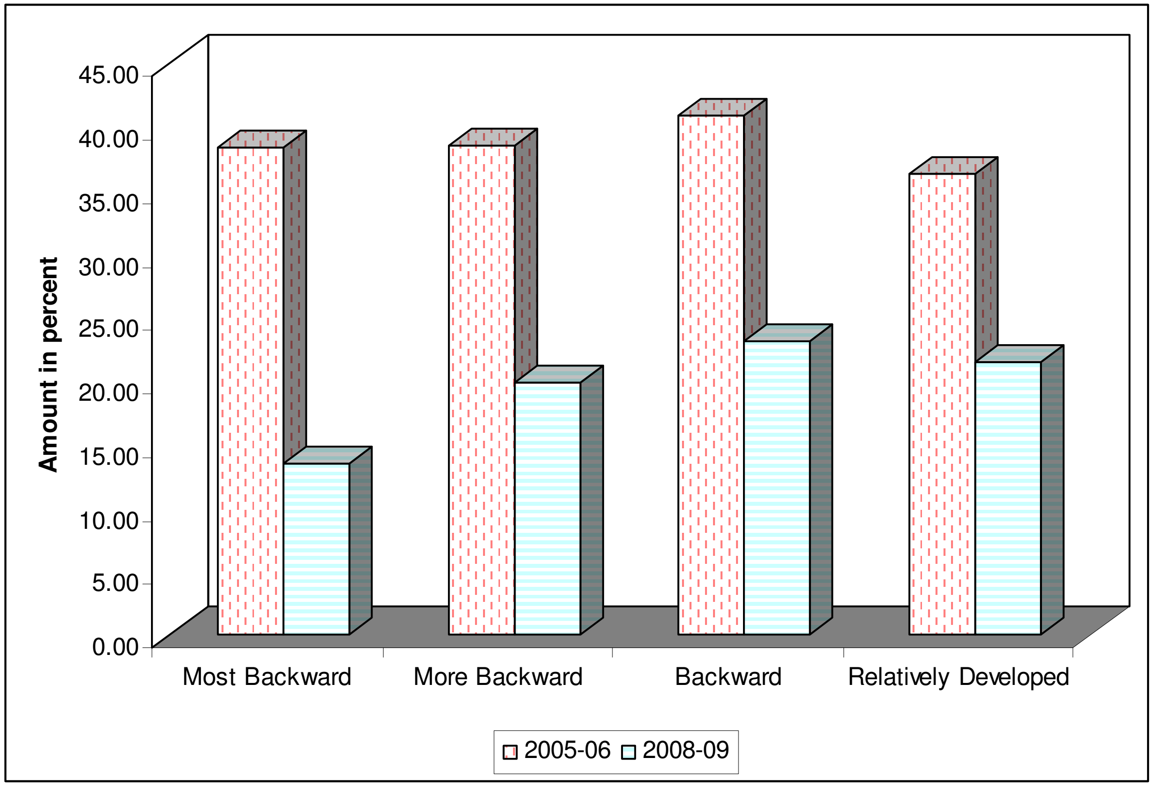
Percentage of Expenditure by Gram Panchayats on General Administration to Total Expenditure according category of Taluks



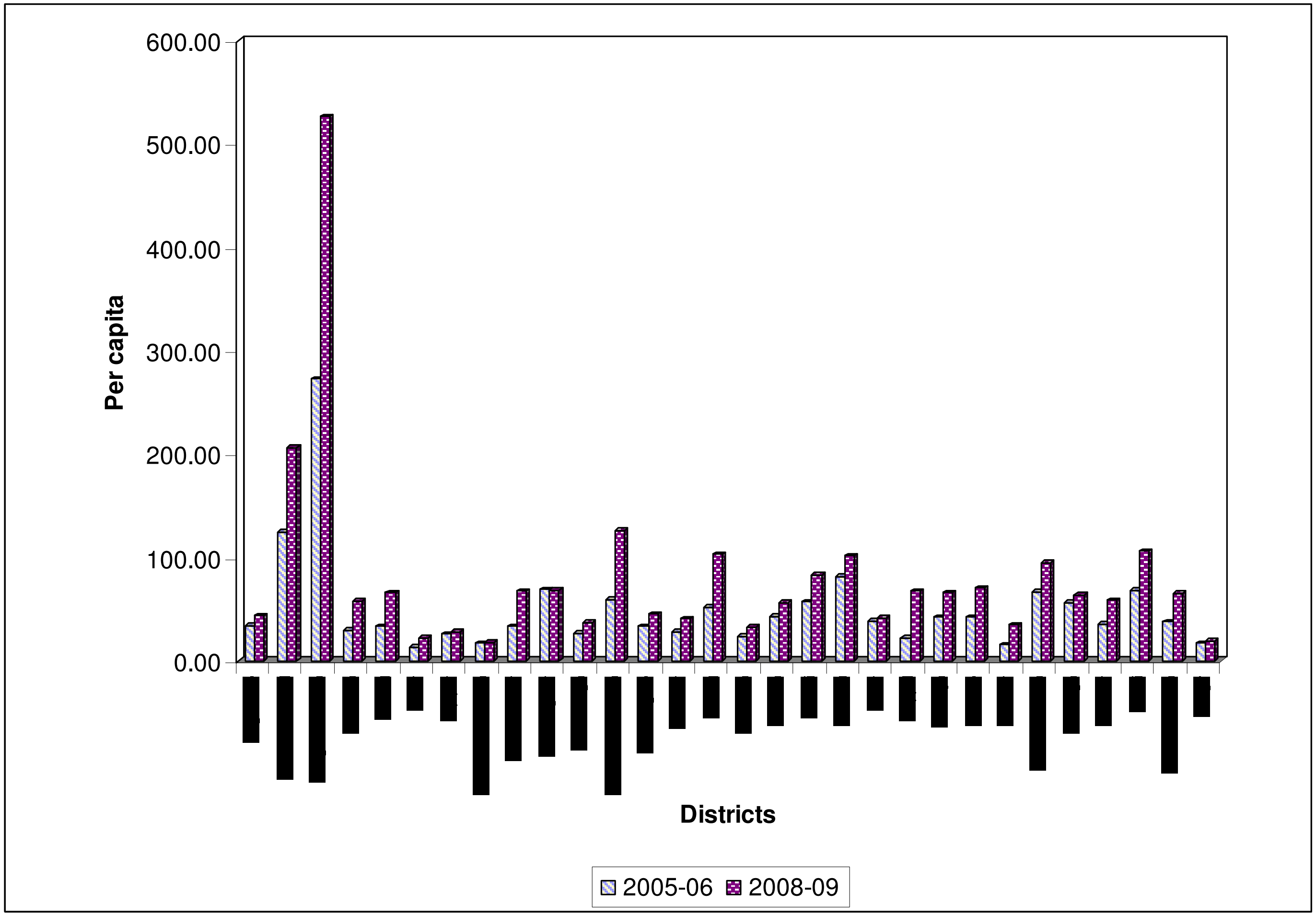
Percentage of Expenditure on providing Basic Amenities by the Gram Panchayats to Total Expenditure – District-wise



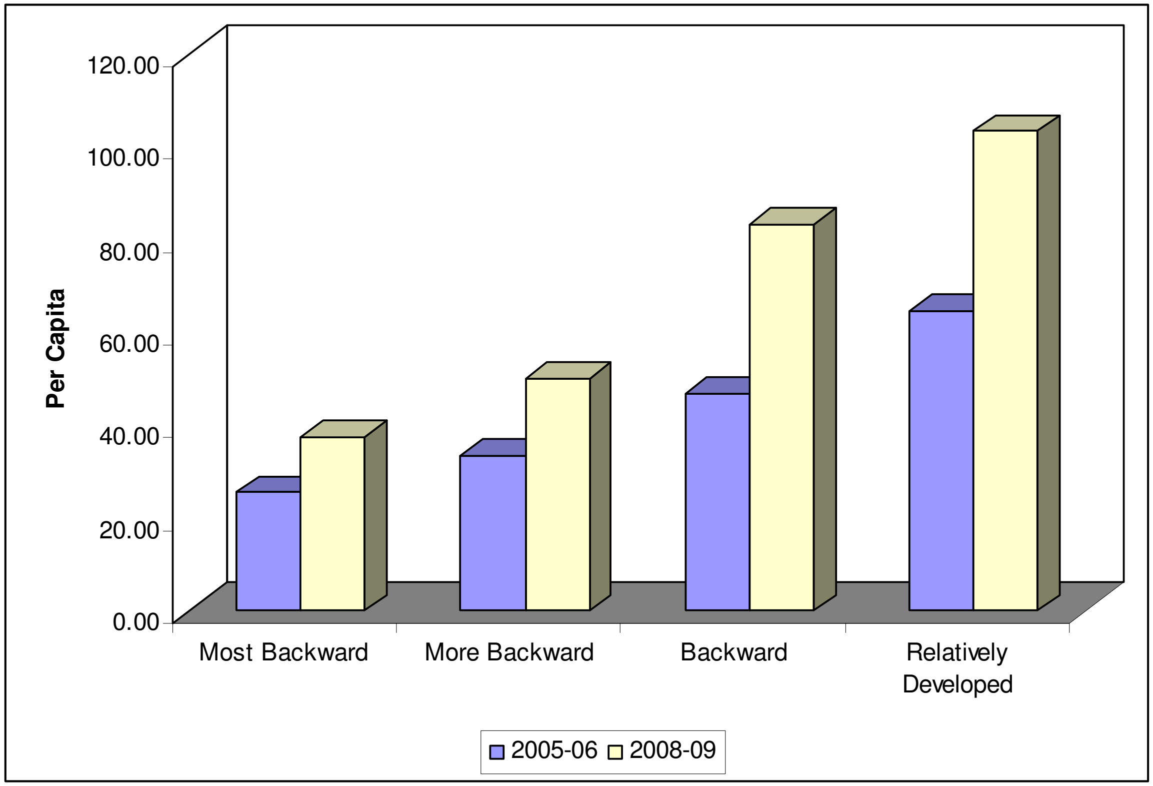
Percentage of Expenditure on providing Basic Amenities by the Gram Panchayats to Total Expenditure according to category of Taluks



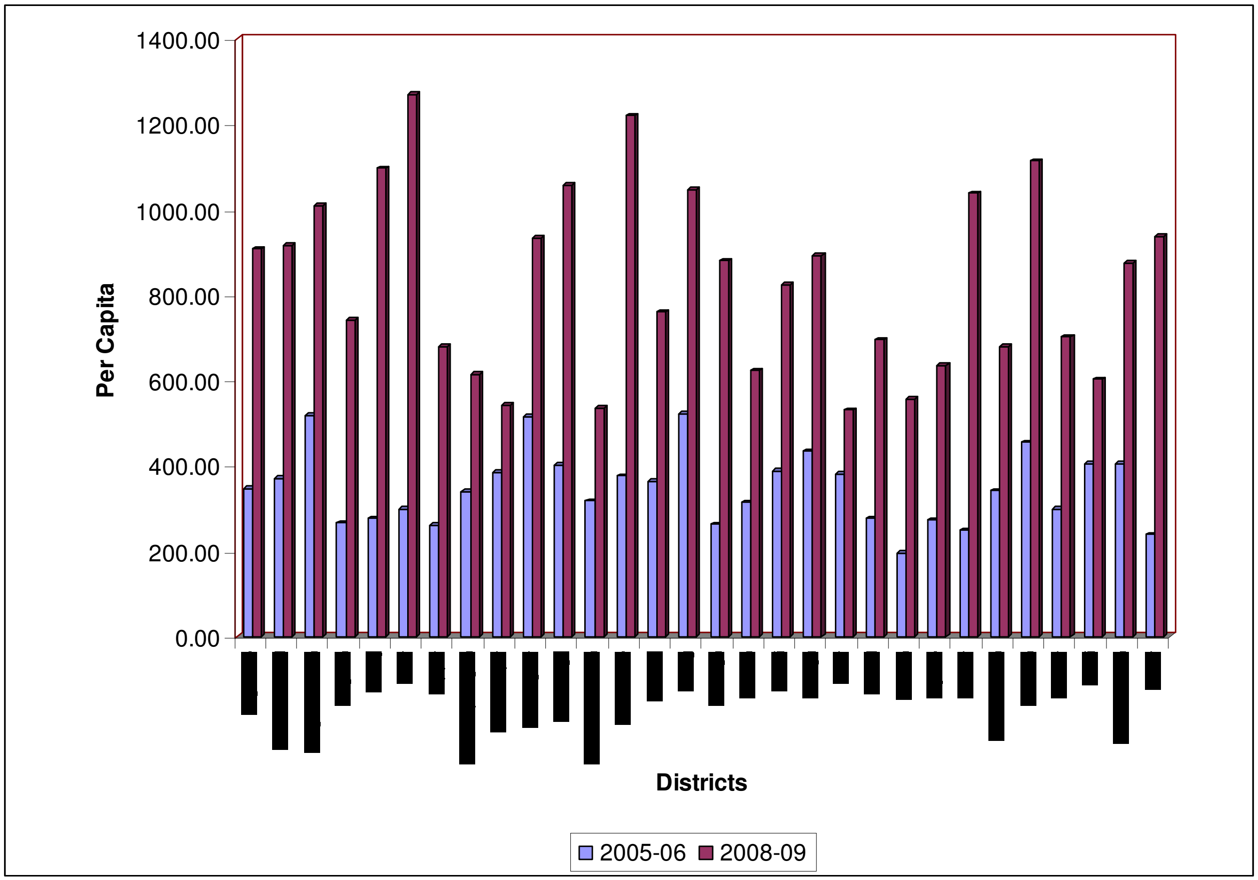
District-wise per capita Own Source Revenue



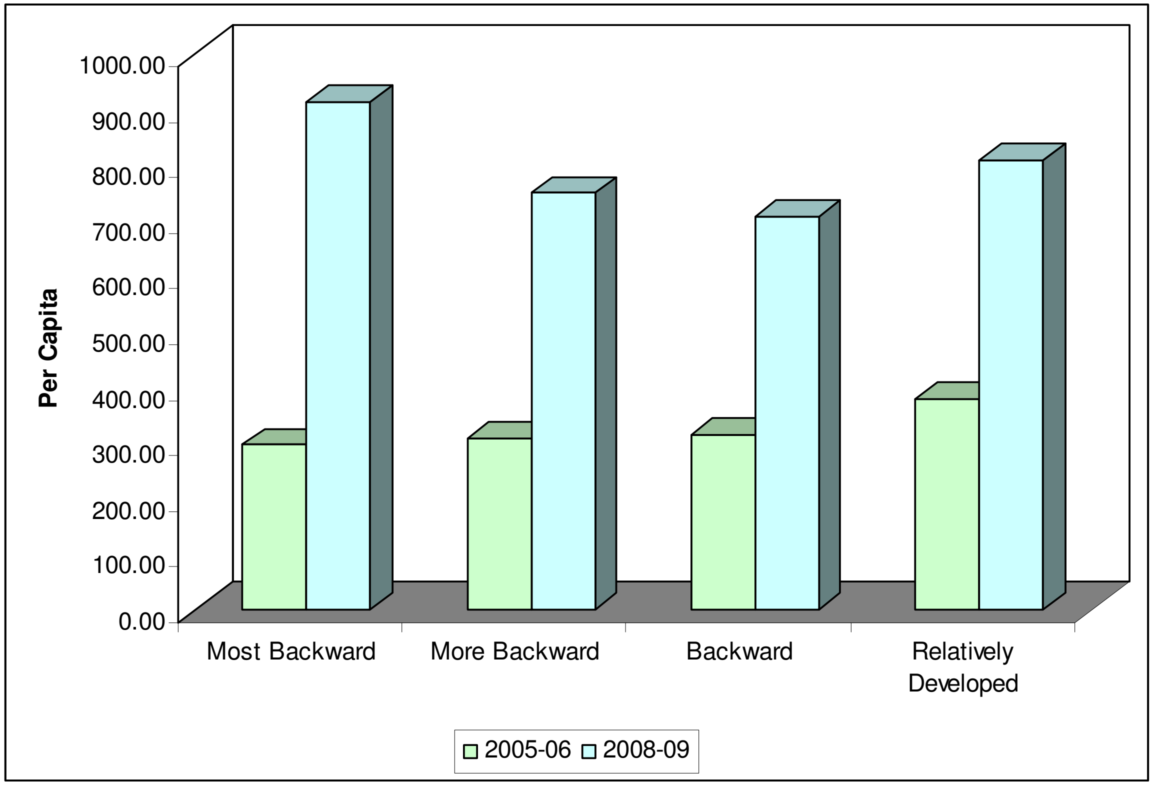
Per capita Own Source Revenue according to category of Taluks



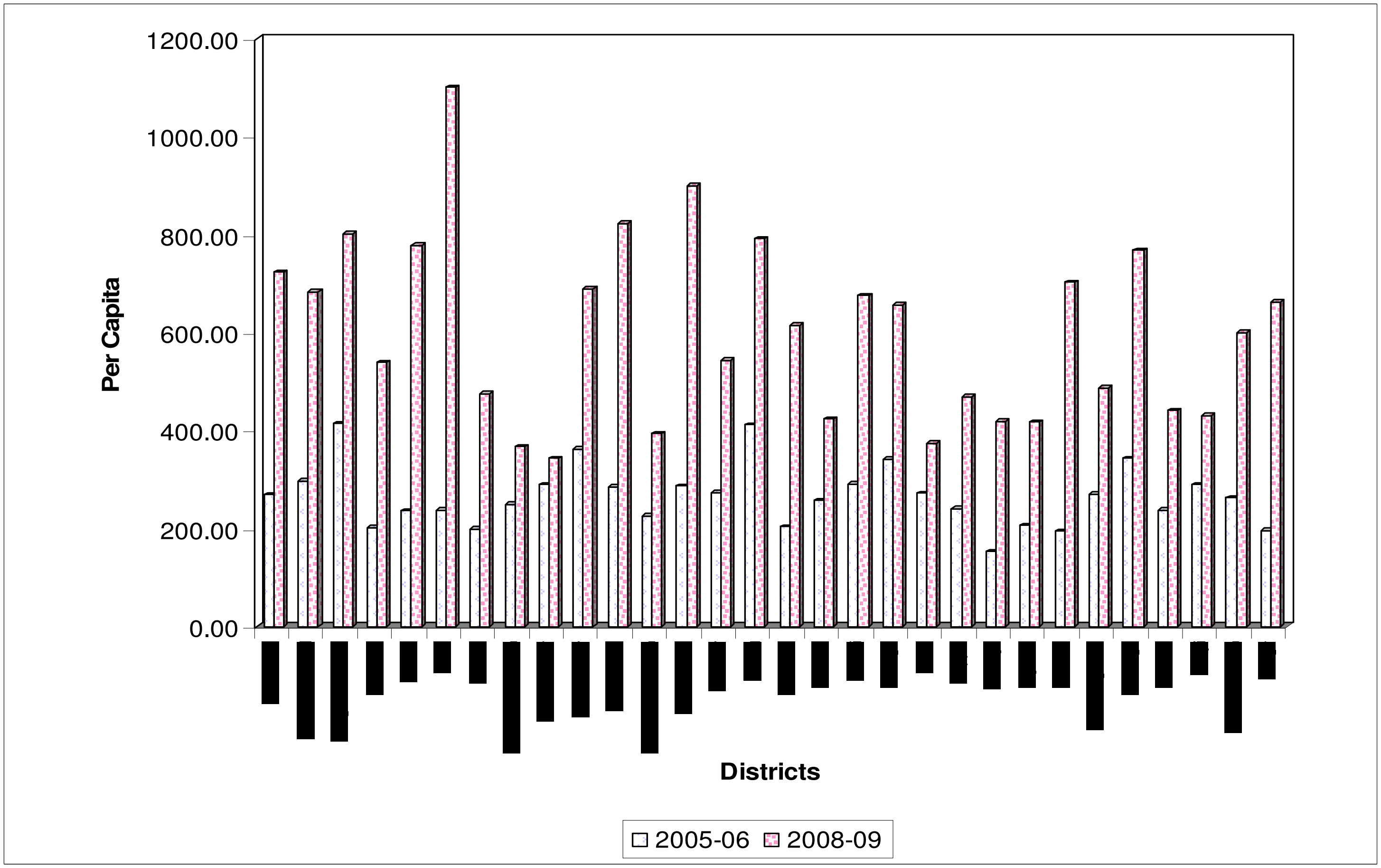
District-wise per capita availability of funds with Gram Panchayats



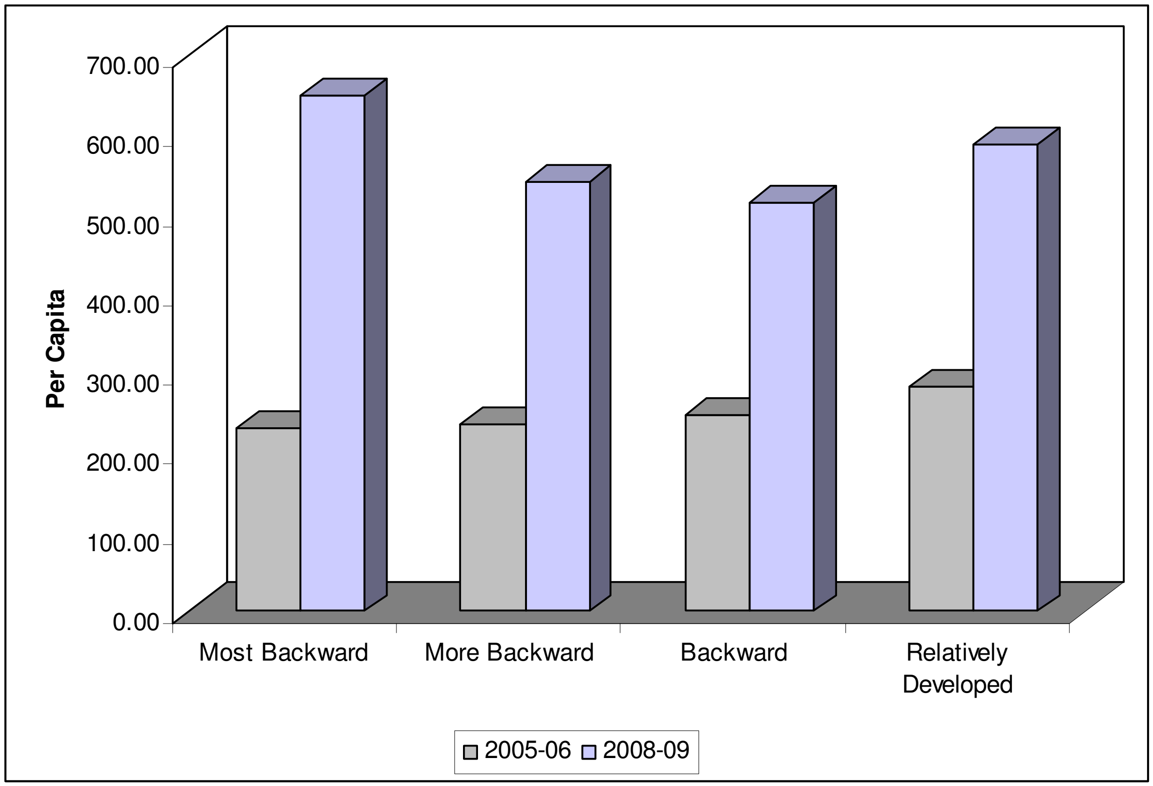
Per capita availability of funds with Gram Panchayats according to category of Taluks



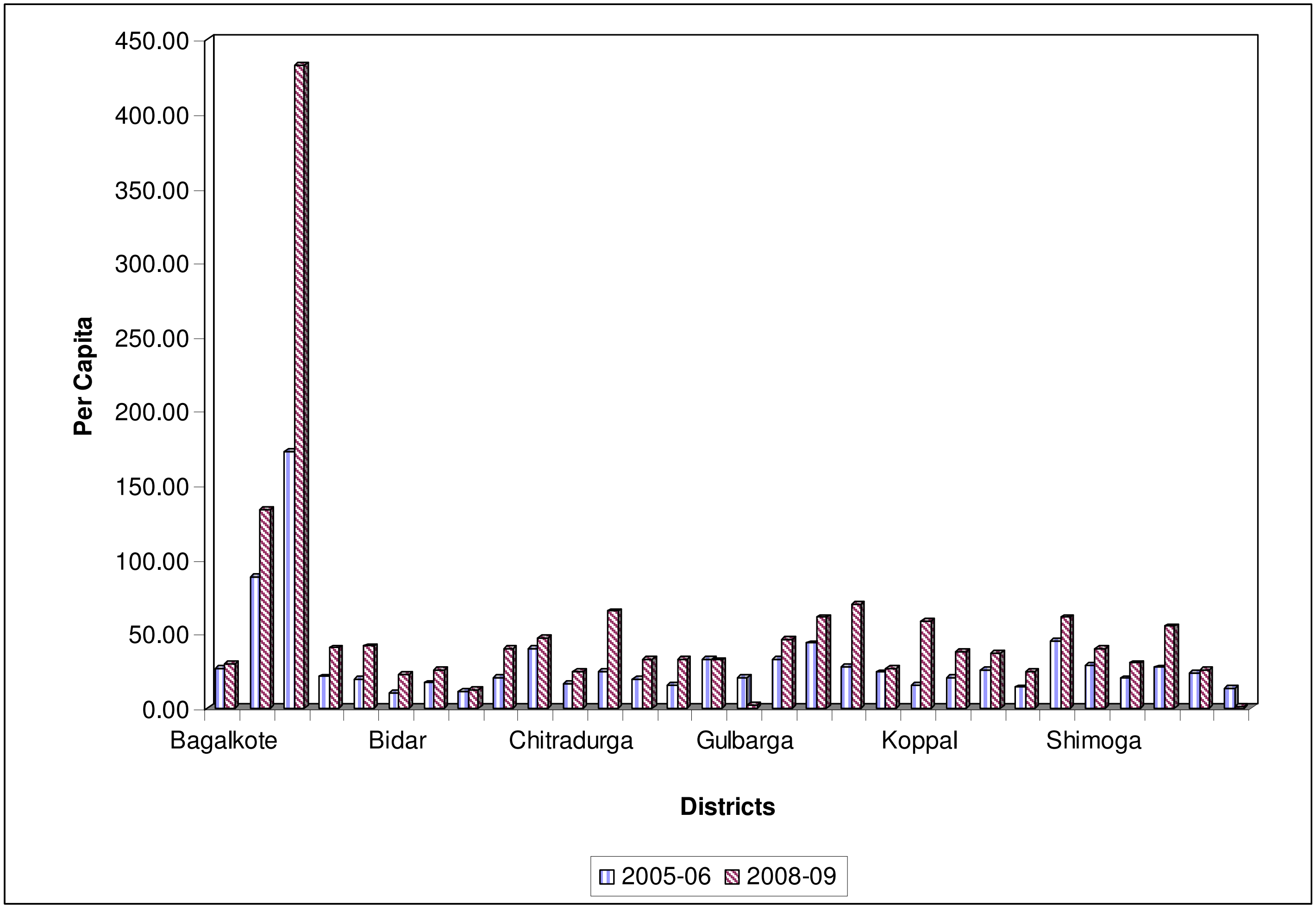
Per capita Expenditure by Gram Panchayats – District-wise



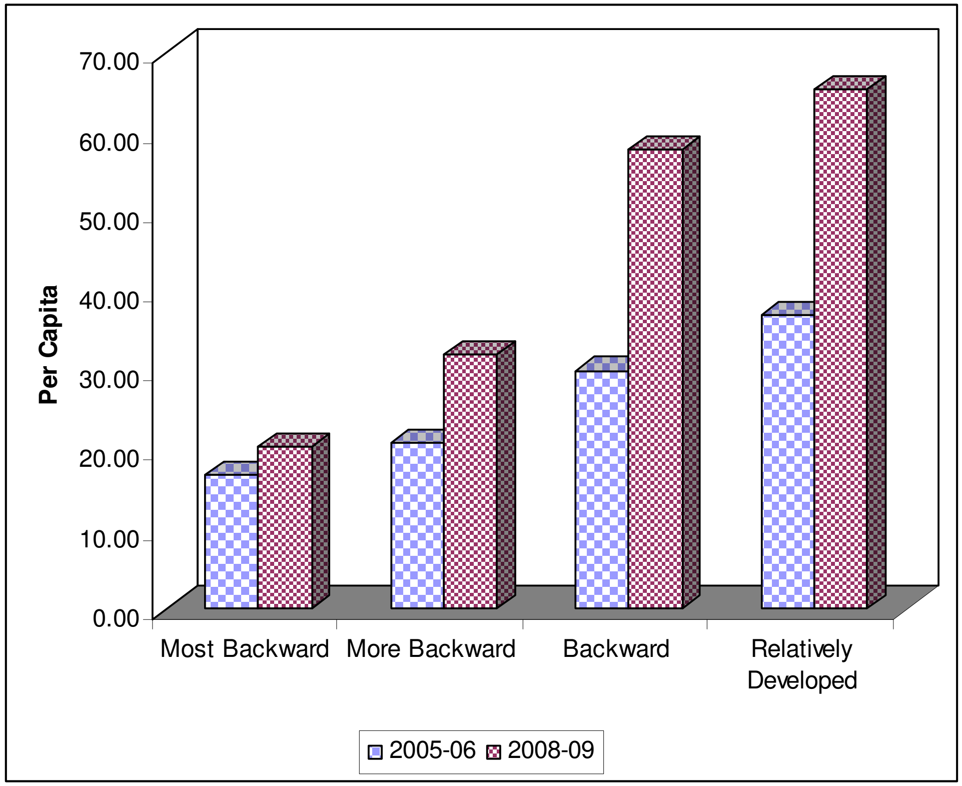
Per capita Expenditure by Gram Panchayats according to Category of Taluks



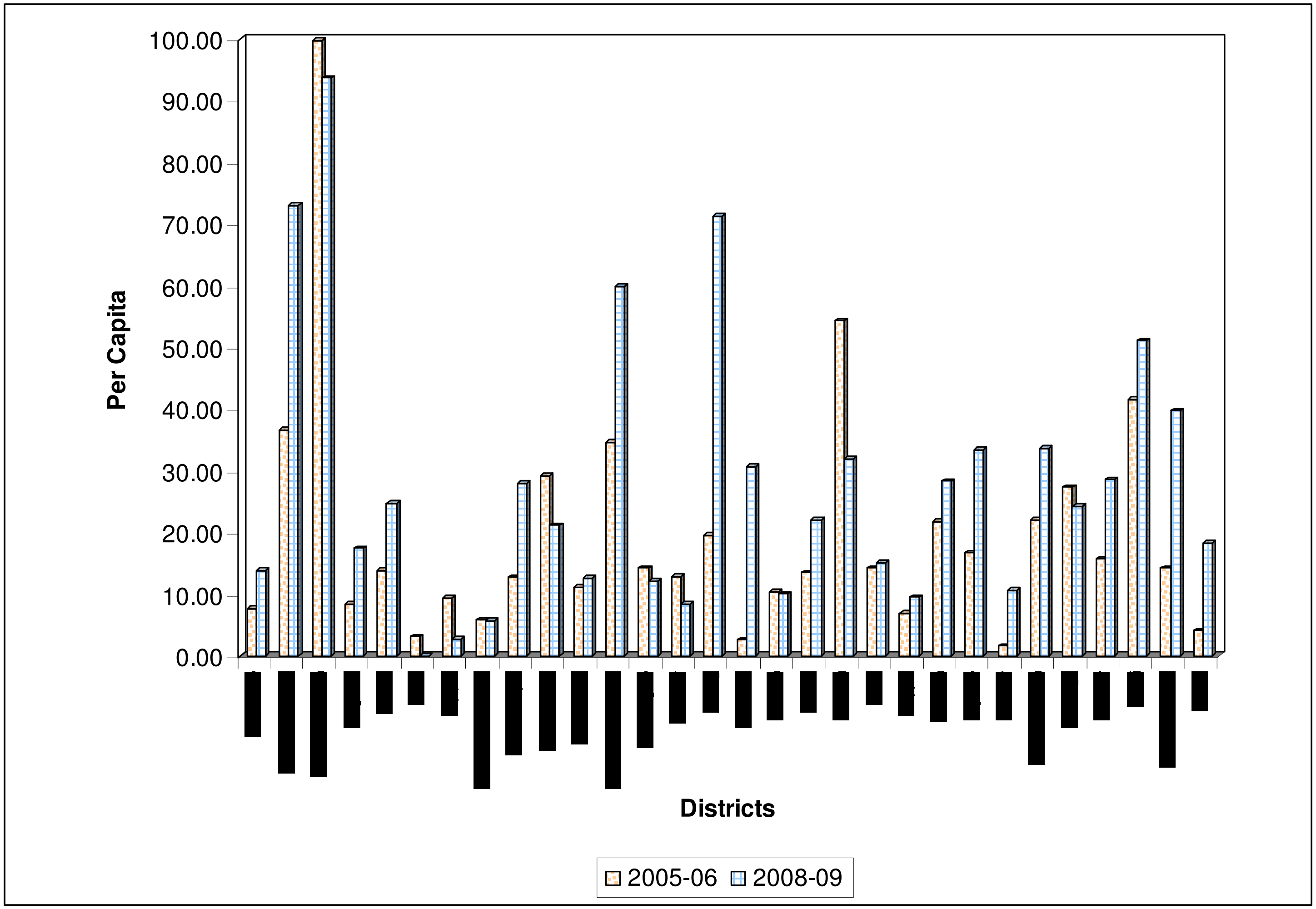
Per capita Tax Collection – District-wise



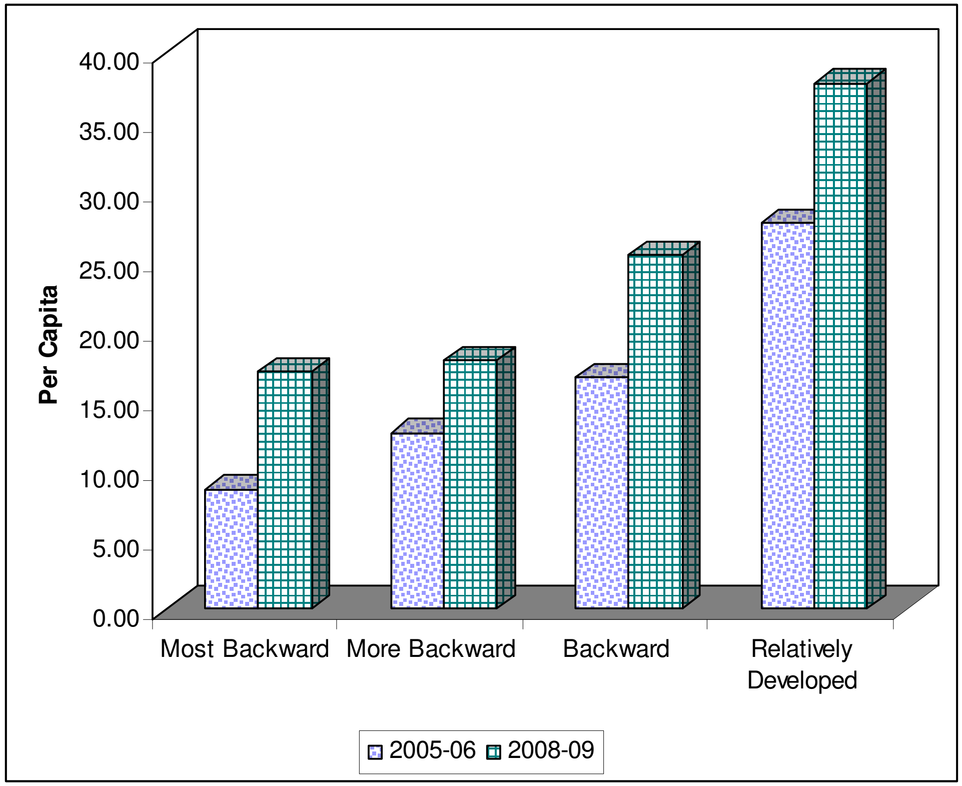
Per capita Tax Collection according to category of Taluks



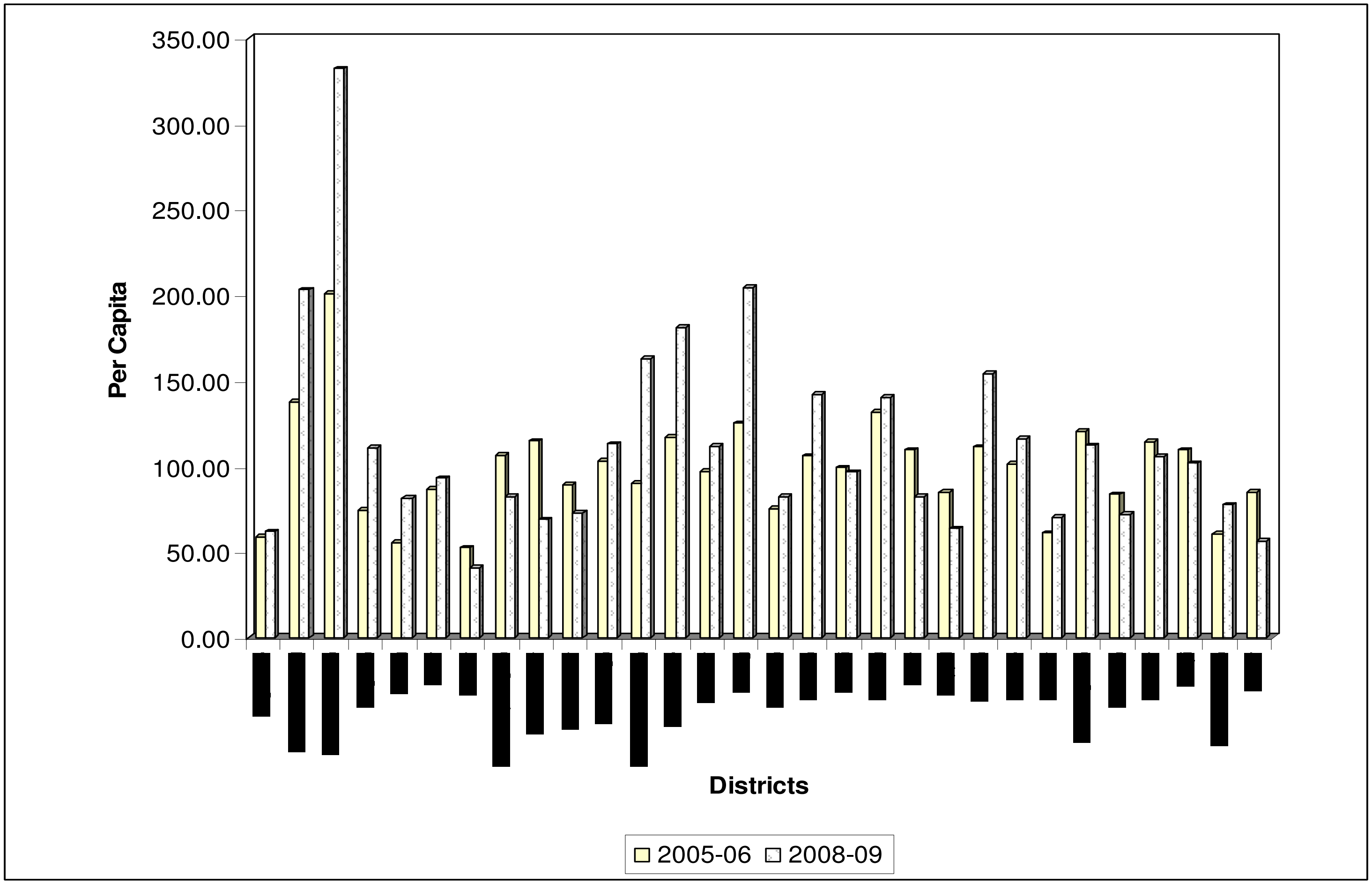
Per capita Non Tax Collections – District-wise



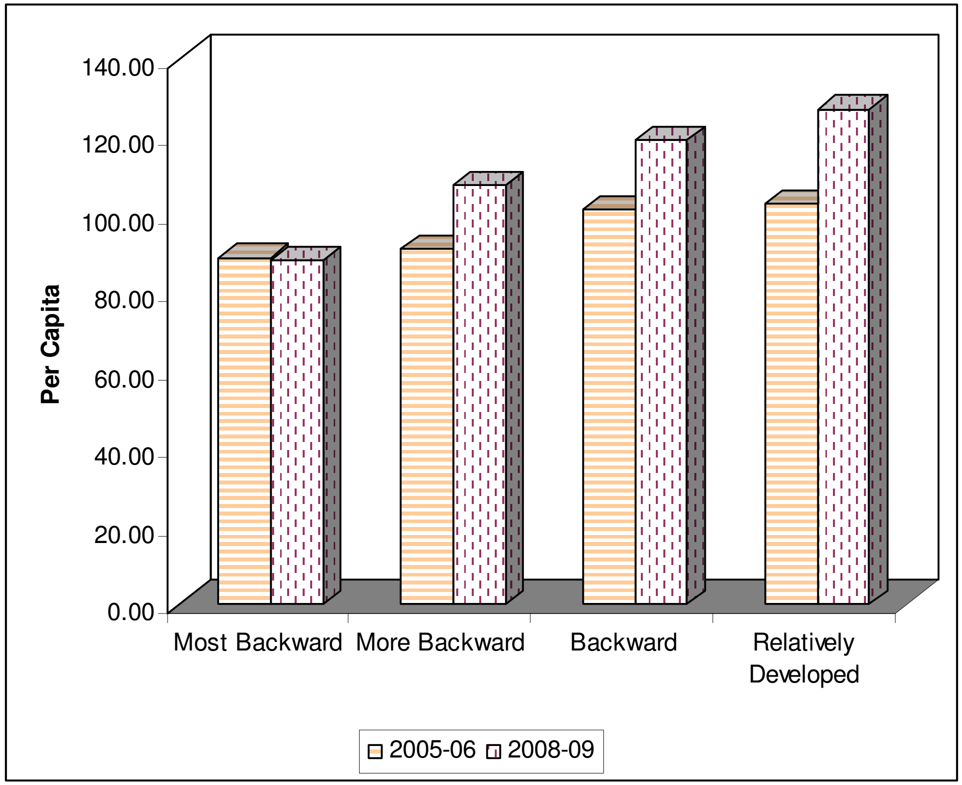
Per capita Non Tax collection according to category of Taluks



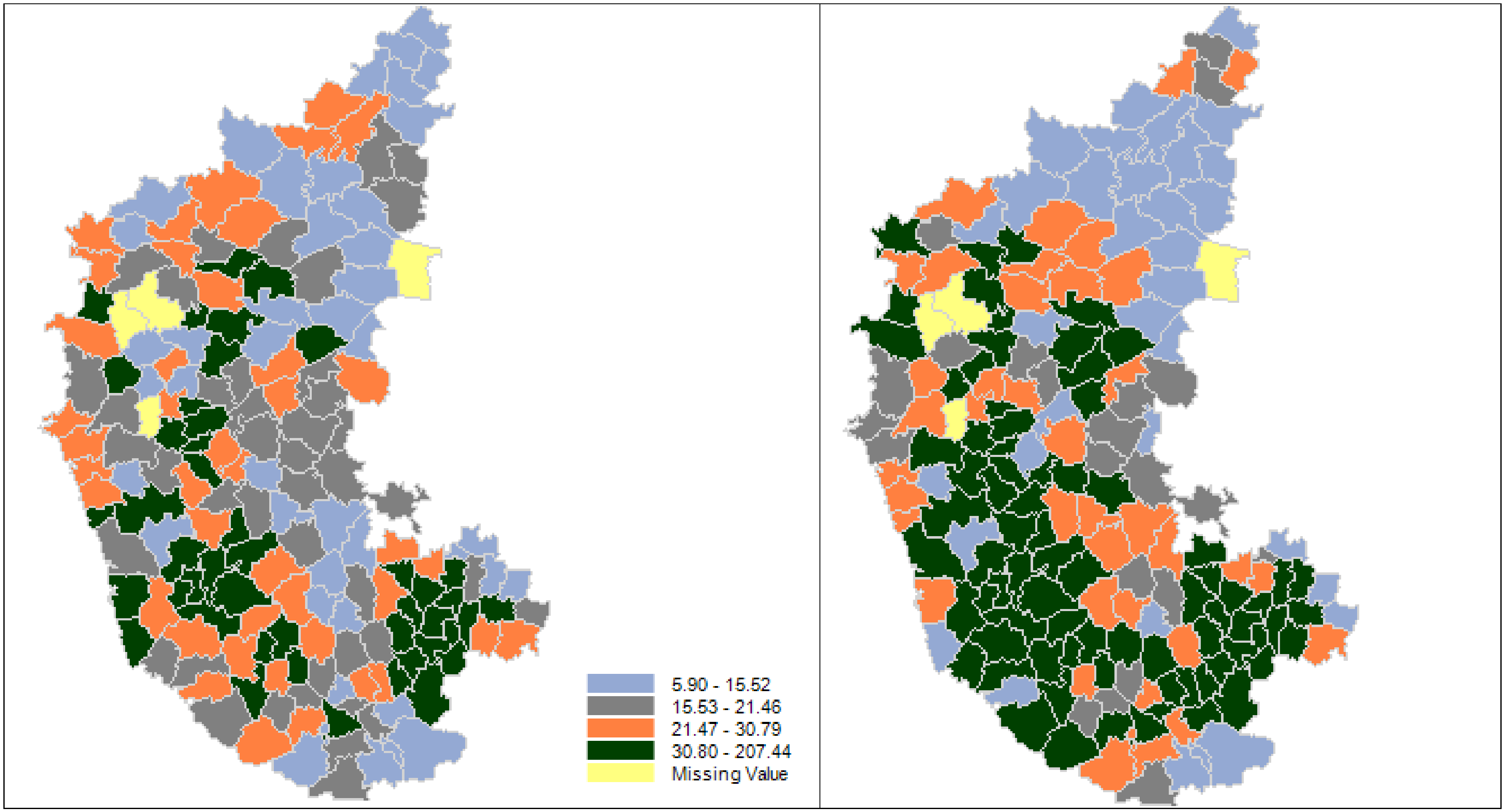
Per capita Expenditure by Gram Panchayats on providing basic amenities – District-wise



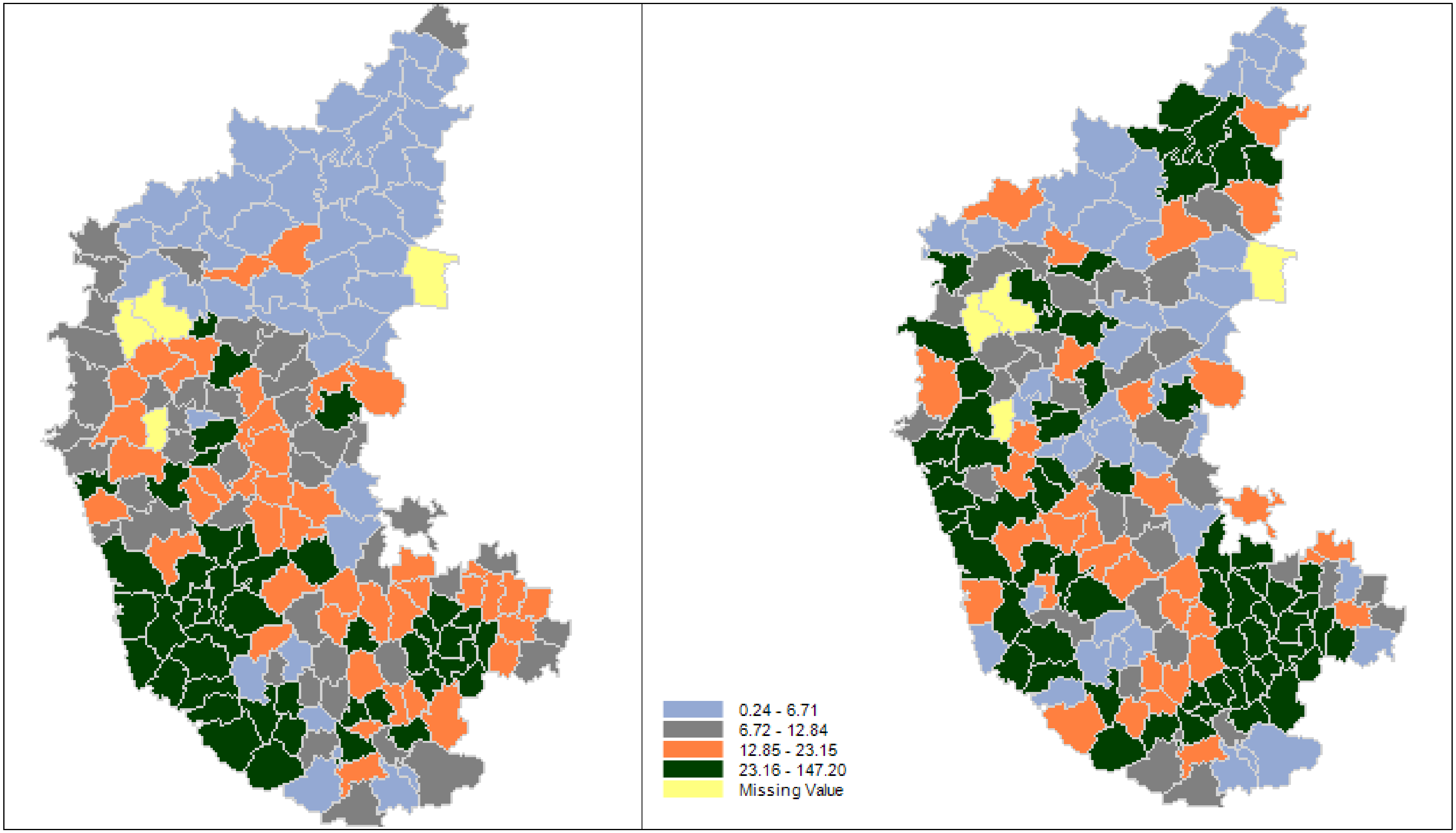
Per capita Expenditure by Gram Panchayats on providing basic amenities according to category of Taluks



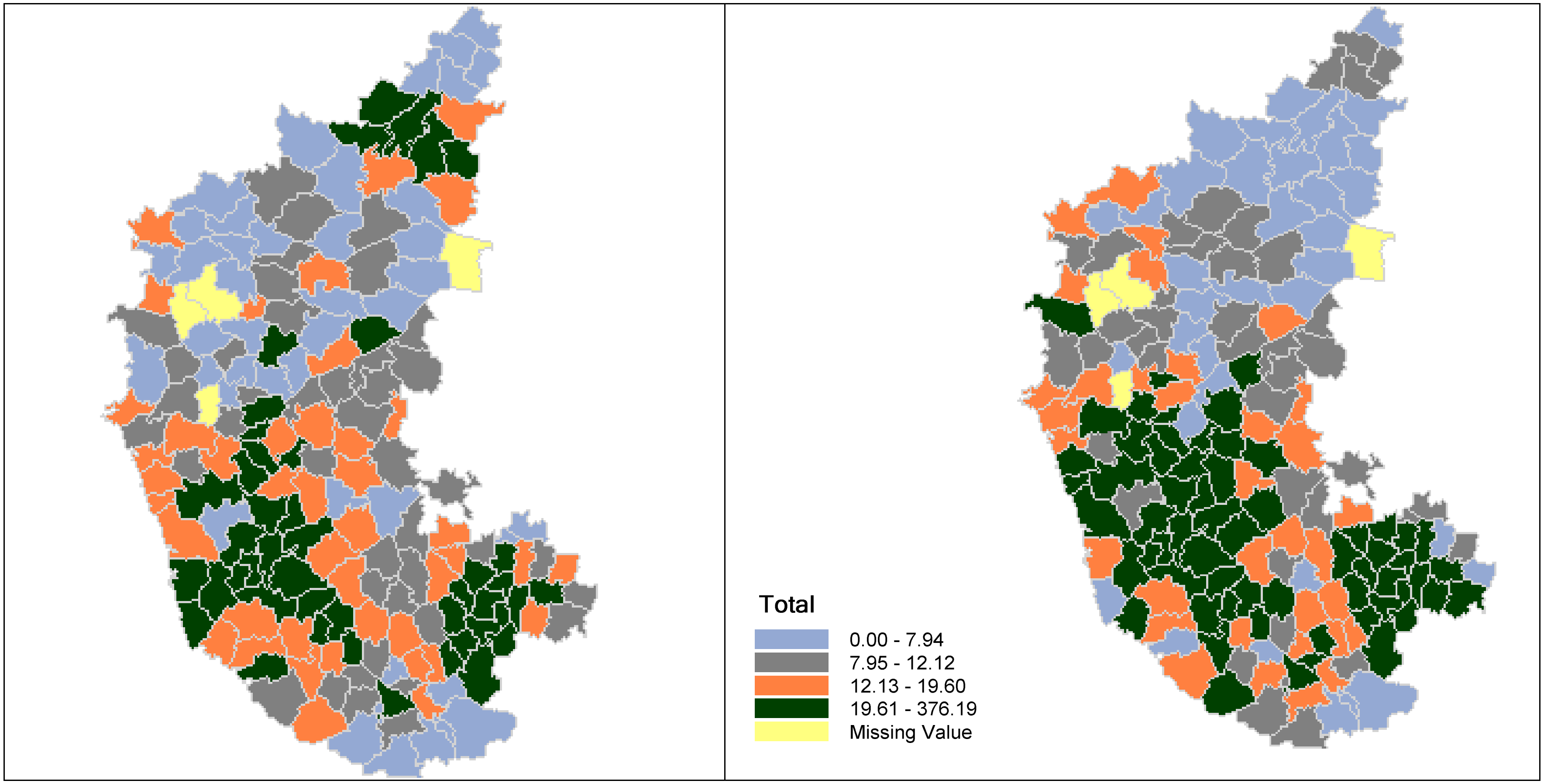
GP Tax Mobilisation- 2005-06 and 2008-09 Taluk-wise Comparison



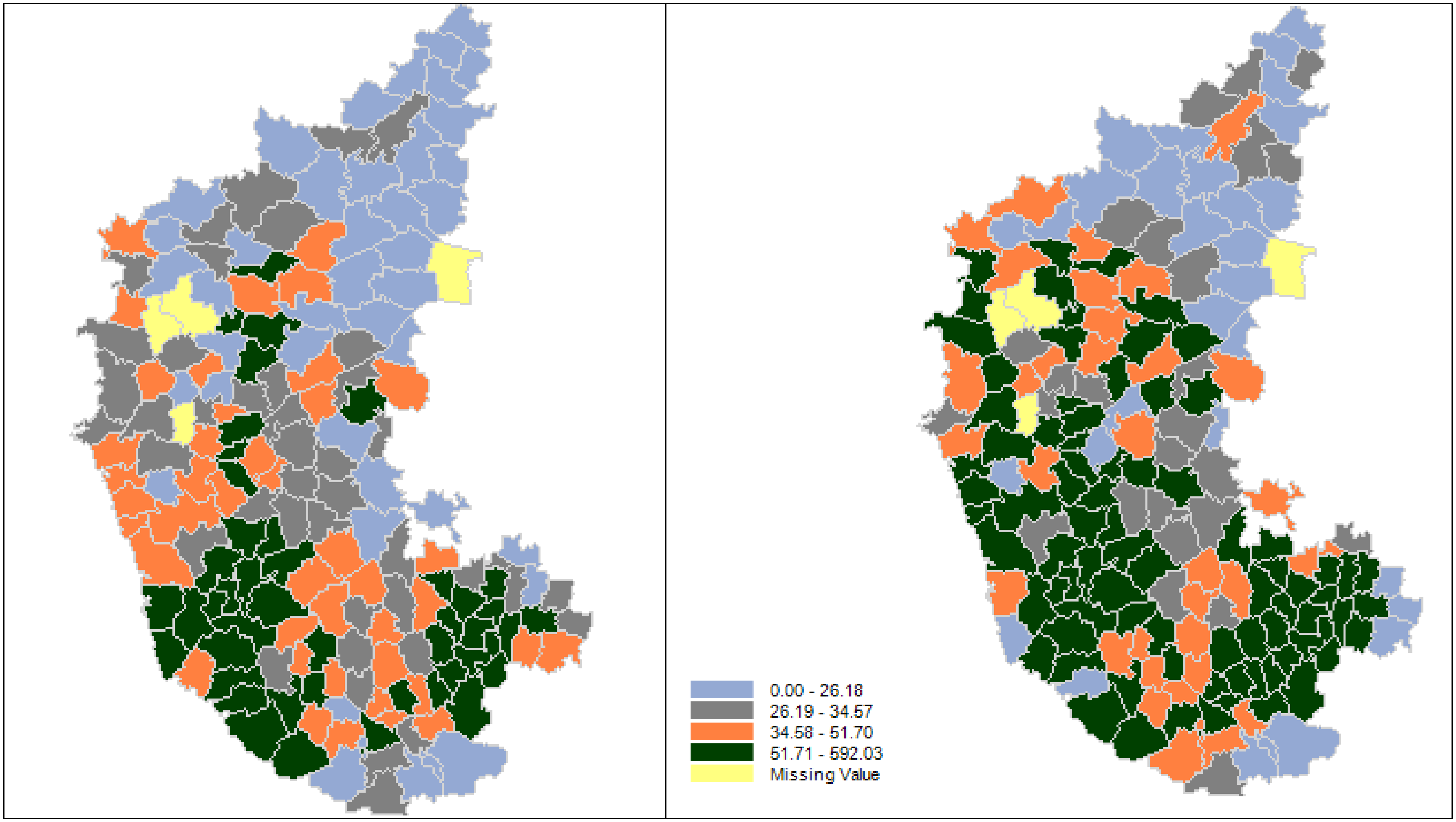
GP Non Tax Mobilisation - Taluk-wise Comparison between 2005-06 and 2008-09



Property Tax – 2005-06 and 2008-09 Taluk-wise comparison



Total OSR – 2005-06 and 2008-09 Taluk-wise comparison



PRIs and Accountability

The flow of resources to PRIs though not very substantial, at present, is likely to increase considerably in future as the 73rd and 74th Constitutional Amendment Acts get operationalised in full. The Eleventh Finance Commission (EFC) taking note of these developments has raised serious concern regarding maintenance of accounts and their audit under the PRI set up. The EFC recommended the following. We refer to the EFC since it was the first commission to discuss the matter at some length.

- States should review the existing accounting heads under which funds are being transferred to the local bodies. For each such, six minor heads should be created – three for PRIs and another three for ULBs – so that a clear picture of transfers to each category of local bodies is readily available. In addition, specific demand heads should be created in the State Budgets for the rural and urban local bodies, respectively, wherein transfers to these bodies under various detailed heads of account are enlisted. This may be done in consultation with the Comptroller and Auditor General (C&AG) and the Controller General of Accounts, to ensure uniformity among the States.
- The C&AG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all the tiers / levels of panchayats and urban local bodies.
- The Director, Local Fund Audit or any other agency made responsible for the audit of accounts of the local bodies, should work under the technical and administrative supervision of the C&AG. In no case should the Director for Panchayats or for Urban Local Bodies be entrusted with this work. The prescribed authority entrusted with the audit and accounts should not have any functional responsibility in regard to the local bodies, so as to ensure his independence and accountability.
- The C&AG should prescribe the format for the preparation of the budgets and for keeping of accounts for the local bodies.
- Local bodies, in particular the village panchayats and in some cases the intermediate level panchayats, that do not have trained accounts staff, may contract out the upkeep of accounts to outside agencies / persons as per the guidelines issued by the C&AG

- Audit of accounts of the local bodies should be entrusted to C&AG who may get it done through his own staff or by engaging outside agencies on payment of remuneration fixed by him.
- The report of the C&AG relating to audit of accounts of the panchayats and the municipalities should be placed before a Committee of the State Legislature constituted on the same lines as the Public Accounts Committee.

In this regard, EFC had also recommended an allocation of Rs.2.37 crore per annum for maintenance of accounts at village level and intermediate panchayat level. Department of Expenditure, Ministry of Finance has issued detailed guidelines for operationalisation of EFC recommendations in regard to PRIs. The guidelines provide for a proportionate reduction in the State allocation from the Centre to the states in the event of delay in holding elections to local bodies. In addition, twenty five per cent of the grants meant for PRIs could be withheld from States which do not transfer functions, functionaries, and finances as recommended by the State Finance Commission to the local bodies. The funds released to the State Government for PRIs would be treated as earmarked funds.

To encourage States to empower the PRIs, it has also been decided to withhold the share of States which have not been released full allocation. Grants which could not be released to the States either on account of delay in holding elections or for delay in transferring functions and powers to PRIs would be credited to an incentive fund, which would be created in the year 2000-05. The proceeds of this fund would be released to other States based on their fiscal performance

The guidelines also provide for a monitoring agency at the State level headed by the Chief Secretary for coordination and monitoring of utilization of funds released to PRIs. A Central Monitoring Committee will also be constituted to review not only the progress of implementation of the scheme but also the extent of devolution of functions, functionaries and finances.

Gram Panchayat Audit: Karnataka

Accountability and transparency are the two key factors which decide the efficiency in the functioning of a Gram Panchayat. Keeping this in mind, the GPs have the following audit systems to achieve the desired results.

1. Administrative Audit

2. Technical Audit
3. Social Audit
4. Jamabandi

Administrative audit is a normal periodical office inspection including verification of books of accounts by the Secretary of the GP, internal audit by the CAO of ZP, office inspection by EO of TP and CEO of ZP. Adhyaksha of the GP cal also verify records register and works by virtue of the power vested with under sec.62 of the KPR Act.

Technical Audit is done by a team of elected representatives of GP and technical specialists from the line departments. Discrepancies in purchases of materials and construction or maintenance of assets can be detected through this Audit. This would ensure quality in purchases, construction and asset creation activities.

Social Audit is one of the key tools to ensure transparency and accountability. Installation of display boards on various development works in villages is one of the methods leading to social audit. Jamabandi is an extension of this and is held every year. The CEO of ZP or EO of the TP would visit the GPs and scrutinize all the records, audit reports, etc. followed by a detailed discussion with elected representatives and villagers. This has helped in increasing efficiency and improving the quality of the works.

Village Panchayat Audit – Tamilnadu

As far as the Village Panchayat is concerned the Deputy Block Development Officer is the official auditor for the village panchayat. Other auditing officials are Assistant Director (Audit), Rural Development - (other than scheme funds). In addition to this the Local Fund Auditor will do a test audit in which he will cover 10% of the total panchayats in that panchayat union every year.

Inspecting and Supervising Officials for Village Panchayat

The following is the list of inspecting and supervising officials for the Village Panchayat.

1. Extension Officer – Panchayat (EOP)
2. Deputy Block Development Officer(village panchayat) – (DBDO)
3. Asst. Director(Panchayat), Rural Development Department – (ADP)
4. District Collector

5. Persons appointed by the inspector not below the rank of EOP
6. Inspector of Local Bodies, (District Collector).

Gram Panchayat Audit – West Bengal

The GP audit is conducted mainly on three planes:

- Administrative Audit is undertaken by officers having the power of inspection of PRIs, from the Director of Panchayats (205 of WBP Act, 1973) to the rank of Joint B.D.O.
- The Pradhan of the GP is empowered under section 34 (1) to have general responsibility for the financial and executive administration of the GP (WBP Act, 1973).
- Technical audit consists of a) internal audit and b) statutory audit. Internal audit is conducted every 4 months by the PAAO (Panchayat Audit and Accounts Officer), attached to the PS. Statutory (external) audit is undertaken by the CAG once each year. Until recently this used to be done by the erstwhile EOP (Extension Officer of Panchayats).
- Social audit – The institutions of the Gram Sansad and Gram Sabha are designed for popular and direct participation of the electorate. Issues taken up in these forums include development schemes, selection of beneficiaries, planning, allotment, monitoring and expenditure. While Sansad meetings are GP-constituency-wise and are statutorily convened twice each year in November and April, the Gram Sabha meetings are conducted once each year, the quorum for the former being $1/10^{th}$ of the electorate; and for the latter $1/20^{th}$. The Gram Sansad and Gram Sabha are expected to ensure transparency and accountability of the GP in its dealings and functioning.

By the turn of 2004, each Gram Sansad was required to have a Gram Unnayan Samiti (GUS), to consist of about 22 members, chaired by the concerned GP member, and including various shades of opinions of the constituency, namely, views of members such as the main opposition party contestant in the last election, NGOs, government employees residing in the Sansad area, teachers from the Sansad area and so on. The GUS is expected to work as a plank on which the totality of the Sansad work is evaluated. While the GUS has clear provisions for voicing of opposition opinion, the democratic participation seems evident. The GUS can be a forum for ensuring greater transparency and accountability of GPs.

7. Conclusions and Suggestions

The findings based on the analysis of the secondary data can be summarized as follows:

- It is essential to make a few comments on the secondary data made available for the study. The fiscal data for 5039 out of 5628 Gram Panchayats in the state was made available for the financial years 2005-06 to 2008-09. Similarl the data was available for TPs and ZPs. The study focused only on the GP-wise data analysis of 4566 gram panchayats for which the data was available for all the years.
- The socio-economic data was made available for one year only. In the absence of comparative data for the subsequent years the data could not be used for analysis. The data was however used for statistical analysis but no significant correlation could be found on the issues covered in the study. However the efforts made to collect the authentic data village wise for each of the Gram panchayats in the state need to be appreciated and the format can be used for up gradation of the data on a regular basis by the Gram panchayats in the state. The enormous data thus collected could be very useful for preparation of a plan/action plan at the Gram Panchayat level.
- The general picture that emerges from the analysis of the per capita income across the GPs in the districts in the state indicates that over the period in a majority of the districts the per capita tax mobilization has increased over the period. There are districts which have shown significant improvement in the tax mobilization efforts.
- Property Tax is one of the important sources of revenue even though it constitutes a small percentage of the total revenue of the gram panchayats. A noteworthy feature across many districts is that the per capita property tax mobilisation has shown significant increase during the study period.
- The non-tax mobilization efforts also showed marginal improvement in many of the districts across the state. However the relatively developed districts in terms of agricultural activities showed a negative trend in non-tax resource mobilization
- The Total Own Source resource mobilization by the Gram Panchayats across all the districts of the state have shown increasing trend during the study period.

- The total funds accrued to the Gram Panchayats in the state comprising of tax, non-tax, grants from State and Central governments have shown significant increase during the study period as evident from the per capita total revenue of the panchayats. This is due to increased flow of funds for development works under some of the flagship programmes of the State like MGNREGS, Rural Housing etc. Similar is the trend with respect to expenditure pattern by the Gram Panchayats which has increased across all the districts of the state. This is also due to the reason that the expenditure on development schemes has been increasing over the years at the grassroots level
- Opening Balance as a percentage of Total funds of the Gram Panchayats has been increasing across all the districts of the state. Discussions with the GP officials during field visits indicated that this due to late release of funds by the State and Central governments for various development schemes during the end of the financial year.
- Grant-in-Aid as a percentage of total funds of the Gram panchayats has been showing a decreasing trend during the study period
- Resource mobilization through taxes by the Gram Panchayats as percentage to total funds (includes the opening balance) has decreased and Non-tax revenue also shows a similar trend. The data shows that though the tax and non-tax sources have been increasing across the districts during the period, the increasing Opening balance at the beginning of financial year is a major concern.
- Expenditure by the Gram Panchayats has been showing a steady trend during the study period. The district wise expenditure shows variations from year to year. The point to be noted is that the larger issues related to devolution of functionaries to the Gram Panchayats along with adequate freedom in expenditure decisions need to be addressed at the policy level.
- The Gram Swaraj project has been implemented in 39 taluks in 14 districts. During the study period comparison was made within these districts between GS Project area and non-GS project area in terms of the fiscal performance of the Gram Panchayats under the parameters discussed earlier – Opening balance, tax, non-tax, total own sources revenue and expenditure pattern. The significant point that emerges from the analysis of the fiscal data is that the performance of the Gram

Panchayats in non-project area was better compared to panchayats in the project area. This was true for all important parameters except the non-tax revenue mobilization where it was almost neutral in many districts.

- The field studies also focused on another important issue of functioning of Gram panchayats as per the provisions of the Act. The initial analysis of the data shows significance improvements in the functioning between GPs in GS Project area compared to non-GS project area under certain issues. It may added here that the focus of the field visits was on regular conduct of monthly GP meetings, ward sabha, gram sabha, formation and functioning of standing committees, preparation of budget and action plans, Jamabandi and audit related issues, maintenance of records, and certain social development parameters and service delivery related issues etc.

A few suggestions emerge from the analysis of the fiscal data. These are related mainly towards improving the potential for mobilization of more resources by the Gram panchayats.

- Widening the tax base in rural areas is one of the important issues that need to be addressed. The Gram Panchayats do not have updated list of properties and periodic up gradation of such a list and levying property tax on such buildings would go a long way in widening the tax base
- State Government had issued orders along with guidelines for periodic revision of taxes by the Gram panchayats. It has been found that such a revision is not taking place. It should be ensured that the revision takes place on a regular basis (once in five years) and this should be put in place as the newly elected body comes into existence at the Gram Panchayat.
- The elected representatives and functionaries do not have adequate information on the importance of resource mobilization efforts by the Gram Panchayat as also the scientific revision of the taxes. All efforts should be made to ensure that the capacity building initiatives are put in place on this issue.

- The data base to be maintained by different tiers of PRIs needs to be streamlined. The data sets available with the RDPR and other agencies like the State Accounts Department need to have uniformity. The suggestion and the formats proposed by the Thirteenth Union Finance Commission can be the beginning for ensuring a proper data base. A beginning in this direction has been made at the Gram Panchayat level where the Panchatantra software captures uniform database from the Gram Panchayats. Similar software should be planned for the Taluk Panchayats and Zilla Panchayats.
- There is a need to initiate more capacity building programmes for the functionaries of the gram panchayats especially for bill collectors who play a crucial role in resource mobilisation efforts.
- The capacity building programmes should also be extended to other functionaries like nodal officers of Jamabandi exercise, auditors of the State Accounts Department and Chartered Accountants and their staff where they have been involved in the double entry accounting system. This would go a long way in overcoming the problems in the data set discussed in the limitations of the study.
- Double Entry Accounting System has been put in place at the Gram Panchayat Level. The hand holding support provided to the Gram Panchayats by the Chartered Accountants needs to be streamlined with a proviso that CA firms need to provide all the services envisaged strictly adhering to the agreement. There is also a need to put some restriction clauses in the payment for the services not rendered by these agencies as per the terms of reference.
- The Double Entry Accounting System exercise needs to be undertaken at the Taluk Panchayat and Zilla Panchayat also in order to ensure that all the three tiers of PRIs are operating under the same set of accounting rules.
- The State Government has recently constituted the Task Force to monitor the implementation of the SFC recommendations. The members of the

SFC have been made the members of this Task Force. Such a Task Force could monitor the Decentralisation related issues both functional and fiscal issues in an effective manner. The task force could monitor such issues both for rural and urban local bodies.

- The Decentralisation Analysis Cell needs to be expanded with a mandate to monitor the functioning of the Gram Panchayats as per the provisions of the Karnataka Panchayat Raj Act by using the formats designed under the PEAIS (Panchayat Empowerment Assistance and Incentive Scheme) and keep a track on the changes that are taking place in the PRIs both functionally as well as financially.

At a more fundamental level several problems arise principally because the centrality of the Panchayat system is yet to take root. By way of comparison there is a need to draw attention to the place occupied in the 50s and 60s of the past century by the planning process and therefore the Planning Commission. Such a situation does not exist with respect to panchayats and this perhaps explains the needless proliferation of parallel organizations and agencies. However there is a need to keep addressing issues related to PRIs through better monitoring and supervisory mechanisms without harming the autonomy of these bodies as enshrined in the Constitution. It is here that the Decentralisation Analysis Cell could play an important role by addressing the issues raised in this study.

Annexure 1

Note of Fiscal Data set

DAC has collected fiscal data from State Account Department (SAD) for GPs from the annual audited accounts for the year 2005-09. Similarly Receipts and Payments for Taluk Panchayat and Zilla Panchayat were collected from CAG office for the years 2005-09.

The description of the Gram Panchayats Fiscal Data set

I. Summary Sheet:

The Summary sheet provides the balance sheet of the GPs like opening balance, Grant-in-aid, tax and non tax revenue with the total OSR, total revenue and total expenditure and closing balance.

- **Opening Balance:** Opening Balance is the balance which is carried forward from the previous year Closing Balance. Opening balance represents all unspent money available in bank account for previous year.

- **Grants-in-aid:** Gram Panchayat received grants from the Central and State Governments for the financial year for various schemes.

- **Tax Revenue:** The Panchayats are empowered to levy tax and the revenue earned by them by way of tax forms part of their own source revenue. Taxes levied by the Gram Panchayats (GP) include property tax and water tax or user charges.

- **Non-tax Revenue**: This is the part of GP's own revenue earned through sources other than tax. This includes the following: sale of items including dead trees, old pipes, parts of tub-wells and other rejected items, License fees etc.
- **Own Source Revenue:** Own source revenue refers to the revenue raised by the Panchayats on their own. Panchayats may raise funds in various ways. A major part of their revenue is generated through tax collection. They also earn revenue through sale of certain items, leasing out property, collecting donations from the public etc. Own source revenue of the Panchayats is broadly classified into: Tax revenue and Non-tax Revenue.

- **Total Funds of GP**: Total Fund includes Own Source Revenue plus Grants from Central and State Governments. Here total funds or receipts consists the Opening Balance, total Own Source Revenue (Tax and Non Tax) by GPs and grant in aid/ Schemes amount from State and Central.
- **Total Expenditure:** Expenditure is the cost of goods and services acquired in the period whether or not payment has been made from total receipt. Details of Head wise expenditure information are given in the column.
- **Closing Balance:** it is the balance remaining at the end of the financial year.

II. Tax and Non taxes (Own Source Revenue) Sheet:

This sheet covers the own source revenue which are raised by the panchayats on their own. Panchayats may raise funds in various ways. A major part of their revenue is generated through tax collection. They also earn revenue through sale of certain items, leasing out property, collecting donations from the public etc. Own source revenue of the Panchayats is broadly classified into: Tax revenue and Non-tax Revenue.

- **Taxes:** The Panchayats are empowered to levy tax and the revenue earned by them by way of tax imposition forms part of their own source revenue. Taxes levied by the Gram Panchayats (GP).
- **Property tax**: Property tax which includes land tax and house tax.
- **Other tax1:** Electricity charges.
- **Water Tax:** Water tax refers the general water tax and special water tax collected from the Individual households who get individual pipe line connection etc.
- **Other tax2:** Entertainment other than cinematography, tax on vehicle other than motor vehicles and advertisement tax.

II. Non Tax:

- **License fees:** a levy of fee for sanctioning of house plan, fees charged for issue of trade registration fees and vehicle registration fees.

- **Other fee:** Jatra fees, development charges from private layout, notice fees, warrant fees, fines, market fees slaughter house, mutton stall and chicken stall fees, bus stand fees, cart stand fees.
- **Permanent asset:** Income from permanent assets like rent from the land and buildings
- **Other_tax3**: Local cess, sale of manure, sale of land, income from lease of properties like ponds, pounds, and other miscellaneous.

Receipts

- **Statuary Grants under Section 206 of KPR ACT 1993:** Each Gram Panchayat received maintenance grant (Section 206) or discretionary grant (208) under the provision of the Karnataka Panchayat Raj Act 1993 from the State Government.
- **Developmental Grants:** It is basically a lump sum amount received by the panchayats from the government and can be used by the panchayats for development purpose.
- **Nirmal Karnataka** (SSS): State government has given top priority to improve sanitation scenario in rural areas. During 1994-95 the rural sanitation scheme was planned and scheme is implemented as Nirmal Gram Yojana in the state. People who are below poverty line and desires of having individual household latrines with subsidy component shall be given priority. Identification of beneficiaries shall be done by Gram panchayats. Public Institutions such as Schools, hostels, PHCs, Anganwadis can also avail the benefits of this scheme.
- **Ashraya Scheme**: This scheme will provide house to houseless persons whose annual income is less than 11800/- in the following ratio for SC (30%), ST (3%), BCM (15%), Minorities (4%) and others (48%). The beneficiaries are selected in the Gram Sabha. The unit cost of house is Rs.20000/-
- **11/12th Finance Fund :** The Union and State Finance Commissions devolve funds to the gram panchayats for provision of basic civic services, purpose of remunerative assets and infrastructure development programmes
- **Indira Awas Yojana** (IAY): is a rural housing scheme which was launched during 1985-86 as a sub-scheme of RLEGP (Rural Landless Employment Guarantee Programme). Thereafter IAY continued as a sub-scheme of JRY (Jawahar Rozgar Yojana) since it's launching in April 1989. From 1st January 1996 IAY was delinked from JRY and made an independent scheme. The objective of the Indira Awas Yojana is primarily to help construction/up gradation of dwelling units of members of Scheduled Castes/Scheduled Tribes, freed bonded labourers and others

below the poverty line non-SC/ST rural households by providing them with a lump sum financial assistance. The Indira Awas Yojana is a Centrally Sponsored Scheme funded on cost-sharing basis between the Government of India and the State Governments in the ratio of 75:25. The programme is implemented through the Zilla Panchayats and houses are constructed by the beneficiaries themselves. The Gram Sabha will select the beneficiaries from the list of eligible BPL households, restricting this number to the target allotted as per the Programme Guidelines.

- **Mini Water Supply:** Rural Water Supply (RWS) The accelerated Rural Water Supply Programme (ARWSP), currently implemented through the Rajiv Gandhi National Drinking Water Mission, in the Department of Drinking Water Supply, has been in operation since 1972-73 to assist the States and UTs to accelerate the pace of coverage of safe and adequate drinking water supply facilities to the rural population. The programme focuses on the coverage of all rural habitations specially the unreached ones, to ensure sustainability of the systems and sources, to tackle the problem of water quality and institutionalize water quality monitoring and surveillance through a Catchment Area Approach.
- **S.G.R.Y :** Sampoorna Grameen Rozgar Yojana (SGRY) is an employment generation programme which was launched in the year 2001 by merging the Employment Assurance Scheme (EAS) (additional wage employment scheme in rural areas) and the Jawahar Gram Samriddhi Yojana (JGSY) (rural infrastructure development scheme).The objectives of the scheme are to provide additional wage employment and thereby provide food security to the rural poor as well as the creation of durable community, social and economic assets and infrastructural development in rural areas. Wages are paid in cash and kind. Food grains are given as part of wages to the target group of people. The programme is being implemented as a centrally sponsored scheme on cost sharing basis between the centre and the states in the ratio of 75:25 of the cash component of the programme. In case of UT's the Centre would bear the entire (100 per cent) cost of the programme. Food grains are provided to the states/UTs free of cost. The resources among the Village Panchayats, Intermediate Panchayats and District Panchayats are distributed in the ratio of 50:30:20. The cost of transportation of food grains from the FCI godown to the work site and their distribution is borne by the State Govt. There is provision for spending a certain prescribed portion of the funds for administrative contingency.
- **Swacha Gram Yojane:** Total sanitation of rural habitation with community participation. (1) Improvement of internal roads of rural road surface and construction of Rain/storm water drains. (2) Toilets for schools (3) Individual and community toilets for all rural masses. (4) Smokeless chulhas for all rural houses (5) Construction of community compost yards using domestic waste

- **Male Neeru Koilo: (rain water harvesting):** Under this providing Roof Top Rain Water Harvesting structures to the Rural Schools and other allied works including HRD/IEC component during 2005-2009. In Karnataka there are 45,337 schools, of which 23,683 rural schools have been identified under this scheme. So far under this scheme 22,778 schools have been provided with Roof Top Rain Water Harvesting System. Appropriate HRD/IEC activities have been taken up already. Incentive of 20% Property Tax rebate to those who adopt the RWH system at their own is being continued. Under _Sachetana Programme_, community based RWH methods are being carried out on pilot basis under the 5- component package scheme of Rs.14.34Crore. The midterm reports are encouraging since, ground water level improvement, decrease of fluoride content in the ground water source, increase of agriculture and horticulture activities with healthy atmosphere is noticed in the 60-villages which are covered under the Project, which is being implemented through BAIF.
- **Library:** Providing grants for maintenance of village libraries and payment of Library employee.
- **Ambedkar housing scheme:** The Scheme is aimed to provide a house to SC/St persons whose annual income is less than Rs.11800/-. The unit cost of the house is Rs.20000/- of which R.s 19000 is of social welfare department and Rs. 10000/- from RDPR department. The whole scheme is on subsidy pattern.
- **Vana Samvadhana (afforestattion):** The GPs spends on afforestation in order to increase the green coverage in and around the area which in turn reduces the green house effect in the environment. It also helps in improving the good health because the trees provide fresh oxygen and which in turn reduces the pollution by taking in the carbon-di-oxide from the environment.
- **Gram Swaraj**: The main vision is Strengthening of Panchyat Raj System, started in 2006-07 with help of world Bank assistance and its main objectives are Providing grants to GPs in 39 most backward taluks, improve in service delivery by PRIs and providing service according to the needs and priorities of people by PRIs
- **Suvarna Gram Yojane:** Integrated development of villages with long term objectives. It is intended to achieve complete development of 1000 villages every year with involvement of NGOs and Private individuals. Its main objectives are (1) Improvement of physical infrastructure in selected villages. (2) To create necessary infrastructure which enhances income from land based activities. (3) Providing all necessary facilities to improve the Human Development Resources such as education, Health, Child development etc. (4) Creation on Non-Agricultural employment opportunities for educated unemployed.
- **Drinking water maintenance:** The programme focuses on the coverage of all rural habitations specially the unreached ones, to ensure sustainability of the systems and sources, to tackle the

problem of water quality and institutionalize water quality monitoring and surveillance through a Catchments Area Approach.

- **Employment Guarantee (NREGS):** To Provide a minimum of 100 days of employment for every family to ensure food security.
- **Total Sanitation:** Total Sanitation Campaign is a comprehensive programme to ensure sanitation facilities in rural areas with broader goal to eradicate the practice of open defecation. TSC as a part of reform principles was initiated in 1999 when Central Rural Sanitation Programme was restructured making it demand driven and people centered. Under this scheme a nominal subsidy in the form of incentive is given to rural poor households for construction of toilets. The programme is implemented on cost sharing basis between the Centre and the States
- **Swajaladara :** It Strengthens and Scales up reform initiative in the rural drinking water supply Sector on participatory and community based with following rules:(1) 10% of the estimated cost of the scheme to be paid by the user community. (2) 90% of the scheme cost to be fully financed by the Govt. of India (3) O & M cost of the scheme to be financed fully by the beneficiaries (4) this scheme can be implemented by GP/Beneficiary Groups (BG) following Reform principles. (5) District Implementation agency (DIA) will release funds to the GPs/BG (6) DIA will be responsible for formulation, implementation and management of Swajaladhara Scheme.
- **Watershed Development:** It includes Western Ghats Development Programme within it. The development of Western Ghats in harmony with the environment and conservation of its fragile eco-system is the main objective of the programme. This programme is implemented on an integrated watershed approach to improve the management of land and water involving various departments such as agriculture, horticulture, animal husbandry, forest, fisheries, minor irrigation, engineering, sericulture and industries. This programme is implemented in 40 taluks of 11 districts.
- **Ground Water Development:** The GPs spends on Ground water development to improve the level of water body.
- **Continuing Education:** The GPs spend on continuing education. It spends some percentage of money on those people who had discontinued their education due to poverty and help them in continuing their education further.
- **Hariyali** To involve village communities in the implementation of watershed projects under all the area development programmes namely, Integrated Wastelands Development Programme (IWDP), Drought Prone Areas Programme (DPAP) and Desert Development Programme (DDP), the Guidelines for Watershed Development were adopted w.e.f.1.4.1995, and subsequently

revised in August 2001. To further simplify procedures and involve the Panchayat Raj Institutions (PRIs) more meaningfully in planning, implementation and management of economic development activities in rural areas, these new Guidelines called Guidelines for Hariyali have been issued.

- **Swarnajayanthi Gram Samriddhi Yojana (SGSY):** Swarnajayanthi Gram Swarozgar Yojana was launched on 1st April 1999 by merging IRDP, DWCRA, and TRYSEM etc. This is a poverty alleviation Scheme and its objective is to bring the assisted poor families (Swarozgaries) above the Poverty Line by ensuring appreciable sustained level of income over a period of time. This objective is achieved by inter alia organising the rural poor into Self Help Groups (SHGs) through the process of social mobilization, their training and capacity building and provision of income generating assets. SGSY is a Centrally Sponsored Scheme and the financing of the programme will be shared between the Centre and the States in the ratio of 75:25. SGSY is subsidized scheme and the Swarozgaries are entitled to a subsidy of 30 per cent of the project cost, subject to a maximum of Rs.7500. In respect of SC/STs and disabled persons however, these will be 50 per cent and Rs.10, 000 respectively. For group of Swarozgaries (SHGs), the subsidy would be 50 per cent of the project cost subject to per capital subsidy of Rs.10, 000 or monetary limit on subsidy for irrigation projects.
- **PMGY:** Pradhan Mantri Gramodaya Yojana (PMGY): The Ministry of Rural Development has introduced Pradhan Mantri Gramodaya Yojana (Gramin Awas) as a supplementary scheme of Indira Awas Yojana (IAY) for construction of houses for the families living below the poverty line in rural areas. PMGY (GA) is generally based on the pattern of the Indira Awas Yojana (IAY) and is implemented in rural areas only. Only families living below the poverty line are entitled to the benefits of this scheme and not more than 40 per cent of the total allocation in a financial year can be utilized for non SC/ST BPL families. Beneficiaries are to be identified by the Gram Sabha and from the list so prepared, Panchayat Samiti shall prepare a list of beneficiaries on priority basis within the allocation for the year. Zilla Panchayat will finally approve the list. The entire funds for this scheme are provided by the Central Govt.
- **Bio Gas**: National Project on Biogas Programme is a Centrally Sponsored Scheme being implemented since 1982-83. This is mainly 100% women component programme. Biogas is a clean, non-polluting, smoke and soot-free fuel, containing Methane gas produced from cattle dung, human waste and other organic matter in a biogas plant through a process called anaerobic digestion. The digested slurry can be used as good quality of manure in agricultural fields.

- **Jal Nirmal**: The World Bank approved the Second Karnataka Rural Water Supply and Sanitation Project i.e., Jal Nirmal Project on 18th December 2001. The project agreement was signed on 8th March 2002 and credit for the project has become effective from19th April 2002.
- **Jala Rakshane**: This programme is being implemented from 2002-03. Conserving soil and water is the objective of the programme. Soil and water conservation works are implemented with the involvement of farmers. To take part in the programme, the farmers should clear all the taxes due to the Gram panchayat and pay a registration fee of Rs. 50 to GP. The government will provide food grains for the wage component free of cost.
- **Bharath Nirman**: A Comprehensive Action Plan had been prepared and submitted to Government of India for release of adequate grants to the State to provide LPCD of Drinking Water to all the rural habitations including that of which were identified as water quality affected habitations. It is proposed to address the problematic habitations through a permanent measure by way of at least sanctioning the required/need based schemes during 2009-10; so that, the schemes could be implemented during the 11th Five Year Plan period.
- **Affected by Epidemic diseases**: the GPs spend some amount of money on the eradication of the diseases which are epidemic in nature. So that it reduces the spread of diseases and also helps in promoting the health in rural areas.
- **Natural calamities**: the GPs spend a part of the fund in the development of areas/people affected by natural calamities like earth quake, floods etc.
- **Others & Debts**: The other & debts include the deposits, refundable amount, taxes, VAT charges etc.
- **Grand Total:** It is the receipt of the annual income of the Gram Panchayat.

Expenditure:

Untied expenditure

- **General Administration:** It refers to the expenses incurred towards paying the honorarium and sitting fees of president, vice-president and other elected members of the panchayat. The other expenses that are incurred under this head of account are; Meeting expenses, Expenses on Gram Sabha Further, the salary of Bill Collector, Watermen etc., Traveling Allowances, Postage and Telephone charges, Stationary and printing, Furniture and Other Miscellaneous Expenses.
- **Public Protection**: Public protection includes the maintenance of streetlights in all villages in the GP area.

- **Development Works carried out by GP :** This mainly includes the expenditure incurred towards maintenance of drinking water supply, rural sanitation, Construction & maintenance of Roads, buildings etc. Under drinking water and rural sanitation, the GP mostly take up the maintenance – like repairs of motors for pumping of water from bore wells, cleaning of drainages etc.
- **Public Health**: This includes expenditure on prevention of spread of communal diseases, Prevention and remedial measures against epidemics etc.
- **Civic Amenities** : This includes establishment and maintenance of village libraries and reading rooms, Construction and maintenance of community assets and Development and maintenance of public parks, playgrounds and so on
- **Education** : The data presents expenditure on education to disadvantage groups of the societies for example school scholarship to students and supply of school materials etc.,
- **Advances:** GP received advances for from contractor to take up development work through tendering.

Tied expenditure

The tied expenditure is incurred for a specific purpose; the list of expenditure made under respective schemes is given in above annexure.

- Statuary Grant
- Nirmal Karnataka Project
- Ashraya Housing Scheme
- Finance Commission Grant
- Indira Awas Yojana
- Mini Water supply grants
- S.G.R.Y
- Swacha Gram Yojane
- Malle Neeru Koilo
- Library
- Ambedkar
- Vanasamvardana
- Kugrama Sugrama
- Namma Bhoomi Namma Thotha
- Naxal affected area fund

- Mid day meal
- Gram Swaraj Yojane
- Suvarna Gramodya Yojane
- Rural water Maintenance
- Employment Guarantee (NREGS)
- Total sanitation
- Swajala dhara
- Watershed development
- Continuing Education/Literacy
- S.G.S.Y
- P.M.G.Y
- Jal Nirmal
- Jalarakshna
- Bharath Nirman
- Suvarna jal
- Others (not specified)
- Natural clematis
- Affected by Epidemic diseases
- Contribution from public or private institution, industries or individual etc.
- Others (Debt Heads*)
- Total Expenditure

Zilla and Taluk Panchayats Revenue and Expenditure details

- **Public Works:** It is one of the major head on Revenue side. It includes both the plan and non-plan sector within it. It is composed of some major and minor heads within it, namely ZP Establishment Charges, New Supplies, Maintenance and repairs, suspense debits and suspense credits.
- **General Education:** It includes many major and minor heads within the plan and non-plan sector. The elementary education, teachers training, training for In-service Teachers, Sarva Shiksha Abhiyana, secondary education, Inspection, scholarships with incentives, financial

Assistance and Reimbursement of Fees and Vidya Vikasa, Improvement of secondary schools construction(NABARD) etc which comes under primary and secondary education of plan sector.

The plan sector also includes mass education within which State Plan Schemes and Central Plan Schemes are present. They concentrate on adult education by conducting some adult literacy programme.

Non-plan includes primary schools, Residential Schools for SC/ST Talented Students, elementary schools GIA, Pre-elementary schools, inspection, appointment of school mothers and nursery school teachers, high schools, maintenance and GIA etc.

- **Sports and Youth Services:** It includes both plan and non-plan sector. The plan sector includes State Plan Schemes and ZP schemes. Under which comes the Rural Sports Centers, Sport Schools, Organization of Sports Meet and Rallis, construction and maintenance of Stadiums etc.

The non-plan includes Assistant Youth Service Officer, Assistant to students and non-students, Assistants to district and divisional Youth Services Board for Purchases of Sports Materials and scheme like Sports Promotion in Rural Areas.

- **Art & Culture and Library:** It includes non-plan sector which incorporates District Library Authorities, promotion of cultural activities by maintaining and supervising of Nehru Yuva Kendras etc.
- **Medical and Public Health:** It is one of the most important major head on revenue side which incorporates many schemes and programme under both plan and non-plan sectors.

The plan sector includes State Plan Schemes within which TP schemes are present and also includes Central Plan Schemes under which TP and ZP schemes exist.

The state plan includes Urban Health Service- Allopathic Hospitals and Dispensaries, major Hospitals, Health sub-centers, Taluk level general hospitals, establishment of Blood Bank, National TB control Programme, Mobile Health Units, Karnataka Health System Development Project, National Anti-Malaria Programme, CSS of Guinea Worm Eradication Scheme, District Health Office Building etc.

The TP schemes under state plan include Strengthening of PHUs- Maternity homes, establishment of Sub-Centres, ICDS, school health services etc.

There exist many schemes and programmes under Central Plan also. They are like Public Health, Prevention and Control of Diseases, Leprosy Control Scheme, CSS of National Filarial Control Programme, Control of Blindness etc.

The plan sector also includes Ayush as one of the minor head in the plan sector which also include many programmes under it.

Similar to plan sector non-plan too includes many schemes and programmes within it. Some of them are as stated as below:

Dental Units to Taluk Hospitals, Local Fund Combined Hospitals and Dispensaries(PHU), Up gradation of Primary Health Centres, Drugs and Chemicals to Allopathy, Drugs & Chemicals to ISM, National TB Control Programme, Opening and Maintenance of Unani Dispensaries, Building(including ISM), prevention & control of Diseases etc.

- **Family Welfare:** The plan sector includes both State and Central Schemes. They are as follows: transport, State Health Transport Organization, Compensation, and Transportation of Vaccine for Regional District Stores, Supply of Drugs under Family Welfare and Pulse Polio Immunisation etc. which comes under state plan.

  Central scheme includes - District Family Welfare Bureau, Training, Training of Dadis, Rural Family Welfare Services, Rural Family Welfare Centres at PHCs, Urban Family Welfare Services, POL & funds for major repairs for vehicles, mass education, publicity and propaganda etc.

  The non-plan sector includes schemes or programmes of Population Centre.

- **Water supply and Sanitation:** This major head includes many minor or sub-heads under plan and non-plan sector.

  The plan sector includes State Plan Schemes for ZP and GP. The ZP schemes are Water Supply, Rural water Supply, National Rural Water Supply Scheme (State), Care Taker Training Programme.

  The GP scheme encompass Water supply, Rural Water supply, National Rural Water Supply, Maintenance of Bore wells, Sewerage and Sanitation, Sanitation Services, Nirmala Gram Yojane/ Total Sanitation Campaign. It includes the centrally sponsored schemes for GP like Water Supply, Rural Water Supply, and Additional Support to ZP Sectors, Sub Mission Project, Maintenance and repairs of Water Supply Schemes etc.

The non-plan sectors include new supplies, repairs and carriages, transferred rigs to ZPs and many more.

- **Housing:** It includes some standard schemes like INDIRA AWAS YOJANE, PMGAY etc.
- Welfare of SC/STs/OBC
- Labour and Employment Scheme
- Social Security and Welfare
- Nutrition
- Crop Husbandry
- Soil and Water Conservation
- Animal Husbandry
- Fisheries
- Forestry and Wildlife
- Co-Operative
- Special Programmes for Rural Development
- Rural Employment
- Other Rural Development Programmes- DRDA
- Minor Irrigation
- Bio-gas
- Village and Small Industries
- Industries
- Roads and Bridges
- Secretariat Economic Services
- Civil Supplies
- Akshar Dasoha High School building & primary school building
- Capital Outlay water supply & sanitation
- Capital Outlay Women & Child Welfare
- Capital Outlay Roads & Bridges
- Other Social Services
- Other General Economic Services
- Hill areas
- Other Agricultural programmes
- Other Scientific Research

- Value of food grains
- Transferred to TP
- Transferred to GPs
- Interest
- Other receipts
- Suspense account
- Bank transactions/CSS
- Total Treasury
- SGRY
- RH Totals
- Tax on sales
- Food Grain
- Total Part-I

Expenditure Heads

- Public Works
- General Education
- Sports and Youth Services
- Art & Culture and Library
- Medical and Public Health
- Family Welfare
- Water supply and Sanitation
- Housing
- Welfare of SC/STs/OBC
- Labour and Employment Scheme
- Social Security and Welfare
- Nutrition
- Crop Husbandry
- Soil and Water Conservation
- Animal Husbandry
- Fisheries
- Forestry and Wildlife
- Co-Operative
- Special Programmes for Rural Development

- Rural Employment
- Other Rural Development Programmes- DRDA
- Minor Irrigation
- Bio-gas
- Village and Small Industries
- Industries
- Roads and Bridges
- Secretariat Economic Services
- Civil Supplies
- Other Social Services
- Other General Economic Services
- Hill areas
- Other Agricultural programmes
- Other Scientific Research
- Value of food grains
- Transferred to TP
- Transferred to GPs
- Interest
- Other receipts
- Suspense account
- Bank transactions/CSS
- Taluk Panchayat Grants
- ZP Fund III
- Treasury
- Food grain
- RH Totals
- Total Part-I

Annexure 2

State Finance Commission Recommendations

Tamil Nadu

First State Finance Commission

Tamil Nadu Government follows the principle of global sharing transmitting across the broad buoyancy instead of shared individual taxes. This makes the level of devolution more predictable since the total revenues do not fluctuate as much as proceeds from each tax item. The major recommendations including the financial devolution were accepted and implemented by the State Government. The funds devolved to the local bodies have been grouped by the State Finance Commission under two headings viz Pool –A and Pool-B.

Under **Pool A,** assigned revenue from surcharge on stamp duty, Local Cess, Local Cess Surcharge and 90 per cent of the entertainment tax based on place of origin of the tax is distributed to the Rural Local Bodies.

Pool B (Global Sharing), the State Finance Commission has grouped all the State taxes except entertainment tax and has recommended that 8 % of this should be shared with the local bodies in 1997-98. State government is devolving only 8 per cent of its revenue mobilized from state own tax revenue to local bodies.

Out of 100 per cent global sharing prescribed under Pool B for each year, 15 per cent shall be set apart as Reserve, Equalisation and Incentive Funds, remaining 85 per cent is shared among the rural and urban local bodies at the ration of 55:45. The 55 % allocated to the rural local bodies were shared between Village Panchayats, Panchayat Unions and District Panchayats.

Allocation between rural local bodies is shared between Village Panchayats, Panchayat Union and District Panchayats in the ratio of 47:45: 8.

The Equalisation and Incentive Grant is shared at the ratio of 60:40 among the rural and urban local bodies. The Equalisation and Incentive Grant is unique in the sense that financial and infrastructurally weak local bodies are assisted to bring about an equitable development. Therefore, it also extended to areas prone to natural calamities.

In 1999-2000 the ***Equalisation and Incentive Grant*** were distributed to the Village Panchayats and Panchayat Unions on the basis of the following purposes.

- Payment towards electricity charges by weaker Village Panchayats
- Creation of infrastructure facilities in less development Panchayats
- For Weaker Panchayat Union which could not meet the administrative expenses.
- Repair of 2000 Noon Meal centers
- Incentives for collection of House Tax
- Incentives for Village Panchayats which are maintaining common community, burial and burning ground for use of all communities.
- Awards for best performing Village Panchayats, Panchayat Unions and District Panchayats.

Further House Tax matching incentive is extended to the Village Panchayats at the rate of Rs.2 for every one rupee of house tax collected. It may be emphasized that these transfers are being done without transferring the cost of the Government Employees to the local bodies under Rural Development Department and other key sector Departments.

20 per cent of the SFC devolution to the Gram Panchayats has been reserved for capital works.

Apart from State Finance Commission (SFC) devolution, various plan, non-plan and discretionary grants and government loans etc are transferred from State government to local bodies every year.

Non plan discretionary grants to the local bodies in Tamilnadu are, maternity grants, social education grants, etc and plan grants such as *Anna Marumalarchi Thittam, Namakku Name Thittam*, Golden Jubilee water supply scheme grants to agency functions, schemes relating to Panchayat raj institutions etc., These funds are passed on to the local bodies outside the devolution package recommended by the SFC.

Second State Finance Commission (SSFC)

SSFC recommended a change in the Pool-B as follows. "The Commission recommends that the approach of global sharing is the proper mechanism for devolution from State to local bodies. The percentages of global sharing from out of SOTR after excluding Entertainment Tax shall be as under:

2002-03 8%

2003-04 8%

2004-05 9%

2005-06 9%

2006-07 10%".

But the state government keeping the SFC grants as 8 % only.

Karnataka

In Karnataka the second state finance commission submitted its report during December 2003. The commission was asked to determine the total share of PRIs and ULBs in the revenue of the State Government. It had to suggest the principles governing the allocation of the revenue among the three tiers of PRIs and among the ULBs. It recommended the system of devolution of funds based on "Non-Loan Gross Own Revenue Receipts" [NLGORR] of the state. The NLGORR includes all taxes levied and collected by the State Government, interest receipts, all duties, fees and other non-loan non tax receipts levied and collected by the state. This concept has already been accepted by the state government on the recommendation of the First State Finance Commission.

The Second State Finance Commission has taken note of what has been released as devolution of funds to PRIs and ULBs during the last five years. As against 36 per cent of NLGORR recommended by the First State Finance Commission as the share of PRIs and ULBs, the commission has recommended that this share should be increased to 40 per cent of NLGORR of the State Government.

The devolution of funds is based the indicators – population, area and index of backwardness which consists of illiteracy rate, proportion of SC and ST population and population per bed in Government hospitals. The commission also examined the feasibility of including the population below the poverty line and per capita income as indicators. However, due to limitations in the availability of the data for a divide between rural and urban areas, the indicators could not be used.

Share of PRIs

As against the allocation of 30.6 per cent to PRIs and 5.4 per cent to ULBs out of the NLGORR of the State as recommended by the First SFC, the Second SFC recommended 32 per cent [i.e. 80 per cent of 40 per cent of NLGORR] should go to PRIs and 8 per cent to ULBs.

The devolution scheme recommended by the First SFC in the ration of 40:35:25 to ZPs, TPs and GPs was not accepted by the state government. The second SFC has decided that the divide between the plan and non-plan allocation has to be recognized and taken into account in the context of the following ground realities:

3. Zilla Panchayats and Taluk Panchayats do not have their own source of revenue
4. Major allocation under non-plan has to be sustained

The second SFC decided to keep the allocation under non-plan intact and decided to apply the same only of plan funds. Accordingly the commission decided that 65 per cent of plan funds should go to ZPs and 35 per cent to TPs.

As far as GPs are concerned a fixed amount is being realized as untied each year by the state government The commission recommended the same to be continued. Therefore, the application of indicators and weightages is not resorted to in respect of GPs. The state should provide a uniform rate of block grants with an incremental increase every year. In the first year, the allocation should be Rs.3.5 lakhs and in the subsequent four years it should be increased at the rate of Rs. 25000 every year. The State Government has already accepted this recommendation and an order allocating Rs.5 lakhs to each of the GPs in the state were issued.

West Bengal

The First State Finance Commission recommended that entitlements to local bodies will be financed by sharing of taxes. (LBs are left with the most inelastic and trivial sources of taxation). In lieu of sharing individual taxes, the Commission suggested that 16 percent of the net proceeds of all tax collected by the State in a year should be transferred to local bodies. These will be untied funds at the disposal of the local bodies. As far as the distribution of entitlement funds among the PRIs is concerned, The First Finance Commission recommended the following norms. Of the total entitlements going to Panchayats the proportional allocations between three tiers are: ZP 30 percent, all PSs together 20 percent, and all GPs together 50 percent.

In compliance to the constitutional provisions of the Articles 243(I) and 243(Y), the First State Commission (SFC) was formed in West Bengal in May; 1994.The Commission submitted its report to the State Government in November, 1995. It was entrusted with the onus of determining the principles of resource distribution between the State and the local self-governments (LSGs) as well as to suggest the means of own resource mobilization of these LSGs.

The First SFC identified the following sources of revenue of the districts-

1. Plan grants/funds.

2. Non-plan grants /funds.

District plan grants can be divided into two parts according to the Commission-1) grants i.e., tied grants which are sponsored by the Central and State governments. It is obligatory for the State to match its grants with that of the proportion of devolved Central grants.

2) Entitlements in the form of untied grants which are devolved down by the State. Besides, the State should have adequate funds to meet the special needs of some areas of the districts. On this ground of special needs, the State distributes funds between the LSGs in accordance to its discretion.

The three tiers of panchayat, namely, Zilla Parishad (ZP), Panchayat Samiti (PS) and Gram Panchayat (GP), and Municipalities have three sources of revenue-grants (tied), entitlements (untied) and own income including donations.

1. Grants-these are financed by both the Central and State governments. This apart, GPs receive tied grants from ZP and PS to discharge tasks assigned to the former by the latter.

2. Entitlements-untied grants provided by the State to the LSGs.

3. Own income including donations-own mobilized resources of the LSGs and voluntary contributions

from the local residents.

Devolution of taxes

The First SFC emphasized the following with regard to taxation-

1. Instead of collection of entertainment tax by the State government, LSGs should collect it.

2. ZPs should collect the irrigation charges.

3. Urban land tax and multi-storied building tax should be transferred to Calcutta Municipal Corporation.

Entitlements

The Commission recommended transfer of 16 percent of net collected taxes of the State in a year to the LSGs as entitlements. Further, it opined in favour of freedom of the LSGs in utilizing these untied grants in accordance to the priorities of development work to be determined by themselves.

Second State Finance Commission

The Second SFC was formed in July 2000.Several new recommendations were made by it. These were as follows-

Entitlements

- Rs 700 crores allocation in State budget as entitlements.
- The entitlement share of GPs, PSs and ZP will be 60, 20 and 20 percent respectively.
- ZPs and PSs should allocate a part of their untied grants to the villages struck by calamities and suffer from inaccessibility problem.
- LSGs in the hilly regions are to be provided an additional 0.04 percent of the total state taxes to be met out of entitlement fund.

Instead of adhering to First SFC's recommendation of devolving funds, the State govt. allotted a part of the plan fund from different departmental budgets to the LSGs as lump sum grants-in-aid.

Incentives

First SFC's recommendation of forming a district level incentive fund was replaced by its recommendation of State level incentive fund. It is to be constituted of 2 percent of total (16 %) untied fund.

Devolution of taxes

In the observation of the Second SFC, the State has devolved the power of collection of almost the entire amount of entertainment tax to the LSGs in line of the First SFC's recommendations. But the recommendations of assigning this tax to the LSGs and empowering them with discretionary powers for rate fixation have not been put into practice. With respect to this matter, the Second SFC opined that the arrangement of sharing the entertainment tax with the LSGs may be continued but the recommendations of the First SFC should be modified to that extent.

LSGs should be given the powers of collecting land revenue and cesses.

Own income of the LSGs

The Commission suggested mobilization of unutilized resources like land, water bodies, livestock, trees etc for both income generation and employment creation.

ANNEXURE 3

Sources of Revenue and Expenditure of Gram Panchayats - Karnataka

Revenue	Expenditure
A. Rates and Taxes 1. *Tax on lands* (lands not subject to agricultural assessment) 2. *Tax on building* – House tax* (inclusive of land appurtenant to such buildings) *3. General water rates* *4. Special water rates* *5. Tax on entertainment other than cinematograph show* *6. Tax on vehicles other than motor vehicles* *7. Advertisement Tax* **B. Revenue derived from Gram Panchayat property and powers apart from taxation – Non-tax revenue** 1. *Revenue from the GP property* like - Rent from land, building, sale of building, sale of fruits, grass, sale of wood, fuel, sale of dead or fallen trees etc., Grazing charges from gomal lands, sale of manure and street refuses like dust, dirt, dung etc., Market fees, slaughter houses, Bus stand fees, Cart stand fees 2. *Revenue from statutory powers of Gram Panchayat apart from Taxation* like Jatra fees, License fees for construction of buildings, factory, hotels, restaurant, shops, etc., development charges from private layouts, notice fees, warrant fees, fines, local cesses etc. **C. Grants & Contributions** *1. Grants from State Govt. under section 206 of the KPR Act 1993* *2. Discretionary grants from State Govt. under Sec.208 of the KPR Act* *3. Other conditional or unconditional grants from the State or Central Governments* *4. Contribution from public or private institutions, industries, individuals etc.* *5. Any other items*	**A. General Administration** 1. Gram Panchayat Elected Body [includes monthly honorarium and Travelling Allowances of Adhyaksha and Upaddhyaksha, sitting fees to members, meeting expenses, expenses on gram sabhas etc] 3. Gram Panchayat Office [includes salary of establishment, TA, Contingencies like postage, telephone, stationery, furniture etc.] **B. Developmental Admn.** 1. Drinking Water [includes construction and maintenance of wells, tanks and ponds, distribution and maintenance of drinking water supply schemes, prevention and control of water pollution, conservation of water etc. 2. Rural Sanitation [includes maintenance of general sanitation in the villages, cleaning of roads, drains, burial grounds, construction and maintenance of public latrines, providing sanitary latrines to individual households etc. 3. Public health and family welfare [includes prevention and remedial measures against epidemics, establishment of markets for sale of fish, meat and other perishable food articles etc. 4. Roads, Bridges and other means of communication [includes construction and maintenance of village roads, drains, culverts, maintenance of boats, ferries and water ways etc.] 5. Construction and maintenance of slaughter houses, bus stand, cart stands, development and maintenance of public parks, playgrounds, establishment and maintenance of shandies etc. 6. Production related activities in the areas of agriculture, animal husbandry,

	fisheries, forestry, Khadi, village and cottage industries D. Centrally sponsored Schemes 1. Swarnajayanthi Gram Rozgar Yojana 2. Swacha Gram Yojana 3. ………. 4. ………. E. Debt heads

Sources of Revenue and Expenditure of Village Panchayats in Tamilnadu

Revenue	Expenditure
A. Own Source	**A- Establishment Charges**
	Salary
Own Tax	TA
	Stationary
House Tax	Sitting Allowance
Profession Tax	Salary - Public Welfare staff
Income from other Taxes	Total
Entertainment Tax	**B- Capital Expenditure**
	Sanitation inclusive wages
Non Tax	Social Forest/Fruit Orchard/Parks
	New – Building
D&O License fee	New – Roads/ Improvement roads
Other Licence Fee	New – Culverts
Building Fee	Extension - Street Lights
Shandee Fee	Extension - Drinking Water pipeline
Income from Trees	New- Drinking water provision
Blue Print Approval	New- Materials Purchased
Additional Income	Other Capital Expenditure
Bank Interest	Construction - New Platform for OHT
	Construction - Retaining Wall
B- Assigned and Shared Revenue	Construction – Drainage channel
Surcharge of Stamp Duty	Construction – Ramp

Local Cess	Purchase of Physical fitness materials
2 C Patta Fee	**C- Maintenance Expenditure**
C- SFC + other grants	Electricity Bill - Street Lights
Other Statutory Grants	Electricity Bill- Motor Pumps
House Tax Matching Grant	Electricity Bill- Panchayat Building
SFC Grant	Maintenance - Well, Wage etc
Street Light Subsidy	Maintenance – Hand Pump
Total	Maintenance – OHT
D - Other Income	Maintenance - Street Lights
Library Tax (transferred to govt.)	Maintenance - Panchayat Tank
Deposit	Maintenance – Panchayat Buildings
Matured Deposit	Maintenance – Materials
Funeral Fund	Maintenance - Roads/culverts
Other Grants	Maintenance - Cremation Yards
	Drinking Water Charges
	Total
	D- Miscellaneous
	Radio/TV, Spares
	Temple Festivals
	Remittance - Fixed Deposits
	Remittance – Advance
	Other Expenditures
	Investment by VP
	Cremation/Death Subsidy
	News Paper
	Advertisement Cost
	Boards Installation

Sources of Revenue and Expenditure of Village Panchayats in West Bengal

REVENUE	**EXPENDITURE**
I. Grants From The State	**I. Revenue Expenditure**

A. General grants- 1. Matching grants. 2. Untied entitlement grant as recommended by the State Finance Commission. 3. Other grants-awards from the Central Finance Commission. B.Specific purpose grants- 1. For payment for meeting pay and allowances of staff. 2. For payment of honoraria and allowances of members. 3. Remuneration of tax collectors. C.Grants for executing specific schemes- 1.SGRY(wage employment generation scheme) 2.IAY(housing for the poor) 3.IRDP and SGSY 4. Other schemes-PMGSY, SSA, Watershed Development Programme. 5. Social Security schemes-NMBS, NOAPS. **Ii.Own Income Of The GP** A.(Property) taxes 1. Land and Building tax. B.(Non-property) resources 1. Tolls-Road or bridge toll, toll from ferry. 2.Rates-Water rate, lighting rate, drainage rate, conservancy rate, general sanitary rate. 3.Fees-registration of vehicles, licence for carrying dangerous trade, fees for arranging sanitary arrangements at the places of worship, pilgrimage, fairs and melas, fees for registration of running trade, house building registration fees, fees on licence on dogs, birds and other domestic animals, fees for grazing cattle on vested land, fees for use of burning ghat, fees for registration of shallow or deep tube well, fees on erection of hoarding, fees on village	1. Establishment expenses. 2. Office expenses. 3. Expenditure incurred on operation and maintenance of assets. **Ii.Development Expenditure** 1. Public works financed from such schemes as SGSY, PMGY etc. 2. The untied funds provided by Finance Commission grants are also utilized for creating public assets. 3. There are also some social welfare schemes. These schemes are grouped under the head Social Services. **Iii.Own Fund Expenditure** A. Tax-related 1. Tax collector's commission. B.Establishment or administrative cost 1. Organisation of meetings. 2. Payment of electricity charges, phone bills. 3. Xeroxing. 4. Stamp duty. 5. Newspaper cost. 6. Bank service. 7. Payment for canal. 8. Payment for TA, Transportation. 9. Press and publicity cost. 10. Organisation of sansad meetings. C.For development/ public services 1. Street light. 2. Relief. 3. Collective services.

produces, fees on hat or markets, fees for registration of boats. 4.Income from GP assets Income from sale/auction, rent or use of various GP assets and properties and bank interest.	4. Targeted services. D.For assets/income generation 1. Auction of trees. 2. Roads and gardens. 3. Sericulture. 4. Purchase of tiller, land and fuel. 5. Cultivation. E.Miscellaneous expenses 1. Donations. 2. Rewards etc.