CHAPTER – 1
INTRODUCTION

Local bodies in Haryana are in a dreadful plight as pointed out in the memorandum submitted by the state government to the 13th Central Finance Commission (CFC). It is due to inadequate and uncertain flow of funds to them, limited taxation powers, inefficient utilization of local resources, their inability to administer certain important taxes etc. There exists a wide gap between the resources available and functional responsibilities of local bodies. In view of this, the task before the State Finance Commission, Haryana (SFC), which is to make recommendations on revenue-sharing between the state and local bodies, assignment of taxes and grants-in-aid to them is quite complex.

Finance and planning are the subjects which are highly centralized in India. Despite the federal system these are several points of controversy between the centre and states pertaining to fiscal relations. The third tier of government i.e. local government is given constitutional status vide 73rd and 74th amendments, 1992 and the issue of devolution of more financial resources has become a subject of repeated discussion and debate. However, the concept of democratic local governments could not be popularized and they are still dominated by the bureaucratic wing of the state government but the fact remains that the financial position of local governments is to be improved for efficient delivery of services. Hence, the local finance and fiscal decentralization play an important role in local government.¹

The crux of problems of local bodies is finance as stated by Taxation Enquiry Committee, 1953-54. Santhanam Committee, 1963 observed, the PRIS have formidable list of functions to discharge but they do not have necessary financial resources to cope with these functions. Thus experiences show that local bodies can’t function efficiently without individual sources of income. In this direction the enactment of 73rd and 74th amendment acts is a historical step.

A major portion of Part IX of the Indian Constitution covering Articles 243C, D, E, G and K deals with structural empowerment of PRIs but the real strength in terms of both autonomy and efficiency of these institutions is dependent on their financial position (including their capacity to generate own resources). Now after 73rd & 74th amendments Article 243(1) makes arrangements of transfer of resource from states to local government through SFCs. The CRC recommended 11th and 12th schedules be restructured in a manner that creates a separate fiscal domain for panchayats and municipalities. Accordingly Article 243H and X be amended making it mandatory for states to make laws for devolving powers to local bodies. A separate tax domain for local governments be created.

Revenue powers assigned to local bodies have a narrow base and are less elastic as compared to revenue sources of the state governments. As such the local bodies have not been able to raise adequate resources to discharge their responsibilities “The problem has aggravated due to enlarged functional domain with the enactment of 73rd & 74th amendments.\(^2\)

- However, across the country, states have not given adequate attention to fiscal empowerment of the panchayats.
- Even in Kerala, Karnataka and Tamil Nadu, panchayats are heavily dependent on state grants.
- Internal resources generation is weak.
- A major portion of the grants received from central and state governments is scheme – specific having no discretion and flexibility for panchayats.
- State’s fiscal position is already tight. So they are not keen to devolve funds to panchayats.
- As per 11th and 12th schedules, panchayats are held responsible but without adequate resources.

State Panchayati Raj acts have given most of the taxation powers to village panchayats and the revenue domain of intermediate and district panchayats has been kept much smaller and remained confined to secondary areas like ferry services, markets, water and conservancy services, cess on stamp duty etc.

In Orissa all taxation powers lies exclusively with the village panchayat. In Rajasthan the situation is not much different except some taxes with panchayat samiti and zila parishad. In M.P., Zila parishads do not have any taxation power. But in Bihar they are given a few powers in this regard. However, in Maharashtra they are given some meaningful powers. Imposition of profession tax, cattle registration fee for vehicle registration fee are three notable areas which have not been exploited optimally by panchayats. Apart from allocating substantial share of royalty to local bodies, the state government should consider empowering them to levy local cess on the royalty so accrued to the state governments. States like Tamil Nadu and Karnataka have such provision in their panchayat acts. In addition to cess, Tamil Nadu also contains the provision of local cess-surcharge.

For fiscal decentralization to be effective, finance should match expenditure assignments related to the transferred activities. This requires the demarcation of fiscal domain of local bodies to tap resources directly from both tax and non-tax. More devolution of funds from the Union and state governments to local bodies.³

In India, the concept and practice of local government taxation of property and profession much. Most of the revenue accrual comes from taxation of property and profession with minor supplement coming from non-tax receipts like rent from property and fees from services.

So the revenue base of local government be broadened and deepened. For this purpose the IIInd ARC suggested four major aspects of resource mobilization (i) Potential for taxation (ii) fixation of realistic tax rates (iii) widening of tax base (iv) improved collection.

- All common property resources in rural panchayats be identified, listed and made productive for revenue generation.
- Taxation domain of panchayats be expanded including levies on registration of cattle, restaurants, shops, hotels, tourist buses etc.
- Apart from the substantial share in the royalty from minerals, the panchayats be allowed to collect cess/surcharge on royalty for mining activities.

³ Degoonkar, Chay K., District Planning in India, Jaipur: Pointer, 1997, p.121.
• An index of backwardness be taken into consideration by SFC while devolving funds to PRIs.

Allocations to panchayats are function specific which can be listed in five categories – (i) Livelihood activities like agriculture, land conservation, minor irrigation, animal husbandry, social forestry, small scale industries etc. (ii) Infrastructure creation like drinking water, road, communication etc. (iii) Social sector activities including education and health (iv) Poverty reduction programmes (v) Miscellaneous activities like PDS, public assets maintenance, rural electrification etc. Therefore, except for the tied major CSSs and special purpose programme of states, all other allocations to the PRIs be made in united form.

• There should be a separate panchayat sector line in the state budget.

• The state budget should be divided into state wise allocation and district-wise allocation. The allocation for each district should be shown separately in the district-wise allocation. These allocations under various heads be brought together to evolve into a district budget.
  
  (i) Control of debts. at state level.
  
  (ii) Schemes transferred to zila parishad for execution.
  
  (iii) Devolved funds at the disposal of panchayats.

In Kerala, 35 to 40% state plan outlay is provisioned for plans and programmes formulated by local bodies. In Mahashatra also 60% funds are given for district sector plan and 40% for state sector plan. The mode of funds transfer should be through banks on the pattern of Karnataka to reduce time taken in such transfer. The state governments do not adhere to a time frame for release of funds and often by released in the end of the financial year leaving very little time for local bodies to carry out the actual work. Therefore, funds should be released well in time in equality in two months i.e. May and October.4

  
  Over the years, the demands of the rural sector have shifted from basics – food, shelter and safety to quality life requirements – potable water, electricity, education, health services, physical infrastructure and agricultural inputs and services

etc. The fund requirement for all these is enormous. Therefore, panchayats be allowed to borrow from banks and other financial institutions (as already suggested by Santhanam Committee, 1963). In the current liberalized credit scenario, local bodies can borrow from the market on the strength of their credit viability without the state’s guarantee and the SFC should provide the guidelines for this purpose. The MP and MLA local area development funds go against the very fabric of decentralization and be abolished.

**Urban Local bodies**

The robustness of urban local bodies is reflected in the state of their finances and their capacity to look after their own needs. Unfortunately, the urban population is grouping at a faster rate, the ULB have become increasingly dependent on the centre and state governments for financial resources. There is mismatch between the functional responsibilities and resource generation capabilities of local governments which is a result of inadequate delegation of taxation powers or a matter of administrative convenience.⁵

Besides the SFCs, funds are released to local bodies by the centre and state governments under various schemes – JNNURM and VIDSSMT – Urban Infrastructure Development Scheme for Small and Medium Towns. The ULBs have been authorized to levy and appropriate several taxes like property tax, entertainment tax etc. They get major share from states in profession tax, stamp duty, motor vehicle tax etc. But municipalities lack the required tax collection machinery, political consideration and lot of corruption.

- With the abolition of octroi by most states, property tax is most important source of revenue for urban local governments. Earlier ARV (Annual Rental Value) was the basis to levy the tax. But after a lot of reforms, municipalities have switched over from ARV to unit area or capital value method.
- The tax base of local bodies be widened because only properties in urban areas are actually assessed. Reason being municipalities are not expanded to keep pace with the urban sprawl.

---

⁵ Article 243ZD, 74th Amendment Act, 1992.
• A large number properties belonging to central and state government are not taxed because of provision of Article 285. Therefore, municipality should be allowed at least to collect services charges from those properties and categories of properties exempted for property tax need to be revised and minimized.

• The appeal process be given to an independent quasi-judicial authority instead of CEO. The collection efficiency of municipality is 40 to 60% because of poor data base management, improper keep of records, collusion between tax payers and recovery officers etc.

• So, a periodic physical verification of properties and taxes levied on them be carried out by a separate wing, random audit by the CAG, stern action for suppressing the facts.

• Unauthorized construction be brought under the tax net.

• The details of all properties be placed in the public domain.

• A computerized data base of all properties using GIS mapping should be prepared for all municipal areas.

• The upper ceiling of professional tax of Rs. 2500 be enhanced by amending the Article 276(2).

• The levy of taxes be made transparent and objective.

• The cost of collections and cost of compliance for the tax payers should be reduced to a minimum.

• An independent unit to monitor the collections of all taxes be created.

**Non-Tax Revenues**

Most important source of non-tax resources are the user charges – water charges, sanitation and sewerage, waste collection, parking fee, roads, street light etc. However, the user charges are not collected strictly by municipalities because of – (i) reluctance on the part of elected local representatives to charge for fear of becoming unpopular, (ii) lack of availability of required economic and financial expertise to fix
correct rates for utilities, (iii) poor paying capacity of a segment of population is used as an excuse for not charging others.\footnote{Chakraborty, Utpal, Planning from Below: Legislation Versus Mobilization, Kurukshetra, Vol. 59, No.10, August, 2011, p.17.}

However, the central government has made it mandatory for municipalities under JNNURM and UIDSSMT to levy reasonable user-charges so that the full cost of operation and maintenance is collected within the next five years. Provision of imposition of fines are there but rarely used because of fear of court proceedings. For this purpose, power to impose spot fines be given to municipal authorities and there must be provision of municipal police for compliance of civil laws.

**Borrowing**

At present, the borrowing powers of local governments are limited and have to seek approval of state government. Now states have enacted fiscal management and responsibilities acts which compel them to be more cautious in fiscal matters. Now municipalities could find it difficult to secure loans without undertaking financial reform. So local governments should focus on accounting reform reflecting a clear picture of their assets and prudent financial practices. So, the limit of borrowings for municipalities be fixed on the recommendations of SFCs. They must be encouraged to borrow without government guarantees. Asset management systems be in municipalities is dominated by DDA, MMRDA and this has not been instrumental in fiscal decentralization to them. However, Rajasthan has made a provision of 15% proceeds of Jaipur Development Authority to Jaipur Municipal Corporation.

- Municipal bodies should have a periodical updated data base of its properties.
- Land banks available with municipalities as well as the development authorities should be leveraged for generating resources for municipalities. Such resources should be used exclusively to finance infrastructure and not for recurring costs.
- Until the development authorities are merged with urban bodies, a proportion of their revenue be made available to municipalities for meeting their infrastructure needs.
Any built up property in the municipal area should not be given on rent or lease without following a competitive process not exceeding five years in one go.

The world development report on "Entering the 21st Century" notes that localization of the desire for self-determination and devaluation of power is the main force "shaping the world in which development will be defined and implemented" in the first decade of this century.⁷

Across the world, decentralization is pursued for different reasons and in order to attain different objectives. According to Robert Abel, developing countries are pursuing decentralization reforms to counter economic inefficiencies, macro-economic instability and ineffective governance.

Post communist transition countries are embracing decentralization as natural step in the shift to market economics and democracy. African states view decentralization as a path to bridge the social divide and bring about economic justice and equity. Western world sees decentralization as a means to provide public service in a more cost-effective way. Thus, the nature of these decentralization polices varies tremendously from incremental changes in protocols of inter-governmental relations on the one hand to major constitutional amendments or even new constitutional forms on the other.

Three large countries viz Brazil (1988) India (1992) and south Africa (1996) gave new constitutional powers to local governments during 1990s. While India has floundered with decentralization, other countries like China have used decentralized governance systems not only to improve the quality of services available to citizens but also to drive out poverty by raising the level of economic growth.⁸

In Haryana, a local area development tax at the rate of 4% of the value of goods moving from one area to another within the rate is provisioned. Moreover, tax on profession, trade and callings, fire tax at the rate of 1% of ARV, Rs. 100 tax on driving licence, 5 paisa per unit tax on power consumption, Rs. 2500 per year on

---

hotels, restaurants, banquet halls, petrol pumps, nursing homes, gas agencies, private schools and colleges, furniture show rooms, milk dairies, industrial units, Rs.1500 per year on private labs, commercial colleges, computer centres and showrooms of big cays, Rs. 1000 per year on workshops, service status, ice-factories, flour mills, tent houses, cable operators, printing press, medical and general stores, levies on registration of new vehicles etc. Haryana – abolition of house tax and striking down of operation of local area development tax – more dependence of local bodies on state government help.

STATE FINANCE COMMISSION

The constitution (73rd and 74th) Amendment Acts, 1992 and Article 280 (3) (c) have altered the erstwhile fiscal devolution system and framework between the states and local governments. Under the new fiscal devolution system every state government is required to constitute, once in five years, a Finance Commission under articles 243 (I) and entrust it with the task of reviewing the financial position of local government and making recommendations as to the principles that should govern.\textsuperscript{10}

- The distribution between the state and the local governments of the net proceeds of the taxes, duties, tolls and fees leviable by the state.
- The determination of the taxes, duties, tolls and fees that may be assigned to or appropriated by the local government.
- The grant-in-aid to local government from the consolidate fund of the state.

The constitutional amendments have placed crucial responsibilities on the new institution of the Finance Commission of the states. Over the above recommending principles that should govern state-local fiscal relations). State Finance Commission (SFC) is expected to:

- Undertake a review of the finances of local bodies.
- Estimate the future financial requirements of local bodies.
- Suggest Measures for strengthening the finances of local bodies.

\textsuperscript{9} Government of Haryana, District Plan Guidelines, Chandigarh: Department of Economic & Statistical Analysis, April, 2010, pp.3-4.

• Any other matter referred to the SFC by the Governor in the interest of sound finance of the local bodies.

A state legislature has a provide by law, for the composition of the SFC, the qualification which shall be requisite for appointment as members thereof, and the manners in which they shall be selected. The existing constitutional provisions also provide that the Commission shall determine their procedure and shall have such powers in the performance of their functions as the legislature of the state. The Governor shall cause every recommendation made by the commission with the explanatory memorandum as to the action taken to be laid before the legislature of the state. In regard to the maintenance of the accounts by the panchayats and their auditing, Article 243-J provides that "the legislature of a state may, by law, make provisions with respect to the maintenance of accounts by Panchyats and the auditing of such account."

The 74th amendment of the constitution which is addressed to the municipal institutions had added one more mandatory provision. In the form of district planning committees to the domain of Pachayats.\(^{11}\) However, the crucial is a devolution of functional responsibilities, authority, power and financial resources on the panchayats which have been made discretionary for the state. Therefore, each state usually practice its own scheme of devolution, and in the process, the pattern and degree of devolution on panchayats significantly vary across the states, depending upon the functional canvas of the panchayats.\(^{12}\) Central Finance Commissions and State Finance Commission in context of local finance issues. Under Article, 280 of the Constitution, Central Finance Commission is constituted to make recommendations on sharing of union tax revenues, revenue deficit grant, grant-in-aid to local bodies, calamity relief and for up-gradation of standards of administration and special problems.\(^{13}\) Whereas the State Fiancé Commission is to mediate between the state and the local governments under Article 243 I and 243 Y.

---

\(^{11}\) U.B. Singh, Decentralizd Planning in India: Myth or Reality, Governance at Grassroots level in India, Kaniska publishers, distributors, new Delhi, p.134.

\(^{12}\) S.S. Chahar, Governance at Grassroots level in India, New Delhi, Kaniska, 2005, p.39.

Overall (Macro) Fiscal Devolution Framework in India

Total National Resources

- As per Central provided in Constitution
- As per state list provided in Constitution

Union level Resources

- Sharing of Union Resources As per Recommendations of Central Finance Commission

State level Resources

- Sharing of Union Resources As per new institution of State Finance Commission

Union’s Share

State’s Share in Union’s Resources

State’s Share

Local Govt.’s Share in State’s Resources

State to devolve total amount received as per central finance commission to local bodies. SFC to design sharing formula/framework

Rural Local Govt.’s Own Tax/non-tax

Rural Local Govt.’s Share

Urban Local Govt.’s share of State & Central Resources

Urban Local Govt.’s own tax & non-tax Resource
1st State Finance Commission of Haryana


It was further decided that in case of any reason the recommendations of the next SFC are not available to the government by the end of the year 2000-01, the recommendations made by the previous, commission may continue to be in force, till the time, the recommendations of the next SFC are implemented.

2nd State Finance Commission, Haryana

The Governor of Haryana constituted the 2nd SFC vide notification No. 19/5/2000-Pol (2p) dated 6th September, 2000 under the chairmanship of Suraj Bhan Kajal (Ex M.L.A.).16 The Commission has to make recommendations on almost all issues as covered by the 1st Commission.

The Commission was to make its report available by December 31, 2000. But its term was also extended like the first one by the state government from time to time, up to September 30, 2004. For the fulfillment of the constitutional mandate, the report would cover the five year period from 2001-02 to 2005-06.17

3rd State Finance Commission, Haryana

It was constituted with A.N. Mathur 1AS (Retd) as the chairmen vide notification of December 22, 2005. But the tenure of Commission has been extended up to December 31, 2007 vide notification No. 18/1/2005-Pol (2p) dated December 13, 2006 whereas it submitted its, interim report to Governor on Feb. 29, 2008.18

---

14 Report of 1st Finance Commission Haryana, Chandigarh; March 1997, p.1
15 Report of 1st Finance Commission Haryana, Chandigarh; March 1997, p.3
17 Reort of 2nd S.F.C. Haryana, 2004, P.5
18 Questionnaire on terms of reference, Third S.F.C. Chandigarh 007, p.7-8.
4th State Finance Commission, Haryana

Haryana The state cabinet announced the constitution of the fourth finance commission under the chairmanship of L.S.M. Salins, IAS (Retd.) on 16th April, 201019 with a reference period of five years from 2011-12 to 2015-16. The other Members including the Member Secretary were appointed on 3rd April 2013, after about three years. Interim Report was submitted on 26.04.2013.20 It submitted its final report to the state government in June, 2014 taking a time of more than four years.

Review of Literature

The major works on decentralized planning in general and financial devolution in particular include the following:

K.C. Sivvaramkrishan (2000) Power to the People, the Politics and Progress of Decentralization, New Delhi: Konark highlights the pending issues in the functional and financial domain of the local bodies, the ambivalence and contradiction in the state laws and their implementation, the conflicts between different levels of elected leadership and how state control continues to hinder the progress.

Institute of Social Science (2000). State of Panchayati Raj in the States and Union Territories of India, New Delhi: Concept provides a detailed and authentic account of the history as well as the current status or the Panchayats of all the states and union territories of India. In addition, the issues of women participation in Panchayats and extension of Panchayati Raj System in the tribal areas have been elaborately dealt with in two separate chapters. Demographic data with maps of all the districts along with the blocks and socioeconomic profiles of each State and UT are also given.

Sandeep Joshi (2000) Panchayati Raj Institutions and Poverty Alleviation, Jaipur, Rawat Publications, indicates the role and performance of PRIs in the implementation of poverty alleviation programmes undertaken in Ujjan and Jhabua districts of Western Madhya Pradesh purposively.

Manoj Rai (2001) Malini Numbiar and Others, The State of Panchayats: A Participatory Perspective, New Delhi; Sanskriti Publication, highlights the significant issues, which have emerged over the years since the 73th amendment was adopted.

19 4th State Finance Commission, Chandigarh, 19 April p.2
20 4th State Finance Commission, Chandigarh, Interim report p.8
The study is based on the joint efforts of PRIA-N CRSO (a network of NGOs) for strengthening the PRIs.

**Manoj Rai (2002)** Malini Nambiar, Sohini Paul, Sangeeta U. Singh and Satinder S. Salmi. The State of Panchayats: A Participatory Perspective, New Delhi: Sanskriti, attempts to provide an overview of PRIs. The assessments which covers the functioning of panchayats, the extent of devolution of powers and functions, the role played by Gram Sabha and the participation of women and other marginalised sections. All attempts to capture participatory local planning in panchayats, capacity building initiatives undertaken for Panchayati Raj institution functionaries have been taken into consideration.

**M.P. Dube and Munni Pandlia (2002)** Democratic Decentralization and Parichayati Raj in India, New Delhi: Anamika is an indepth study of finances of PRIs and their election process.

**S. N. Mishra (2002)** Sweta. Mishra, Decentralised Governance, Delhi: Shipra, is an attempt towards judging the effectiveness of rural development programmers that the benefits of these programmers are reaching the target-groups. Besides this, it also make an attempts to find out, "Why the PRIs have failed to achieve their desired goals and to mitigating the local pressing problems."

**Vijandra Singh (2003)** Panchayati Raj and Village Development, New Delhi: Sarup & Sons examines the political and administrative compulsions behind the retention of traditional pattern of supervision and executive control over the PRIs. It is a through review of the whole range of policies and programmes, control and supervision of PRIs in the specific context of its nature and developmental obligations.

**Mahipal (2003)** Gap Between Needs and Resources of Panchayats In India - A Study of Sharanapur District (UP), New Delhi: Mittal, has assessed the gap between the availability and requirement of the basic services and suggests measures to mobilize additional resources of panchayats so that the resources may be made available for rural population.

**Mukhopadhyay, Hiryana and Kuntal Kumar Das (2003)** made an attempt to analyse the horizontal fiscal imbalances, which refer to the mismatch between
revenues and expenditures of state governments. The main objective of this study was to identify various determinants of horizontal imbalances.


**J. K. Chopra (2004)** Local Self Government and Municipal Administration, New Delhi: Commonwealth, explains the origin and functioning of local self governments in India and identified problems have been discussed.

**Singh, Nirvikar and Garima Vashishtha (2004)** examined various economic and political issues influencing the level and composition of transfers made by the centre to the states. The main objective of the study was to review the key features of Indian fiscal federalism and the mechanism of kind transfers from centre to states.

**S.S. Chahar (2005)** Governance at Grassroots level In India (ed). New Delhi, Kaniska, is a collection of papers contributed by social scientists which covers almost all the aspects of Panchayati Raj system as well as municipal administration prevailing in India. It has also many chapters on Panchayat and Municipal Administration in Haryana.

**Bagechi, Amaresh (2006)** discussed various alternatives of a of tax system that may be implemented in India is suffering from many limitations. Therefore, it was proposed that only a unified tax system on all goods and services based on the VAT principle should be implemented. It can remove all infirmities of the existing tax system.

**Issac, T.M. Thomas and Pinaki Chakraborty (2008)** made an attempt o evaluate the federal fiscal relationship in the context of the term of reference (TOR) of Thirteen Finance Commission (THFC). This study also made an attempt to highlight the major challenges requiring urgent attention to strengthen the intergovernmental fiscal relationship.

**Chatrbatry, Pinaki, Anit N. Mukherjee and H.K. Amarnath (2009)** have examined the effect of the fiscal imbalance on the sub-national fiscal space. The objective of this study was to show the impact of financial deregulation, particularly
the deregulation of the interest rate and decline in the volume of aggregate federal transfers on the fiscal space of the states.

Padmanabhan, V. (2009) has studied about the State government’ finance and also about the impact of VAT implementation on revenue receipts of states. The main objective of the study was to show how the enactment of Fiscal Responsibility and Budget Management (FRBM) Act has improved the fiscal health of states.

Vadra, Ratna (2012) in his study made an attempt to bring out the deteriorating trend in state finances of India in recent years. The main objective of the study was to see whether fiscal reforms taken by states for resource mobilization have led to reduction in deficits such as fiscal deficit, revenue deficit and primary deficit.

Articles


A.S.P. Jain, Audit of Panchayati Raj Bodies. New Delhi: Ministry of Rural Areas and Employment, Kurukshestra, Vol. 49 No.9, June, 2001, pp. 23-27, deals with the need of audit and some of the issues which need to be addressed to make the panchayati raj institutions accountable through audit, i.e. audit systems, adequacy of audit machinery, model system of budget and accounting, follow up of audit, involvement of audit, involvement of professionals, role of the Accountant General, social audit and training, etc.

PIB Feature: Devolution of Funds, Functions and Functionaries to Panchayati Raj Institutions. A Perspective, Kurukssetra, June 2002. pp. 12-46. The paper states the powers of PRIs ..., the light of 73rd Amendment Act.. The author has stated the recommendations of the task force made by the ministry of rural development on the eve of the conference of the panchayati raj ministers held on July 11, 2001.

George Mathew, Panchayati Raj Institutions and Human Rights in India, Mumbai: Economic and Political Weekly, January 11, 2003. pp. 155 states that the social transformation through a democratic process is not peaceful in India, the main
reason is that all those who were enjoying the power and privileges, so far are trying to subvert the constitutional mandate overtly or covertly.

*Jyoti Ghosh*, Twelfth Finance Commission and Restructuring of State Government Debt: A note, Mumbai: Economic and Political Weekly, July 30, 2005, puts emphasis on twelfth finance commission's proposed plan for restructuring the debt of state governments contains stringent conditions that probably violate the basic tenets of fiscal federalism.

*G.R. Reddy*, Twelfth Finance Commission and Backward States, Mumbai, Economic and Political weekly, August 12, 2006, p. 3513-3520, observes the recommendations of the Twelfth Finance commission particularly for backward states; allowing them to directly access the market, placing borrowing limits, consistent with - all responsibility legislation and transferring external assistance to states on a back-to-back basis which have far reaching implications.

*R.K. Kundu*, Urban local bodies and SFC in Haryana: Some Observations, New Delhi, Nagarlok, Indian Institute of Public administration, Jan-March 2007, makes a glance over the recommendations of 1st and 2nd State Finance Commission in reference to the municipalities and some observations with suggestions.


*Ranbir Singh*, Haryana Panchayati Raj Creating Political Awareness, Kurukshetra, January 2002, p.42, deals with the structure of panchayati institutions before and after the 73rd amendment and also the State Finance Commission and panchayati elections of 1994 along with the implementation of the Act. Further, the author has examined that the act has listed a number of functions to be performed by the panchayats existed only on papers. These institutions have no control over district level officials of the departments to which these functions pertain. But the author stated that in-spite of weaknesses and its being dominated by the bureaucracy and politicians, the introduction of panchayati raj has created a greater political awareness in rural society and provided the rural masses with increased opportunities for
political participation. The women, the scheduled caste and backward classes have been able to get some representation in gram panchayats and panchayat samitis.

Rajvir Singh, *Panchayat Raj Institutions in Haryana, A Field Study*, Kurukshetra, January 2002, p.46, focuses on the four issues at interference in the functions of gram panchayats. The author states that one cannot deny the fact that panchayats have been able to create some infrastructure at the local level. But the panchayats’ capacity and capability to handle rural development problems leaves much to be desired.

Radha Mohan Parshad, *Gayarhve vit Ayoug Se puruskrit Shathania Nikai*, Kurukshetra, Feb. 2001, p.13 states that the Eleventh Finance Commission has suggested to to levy the tax on agricultural land and annual lax on trade to raise the consolidated funds of states to the local bodies.

Mahipal, *Panchayati Raj and Rural Governance: Experience of a Decade*. Mumbai, Economic and Political weekly, January 10, 2004, pp. 137. On the issue of the role of the Finance Commissions, in financially empowering panchayats, the paper observed that sales tax and excise are kept out of the purview of PRIs.

Amrendra Kumar Tiwari, *The First State Finance Commission in Rajasthan: An Innovative Mechanism of Fiscal Transfer to panchayati raj institutions*, Kurukshetra, February 1999. pp. 27-34. explain that the revenue receipts of the panchayati raj institutions recommended by the First State Finance Commission are less as compared to their requirement of funds. The directorate of panchyati raj and rural development should evolve a mechanism for monitoring the financial performance and conditions of Panchayati Raj Institutions. The planning commission should have proper co-ordination with the state Finance Commission. The author suggests that the state government should create a state institute of public finance and policy and proper effective system of accounting and auditing to avoid misuse of public money.

planning process has helped in bringing about marked improvement in the financial position of panchayati raj institutions and need of functional, financial and administrative autonomy.

S.S. Meenakshi Sundaram, Panchayati Raj Institutions and Natural Resources Management: Findings from Karnataka, Kurukshetra, Ministry of Rural Development, Vol. 49, No.12, September 2001, pp. 9-18, depicts people’s participation in natural resource management, forest management, decrease in grazing area, leaf manure collection causing land degradation, village forest committees’ etc.


Two-week Training Programme for Deputy Secretaries in the Department of Finance for various state governments. NIPFP, New Delhi, October, 13-24, 2008.

Studies Conducted on Haryana

Raj Kumar, Indian Federal Finance: A Study of Haryana. Delhi: S.S. Publishing House, 2000, focuses on the role of the Finance Commission and its recommendations with reference to Haryana. The study reveals that Haryana state has been a loser in getting funds from the finance Commissions. Since the finance commission gives funds on some principles and Haryana state, being small one both in size and population fails to get required funds for its development.

Surat Singh, Problems and Prospects of Panchayat Finances: A Study of Common Land, New Delhi: Mittal, 2001, discusses the main purpose of having Panchayat land in the villages. Encroachment on common land has made the Panchayats to depend on the government grants. Causes of unauthorized occupation of Panchayat land, exiting legal provisions and their implementation have also been examined. It suggests measures to remove the illegal possession of Panchayat land, and improve finances of Panchayati Raj Institutions, etc.

**Konard Adenaur Foundation**, *Local Government Finances in India*. New Delhi: Manohar. 1998, consists of a paper on State Finance Commissions by S.P. Ranga Rao. The author examines the functioning of the State Finance Commission during the last couple of years and indicates that their task is by no means easy in most of the states, reliable data on finances of local bodies are not available. Records at the village level are not maintained, accounts are not finalized for years, and hence audit is behind schedule by 10 to 15 years. The district panchayat officers have miserably failed in discharging their duties to maintain status quo relating to panchayats finances. Even where information is available, there is a long delay in the collection of data by the Commissions for one reason or the others. Further, the author states that it is the Panchayat Saminti which levies and collects taxes and Zila Parishad levies surcharges on panchayat taxes.

**Indira Rajaraman**, *Growth Accelerating Fiscal Devolution to he Third Tier*. New Delhi: National Institute of Public Finance and Policy. April 16, 2001, pp. 1 to 3 examines, the design and outcomes of fiscal devolution to the third tier in respect of both state and centre level and defines a desirable design from the view point of growth acceleration with poverty reduction. The paper casts an exclusive focus on panchayat and formidable challenges posed by the large number of local bodies in the rural sector and their special sector.

**Mani Sankar Aiyar**, *A Social Revolution: Panchayati Raj Kurukshetra*, Ministry of Rural Development, March 2007, p. 43-46. The present paper highlights the money and muscle power curtailed and eliminated through PRIs and constraints of a democratic miracle.

Harsha, *Status of District Planning committees in India: Experience of a decade*, Kurukshetra, Ministry of Rural Development, Oct. 2007. pp 55-58, the paper makes a detail study over district planning committee with the aspect of the involvement of people and their representatives. DPC is a pivot which facilitates this
participatory governance and planning.


**Research Paper’s on Haryana State**


**Rajvir Singh**, *Panchayat Raj Institutions in Haryana, A Field Stud*, Kurukshetra, January 2002, p. 46, focuses on the four issues at the level of participation, powers and functions vested in panchayats, political behaviour and degree of political and bureaucratic interference in the functions of gram panchayats. The author states that one cannot deny the fact that panchayats have been able to create some infrastructure at the local level. But the panchayats' capacity and capability to handle rural development problems leaves much to be desired.

**R.K. Kundu**, Urban local bodies and SFC, in Haryana : Some Observations, New Delhi, Nagarlok, Indian Institute of Public administration, Jan-March 2007, makes a glance over the recommendations of Ist and 'Ind State of Finance Commission in reference to the municipalities and some observation with suggestions.

**Ph.D. Works**

**Roshni Devi**, *Panchayati Raj and Development of Women in Haryana: A Case Study of Rohtak District*, Department of Rural Development, M.D. University, Rohtak, 1993, examines the over all social and political implications of the possible expansion of women’s direct participation in PRIs and the related operational and administrative constraints along with the need for essential support services to make them more meaningful and result-oriented.
It observes that the female members are not actively participating in the deliberations of the Gram Sabha meetings and the choice of the candidates for the purpose of casting votes is decided by the head of the family or the father or the husband of a female voter. It is suggested that there should be a separate constituency for women.

Virender Poonia, *A Study of the Finances of the Urban Local Self Government in Haryana*, Department of Economics Kurukshetra University, Kurukshetra, 1998, examines the finance of Urban bodies. It reveals that the grants as a source of municipal income have not grown its importance in Haryana. They have largely been adhoc and fluctuating because of variations in the funds available with the state government. To ensure continuity and certainty in the flow of grants, the state government should evolve a detailed grant-in-aid code.

Rajesh Kumar Kundu, *An Analysis of Mobilization and Utilization of Finance of Panchayati Raj Institutions in Sonepat District Haryana*, Department of Public Administration, M.D. University, Rohtak, 2003, the objective of the study is to examine the mobilization of resources under by the panchayati raj institutions at their own level and point out the effective mechanism of tax recovery adopted by the panchayati raj bodies.

The study observes that the recovery of the house tax is very poor and fluctuating during the period Under Study, common land is the major source of non-tax revenue, no regularity and continuity has been observed in the distribution of grant-in-aid to the panchayats. And suggested that panchayati raj institutions should be encouraged to take steps for innovative resource mobilization such as generation of income form entrepreneurial activities, projective loans, public grant incentives for tax collection instead of totally depending on the governmental grant.

**OBJECTIVES OF THE STUDY**

The main objectives of the study are:

- To examine the recommendations of 1st, 2nd, 3rd and 4th SFCs on sharing of taxes/duties between the states, rural and urban local bodies.
- To observe the approaches recommended by SFCs for dealing with the sharing of resources with local governments
• To review the recommendations at grass root level of SFCs.
• To examine the action taken by the government on the recommendations of the Commission, relating to the devolution of powers and taxes.
• To know the opinion of local governments' leaders/officers and general public for getting factual information about the recommendations at grass root level.

METHODOLOGY

The study is about the working and recommendations of the State Finance Commissions in Haryana. It is based on the primary as well as secondary sources. In order to collect the relevant information the help of primary as well as of secondary sources is taken up. For this purpose interview of leaders of PRIs and ULBs, officers of local bodies and general public is conducted to elicit factual information. Two districts of Haryana State are selected randomly i.e. Rohtak and Sonipat. The respondents include all elected members of PS, Gram Panchayats as well as those of municipalities from two districts.

CHAPTERIZATION

The Study has been divided in the following chapters:

First Chapter discusses the Introduction of the study.
Second Chapter includes the Recommendations of 1st, 2nd, 3rd and 4th State Finance Commissions of Haryana.
Third Chapter deals with the Action taken on Recommendation of first SFC, IIInd SFC, IIIrd SFC and further action taken by the state government.
Fourth Chapter relates to the implementation of recommendations of SFCs in Haryana.
Fifth Chapter relates to the Implementation of SFCs Recommendations: Views of Respondents.
The Last Chapter is that of conclusion along with suggestions.