ABSTRACT

The last two decades of the Twentieth Century witnessed a significant rise in the scope of local democracy throughout the developing and developed countries, with increasing devolution of political, economic and administrative authority to local governments. Along with privatization and deregulation, this shift represents a substantial reduction in the authority of national government over economic policy. Failure of the centralized system of governance, planning to resolve local problems, promote local level development and deepening democratic principles have led to an upsurge of interest in decentralization. In the Western world, decentralization is an effective tool for Reorganization of the government in order to provide public services cost effectively in the “post-welfare state” era. Developing countries are turning to decentralization to escape from the traps of ineffective and inefficient governance, macro economic instability and inadequate economic growth.

Decentralization of governance then can help mobilize resources, introduce locally and regionally diverse solutions and promote equitable growth by bringing the poor into the mainstream of development. Fiscal decentralization is a sub-set of decentralization defined as fiscal empowerment of lower tiers of government which involves the devolution of taxing and spending powers along with the arrangements for rectifying mismatches in resources and responsibilities. Decentralization is linked to rural development in many ways. The proximity of policy implementers to the target groups reduces information and transaction cost of identifying the poor and helps in designing potentially successful ‘capacity improving’ and ‘safety net policies’. Decentralized provision of the public services can also help to link revenue-expenditure decisions at the margin. This can improve both efficiency and accountability in the provision of such services. Governments that are ‘closer to the people’ should in principle, be able to provide services more efficiently and effectively than a remote, centralized authority.

In India, Panchayati Raj System is identified as prime instrument of decentralization through which democracy becomes truly representative and responsive. The Panchayati Raj institutions are considered as local self-government meant for providing basic infrastructure facilities, empowering weaker sections of the
society and initiate the development process at the grass-roots level of rural India, where the sole of India lives. The need for decentralization was realized long back but the recent effort to give constitutional back-up to rural local governments is significant. With the passage of 73rd Amendment Act, in 1993, people’s participation in the process of planning, decision-making, implementation and delivery system in rural India has been recognized. Under Articles 243G, state legislature may by law transfer powers and authority to rural local bodies as are necessary to enable them to function as institutions of self government. A separate list of 29 subjects listed in the Eleventh Schedule of the Constitution, have been indentified for devolution to the panchayats. The panchayats are mainly entrusted with the implementation of different Centrally Sponsored Schemes such as MNREGS, PMGSY, IAY, SGSY TSC, NRHM, NRWSP, SSA and Mid-day meal etc. administered by the various Ministries of Government of India. Central funds constitute the bulk of the funding through Centrally Sponsored Schemes, most important Centrally Sponsored Schemes fall within the functional domain of the panchayats.

Elimination of poverty has always been on the national policy agenda since the beginning of the planning era and shall continue to do so in future. But less attention has been given to rural local government’s fiscal problem and prospects, and their role in rural development. Expenditure functions remain non-transparent and very little expenditure autonomy has been given. As state governments specially the Government of Uttar Pradesh are themselves faced with several resource constraints, the revenue accruals to the rural local bodies are not adequate to enable them to effectively deliver the required standards of public services. The state government out of its own tax powers devolved certain tax powers to rural governments that are less mobile, not easily exportable. Panchayati raj institutions treated as “agencies” of government to implement programmes and not as “government” itself, has a lot to do with inadequate functional and fiscal devolution. Keeping in view, the present study attempted to analyze the pattern of financing and suggest to measure to mobilize additional resources for panchayats to enable them to effectively provide these services to the rural masses. Also examined the role of participatory planning for poverty alleviation programmes and assessing the gap between needs and resources at rural local level and how peoples are benefited by the decentralization. The Objectives of the Present Study are as follows:
• To quantify the present state of expenditure assignment in UP, so as to define the boundaries of functional responsibilities assigned to panchayati raj institutions and assess this against the functional devolution visualized in the Constitutional Amendments.

• To assess the present state of revenue assignment and composition of revenue receipts by source (centre/state/own) and thereby the present state of intergovernmental transfers.

• To assess the utilization of receipts by PRIs and thereby the state of fiscal monitoring in the study area.

• To examine the implications of fiscal decentralization for targeting rural infrastructure programmes as a rural development measure.

• To identify the socio-economic profile of the BPL households and changes therein, if any.

• To identify issues and make recommendations to improve the fiscal decentralization system.

The present study is based on primary as well as secondary sources of data. In the first part broad based study of India as well as Uttar Pradesh were taken up. The administrative division of the state in the form of district such as Aligarh is taken as a basic unit for empirical investigation. For the collection of primary data, three set of well structured questionnaires, one for each of the three tiers in the panchayat structure i.e for the Gram Panchayats, Block Panchayats and Zila Panchayat have been prepared to interview and collect information. A separate questionnaire has been used for the interviews of BPL Households to assess their socio-economic condition and their perception on the functioning of rural local governments. The study area comprises entire 12 blocks in the district. It was selected 6 gram panchayats (Gram panchayats) from the each block, which would be representative in character. These gram panchayats were selected on the basis of 2 highly populated, 2 least populated and 2 Ambedkar gram panchayats. Thus 6 gram panchayats from each block- a total of 72 gram panchayats, Block Development Officers of all the 12 blocks and Zila Panchayati Raj Adhikari were selected for the study. 720 BPL household of the 72 selected gram panchayats have been
enumerated households on the basis of 10 BPL households from the each gram panchayats drawn randomly from the list of BPL census 2002. Sample statistical tools like frequency, percentages, average, compound average growth rate (CAGR), coefficient of variation for measure the relative variability, extrapolation and interpolation to obtain the total projected rural population and base shifting method to convert the different series on the same base year for making it comparable, have been used on arriving at the results. Keeping in view limited financial resources and time at our command, it was desirable to select Aligarh district that can be studied within the limited resources and time by making frequent visits.

The present study is based on the following hypothesis: the process of fiscal decentralization and participatory planning in rural areas has been able to reduce poverty to a significant level.

The study is divided in to seven chapters. This chapter covers concepts and issues in fiscal decentralization and poverty reduction, statement of the research problem, significance of the study, objectives, and methodology of the research, hypothesis, limitations, and chapter framework. Chapter two discusses review of literature concerned with research problem. A macro level fiscal scenario of Panchayati Raj Institutions in India and its role in poverty alleviation programmes is analyzed in chapter three. Chapter four assesses the functioning of decentralization in Uttar Pradesh and the initiatives for providing fiscal autonomy and to strengthen the fiscal position of PRIs. In chapter five examine the fiscal behavior of the Aligarh district of the Uttar Pradesh with the detailed description of possible ways to mobilize resources and likely areas where the resources are to be allocated and also discusses the availability of resources and needs at gram panchayats. Section six describes the socio-economic condition of BPL households and their perception towards panchayats and how they are benefited by it. Finally, chapter seven summarizes the main conclusions of the research and recommendations made to improve the panchayati raj system.

*Chapter Two* reviews the literature in an exhaustive manner to explore the available update literature on the subject with theory and practice. Some of the important works reviewed are of Wallace Oates, Vito Tanzi, M. Govinda Rao, Indira Rajaraman, George Mathew, C Rangarajan, Ravi. S Srivastave, M.A Oommen, Pratap Ranjan Jaina, Pranab Bardhan, and Dilip Mookherjee and C. Bhujanga Rao etc. Most
of the studies have considered the impact of specific aspects of fiscal decentralization and decentralized service delivery and poverty reduction separately. There have been few attempts to bring the two sets of issues together in to comprehensive manner. It also peters out that the studies made in Indian perspective of fiscal decentralization to local bodies are very few with analytical framework except some reports of concerned agencies. There is still a gap for studying the various issues on fiscal decentralization and poverty reduction in India which has been neglected by the authors of India based studies. This study therefore aims at bringing the two aspects together and attempt to analyze the pattern of financing and suggest to measure to mobilize additional resources for panchayats to enable them to effectively provide these services to the rural population.

*Chapter Three* begins with an overview of rural decentralization in India. It was observed that there is considerable difference between what is intended to law and how it is implemented. By all accounts, the States has been reluctant to devolve powers to local governments. Most of the function transfers, however, remain on paper without the support of adequate funding and functionaries. Most of the functions listed in the XI Schedule are shared between the departments and the PRIs and there is no clear demarcation on the functional domain of the two. Many functions are shared between two of three tier of PRI. The panchayats do not have enough money to carry out the functions assigned to them in the Eleventh Schedule of the Constitution. These institutions should not only have the power to raise resources but also the right to use the funds as per their need and priorities. The taxes, duties, tolls and fees to be levied by them and assigned to them and the grant-in-aid to be given to them are left to the discretion of the state governments. The State Finance Commissions themselves are hampered by the lack of data. Limited capacity and poor ownership by State Governments compounds their problem. The Thirteenth Finance Commission criteria are really unfair, because it gives highest weightage to the population. These are strictly relevant for gauging devolution or decentralization. A wrong policy can lead to very unfair results. The involvement of panchayats in implementing Centrally Sponsored Schemes is either non-existent or minimum. Involvement of local people can enhance accountability and quality implementation, but local performance depends on the institutional and political environments in which the decentralization process works.
Chapter Four describes the state level functioning of fiscal decentralization and poverty reduction in Uttar Pradesh. In spite of various recommendations of Committee and Commission, Uttar Pradesh government issued orders only for the transfer of 16 subjects with the funds of 10 activities have been devolved to gram panchayats. The financial situation of PRIs reveals an unsatisfactory situation of PRI finances in the state of UP. Only the gram panchayat have been assigned the power to levy, collect the appropriate revenue. Among all of the taxes only one tax, namely cess on land revenue is obligatory however the revenue potential of this tax is small. All the tax and non-tax revenue powers of kshetra panchayats in U.P. remained discretionary in the new act. As a result all the kshetra panchayats at present did not levy any tax or non-tax etc. There is no obligatory tax provided for zila panchayats. However the zila panchayats may impose or continue to impose a tax on circumstances and property to be called C & P tax. There is no uniform rate of taxes and non-taxes imposed by the panchayats in U.P. Third State Finance Commission has recommended to devolve 5.5 percent of the total tax net receipts to the PRIs. But the allocation is inadequate taking into consideration the activities to be managed by the PRIs. It has been observed that resource raising powers, as envisaged in the enabling Acts, have not been largely exercised by the panchayats as political and economic considerations. The poverty alleviation programmes in Uttar Pradesh have not succeeded in achieving the desired goals because of many systemic and operational problems. Top-down planning apart, it has been identified that these programmes suffer from many other serious limitations, such as lack of people's participation, faulty design, high target orientation inadequate forward and backward project integration and excessive bureaucratic control coupled with lack of effective accountability lead to greater corruption in which monitoring and auditing are relatively poorly developed at the local level and also lead to poor selection of beneficiaries and non-utilization of available funds. Demands for introducing transparency in the functioning of the panchayats holding regular elections and meeting of the gram sabha and making public details regarding schemes undertaken and funds received and spent by the panchayats are being voiced.

Chapter Five analyze trends in flow of funds and composition of finances of panchayats at each level of Aligarh district in Uttar Pradesh. It has pointed out that the percentage of educational level of the elective representatives has increased from gram panchayats to zila parishad but the representation of SCs and OBCs have decreased
from the same. It has been observed that the proportion of SC pradhans is higher than
the proportion of seats reserved for them at gram panchayat level. The distribution of
Pramukhs by the social identity reveals that the highest percentage of the Pramukhs
belongs to the other backward classes (OBC) followed by general category and
schedule caste. Centrally Sponsored Schemes have a higher incidence of operation in
the Ambedkar gram panchayats, shows the large variation of Central Government
transfer. It is also observed that higher per capita share of least populated gram
panchayats in comparison to their counterparts in Central transfers as well as state
transfers was due to lower population in these gram panchayats. The survey reported that
only 11 percent of the gram panchayats collect some taxes. The non-tax revenues are the
dominant sources of own revenue at Gram panchayats level. About 38.9 percent of
Gram panchayats raise revenue from their non-tax sources in which interest receipt play
an important role. The majority i.e about 85 percent of Gram panchayats per capita own
revenue averages below Rupee 1.00 in all the selected gram panchayats. In case of
Central as well as state schemes, no fund, have allotted to kshetra panchayats at block
level. Kshetra panchayats do not raise own revenues, neither from tax sources nor from
non-tax sources. The zila panchayat does not receive any funds under Central as well as
State Government schemes except MNREGS. Zila panchayat do raise some own
revenue, from license fee, income from disposal of dead animals and rent from
panchayats building etc. The efforts of zila panchayat to raise its own resources have
not been satisfactory. There is need to put in place a system of incentives and
disincentives to motivate zila panchayat to increase income from their own revenues.
Main reasons for lower revenue receipts are inadequacy of staff and their inefficiency,
non-availability of requisite infrastructure and lack of initiatives by local leaders and
their will to do so. Infrastructure created by gram panchayats during last 5 years was
satisfactory but still there is a gap between needs and availability of basic facility at
gram panchayat level. It is required to provide medical facility, sanitation and
community centre in almost all selected gram panchayats. Block-wise distribution of
villages according to the availability of different amenities show almost similar pattern.

Chapter Six examines the socio-economic condition of BPL households and their
perception towards functioning of panchayats. The survey found that poverty is
rampant among the SCs. Educational level among the BPL households is not found to
be very satisfactory. Majority of the BPL population are illiterate or literate without
educational level and drop-out rates are also high among them. Majority of households in the study area are either marginal farmers or engaged in wage paid employment. Numbers of livestock and other productive assets owned by them is also relatively lower. More than half of the households have under semi-pucca houses. Highest percentage of pucca houses are found in Ambedkar GPs whereas highest kutcha type houses are found in highly populated GPs. Under IAY, the cost is inadequate to construct a house in view of the rise in the cost of material and labour. The beneficiaries are not getting allotted funds for IAY unless they pay money to Pradhan and officials involved in providing funds to the beneficiaries. Very low proportion i.e one-fourth of rural BPL households have electricity in the selected gram panchayats. Under RGGVY, electricity connection to BPL families are provided free of charge. But the selection of BPL households is rather faulty and those who are not eligible are being included while genuine households are being left out. Majority of households depends upon the public hand pumps. People are unable to have hand pumps in their house because cost is too high as water level is too low in Aligarh district. The acility of piped water supply in all selected gram panchayats is almost negligible. About 60 percent of households have no latrine. Even those who have been assisted by the government to construct a latrine ends up with pit latrine instead of flush/septic tank latrine as very low amount of subsidy is provided to BPL households to construct a latrine in their house under TSC. Non-availability of PDS items and unavailability of sufficient quality are the two major factors, which are making the PDS system ineffective. People complained about the non-availability and less quantity of PDS commodities. After knowing about MNREGS, only 35 percent of households demanded employment in selected GPs. The main reason is that the wage rate under MNREGS is low as compared to market rate for the unskilled labour. The prevailing wages are 50 percent higher than the wages given under MNREGS. As a result demand for work under the programme is low. If regular work is not provided typically 15-20 days a month, labourers will migrate. Majority of days the respondent worked under MNREGS varies between 1 to 25 days over the 12 month period. A significant number of households did not get full 100 days employment. Those who have worked under MNREGS they did not receive payment as per rule. So majority of households denied that there is transparency and accountability in this scheme. The Pradhans are mainly conducting different works of MNREGS as per their requirements instead of the needs
of the people. The staff available at gram panchayat level is not sufficient, on an average, only one Gram Vikas Adhikari (Secretary) is appointed in implementation of poverty alleviation programmes including MNREGS in over 6 gram panchayats.

Majority of the households feel that they visualize some positive changes after implementation of panchayati raj institutions. Households are quite appreciative of the role of poverty alleviation programmes in rural areas wholeheartedly. More than 80 percent of households accepted that panchayats can play promoting role in GPs. However, only about 60 percent of households have some knowledge about the poverty alleviation programmes. Majority of the households reported that they received assistance under poverty alleviation programmes in last 3 years. In democratic planning, people’s involvement and active participation is crucial. However, it was observed in the field that gram sabhas are not attracting the desired number of participants. Due to none or less participation of people, especially of women; government efforts for eradication of poverty from rural areas by implementing several schemes are not leaving the impact efficacious in the rural areas. As a matter of fact the gram sabha meetings are attended by those who are supporters of Pradhan. The dominance by the upper caste people in the village meeting was also visible. Due to that the real objectives of the decentralization are not being achieved.

Policy suggestions based on the findings from the field survey are such as, further Amendments needed in U.P. Panchayat Act for making panchayats viable development units with a focus on people’s participation and institution building for good governance. Functions should be transferred fully as per 73rd Amendment to panchayats and suitable administrative should be transferred for their execution. The District Rural Development Agency (DRDA) and other parallel bodies should be brought under the control of respective zila parishad with the chairperson of the parishad as head. Functions should follow the financial assignments. So there is an urgent need to broaden the tax base for gram panchayats in UP, improve the design and collection of property taxes and increase the capacity to generate user fees for services. As per some other states, house tax and building tax which has provision only at gram panchayat level should be provided in the state of U.P. Kshetra panchayats should be given powers to collect tax and non tax revenue in their jurisdiction. There is considerable need to rationalize the assignment system to enable the decentralized governments to
raise revenues and incur expenditure according to the preference of their citizens. There is still scope for training and sensitizing both the elected leadership and the bureaucracy. Capacity building of the entire elected team should be a major focus of policy. Number of Ambedkar gram panchayats should be increased not only on the basis of SC population but also on percentage of BPL households to total households in the gram panchayats. A fresh and accurate survey of BPL households needs to be carried out and followed properly so that the deserving people become beneficiaries of the scheme. Poverty alleviation programme are marred by a high incidence of corruption, poor selection of beneficiaries and non-utilization of available funds. Corrective measures should be taken in this regard. All Centrally Sponsored Schemes as well as state schemes should be operationalised in all the gram panchayat to avoid unequal distribution of funds among the gram panchayats in the Aligarh district. The entire poverty alleviation programmes may be handed over to gram panchayats and for better implementation of these programmes it is strongly recommended that gram panchayats should own unions for consultative purpose.

Finally, it is suggested that panchayats should be accorded functional, financial and administrative autonomy so that they can prepare plans for economic development and social justice. In such a plan, access to basic needs and service should be an integral part. All the schemes which pertain to 29 subjects listed in the Eleventh schedule should be transferred lock-stock and barrel to the panchayats.