1.1 Introduction:

The modern states are well known as the welfare states. Therefore, modern governments have to discharge innumerable functions to secure maximum economic and social welfare of the society as a whole, through their finances. The ultimate aim of public finance is the maximum social advantage. It may be difficult for central and state governments to take proper care of the needs that possess local character as in the case of provision of water and sanitation, maintenance of local roads, street lighting etc. The delegation of these functions to the local self-governments (LSGs) relieves the central as well as the state governments of the administrative burden. The allocation of these functions to LSGs is based on the principles of economy and efficiency. The effective performance of these functions requires an efficient system of finances. It is no use transferring functions unless we also transfer finances to LSGs, because finance is the life-blood of local governments. It symbolises the nourishing and sustaining element in the local bodies.

According to Wilson, “Finance is not mere arithmetic; finance is a great policy. Without sound finance, no sound government is possible.” Since certain taxes and other sources of revenue have to be assigned to these LSGs that is studied under local finance in economics. The local finance can be said to be the third and bottom rung in fiscal feralalism, next to central and state finances.

Finances of local self-government or local finance deals with sources of revenue, heads of expenditure and financial problems of local self-governments or local authorities or local bodies. For the efficient discharge of the diverse functions of these bodies, funds are required to be raised. They have been, therefore, allocated
certain sources of revenue including grants from the central and state governments. Thus local finance concerns to different aspects of the finances of the LSGs.

The rationale of local finance arises from the fact that there are certain functions which can be carried on efficiently only by local governments. There are variations in economic conditions of different localities, which require flexible approach. Local bodies can judge these individual requirements properly and satisfy the local needs in the matter of sanitation, lighting etc. They can levy and collect local taxes with a happy blending of different principles of cost of service, ability to pay and benefit received. Local taxable capacity may be different in comparison to the national level. When they are assigned their own sources of revenue, they can pay proper attention to satisfy the local needs. In a federal setup, especially in vast democratic countries like India and USA, local finance has come to occupy an important place in their fiscal system.

The importance of local finance is increasing in developing countries due to rapid growth of population. As growth takes place, provision of sanitation, water and drainage facilities need greater attention. The responsibility of providing such overheads falls on local governments as they can perform them well to suit the regional requirements.

When the local bodies are given autonomy and responsibilities, there is likelihood of locally greater financial investment. Local bodies like panchayats have better access to compulsory labour services for local public works. Local bodies undertake developmental investment of both output increasing, employment generating and welfare type. As rapid economic development takes place, additional incomes are generated everywhere that must be mobilised to control inflation. Federal government and state governments may not be able to mobilise resources in remote areas; however, the LSGs can do it. Local taxes may be suitably devised to tax the
public in local areas. Thus, local finance plays an important role in economic development of a country where the decentralised development is the major objective.

1.2 Statement of the Problem:

India has completed 18 years of the constitutional establishment of a three-tier system of Panchayati Raj by the 73rd constitutional amendment in 1993. It is time to review and evaluate the progress, and take further progressive steps to take the system forward. The logic of the decentralisation is so powerful that it has been almost universally accepted. It is now well-recognised dictum that since local resources are to be harnessed local needs to be consulted and local knowledge is needed, a large degree of decentralisation is essential for the success of developmental efforts. Decentralisation implies the transfer to the local bodies of functions, functionaries and finances. This has not happened to the necessary extent in India. Functions have not always been fully transferred. Even where the functions have been transferred, functionaries and finances have remained under the control of higher levels of government.

Although, the federal constitution of the country has enabled a considerable degree of fiscal decentralisation up to the regional level, the devolution of power and functions to urban and rural local bodies has been abysmal. Based on the information for 1997-98 provided in the report of the Eleventh Finance Commission, it is seen that despite constitutional amendments, fiscal decentralisation has not gone beyond the state level, as presented in the following table-1.1. States raise about 35% of total revenues and after transfer, they have command over almost 55% of the revenues for spending. On the other hand, local governments at both urban and rural levels raise a mere 0.6% of GDP or 3% of total revenues raised in the country. At their disposal, they have command over resources of just 2.1% of GDP or a little over 10.4% of total revenues. Revenue and spending powers of rural local bodies (panchayats) are particularly abysmal. The quarter million (about 2,41,507 as on 01.04.2004) rural local governments representing over 65% of population of the country raise only
0.04% of GDP or 0.3% of total revenues and after receiving transfers from the states, they have command over fiscal resources of only 1.3% of GDP or 6.4% of total revenues. It is so because of not only lack in fiscal devolution from higher levels of government, but also poor revenue generation by local bodies themselves through their own sources viz., tax and non-tax revenues.

Table 1.1: Fiscal Decentralisation in India 1997-98

<table>
<thead>
<tr>
<th>Level of Government</th>
<th>Per cent of GDP</th>
<th>Per cent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue Collection</td>
<td>Revenue Accrual</td>
</tr>
<tr>
<td>Centre</td>
<td>11.4</td>
<td>6.8</td>
</tr>
<tr>
<td>States</td>
<td>6.3</td>
<td>10.9</td>
</tr>
<tr>
<td>Local bodies of which:</td>
<td>0.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Urban local bodies</td>
<td>0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Rural local bodies</td>
<td>0.04</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18.3</strong></td>
<td><strong>19.8</strong></td>
</tr>
</tbody>
</table>


Local governments have been facing hard budget constraints – in fact, they hardly have significant budgets. Their abysmal fiscal resources have led to weak link between revenue and expenditure, which ultimately resulted in poor service delivery. In the constitutional scheme, both revenue and expenditure powers have to be devolved to them by the states. However, in actual practice, as shown in the table, local governments have very little revenue powers. As regards expenditure functions, most states use them as implementing agencies. In effect, in many of the states, the functions of rural local governments consist of mainly implementing various schemes stipulated by either the central or the state government. Therefore, one more obstacle to true fiscal decentralisation is the limited expenditure discretion that has been given to rural local governments. Thus, despite constitutional recognition, in effect, local governments hardly have independent fiscal powers.
For the present study, the Koppal district has been selected on the following grounds (i) In the Karnataka state there are two parts as South Karnataka and North Karnataka. Between these two parts, Northern part has high rural population (census 2001) at 71.99% compared to 61.56% in the southern part. Further, within the northern Karnataka, the Koppal district has highest rural population at 83.42% compared to other districts of the state. (ii) Moreover, the Koppal is one of the backward districts of the Karnataka state. According to Karnataka Human Development Report 2005, the rank of the Koppal district is at 24 among the 27 districts in the composition of HDI 2001. The rural prosperity of such backward districts mainly depends upon the strong revenue base and adequate expenditure of the Rural LSGs. (iii) Besides no one has carried out the study of this district concerned to the finances of Rural LSGs. It is in this context an in-depth research on “Finances of Rural Local Self-Governments in Karnataka – A Study of Koppal District” becomes relevant.

1.3 Objectives of the Study:

The present study has been executed keeping in view of the following objectives;

1) To examine the evolution and growth of the panchayats in India in general and Karnataka in particular.

2) To examine the concept, nature, need, theories and sources of the local finance.

3) To analyse the structure and trends in the sources of revenue of the selected Grama Panchayats.

4) To analyse the structure and trends in the heads of expenditure of the selected Grama Panchayats.

5) To analyse the gap between the needs and resources of the selected Grama Panchayats.
6) To find out the various problems regarding to the finances of Grama Panchayats and offer certain suggestions for improving their financial strength.

1.4 Hypotheses:

The following hypotheses have been postulated;

1) The ratio of non-tax revenue to the total revenue is greater than the tax revenue of Grama Panchayats.

2) The proportion of external non-tax revenue is greater than the internal non-tax revenue in the non-tax structure of Grama Panchayats.

3) The resources of Grama Panchayats are mainly derived from external sources i.e., grants from higher level governments.

4) Among the sources of tax revenues, property tax and water rates are the major components respectively for Grama Panchayats.

5) Among the sources of external non-tax revenues, grants from centrally and / or state sponsored schemes, grants from the GOK, grants from the CFCs are the major components respectively for Grama Panchayats.

6) The ratio of development expenditure to the total expenditure is greater than the non-development expenditure of Grama Panchayats.

7) Among the heads of expenditure, the sponsored schemes are the first largest component for Grama Panchayats.

8) There is a wide gap between internal income and total expenditure of Grama Panchayats.

1.5 Methodology:

The success of any research study is directly dependent on the methodology. The brief description of the methodology that adopted in the present study is highlighted as follows;
a) Area of the Study:

The area of the research study is confined to the analysis of sources of income and heads of expenditures pertaining to the Grama Panchayats of the selected talukas in the Koppal district.

b) Sampling Method:

The present study carried out in the Koppal district of Karnataka state. The Koppal district has a Zilla Panchayat (ZP), 4 Taluk Panchayats (TPs) and 134 Grama Panchayats (GPs). For the in-depth study only bottom tier i.e., GPs of the sample talukas are selected. The district has four talukas namely, Gangavathi, Yelburga, Kushtagi and Koppal. High Power Committee for Redressal of Regional Imbalances (popularly known as Dr. D.M. Nanjundappa Committee) 2002, has classified all 175 talukas in the state into three categories such as; i) Backward (index range from 0.89 to 0.99), ii) More backward (index range from 0.80 to 0.88) and iii) Most backward (index range from 0.53 to 0.79) according to their Comprehensive Composite Development Index (CCDI). The classification of talukas in the Koppal district, according to the Committee is shown in the following table-1.2.

Table-1.2: CCDI - Ranking of Talukas in Koppal District

<table>
<thead>
<tr>
<th>Rank</th>
<th>Taluk Name</th>
<th>Category of Taluk</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>81</td>
<td>Gangavathi</td>
<td>Backward</td>
<td>0.93</td>
</tr>
<tr>
<td>132</td>
<td>Koppal</td>
<td>More Backward</td>
<td>0.81</td>
</tr>
<tr>
<td>167</td>
<td>Kushtagi</td>
<td>Most Backward</td>
<td>0.64</td>
</tr>
<tr>
<td>168</td>
<td>Yelburga</td>
<td>Most Backward</td>
<td>0.63</td>
</tr>
</tbody>
</table>


The Highest ranked and indexed Gangavathi taluk and the lowest ranked and indexed Yelburga talukas within the district are selected as sample talukas for the present study. Further, the all 38 GPs in Gangavathi taluk and the all 33 GPs in Yelburga taluk are taken into account for comprehensive study. In the present study,
sources of income and heads of expenditure of the all GPs in the both talukas are considered for the analysis. It may be noted that the all 38 GPs in Gangavathi taluk are treated as a single unit. Likewise, the all 33 GPs in Yelburga taluk are treated as a single unit. Therefore, it is implied that the aggregate income and aggregate expenditure pertaining to the all GPs of the selected each taluk are comprehended or contemplated for the six years.

**c) Period of the Study:**

The study covers the six years period i.e., from 2002-03 to 2007-08.

**d) Sources of the Data Collection:**

The secondary data forms the basis of the present study. The data are collected from published and unpublished documents / records of ZP, TPs, GPs and Local Audit Circle in Koppal district, Koppal District at a Glance, annual reports published by Rural Development and Panchayat Raj Department GOK, Directorate of Economics and Statistics Bangalore, ISEC Bangalore, NIRD Hyderabad, ANSIRD Mysore and various published books, periodicals, journals, bulletins has also been used.

**e) Data Analysis:**

A time series analysis is made for examining the structure and trends in the sources of income and heads of expenditure of the GPs. The collected data were processed through classification and tabulation. The data so processed have been analysed with the help of statistical tools such as percentage, ratio, average etc. The data have been presented in the forms of tables, graphs, bar charts and linear charts.

**1.6 Contributions of the Study:**

The present study will contribute in many ways. In the first place, it will help in pinpointing the various problems confronted by the Rural LSGs in their overall fiscal operations. Secondly, In the light of this, the state and central governments can suitably modify their fiscal policies towards local finance. Thirdly, it would bring to
light the need and importance of the local finance as the finances of central and state governments and motivate further studies in this field. Lastly, it develops the taxable responsibility of the people that is most essential for Rural LSGs to increase their revenue mobilisation and to provide better services.

1.7 Limitations of the Study:

1) The present study is limited to the finances of Grama Panchayats and the sample covers the all Grama Panchayats in the two talukas viz., Gangavathi and Yelburga in the Koppal district.

2) The researcher has selected the study period for six years i.e., from 2002-03 to 2007-08. Despite the frantic search, the researcher could not gather the latest information.

3) The study particularly focuses on income and expenditure of the Grama Panchayats. It covers micro level analysis of Koppal district from the backward region; therefore, the conclusions drawn cannot be generalised for all areas.

4) Personal limitations of the researcher such as time factor, lack of adequate and accurate data, should also be taken note off.

1.8 Chapter Scheme:

The whole structure of the thesis is presented in nine chapters:

**Chapter-I:** *Introduction and Research Design:* It contains the introduction, statement of the problem, objectives, hypotheses, methodology, contributions and limitations of the study.

**Chapter-II:** *Review of the Literature:* This chapter reviews the earlier studies, research reports and surveys on the Rural LSGs.

**Chapter-III:** *An Overview of the Rural Local Self-Governments:* It deals with the concept and nature of local government. This chapter emphasises and focuses on the history of panchayats in India and in Karnataka.
Chapter-IV: *An Overview of the Local Finance:* It includes the various components which provide theoretical background to the local finance.

Chapter-V: *Profile of the Koppal District:* It describes the geographical, demographical, socio-economic features and administrative set-up of the Koppal district.

Chapter-VI: *Revenues of the Sample Grama Panchayats:* It deals with the analysis of structure and trends in the various sources of revenue of the selected GPs. This core chapter examines in-detail the income of GPs from different tax and non-tax sources.

Chapter-VII: *Expenditures of the Sample Grama Panchayats:* It deals with the analysis of structure and trends in the various heads of expenditure of the selected GPs. This core chapter examines in-detail the expenditure of GPs for development and non-development activities.

Chapter-VIII: *Management of Gap between Needs and Resources of the Sample Grama Panchayats:* It deals with the relationship between income and expenditure, imbalance between needs and resources, revenue gap and resource gap.

Chapter-IX: *Summary, Findings and Suggestions:* This chapter brings out the summary and important findings of the present study. Besides, suggestions have been also given to improve the condition.
REFERENCES


High Power Committee for Redressal of Regional Imbalances (Chairman Dr. D.M. Nanjundappa), Final Report, June 2002, Govt. of Karnataka, Bangalore.


