Chapter-II
REVIEW OF THE LITERATURE

2.1 Introduction:
Numerous studies on Panchayati Raj system in India covering variety of problems and topics on historical, micro and macro levels, regional level as well as almost on all general aspects of Panchayats have been conducted both by the government as well as by individual scholars. There is a very rich literature on Panchayati Raj in the form of books, Committee reports and publishing of articles in various journals. These studies have covered both theoretical as well as empirical parts. Main finding of these studies have been discussed in the following paragraphs.

2.2 Micro Level Studies by Individual Researchers:

Abdul Aziz (2000)\(^1\) in his article on panchayati raj institutions, says that the PRIs were expected to take care of development of rural areas and its people. But, they failed in their objectives. Financial constraints, lack of particulate and skilled leadership and non-cooperation from people were the main reasons for unsatisfactory results. Further, he explains that the failure of resource allocation and decision-making for development of backward regions, weaker sections and traditional sectors set in motion an effort to explore a kind of new planning as the ultimate solution. In India, decentralised planning picked up only after the 73rd and 74th Constitution Amendments in 1992. The state legislation soon followed the Act and created the institutions for implementation of local development projects.

Abraham, et al. (1967)\(^2\) viewed state governments seeks to bring about total improvement of the whole province in a planned democratic manner whereas panchayati raj will take care of the rural sector of development. The various development departments of the state government have to provide technical, organisational and financial support to the local institutions for carrying on their
developmental activities. Author examines the areas of common interest such as, planning, finance, supplies, staff, guidance and supervision.

**Ashirwad, N. (1989)** revealed the resource deficiency of panchayats in Andhra Pradesh. Observation that there are as many as 178 panchayats come, it is noted that as long as the powers of rural local authorities are continued to be nominal and resources meager, the Mandal Panchayati system will have low profile.

**Bhargava, B.S. (1979)** commenting about the terms of reference, objectives and approach of Ashoka Mehta Committee on the working of panchayati raj, the author opines that the basic approach of the Committee of suggesting a blueprint of panchayati raj for the whole country without going into the detailed functioning of these institutions is quite questionable. Instead, the author observes, the Committee should have studied the operational patterns of panchayati raj in different states and then offered the recommendations. He also presented a detailed account of panchayati raj in Karnataka.

**Bhatnagar, S. (1978)** presented an integrated account of the PRIs which are in force in various states with respect to their historical background, structural pattern, functional aspects and the problems faced by these institutions. It is observed that the whole local government set up is in a bad shape and it is necessary to decentralise power to the grass-root level to ensure success of democracy.

**Burney, S.M.H. (1967)** opined there is a great scope for raising additional resources in the rural sector, provided PRIs are given the necessary support and means to do so. Performance of panchayati raj in resource mobilisation is beyond expectation in ten states. House tax continues to be the principal source of revenue in many states. Panchayats in the ten states under review average about Rs. 14.66 crores. Among the new sources author suggests for assigned revenues, matching assistance, equalisation fund and further tax efforts to improve the resource position.
Cauvery et al. (1995) discussed the concept, importance, principles of local finance and the sources of revenue of various rural and urban local bodies. Efforts have been made to point out major problems of local finance. They are; imbalances in rate of expansion of functions and sources of revenue, parallel taxation, insufficient and ineffective tax administration, low yielding taxes, constant tax rates, low taxable capacity of local inhabitants, unwillingness of panchayats to levy tax, much dependence on state government for grants.

Chalinvedi, T.N. (1972) observed that the resources of PRIs were meager when compared to the functions assigned to them. He is of the view that moderate expansion of resources is not a problem, if there is not much resistance from the elected representatives to tap the available resources. More resources, he points out, should be placed at the disposal of the panchayats to discharge their functions.

Chokshi, H.P. (1971) opined under the existing system of panchayati raj, a village panchayat has to act as an effective instrument of local planning, defence and administration. The panchayats need adequate resources to successfully discharge these functions. This case study in Gujarat, examines the extent of government resources reaching the local bodies to enable them to finance the existing and future functions, the necessity of a proper matching of obligations and resources and also the possibilities of a panchayat achieving minimum or progressive or maximum financial liability. The report also gives the details on type and extent of resources mobilised under first three plans, future trends on the same and government policy in this regard.

Dak, T. M. (1966) argues that though adequate finance is necessary for panchayati raj bodies to be active, the existing taxation policy is not justifiable on ideological or practical grounds. The panchayats, the author suggests, should exploit sources of non-tax revenue to mobilise the resources.

Devendra Babu, M. (2004) stated, for panchayats to be called self-governing institutions, some degree of fiscal autonomy is needed, among other factors. The
analysis of this aspect in the context of Karnataka state, however, reveals certain disturbing trends. Overall, the panchayats in the state have very little fiscal autonomy. The fiscal provisions incorporated in the state panchayat raj act have centralised tendencies. The locally raised revenues are negligible, and thus largely depend on government grants. Of late, the transfers from state to the panchayats have been declining.

Dikshit, G.S. (1964)\textsuperscript{12} enquired how the people governed themselves through their assemblies in village and towns and in sub-divisions or groups of villages and towns. The study is confined to Mysore state and covers the period from the rise of the Chalukyas to the rise of Vijayanagara.

Dubhashi, P.R. (1962)\textsuperscript{13} analysed the various aspects of panchayati raj in erstwhile Mysore state such as a case for local government structure of democratic decentralisation, functions of the village panchayat and local bodies, and financial sources. The author observes that panchayati raj is not an end in itself but only means to an end. He also lists the ten point’s test by which the success of panchayati raj will be measured from time to time.

Govinda Rao, M. et al. (2004)\textsuperscript{14} An analysis of fiscal decentralisation in Karnataka by Rao, Amar Nath and Vani identifies certain features of fiscal decentralisation to rural local governments that impact on human development expenditures. Formally, Karnataka has transferred all the functions listed in the schedule to the local governments, but several are exercised concurrently with the state government.

Gupta, O.S. (1962)\textsuperscript{15} discussed in detail pre-requisites for successful functioning of panchayati raj such as very limited interference of the government, early spread of education in the country side, freedom of these local bodies for political parties, decentralisation of powers to appropriate local bodies and also devolution of control over the necessary financial resources.
Haldipur, R.N. (1971)\textsuperscript{16} study found out correctives to strengthen organisation at various levels. The delimitation of scope of authority of different tiers and proper co-ordination of local initiative and governmental assistance is also discussed. Among the suggestions include: (1) constitution of a statutory body consisting of the minister incharge, chairman of Zilla Parishad and heads of departments concerned, to co-ordinate problems arising out of inter district projects. (2) The district body should be empowered to levy taxes and also collect land revenue, which should share with the lower tiers of PRIs. (3) Panchayat Samiti could consist of representatives of various Grama Panchayats by indirect elections so that they could be responsible and accountable to the panchayats and indirectly to the village people.

Harichandran, C. (1977)\textsuperscript{17} viewed a Panchayati Union is a co-operative federation of panchayats in its area. This article analysis the change and growth in the pattern of revenue and expenditure at the Poro Novo Panchayat Union of Tamil Nadu. This study reveals that government grants play a significant and vital role to the finances of the Union, which shows lack of initiative in raising the local funds. Most of schemes of rural reconstruction-animal husbandry, fisheries, minor irrigation and village industry- remain only in the theory.

Harichandran, C. (1983)\textsuperscript{18} studied panchayati raj with the main objective of evaluating the role of these bodies in rural development with particular reference to Tamil Nadu. The study revealed that PRIs enjoyed delegated powers and functions. Resources were inadequate to meet the responsibilities. PRIs could be instruments of rural development only if they are provided with adequate resources.

Jathar, R.V. (1964)\textsuperscript{19} traced the history and growth of village panchayats right from the Vedic era, local self-government under British regime and their role in the present context. Different chapters in the monograph deal about local bodies in foreign countries, nyaya panchayats, local finance, and place of Grama sabha in the panchayati raj and the role of co-operatives and voluntary organisations under panchayati raj.
Khanna, B.S. (1994)\textsuperscript{20} revealed that in case of Karnataka major expenditure of the Mandal Panchayats are salaries of employees and electricity bills for lighting the streets. Substantial amount is not available for being spent on new development schemes and activates considered locally needed by the panchayats. On the other hand, Zilla Parishads have been complaining about shortage of funds for both developmental and maintenance purposes. In addition, there are complaints about rigidity of the prescribed financial procedures for incurring actual expenditure for these purposes as well as about irregularity in release of allocated funds by the governments.

Lakshminarayana, H.D. (1980)\textsuperscript{21} studied the two panchayats in Mandya district of Karnataka, which portrays the nature of interaction between the traditional social structure and the modern political system, problems faced by village panchayats and the impact of panchayats and village life. The author observes that the panchayats are financially subservient and hence ineffective agent of social change and suggests that these panchayats should be made financially strong to achieve the objective of rural development.

Madhava Rao, L.S. (1975)\textsuperscript{22} is of view that panchayati raj departments consume 25 to 30 per cent of the state budget allotments. The departments’ activities touch many facets of human life and development. In this context, author feels that there must be proper costing analysis to known whether the achievements commensurate with the amount spent. He also observes that the accounting system and procedures followed in PRIs breaths the air of antiquity and suggests how it can be improved.

Madhava Rao, L.S. (1980)\textsuperscript{23} puts forth the viewpoint that the functions of PRIs are many while their finances are meager, and that grants- in-aid given by government are inadequate and irregular. He argues for a need to plan more equitable, just and efficient grant-in-aid code to augment the resources of local bodies.
Maheshwari, B. (1962)\(^{24}\) opined panchayati samiti is the pivotal unit of panchayati raj, a whole range of development activities have been transferred to the samiti. This article analyses the size and sources of income to panchayati samities of Rajasthan viz., grants-in-aid, loans, share of land revenue taxes of the panchayati samiti, sales and leases and miscellaneous receipts. The author concludes that the samities will depend on external grants and loans for a long time to come giving *a prima facie* case for the establishment of a permanent grants commission at the state level. There is also a care for fixing a permanent criterion for distributing grants.

Muthayya, B.C. (1972)\(^{25}\) opined understanding the behavior of the tax payers is of great importance in mobilising the local resources for development and it also helps in palming for peoples’ participation. This study undertaken in three village panchayats in east Godavari district of Andhra Pradesh, (which reported cent percent panchayat tax collection for consecutive four years). He tries to probe into the socio-psychological dimensions of the development of both the individual and the village, which might have facilitated this. It is concluded that performance of the village, in terms of providing amenities to the village, innovations in agriculture and other such positive things have contributed to the process of tax payment.

Naidu, Y. & Ramaswamy (1974)\(^{26}\) studied the working of local finances in the state of Andhra Pradesh, based on the detailed analysis of the finances of 21 selected local bodies. The study covers ten-year period 1952-62 and includes both urban municipalities and village panchayats. Pointing to the ridiculously low income of the panchayats, the author puts forth many suggestions to improve the situation.

Nanavatty & Meher, C. (1989)\(^{27}\) identified four essential features for panchayati raj to be effective viz., (1) constitutional relationship of panchayati raj and state / central legislatures, (2) devolution of power to Zilla Parishad and down below, (3) the community level and (4) providing safe guards for the allotment and use of funds for
development. It also points to caste domination, lack of proper decentralisation, etc, as the season for the present’s state of affairs.

Nanjundappa, D.M. (1972) Authors’ paper, against the background of local government as instrument of development, elaborates on planning process and public finance, spatial dimensions of planning in decentralisation, institutional innovation for fulfilling the targets of various components of panchayati raj sector such as agriculture, co-operatives, village industries, elementary education, water supply, etc. Locally financed investment, it is felt would preserve the link between individual sacrifice and benefit, and provide the incentive for bringing in new energies necessary to transform the villages.

Narasimham, N.V.A. (1962) observed that taxes given to panchayats are generally inelastic in character and they can never bring in revenues adequate to meet the expanding developmental and municipal activities of panchayats. Proper valuation and additional taxes, he opines, would provide the panchayats with a relatively more elastic system of local taxes and fees than at present.

Nath, V. (1962) opined the resources – technical, personnel, supplies and most of the funds – needed for carrying out various activities of panchayati raj are provided by the technical departments of the state government. This article confined to the experience of panchayati raj institution in Rajasthan, examines the nature of relationship between staff, supplies, finance and planning programmes. This article also examines the problems of the technical departments like allocation of funds, organisational deficiency in technical departments, etc.

Oommen, M.A. (2006) opined that even after more than a decade of decentralised governance, the fiscal decentralisation scenario is disturbing. There is a decline in the percentage of local government expenditure in relation to the total government expenditure and in the progress of expenditure decentralisation in 11 out of the 15 major states. The revenue decentralisation trend is also no better and the average rate
of growth in the tax revenue of PRIs as well as the urban local bodies in most of the states has been negative. It renders efforts to build autonomous local governments impossible.

**Padmanaban, C.B. (1987)** stated that there would not be adequate recourses for human development if government funds alone were to be depended upon. It is imperative to use local resources and community resources will have to be mobilised. In addition, the interdependence between education, health, sanitation and other social development sectors has to be taken care of because all of them jointly promote rural development. The mobilisation of local resource also promises the simultaneous attainment of other objectives, which are special to rural development, like greater decentralisation in planning, increasing popular participation and ensuring a greater degree of self-reliance on the part of local communities.

**Pandey, G.D. (1970)** viewed panchayati raj has become a most debatable question. Among the criticisms leveled against are those which say that, panchayats hardly have any power and their financial conditions are poor and as such these institutions are unable to do any real work. It is also said that there are many instances of people using the panchayats as a means to achieving power and prestige instead of serving the communities. Author opines that it is unwise to abandon the scheme so early. The difficulties of the operations of panchayati raj have to be understood in the social context of caste, religion etc. Inspite of the initial difficulties, this gigantic movement of democratic decentralisation can never be condemned.

**Radhakumud Mookerji (1958)** reviewed the origin and development of various local institutions in ancient period. His observations include (1) the local bodies are not uniformly composed and constituted. (2) Formation of local institutions is of two types viz., territorial and communal, and (3) local institution in south preponderate over the North.
Raghava Rao, D.V. (1980) study of gram panchayats in Tumkur district of Karnataka state revealed that only the upper economic classes among the dominant social groups captured power in panchayats. Rao reached the conclusion that a gram panchayat should have a minimum population of 4000 to make it an economically and functionally viable unit for promoting intergraded rural development.

Ramakrishna Aiyer, V.G. (1968) discussed about the nature of local finance, characteristics of good local tax, resources and inadequacy of resources of local bodies and major recommendations of the Taxation Inquiry Commission (1954) on local finance and taxation. The Commission is of the opinion that certain taxes should, in effect, be reserved for local bodies. They are taxes on land, buildings, vehicles, animals, boats, professions, trades, employments, advertisements, octroi and terminal taxes. In addition, the Commission considers that some other taxes are suitable for utilisation by local bodies. These are the theatre or show tax, the duty on transfer of property, taxes on goods and passengers carried by road or inland waterways, and tolls.

Sharma, M.L. (1987) examined Gandhi’s concept of democratic decentralisation and its impact on the present structure of democratic decentralisation. He also enquires into the possible causes of the deviations from the original Gandhian model and the pattern of democratic decentralisation recommended by Balwantrai Mehta. He also explains the concept like Ram Rajya, Gram Swaraj, grass-root democracy, etc., propounded by Gandhi.

Shivanna, N. (1990) conducted a survey of the role of Taluk Development Boards (TDBs) in rural development with reference to Koratagar taluk in Tumkur district of Karnataka state. He reported that the major constraints for the better performance of the TDBs were lack of sufficient powers and functions, especially in the financial sphere and the major constraint for the existing planning activities at the TDBs level was the dependence in the financial sphere.
Sinha, K.E. et al. (1979)\textsuperscript{39} attempted to explain panchayati economics. Author builds new grounds for making the panchayats purposeful and presents models of financing and structuring villages. Why the land revenue based system of finance should be scrapped, how the village revenue could be rural oriented, what size of panchayati is optimal-are among basic issues discussed.

Subramonia Aiyer & Haripad, R. (1969)\textsuperscript{40} the author feels that the type of the panchayati raj system and the powers vested in its various bodies are not mutually exclusive. PRIs should be entrusted with the entire community development programme pertaining to rural areas. He also suggests that the relationship between the PRIs and the state government on the one hand and the concept of panchayati raj are not mutually exclusive. If the relationship of PRIs with the state governments is on the lines of the relationship between the state and the central government then panchayati raj will represent the genuine decentralised democratic institution.

Subramonia Aiyer & Haripad, R. (1973)\textsuperscript{41} opined one of the unsolved problems of panchayati raj is the paucity of financial resources, which can be solved permanently only when reforms in the existing state-panchayati financial relations are made. State-panchayati raj financial relations have two aspects namely: (1) the financial relations between the state governments and panchayat bodies and (2) between the three tiers of panchayat system. The author, examining both the aspects of the problem, concludes that reform or re-examination of not only the existing union-state financial relations but also the state-panchayati raj financial relation is the need of the hour.

Subramonia Aiyer & Haripad, R. (1974)\textsuperscript{42} puts forth an argument for evolving a new pattern of state-panchayati raj relationship according to which the panchayati raj bodies should have power and responsibility, initiative, maximum freedom and autonomy in planning and implementing the rural development programmes. It is also argued that at the same time these bodies should receive close and continuous legal,
administrative, technical and financial advice and encouragement from the state governments.

**Subramonia Aiyer & Haripad, R. (1976)**

points out that PRIs are the creation of the state legislature and are a combination of decentralised and deconcentrated system of local bodies, enjoy specific grants of powers as well as delegated powers, functions, financial resources, etc., and are supervised and controlled by and subordinate to the state government and hence are local governments. The author argues that if PRIs are to be galvanized in order to become instruments of rural, social and economic change, the existing PRIs should become local-self governments.

**Subramonia Aiyer & Haripad, R. (1977)**

opined the PRIs have developmental and democratic roles to play. The objectives of the panchayati raj, it is observed, can be achieved only when the concept of panchayati raj is clearly understood and accepted by the planners, policy-makers and administrators. A positive approach and attitude of the state government towards panchayati raj is also felt necessary for effective functioning of the PRIs.

**Sukhdev Singh et al. (1995)**

analysed the role of PRIs in the development of villages and examined how far the amendments in PRI have helped in decentralisation of power, accelerating the pace of development as well as strengthening the democratic process. The information is collected from 58 village Sarpanches of 29 villages from 4 districts in Punjab through personal interview method. Ninety five per cent of the respondents were not aware of the amendments in PRI. Ninety percent of the panchayat elected leaders were not fully aware of legislative, judicial, administrative or financial powers provided under panchayati raj system. BDOs and technical staff attached to PRIs created hurdles in the smooth functioning of system. Panchayat elections increased political and caste-based factionalism in villages. Though lot of drawbacks existed in the present panchayat system, it has solved many local problems at village level.
Venkataramanan, K. (1965) viewed the central problem in local finance, is the purposeful matching of obligations and resources. It should be ensured that delegation of functions is attended with an appropriate devolution of resources. A comprehensive look at local finance at periodical intervals instead of an ad hoc thinking approach is stressed to solve the problems of local finance.

Venkataramanan, K. (1967) highlighted the problems of financial administration in PRIs such as resource mobilisation, receipt of grants, budgeting and accounting, supervision and guidance and accountability of the local leaders. These problems, the author suggests, can be removed with the assistance from the state governments.

2.3 Macro Level Studies by Committees and Commissions on Financing of PRIs in India and in Karnataka:

Local Finance Enquiry Committee, 1951 (Chairman-P.K.Wattal)

The Committee after reviewing the financial resources of village panchayats found that the panchayats rely chiefly on two sources of income: (i) income, which they raise themselves; and (ii) Funds placed at their disposal by government. The Committee’s recommendations about panchayat resources are as follows;

1. The L.F.E. Committee was of the opinion that every panchayat, concerning income, which it can raise itself, should levy the following two taxes compulsorily:
   i) House tax or chulla tax or property tax, and
   ii) General sanitary cess.

2. The remaining taxes may be raised by panchayats according to their needs and local conditions. As regards labour tax, there should be no compulsion. If a person renders such labour willingly, he should be allowed to do so. Alternatively, he may be permitted to make a payment in kind in lieu thereof.

3. As the financial condition of most of the village panchayats is far from satisfactory, it will be necessary to give the panchayats financial assistance from other sources.
also. The Committee also recommends an unconditional allotment to the village panchayats of 15 per cent of the land revenue raised in the panchayat areas. In addition, there should be surcharge on the transfer of immovable property within the panchayat Jurisdiction, the proceeds of which should go to panchayat funds.

4. The entire responsibility for primary education including control and finance should vest in the state government.

5. Salaries and allowances of panchayat officers should be borne by the state government at least to the extent of three-fourths, as in the Bombay state.

6. Panchayats should be allowed the use of state lands within their jurisdiction.

7. Village panchayats, wherever possible, should be encouraged to collect land revenue and land cess on behalf of the state government on commission basis.

8. Panchayats should also be encouraged to undertake as many remunerative enterprises as possible, namely, markets, slaughter houses, cart and bus stands and ferries.

9. They may also be encouraged to take up to farming, dairies and such like activities under the guidance of the state government.

The Taxation Enquiry Commission (1953)49

The Commission under the Chairmanship of Dr. John Mathai made several recommendations regarding the financial aspect of the panchayats including the followings:

1. Productive and distributive functions of the panchayats be entrusted to the co-operatives and panchayats should become to concentrate as few functions such as amenities and minor irrigation work etc.

2. District Boards should be replaced by more viable and more democratic units.

3. Substantial part of panchayat finance should be met by grant from the state government in the initial period.
4. Some taxes such as land cess, duty on transfer of property, house tax, service tax, vehicle tax, entertainment tax and tax on profession and callings should be exclusively transferred to the rural local bodies.

5. Grants-in-aid should be preferred to starting of taxes. Specific grants should be given to encourage the self-help attitude of panchayats or to maintain the quality of specific services.

6. Labour tax should be ruled out. Local contributions in cash or kind should be matched to the government grants.

7. Independent appointment of executive officer and independent valuation would be necessary to ensure efficiency in administration and tax collection.

**Balwant Roy Mehta Committee (1957)**

Suggested a three-tier system of rural local government, the tiers linked by a system of elections. These tiers were Grama Panchayats at village level, Panchayat Samiti at block level and Zilla Parishad at district level. As Committee observed, one of the most important reason for the comparative lack of success of our non-urban local self-governing bodies is their exceedingly limited and inelastic resources. Almost the entire development work of rural areas will be the charge of the panchayat samiti; the Committee recommends that the following sources of income be assigned to them;

**Resources of panchayat samities;**

1. A statutory prescribed percentage of land revenue collected within the block area in the anti-penultimate year; where this arrangement is likely to cause a very substantial disparity in the incomes of the panchayat samities, the alternative is to divide equally between all of them a portion of the State’s land revenue assigned to the panchayat samiti and the village panchayat should not be less than 40 per cent of the State’s net land revenue;
2. Such cess on land revenue, water rate for certain minor irrigation work, etc., as is leviable under the various Act but excluding special cesses like sugarcane cess; the Committee suggest that a minim rate of cess should be prescribed by statute but the panchayat samiti should be encouraged to recommend the levying of a cess at a higher rate, so that this could be considered a local taxation measure;

3. Tax on profession, trades, callings and employment; the Committee recommended that this should be levied not by the village panchayat nor by the small municipality but by the panchayat samiti itself;

4. Surcharge on duty on the transfer of immovable property;

5. Rents and profits accruing form property, e.g. ferries, fisheries etc., within its jurisdiction, where these ferries lie across roads constructed and maintained by panchayat samities;

6. The net proceeds of tolls and leases on roads and bridges etc., in the panchayat samities;

7. Pilgrim tax;

8. Tax on entertainments including amusements;

9. Primary education cess;

10. Proceeds from periodical fairs and markets, bazaars, hats and shandies other than those held more frequently than once a month whether located on private land or otherwise;

11. A share of the motor vehicles tax;

12. Voluntary public contributions; and


In the case of some of these taxes, it will be necessary to prescribe a compulsory minimum rate. To make the panchayat samities demonstrate useful to the village community and to ensure their continues success, it is necessary that the state
government should give them adequate grants-in-aid, some of these grants will be unconditional, other earmarked for certain purposes but without further conditions, some others earmarked for certain purposes but without on a matching basis. The result will be that each panchayat samiti will have an assured income of a certain size and will attract grants-in-aid form government by producing its own fresh resources. In making these grants the state government will no doubt, take into account the special economic backwardness of certain areas and give them appropriately larger grants.

At present state government spend money on rural development mainly through their own machinery and small amounts through village panchayats; but public fund are also spent in another manner, i.e., by direct assistance to what are known as non-official bodies, which are all non-statutory. Certain central organisations, which spend public funds on specified aspects of rural development, function either through their own branch organisation or through these non-official bodies. The Committee recommends that all central and state funds spent in a block area should invariably be assigned to the panchayat samiti to be spent it directly or indirectly except to an institution, assistance to which is either beyond the panchayat samiti’s functions or its financial resources.

**Resources of Gram Panchayats;**

(a) Property or house tax as is considered locally suitable;
(b) Tax on daily, bi-weekly or weekly markets, bazars, hats or shandies, whether located on private land or otherwise;
(c) Tax on carriages, carts, bicycles, rickshaws, boats and pact animals;
(d) Octroi or terminal tax;
(e) Conservancy tax;
(f) Water rate;
(g) Lighting rates;
(h) Income from cattle-pounds;
(i) Fees to be charged for registration of animals sold within the local area, for the use of slaughter house, etc.

(j) Grants from the panchayat samiti on lines similar to those suggested for grants from government to panchayat samities.

In the case of some of these taxes, it will be necessary to prescribe a compulsory minimum rate.

As far as possible, the village panchayat should be used as the agency for the collection of land revenue; this arrangement has been tried and found successful in some states. It may be necessary to grade the panchayats based on their performance in the administrative and developmental field. For instance, the rates at which it is imposing taxation, the success with which it collects its taxes and the extent to which it displays active interest in development activities would be the criteria on which such grading is based. Only those village panchayats, which satisfy a certain basic minimum of efficiency, will be invested with the power of collecting land revenue. In all cases, however, such power will be restricted to amicable collection as distinct from the collection through process of law. One of its main advantages is that the commission for collection supplements the panchayat’s other income. In addition, the Committee recommends that the village panchayat should be entitled to receive from the panchayat samiti a statutorily prescribed share of the net land revenue assigned to the latter as per the suggestion in an earlier paragraph. The Committee suggests that such share may go upto three-quarters.

The resources of the village panchayats are necessarily inelastic and every effort should be made to assist them to add. As the Committee have noticed that, in certain states, villagers have to pay for their watch and ward, it suggest that the local resources, which the village panchayats now raise and spend on the maintenance of watch and ward staff should, in future, be used for development purposes.

The Committee has noticed, as have many others, that the collection of panchayat taxes is generally not satisfactory. Arrears accumulate will they are merely
written off and it is not always that the assesses fail to pay because of his inability to do so. It is, therefore, suggested that legislation should provide that a person who has not paid his taxes in the penultimate year should be debarred from exercising his franchise in the next panchayat election and that a panchayat member should automatically cease to be such, if his tax is in arrears for more than six months.

The budget of the village panchayat will be subject to scrutiny and approval of the panchayat samiti; and the panchayat samiti will provide such guidance to the village panchayat in all its activities, as the latter may need. The chief officer of the panchayat samiti will exercise the same powers concerning the village panchayat as the collector and district magistrate will exercise concerning panchayat samiti. On the other hand, no village panchayat should, be superseded except by the state government, who will, however, do so only on the recommendation of the zilla parishad.

**Santhanam Committee on Panchayati Raj Finances (1962)**

The government of India set up a study team in July 1962 with shri. K. Santhanam as its Chairman to examine whether the financial resources available to the panchayati raj institutions were adequate and to study other connects problems comprehensively and makes their own recommendations. The team submitted its report to the government of India on 31st July 1963; its main recommendations are summarised as follows:

**Resources of Village Panchayats;**

1. House tax, profession tax and vehicle tax should be compulsory taxes of panchayats. Minimum and maximum rates of compulsory taxes should be prescribed.

2. An independent agency for valuation of house may be set up.

3. The state government should consider the possibility of replacing octroi, where levied, by other progressive taxes.
4. Pilgrim tax should preferably be levied by panchayat samiti or zilla parishad, a part of the proceeds being given to panchayats in the area of which pilgrim centers are located and the rest utilised for the common benefit of the area of samiti or of the district. Concerned panchayat samiti and zilla parishad should share the expenditure incurred in this connection suitably.

5. The levy of fees for water supply drainage, street lighting and conservancy should be optional. Where water supply drainage or electric lighting is, provide through loans, panchayats should have the right to charge a fee from beneficiaries. The basis for fixing the rate of such fees may be the amount needed for servicing the loan or for covering the liability incurred in providing the service.

6. Management of fishery ponds, even where fishery rights belong customarily to local communities of fishermen, should vest in panchayat.

7. Unless specifically exempted, all public land, trees, ponds and tanks with fishery rights therein unreserved forests, choultries, rest houses and other buildings situated in panchayat area and not belonging to a private party should be transferred to that panchayat.

8. In panchayats where there are large areas of cultivable land, a minimum of one cent of land per capita should be given to panchayats. Where there is not enough land available the state government should acquire and hand over to each panchayat not less than five acres to be used as community property for house sites, compost making trees planting, nursery and such other purposes.

9. Cattle ponds should be the property of panchayats, which should be given the right to fix rates for them.

10. In the case of markets classified as samiti and zilla parishad markets a reasonable share of net income, viz. one-third, subject to a maximum one rupee per capita should be given to panchayats in the area of which fair is held or market is organised.
11. Surcharge on stamp duty not exceeding five per cent of the value of property should be levied and collected by state government. The proceeds within the area of samities should be distributed in an equitable manner between that samiti and its panchayats.

12. The whole or part of entertainment tax collected by the state government in rural area should be shared with panchayats and samities. Panchayats and samities may levy a show tax in addition.

13. The state assistance, if any, for the whole or part of the salary of secretary of panchayat should be in the form of purposive grant. Secretary should be paid directly by panchayat.

14. The entire tax demand of a panchayat, excluding arrears, may be taken as the basis for matching grant and, if collection of 75 per cent is made in a year, an amount equal to 15 per cent of such collection should be given as matching grant which should increase at least by one per cent for every additional five per cent collection.

15. A basic minimum maintenance grant of rupee one per capita should be given to every panchayat and this should be shared equally by the state and central government.

16. For executing specific development projects, panchayat should have powers to levy special tax on land revenue, house tax, or on some other basis.

17. In case voluntary contribution in cash or labour is insufficient to execute a development project, resource may be had to labour tax, defence labour bank or special levy payable in cash or labour. Voluntary contribution may be adjusted against these levies.

**Resources of Panchayat Samities;**

1. An annual average per capita grant of rupee one should be made to each samiti to be shared equally by the state and central governments and to be earmarked for
maintenance of staff on an agreed pattern. The Centre’s share of the grant may be met by suitable adjustments within the grants now being made by it.

2. To enable samities to participate in the evolution of the Fourth Plan, the central and state government may intimate to them in advance the minimum and maximum financial limits that can be made available to them by way of grants and loans.

3. Elementary education, a natural and essential function of the panchayati raj, should be transferred to samiti or zilla parishad. Its actual day-to-day management may vest in a board set up by samiti or zilla parishad in which not only members of that body but also other with special knowledge and experience in the proper development of education should find a place.

4. The entire expenditure on elementary education should be met out of grants and resources transferred specially for the purpose by the state government.

5. Not more than half the proceeds of resources transferred to samities like share in land revenue or cess, stamp duty, entertainment tax etc., should be earmarked for committed expenditure on schemes and institutions transferred to them and the balance of such expenditure should be financed by the state partly by the general and partly by specific grants.

6. Grants for maintenance of roads may be based on mileage and those for repair and maintenance of irrigation sources, based on acreage irrigated.

7. A samiti should be free to add to the strength of its staff so long as it is able to meet the expenditure from the one-rupee per capita grant and its own resources.

8. Every service or institution serving exclusively the area of a samiti and being its legitimate function should be transferred to it.

Resources of Zilla Parishads;

1. It is necessary to transfer some more elastic resources to zilla parishad so that it can be an effective organ of local government at the district level.
2. There should be definite principle and criteria for distribution of funds to samities through zilla parishads. Where the distribution is more or less automatic, the funds may be sent directly to samities or panchayats concerned without being challenged through zilla parishad.

3. The rights and duties of zilla parishad, samities and panchayats in any particular sphere of activity should be precise and beyond dispute.

4. Zilla parishad or samiti should not be empowered to levy contributions from a body belonging to a lower tier, except for executing development projects in the area of that body.

5. The salaries of all staff working under a zilla parishad should be paid from the zilla parishad’s funds.

**General**

1. Every state government should establish a panchayati raj Finance Corporation.

2. Its authorised capital should be divided into fully paid up shares of Rs. 100 each to be issued among Panchayati Raj Institutions, State Government, Central Government, Reserve Bank of India, Life Insurance Corporation, Co-operative Banks, Scheduled Banks, Insurance Companies and other financial institutions.

3. The corporation may give loan to panchayat, samiti or zilla parishad for public utility undertaking; construction of shops, markets, hotels, etc., purchase of tractors, pumping sets, and bore-well units; plantation and forestation, scientific pisciculture and small-scale and medium industries.

4. Every panchayat should be inspected at least once in three months by panchayat Extension Officer to ensure that there is no misappropriation or falsification in accounts.

5. After panchayati raj bodies have functioned for some years, there should be enquiries at state level on a uniform basis by an agreement amongst state
governments, to review their resources and finances. This should be followed by an enquiry instituted by the government of India.

6. As frequent changes in their structure, functions and resources will prevent panchayati raj bodies from taking root and will create around them an atmosphere of uncertainty, revision of laws and rules should be undertaken only after sufficient experience of their working has been gained.

7. The salaries, allowances and other conditions of service of the employees of panchayati raj bodies should as far as possible are the same as those of state government employees of similar categories.

8. Training in budgetary and accounting procedure should be particular emphasized in the case of panchayat Extension Officers and Secretaries.

9. In order to facilitate the work of panchayat raj Finance Corporation, there should be an institute in each state to study the scope of remunerative undertakings in particular areas and to undertake pilot projects. It is desirable that it should have wings for evaluation and studies, relating to panchayat raj.

10. All high schools should provide for teaching about panchayati raj and this should be supplemented by periodic voluntary service camps of Scouts, National Cadet Corps, etc. In colleges and universities, the study of problems relating to panchayati raj should be encouraged by making it a special subject or an integral part of social science.

11. All grants and subventions, including specific and purposive departmental grants, may be pooled at the state level and disbursed in a consolidated form to various panchayat raj institutions.

12. A high-level officer at least in bigger states, should be exclusively in-change of financial matters concerning panchayat raj bodies.
13. Ministers’ in-change of panchayat raj should devote special attention to the development of cordial relations between the departmental officers and panchayat raj bodies.

14. Samities, zilla parishads and state government should prepare annually consolidated statements of income and expenditure of the institutions under them. The consolidated statement for all the tiers at the state level should be published and presented to state legislative every year.

15. The Ministry of Community Development and Co-operation should prepare consolidated statements for the country as a whole and publish them with state wise tables of income and expenditure.

16. Panchayats and samities may be classified into three or four groups according to their capacity to raise resources to ensure that proportionately greater assistance is given poorer categories.

17. As the three-tier system may not be quite suitable in the peculiar circumstances of backward areas, particularly hilly tracts inhabited by scheduled tribes, special institutions and procedures may be devised for them.

18. The state governments may consider the possibility of sharing the income from forests, quarrying and mineral royalties with panchayats, which have very little agricultural land and consequently insignificant land revenue.

19. Special attempts should be made to assist panchayats in overcoming difficulties to obtain title or possession of land and property transferred to them by acts or rules and orders made under them. When they get involved in litigation, legal advice and financial assistance should also be extended to them.

20. Panchayat should endeavour to attract gifts and donations.

21. It may be worthwhile considering whether some degree of uniformity should be attempted in the nomenclature of PRIs and their presiding officers to avoid confusion in inter-state comparisons and all India reports.
22. When PRIs have come to be firmly established in all states, the problems of mutual co-operation between PRIs and cooperatives may be re-examined by representatives of both sides.

**Ashok Mehta Committee (1978)**

This Committee was set up to ‘enquire into the working of the Panchayati Raj Institutions and to suggest measures for strengthening them so as to enable a decentralised planning and development to be effective’. It suggested that the formulation of structure, functions and utilisation of financial, administrative and human resources on PRIs should be determined on the emerging functional necessity of management of rural development. The Committee recommended a ‘two-tier model’ of Panchayati Raj instead of a ‘three-tier model’ of Balwant Ray Mehta Committee. These two tiers were; Zilla Panchayat at district level and Mandal Panchayat at village level. The main recommendations of the Committee are as follows:

1. A part from the budgetary devolution from the state government the PRIs also should mobilise enough resources of their own. No democratic institution can continue to maintain its operational vitality by depending upon external resources. The thesis “no taxation, only representation” should be discouraged. For this purpose, all PRIs should have compulsory powers of taxation. A select of taxation power should be given to the PRIs and out of them some should be made compulsory. It is not possible to have a standard list for all states. However, certain taxes on land and buildings should be lived compulsorily by the PRIs at appropriate level.

2. The taxation powers given to the PRIs should be limited and specific and must not operate inequitously. Certain occupations and professions in whom the weaker sections predominate should be exempted through statutory provisions, in order to ensure social justice.
3. Incentives can be offered for optional taxes realized. These may take the shape of award of prizes or provision of matching grants.

4. In addition to taxes, the PRIs should levy fees / taxes for services like lighting, sanitation, water supply, etc. The maxima and minima of these fees should be laid down to avoid arbitrariness or lack of uniformity.

5. At this stage, land revenue, cess on land revenue, cess on water rate, surcharge on stamp duty, entertainment tax and show tax, etc., should also be assigned to the PRIs with higher percentage to mandal panchayats. To provide local initiative, the PRIs must be statutorily empowered to request the state government to increase the cesses. In this context, the Committee recommends the complete transfer of land revenue to PRIs in a phased manner over a period of five years taking into account the buoyancy of other taxes.

6. In the emerging rural development programme, the transfer of public properties such as grazing lands, unreserved forests, orchards, public lands, cattle ponds, fisher tanks, ferries, quarries, etc., would have great significance and these should be statutorily vested in the mandal panchayat in the cases where it is not already done. This is not a mechanical transfer but for the purposes of maximizing the yield out of these resources; this activity will increase as a part of their functions. In the emerging context of escalation in their potentialities and fiscal worth, markets, hats, shandies, fairs, etc., will be a significant source of revenue. Hence, custody of such fairs, hats and other markets should be vested with the PRIs.

7. With a sizable population-base and a territorial jurisdiction, covering a number of “markets” the mandal panchayat would be able to tap a more diversified resource-base with greater intensity and elasticity. These revenue-yielding sources should be built up both with budgetary support of government and institutional finances. Such sources will be mostly with mandal panchayat but can be transferred to zilla parishad, depending upon the size of the source. A scheme of support by the state government from budgetary sources carrying small or no interest supplemented by
institutional finance would go a long way in helping the PRIs to proceed with their aims of establishing remunerative enterprises.

8. A part from the taxation powers of their own and transfers effected through several possibilities with indicated earlier, a permanent annual grant of not less than Rs. 250 per capita should be available to the mandal panchayats. It should be the objective; the quantum of several transfers should be, at least, to this target.

9. As the power to impose taxes should not be divorced from the responsibility for their collection, the officials of the PRIs should themselves collect the taxes.

10. Combination of Patwari and Secretary as per the suggestion of the Santhanam team is not desirable. At the time of consolidation of holdings, the provision for reserving areas for common purposes should be strictly enforced and these should be entrusted to the mandal panchayats. It would be possible for the mandal panchayat to economise on too many part-time or full-time low paid Secretaries and get the services of a better paid Secretary who would look after the collection of taxes and be responsible for the other functions entrusted to the mandal panchayats.

11. The burden of collection of land revenue should be left optional to the concerned panchayats, but the mandal panchayats collecting land revenue should get a commission commensurate with the results so as to provide a built-in incentive. When the mandal panchayat comes into full-fledged existence the policy may, however, be reviewed again.

12. When all functions relating to plan implementation at district level are transferred to the zilla parishad, this will also involve transfer of the finance along with projects. The allocation the projects / plan funds have to be done on a formula worked out to achieve equity among the districts and weightage to backward areas. Further, the non-plan expenditure incurred at the district or lower level should also be under the administration of the respective tiers, since it would be conductive for composite development work and build up the capabilities of PRIs.
13. Administrative expenditure on the salaries, allowances, etc., of the staff transferred as on the date of transfer, be given as a grant to the zilla parishad or to the other concerned tires.

14. The appointment of State Finance Commission does not appear to meet situation. The major need is more to achieve an equitable distribution of plan allocations.

15. The establishment of a new financing body, like a Panchayati Raj Finance Corporation, dependent partly on public borrowing is not likely to add to the total availability of the credit. What is required in this context is greater rural orientation to all the financial institutions to facilitate greater flow of credit to rural areas.

**G.V.K. Rao Committee (1985)**

The recommendations of the Committee are mentioned here:

1. There should a finance and studies Committee at district level to look after finance framing of budgets, considering proposals for increase in revenue, consideration of proposals affecting finance etc.

2. In order that the objective of planning from below is achieved and fact needs of the people and the area are catered to it would also be desirable to provide a certain sectorally unallocated lump sum amount to be provided by the state government could be entrusted to Finance Commission to be appointed by each government pay, once in 5 year.

3. It is also to be recognised that the needs of the district as they would emerge in the district plans prepared by the zilla parishad could be far more than what the resource permit. It is also possible that perception of priorities of district level could be such that added together, the amounts required for three would be much longer than the amounts that can be allocated under the state plan with its priorities. As mechanism for harmonising there would also be necessary. The Committee
suggests that there should be a state development council for the purpose with Chief Minister as the Chairman.

**L.M. Singhvi Committee (1986)**

Recommendations are as follows:

1. The Committee would suggest a pattern of compulsory and optional levies and a list of subjects in respect of which powers to levy taxes, fees may be entrusted to PRIs with a provision that for a given period, the state government shall levy and collect on behalf of PRIs and shall disburse to them on the basis of the recommendations of Finance Commission in each state.

2. The Committee also suggests that the Finance Commission appointed by the Union Government under the constitution should make an adequate earmarked provision for PRIs.

3. The Committee further recommended that resources budgeted for various rural development and poverty alleviation programmes should be routed through PRIs, which would as a result gain in authority said effectiveness.

**Kondajji Basappa Committee (1963)**

This Committee set up to review the functions, finance and problems faced by PRIs in Karnataka, made following recommendations:

1. House tax should be levied on the basis of capital value and the minimum and maximum rate per half year can be mentioned in the schedule to the Act.

2. A fee for grazing cattle on the grazing land vested in the panchayats.

3. A special sanitary cess upon private latrines, premises or compounds cleaned by the panchayat agency.

4. Provision should be introduced in the Act enabling the panchayats to receive from the factories a lump sum contribution in lieu of taxes levied by panchayats.
5. A duty on transfer of immoveable property in the shape of stamp duty levied by Taluk Development Boards should be made obligatory.

6. Income derived from tax on animals brought for sale in market should be available for being utilised throughout the district.

7. To empower the PRIs to levy a special cess or tax, the income from which could be utilised for specified purposes.

8. Whenever the panchayat proposes the levy of a special cess as an addition to the local cess, the Committee recommends the levy of a surcharge on house tax or profession tax, as the case may be, so that the incidences of this cess or surcharge fall equally on all sections of the community.

9. Pilgrim fee should vest with the Zilla Parishad, which in turn may empower either the Taluk Development Board or the Grama Panchayat to levy this fee, if in its opinion, they are competent to provide all facilities to the pilgrims at the time of the fair or festivals.


Eleventh Finance Commission is the first Finance Commission that was asked to make recommendations to transfer resources to local bodies to enable them to carry on their work. For the first time, it was the 11th FC that was required to suggest, “The measures needed to augment the consolidated fund of a state to supplement the financial resources of Panchayats and Municipalities. The 11th FC recommended a number of measures, which could be taken by state governments and local bodies for augmenting the consolidated fund of the states to supplement the resources of local bodies. These measures included assignment of land tax, profession tax, surcharges / cesses on state taxes for improving the basic civic services and taking up schemes of social and economic development. At the same time, the 11th FC also noted implementing the recommendations of State Finance Commissions (SFCs). Accordingly, the 11th FC awarded *ad hoc* annual grant Rs. 1,600 crores for
Panchayats and Rs. 400 crores for Municipalities - a total of Rs. 10,000 crores for the period 2000-05. The 11th FC has provided that the grants for local bodies may be distributed among the states on the following criteria and weights.

**Table-2.1: Criteria and Weights of the 11th Finance Commission**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Population</td>
<td>40%</td>
</tr>
<tr>
<td>2. Geographical area</td>
<td>10%</td>
</tr>
<tr>
<td>3. Distance from highest per capita income</td>
<td>20%</td>
</tr>
<tr>
<td>4. Index of decentralisation</td>
<td>20%</td>
</tr>
<tr>
<td>5. Revenue effort</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Report of Twelfth Finance Commission (2005)\(^{57}\)

The inter-se allocation amongst states is based on factors and weights assigned by the 12th FC as under:

**Table-2.2: Criteria and Weights of the 12th Finance Commission**

<table>
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</tr>
<tr>
<td>5. Revenue effort</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The 12th FC retained the criteria of i) population ii) geographical area and iii) distance from highest per capita income iv) state revenue efforts along with the weights as recommended by the 11th FC for the inter se allocation of the grants-in-aid among the states to supplement the resources of the local bodies (Panchayats and Municipalities). The 12th FC however did not consider it necessary to include the index of decentralisation since most of the indicators used by the 11th FC for its measurement like enacting State / Panchayat / Municipal legislation, holding elections etc., had already been taken care off. In its place, an index of deprivation was
included to take into account intra-state disparities pertaining to certain minimum needs of the population like drinking water and sanitation.

The 12th FC argued that the urban local bodies (Municipalities) had a greater access to tax and non-tax resources of their own, and therefore, it were the Panchayats which required substantial support. According to the 2001 Census Report, urban population in India constituted 26.8 per cent of the total population. Hence, the 12th FC’s grant-in-aid was based on the ratio of 20:80. That is Rs.5,000 crores (20 per cent of the grant) would go to Municipalities and Rs. 20,000 crores (80 per cent) would go to Panchayats.

State Finance Commissions (SFCs) and Inter - Governmental Transfer

According to article 243-I and 243-Y (73rd and 74th Amendments) of the Indian constitution, state governments are required to appoint SFC at the expiration of every fifth year to recommend the transfer of financial resources from the state governments to the PRIs and ULGs in the form of tax shares, grants-in-aid and tax assignments. The terms of reference of SFC are;

1. To determine the total share of PRIs and ULGs in the revenues of the state government.

2. To examine the possibility of transferring the power to levy certain taxes, tolls and fees from the state government to PRIs and ULGs.

3. To determine the grants-in-aid to be paid to PRIs and ULGs.

4. To examine and suggest measures needed to improve the financial position of PRIs and ULGs.

5. To examine the problem of repayment of loans and advances extended by the state government to PRIs and ULGs and to recommend the possibility of adjusting these loans and advances against future devolution of revenues from the state government.
Report of the First State Finance Commission of Karnataka Relating to PRIs

In Karnataka 1st SFC was set in 1994 under the Chairmanship of DR. G. Thimmaiah; it submitted the report in 1996. The important recommendations of the Commission are:

1. The Commission recommends devolution of funds to PRIs and ULGs 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 government under the budget heads, general services, social services and economic services.

2. The total shares of PRIs and ULGs in NLGORR of the state were increased from 34.27% to 36%. Of this 36%, 30.60% (i.e., 85% of 36% of NLGORR) should be transferred to PRIs and 5.40% (i.e., 15% of 36% of NLGORR) to ULGs. This recommendation is valid for financial years beginning from 1996-97 up to 2000-01.

3. Of the 36% of the NLGORR of the state, 30.60% should be transferred to all the three-tiers of PRIs on the basis of the following five criteria;

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>1. Proportion of rural population</td>
<td>33.33%</td>
</tr>
<tr>
<td>2. Proportion of rural area</td>
<td>33.33%</td>
</tr>
<tr>
<td>3. Proportion of rural illiterates</td>
<td>11.11%</td>
</tr>
<tr>
<td>4. Number of persons per bed in govt. hospitals</td>
<td>11.11%</td>
</tr>
<tr>
<td>5. Road length per sq. km. of area</td>
<td>11.11%</td>
</tr>
<tr>
<td><strong>Total Weight</strong></td>
<td><strong>99.99%</strong></td>
</tr>
<tr>
<td><strong>Rounded off to</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4. The Commission’s recommendations take into account both plan and non-plan expenditure requirements of PRIs. The devolution scheme recommended by the Commission in the ratio of 40:35:25 to Zilla Panchayats, Taluk Panchayats and Grama Panchayats.
5. The funds for Grama panchayats and taluk panchayats should be released directly from zilla panchayats. Funds for Grama panchayats need not be released through taluk panchayats.

6. The practice of giving Rs. one lakhs grant to Grama panchayats under section 206 of the Karnataka Panchayat Raj Act 1993 may continue and this should be treated as additional financial assistance and should not be adjusted from the funds recommended under the Commission’s devolution scheme.

7. The Commission recommends that the amount of Rs. 4380.93 crores recommended for PRIs by the Tenth Central Finance Commission should be distributed among them on the basis of the same criteria used by the SFC to distribute state government grants to PRIs.

8. The Commission recommends that Karnataka’s share in the Tenth Finance Commission’s recommendation relating to PRIs should be used to provide earmarked grants for reconstruction, improvement and repairs of specified assets of ZPs, TPs & GPs over the next five years.

9. The Commission recommends that these grants may be earmarked for spending only on reconstruction, improvement and repairs of school buildings, buildings of primary health centers, buildings of veterinary hospitals etc. If any grants are left over, these may be used for repairing roads and bridges.

10. The Commission recommends that every ZP, TP and GP should make a matching contribution in order to be eligible for this non-plan maintenance grant. This matching contribution may be used for paying wage bill while the material cost should be met from the grant coming from the central government.

11. ZPs should be responsible for overall monitoring of utilisation of these funds.

12. The Commission recommends earmarked grants as part of the total devolution. Earmarked grants are intended to enable the PRIs to upgrade certain essential public services to normative levels.
13. The Commission identified supply of safe drinking water, streetlights, roads, primary education and primary health care as the most essential public services to be provided in rural areas.

14. The total estimated cost of upgrading these five essential public services over the next four years would be about Rs.1130 crores. Thus, an average about Rs. 283 crores is required every year for upgradation of the above-identified essential public services. This amount may be earmarked from the devolution of funds recommended by the Commission, and specified amount for ZPs, TPs & GPs may be released every year.

15. ZPs should be entrusted with the task of implementing upgradation of safe drinking water supply, primary health and primary education facilities. TPs should be entrusted with upgradation of rural roads. GPs should be entrusted with the responsibility of implementing upgradation of streetlights. The specific grants earmarked for these purposes may be released to them directly. However, ZPs should monitor proper implementation of the programme of upgradation of essential public services.

Report of the Second State Finance Commission of Karnataka Relating to PRIs\(^6\)

The 2nd SFC was, in retrospect, nominally set up in October 2000: however, it was not properly constituted in terms of the statute. Even so, this body started doing some work. The Commission was constituted fully only in June 2001; it submitted the report in 2002. The summary of important recommendations of the Commission is as follows;

1. The 2nd SFC made as same recommendation as 1st SFC for devolution of funds to PRIs and ULGs, based on “Non-Loan Gross Own Revenue Receipts (NLGORR) of the state.

2. As against 36\% of NLGORR recommended by the 1st SFC as the share of PRIs and ULGs, the 2nd SFC recommends that this share should be increased to 40\% of
the NLGORR of the state government. Of this 40%, 32% (i.e., 80% of 40% of NLGORR) should go to PRIs and 8% (i.e., 20% of 40% NLGORR) to ULGs. This recommendation is valid for a period of five years with effect from the financial year 2003-04.

3. Of the 40% of the NLGORR of the state, 32% should be transferred to all the three-tier of PRIs on the basis of the following five criteria:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Proportion of rural population</td>
<td>30%</td>
</tr>
<tr>
<td>2. Proportion of rural area</td>
<td>30%</td>
</tr>
<tr>
<td>3. Proportion of rural illiterates</td>
<td>15%</td>
</tr>
<tr>
<td>4. SC &amp; ST population</td>
<td>15%</td>
</tr>
<tr>
<td>5. Number of persons per bed in govt. hospitals</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total Weight</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4. The second SFC rejected the road length and in its place, it has taken the scheduled castes and scheduled tribe’s population in rural area.

5. The Commission has decided to apply indicators and weightages only in respect of allocation of ‘Plan’ funds to ZPs and TPs. Out of plan funds meant for “ZPs schemes” and TPs schemes” as reflected in the Link Document, 65% should flow to ZPs and 35% to TPs.

6. As for GPs, a fixed amount is being released as united each year. The same approach should 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. 3.50 lakhs per GP and in the subsequent four years, it should be increased at the rate of Rs. 25,000 per GP per year.

7. The 11th CFC awarded annual grant of Rs. 1000 crores for panchayats-a total of Rs. 5000 crores for the period 2000-05. The SFC recommends each GP should be
given Rupees one lakhs out of the 11th CFC grants for the purpose of maintenance of civil services in rural areas. The remaining amount should be allocated to ZPs and TPs in the ratio of 40:60 respectively. Inter-se allocation among the ZPs and TPs should be based on the weightages assigned by the SFC.

8. Incentive scheme is designed to encourage Grama Panchayats to maximize their revenue mobilisation. An amount of Rs. 10 crores should be earmarked during each year for the incentivisation scheme to Grama Panchayats. The incentive fund may be increased after two years if the state government finds that this scheme has the desired impact on the performance of Grama Panchayats. Incentive funds should not be diverted for any other purpose. Incentive fund should be allocated among all the districts in proportion to the number of Grama Panchayats in each district. Amount under the incentive fund should be released directly to Zilla Panchayats.

9. The Chief Executive Officers of Zilla Panchayats operate the incentive Fund at the district level. No further allocation to taluk level. The entire district is considered as one unit for selecting Grama Panchayats for awarding cash incentive.

10. All Grama Panchayats whose internal revenue mobilisation (IRM) is 60% and above to the total “Demand” in each year (i.e., demand including the opening balance and inclusive of all taxes, rates, fees, etc.) for three consecutive preceding financial years (excluding the financial year in which Incentive Award is being decided) are eligible to be considered for awarding cash incentive.

11. No Grama Panchayat whose IRM is less than 60% in any of the three preceding years (consecutively) is eligible for Incentive Award.

12. The Incentive Award will be a fixed amount of Rs. 2.00 lakhs for each eligible Grama Panchayat.

13. The Chief Executive Officer of every Zilla Panchayat will prepare a list of all the Grama Panchayats in the district every year, whose collection was 60% and above
in the preceding three years in the descending order of the average percentage of collection over the three years period. Incentive Award will go to such number of Grama Panchayats, as per the amount available at Rs. 2.00 lakhs per Grama Panchayat, Whose average collection (IRM) percentage is the highest.

14. A Grama Panchayat, which gets the Incentive Award in a year, will not be eligible for Incentive Award for the next three years.

15. Grama Panchayats should be utilise the Incentive Award amount exclusively for community development works.

16. If in a financial year, sufficient numbers of eligible Grama Panchayats for Incentive Award are not available, in any district, the Government in Rural Development and Panchayati Raj Department may divert the un-utilised allocation under the Incentive Fund of that district to any other district where more number of eligible Grama Panchayats for getting incentive award is available.

17. The concept of User Charges must be introduced at the Grama Panchayats level. It should be additionality to the house tax / property tax. Section 199 (2) of the Karnataka Panchayat Raj Act, 1993 should be amended suitably to replace the term ‘water rate’ by the term ‘user charge’. There should be flexibility in the levy of user charges in respect of those having individual tap connection and those who draw water from public stand posts. The quantum of user charges levied by Grama Panchayats should not exceed 50 per cent of the total operation and maintenance expenditure assessed by the Grama Panchayat in a financial year.

18. The present revenue realisation by Grama Panchayats from property tax is very low. Periodical revision is a must. The minimum rate of property tax should be fixed at 8 per cent of the annual letting value and maximum at 12 per cent of annual letting value, the annual letting value itself should be revised by a designated authority for every Grama Panchayat once in four years and the Grama Panchayats should levy property tax accordingly. Houses constructed outside the Gramatana should also be brought under the preview of property tax to be levied
by Grama Panchayats. There should be specific provision for levy of property tax in respect of houses built on revenue lands outside the Gramatana area.

19. Fifty per cent of the share out of revenue realised by lease / auction of sand beds and stone quarrying should be assigned to the concerned Grama Panchayats. The 2nd SFC is not in favour of transfer of the management of sand beds and stone quarrying to Grama Panchayats. The revenue realised on this account should be utilised only for community development programmes and for protection of environment.

20. The revenue realised from all the tanks falling within the jurisdiction of Grama Panchayats should be fully assigned to the concerned Grama Panchayats. If the water spread area of a tank falls under the jurisdiction of more than one Grama Panchayat, the revenue may assigned proportionately on the basis of water spread area. The management of such tanks need not be transferred to Grama Panchayats.

21. The transfer of funds from the Department of Mines & Geology and Fisheries should be done by the District Officers directly as per the assignment pattern recommended by The 2nd SFC.

22. Funds earmarked to panchayat raj institutions as per Link Document should be released in time. Funds released during the fag end of a financial year should be permitted to be used after the concerned financial year is over, by giving three months time for utilisation of funds although the implementation of the relevant schemes spills over to subsequent financial year.
REFERENCES


52. Report of the Study Team on Panchayat Raj Institutions, (1978), Ministry of Agriculture and Irrigation, Dept. of Rural Development, Govt. of India, New Delhi.


54. Ibid.


57. Ibid.


60. Ibid.