CHAPTER - VI
CHAPTER VI

SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

6.1 Introduction

The panchayati Raj system in India has been evolving over a long period of time. The launch of the Community Development Programme (CDP) and National Extension Scheme (NES) in the First Five Year Plan necessitated strengthening of the rural local government institutions. Thus, the Balwantrai Mehta Committee was appointed during Second Five Year Plan, which among other things recommended, a three-tier structure (Gram Panchayat-Panchayat Samities-Zilla Parishads), a genuine transfer of powers and responsibilities to these institutions including resources and implementation responsibility of key development programmes. Following the recommendations, Andhra Pradesh introduced a three-tier Panchayat Raj system in Dec. 1959 and new Panchayat Raj Act in 1964. Later in 1977, the Ashok Mehta Committee recommended a two-tier system of Panchayat Raj with the Zilla Parishads at the end apex and the mandal Parishad at the bottom for a group of villages of covering of population 15000 to 20000. The Committee recommended regular party based elections to these bodies. The central recommendation of the committee was transfer of development functions from the state government agencies to Zilla Parishads and Mandal Parishads, the two democratically elected bodies with statutory status and providing for reservation to SC, ST and other vulnerable groups in the elections to these bodies.

The Government of Andhra Pradesh adopted the Ashok Mehta committee recommendation with some modifications and introduced Mandal Panchayats in the place of Panchayat Samities with effect from Jan. 1987. Thus, a modified three-tier structure of PRIs came into existence in the state from 1987 with the Zilla Parishad at the apex, Mandal Parishads at the intermediate level and the Gram Panchayat at the bottom. In addition, the Act
provides for direct elections to these bodies, after providing reservations for SC, ST, OC and minorities and women. However, there was no serious effort to transfer powers and functions discharged by the state government agencies to these bodies. Thus, despite the democratic and structural reform, there was no significant change in the functional and fiscal devolution to these bodies. As a result, the PRIs continued to be democratic and decentralized institutions but perpetually dependent on the State Government for resources, direction and guidance.

The 73rd Constitutional Amendment Act, which sought to empower PRIs with powers, functions and functionaries also enables the state government to exact suitable legislation for this purpose. The Act also enables the state government to appoint a state finance commission to determine transfer of resources to the PRIs on its recommendation. The Act identified 28 specific subjects which could be transferred to the panchayat bodies. Pursuant to the Constitutional Amendment Act, the state of Andhra Pradesh enacted a new Panchayat Raj Act in 1994 enumerating specific powers and functions of the three tiers of panchayats viz., Zilla Parishad, Mandal Parishad and Gram Panchayats.

Notwithstanding the Constitutional Amendment and the passage of the enabling Act in A.P., financial and functional devolution to the PRIs remained very limited, even after 15 years of the passage of the new Panchayat Raj Act. The state government has exhibited reluctance to transfer functions, fiscal powers and functionaries to the PRIs. The PRIs on their part are equally reluctant to exploit all the revenue sources assigned to them under the Act. As a result, the PRIs have become functionally ineffective, defeating the very objective of the Constitutional Amendment. Notwithstanding the importance of the fiscal situation of the PRIs in AP, no major study has been made to assess the extent of fiscal devolution and its impact on the performance of the PRIs. The review of literature undertaken reveals that no significant attempt has been made to evaluate the fiscal situation of the PRIs in AP. While there are a large number of studies on the functional and fiscal devolution in other states, no seminal study has been made on these issues in Andhra Pradesh.
More particularly, no significant study has been made on the fiscal devolution and the revenue and expenditure behaviour of the three-tier PRIs in Andhra Pradesh. After the 1994 enactment, the present study has been made to fill this critical gap in the literature.

6.2 Objectives of the Study

The focus of the present study is the fiscal performance of the PRIs in Andhra Pradesh after the 73rd Constitutional Amendment Act and the passage of 1994 Panchayat Raj Act. More particularly the objectives of the study are:

i) to assess the extent of devolution of functional responsibilities and fiscal powers to Zilla Parishads, Mandal Parishads and Gram Panchayats in AP after the 73rd Constitutional Amendment;

ii) to examine the trends in tax and non-tax revenues of Zilla Parishads, Mandal Parishads and Gram Panchayats in AP vis-à-vis their resource endowments;

iii) to assess the trends in expenditures of Zilla Parishad, Mandal Parishad and Gram Panchayats vis-à-vis their functional responsibilities; and

iv) to analyse the extent of fiscal dependence of three tiers or panchayats on the state government and its implications for their functional effectiveness.

The study is based on representative sample drawn from Kurnool district. Apart from examining the general trend in the fiscal performance of the PRIs in Andhra Pradesh, the sample study covers the Kumool Zilla Parishad, three mandal panchayats (Allagadda, Velgodu and Patikonda) and six gram panchayats (Allgadda, Velgodu, Pattikoda, Lingamdhinny, Regada Gudur and Chinna nulthy) the study spanning 1990-2005, covers 16 fiscal years.
6.3 Functional and Financial Devolution

The functional responsibility and fiscal powers of the PRIs have been evolving since a long time. An attempt was made in Chapter-II to trace the evolution of fiscal powers and functions since the First Five Year plan. More particularly, the chapter examines the changing structure of PRIs, taking the 1994 Act as a major watershed in the development of PRIs. Thus, the chapter examines the structure powers and functions of the Zilla Parishad, Mandal Praja Parishad and Gram Panchayat (Notified and Non-notified) both prior to and after 1994. The democratic and financial features of the three tiers of PRIs have been examined in minute detail. A comparison between the 1964 Panchayat Raj Act and the 1994 Panchayat Raj Act was made to bring out the changes mandated by the 73rd Amendment Act. Similarly, the changes brought about in the functional domain of Mandal Panchayat was discussed at length, bringing out the changes between 1986 Mandal Panchayat Act and the 1994 Act. An attempt was also made to assess the changes in the functional domain of Zilla Parishad.

The analysis revealed that the gram Panchayats have been assigned the additional functions of adult of non-formal education, public distribution system (PDS) and maintenance of community assets. In respect of Zilla Parishad, apart from PDS, the non-conventional sources of energy have been assigned under the 1994 Act.

In respect of fiscal powers there is no major change between 1964 and 1994. They are assigned house tax, Kolagaram, special tax, advertisement tax and non-motor vehicle tax. Besides, they are entitled to a share in cess on land revenue, surcharge on stamp duty, entertainment tax and mineral cess. They are also entitled to compensation in profession tax from the state government, some of which are made on the recommendations of the finance commission. They are also entitled to grants from the central government.
The Mandal Parishads do not have any independent tax powers. However, they receive grants and assigned revenue from the state government. Zilla Parishads continue to receive the same sources of revenue in the form of per capita grant, salary grant, SGRY grant and other development grants from the state and central government. An examination of the trends in the revenues of Zilla Parishads indicate that the relative shares of tax and non-tax and assigned revenue at decline while that of grants-in-aid had increased. This is true of Mandal Parishads as well. In respect of expenditure, a common feature observed is that the expenditure on general administration had declined up to 1999-2000 but steadily increased thereafter.

An analysis of the Mandal Parishad expenditures brings out the following:

- general expenditure, largely expenditure on salaries and other benefits to the Mandal staff accounts for 85% to 95% of the total expenditure. A lot of expenditure is on primary and upper primary education;
- expenditure on development functions such as road development, welfare of SC and ST women and children and water supply had been on the decline in relative terms, a trend which is not consistent with the pivotal role that the mandal panchayats are expected to play in the provision of developmental services; and
- equally disturbing is the declining trend in the expenditure on maintenance of assets such as roads and other facilities.

A declining trend in expenditure on centrally sponsored programmes could also be observed.

The expenditure trends of GPs certain important characteristics are indicated below:
• expenditure on general administration had more than doubled in relative terms during 1993-94 to 2004-05, largely an account of the salary revisions after 2000-01;

• expenditure on obligatory development functions too had recorded a consistent increase from about 18% to about 50% of the total, a welcome trend in view of the need to augment expenditure on water supply, public health sanitation roads and street lighting. However, the trends are not uniform across both notified and non-notified gram panchayats;

• expenditure on discretionary functions, however, had declined in its relative importance in the expenditure budget; and

• the expenditure on centrally sponsored programmes had declined in relative terms reflecting the changes in the centrally sponsored programmes in general and introduction of NREGA in particular. It may be noted that NREGA funds in AP are not routed through the PRls.

6.4 Finances of Zilla Parishad

An attempt was made in Chapter-III to examine the finances of Kumool Zilla Parishad, the apex tier of the PRls in the district. The Kumool district, located in the drought affected Rayalaseema region comprises three revenue divisions which are further sub-divided into 54 revenue mandals. The district is primarily dependent on agriculture for livelihoods. However, only 23% of the cropped area is irrigated, with the rest of the area being exposed to the vagaries of rainfall. The district has a good deal of mineral wealth, most of which is exported outside the district. There are a few agro-industries which suffered in the recent past due to the recurrent failure of monsoons. Thus, the major livelihoods of the people are agriculture, agro-industries, mining and trade and commerce. The recurrent crop failures have contributed to industrial sickness and migration of the agricultural labour and marginal farmers to other districts and states.
The district has a history of over 120 years in self-government, dating back to East India Company/Madras Presidency. In the 1870s, local boards were established in 9 important towns, which were federated at the district level (Circle Board) headed by the District Collector and performing certain education and health related functions. However, the system was abolished in 1885 with the passage of Madras Local Boards Act, under which the district and Taluk boards were established at Kumool, Markapur and Peapally. The system of district boards continued to provide certain basic services to the people in terms of health and education and collected revenues from markets, choultries, fisheries, besides receiving grant from provincial government. However, the local board system was abolished in 1920 and elected local board system was introduced in 1930. The Act for the first time introduced direct elections to district and taluk boards, besides providing for no confidence motion against the elected functionaries. However, the taluk and district boards were abolished once again in 1934, only to be reconstituted after the Second World War. But very soon these boards were abolished and reconstituted only in 1949. However, between 1953 and 1959, elections to the Zilla Parishad were suspended and the Collector acted as the special officer till the new Act was past in 1959, introducing three-tier PRI system. Thus, it was only after 1959, the Zilla Parishad took a firm shape in the district with independent powers and functions. The receipts and expenditures of the Zilla Parishad too recorded a steady increase during the early years. While the Zilla Parishad and Block Panchayats continued, the Government of Andhra Pradesh introduced a new Gram Panchayat Act in 1964 providing for independent fiscal powers and responsibilities. The new mandal and Zilla Parishad Act of 1986, however, replaced the Block Panchayats with Mandal Panchayats and introduced direct elections to both the tiers, besides providing for reservations to SC/ST, OBC and women. Pursuant to the 73rd Amendment to the Constitution, the 1994 Act was passed providing for fairly independent powers and functions to the three-tiers, besides making periodic elections to the PRIs mandatory.
Thus, the Kurnool Zilla Parishad now consists of a General Body of elected members, ex-officio members and co-opted members, besides a Chairman elected by the Zilla Parishad Territorial Constituencies (53), each constituency being co-terminus with the Mandal Parishad. There are statutory reservations for SC/ST, OBC and women. As an apex PRI, the ZP has seven standing committees including development activities, education, social welfare, women welfare, roads, buildings and irrigation as well as taxation. The CEO of the Zilla Parishad as the Administrative Head responsible for implementing all decisions of the Parishad. The functions of Zilla Parishad include minor irrigation, secondary education, provision of drinking water and construction of roads and buildings.

The Zilla Parishad receives its revenues primarily from central and state governments. The own sources of revenue are very meager. The state government provides grants for salaries, secondary education, social welfare, minor irrigation, engineering works, drinking water, while the Government of India provides grants under SGRY/SGSY and other centrally sponsored programmes.

The tax shares from the state government comprising share in land cess, surcharge on stamp duty, mineral cess and seigniorage fee. However, are not significant and together these sources constitute less than 5 to 6% of the total revenues, whereas grants-in-aid from the state government account for more than 75% of the total receipts. The own non-tax revenues are equally insignificant (See Annex Table – 3.2). The trends in revenues of the Kurnool Zilla Parishad indicate that the 1973 Constitutional Amendment has not materially altered its fiscal status. The Zilla Parishad continues to dependent on discretionary conditionally and unconditionally transfers made by the state government. Not only the CEO, but all other key staff of the Zilla Parishad are appointed by the state government and are indirectly accountable to it. The Zilla Parishad has a limited role in raising the revenues.
The expenditure pattern of the Zilla Parishad reveals that the most important item of expenditure is the salary bill accounting for about 50% of the total. The other expenditure includes expenditure on minor irrigation, supply of drinking water and a few developmental activities. Even in respect of these expenditures, the Zilla Parishad has very little autonomy, being directed and guided by the state government. Thus, the independent expenditure that can be undertaken by the Zilla Parishad is marginal and the Constitutional Amendment has no significant impact on either functional devolution or fiscal powers and expenditures. Even more significant is the fact that the Zilla Parishad, despite being at the apex does not make any significant transfer of resources either to the Mandal Panchayat or the Gram Panchayat, making it nearly toothless. The Zilla Parishad neither have the resources nor the statutory powers to influence the expenditures/services provided by the mandal and the gram panchayats. Worse still, the Zilla Parishad itself does not have adequate independent sources to defray the expenditure on the statutory functions assigned to it under the constitution/the Act of 1994.

6.5 Finances of Mandal Panchayats

The Chapter-IV examined finances of the mandal panchayats with special reference to three mandal panchayats in Kurnool district. The panchayat samithis came into being in 1959 in the place of Taluk boards in the district. The number of panchayat samithis/blocks which was initially 17, was raised to 25 in 1964. The 25 panchayat samithis were replaced by 53 mandal panchayats in 1987, consequent on the introduction of mandal panchayat system. Each mandal panchayat has a General Body consisting of 4 categories of members viz., mandal parishad territorial council members, sarpanches of the village panchayats, members of the legislative assembly and Lok Sabha and Co-opted members. At present, each mandal consists of 15 to 25 MPTC members including 2 MLAs, 1 MP and 1 Co-opted member. There are statutory reservations for members of SC/ST, OBC and women for membership in the mandal parishad. The mandal panchayat has an administrative wing headed by a development officer and assisted by extension officers and village development officers. The administrative wing implements the decisions made by the General Body presided over by the President.
The mandal panchayats have fiscal powers as well as the functional responsibilities under the 1994 Act as well as the earlier statutes. The revenues of the mandal panchayat includes assigned revenues, grants-in-aid made by the state and central governments for specific programmes, non-tax revenues and deposits and advances collected. In respect of functional responsibilities, the mandal panchayats have been assigned 59 specific responsibilities, most of which are in the nature of discretionary functions. No obligatory function has been assigned to the mandal panchayats.

An examination of the mandal panchayat finances in Kurnool district reveals that the total revenues had increased from Rs.22.75 crores to Rs.111.15 crores during 1992-93 to 2005-06, growing at a linear growth of 11% and compound growth of 13%. The grants-in-aid from the state and the central governments constituted 93 to 95% of the total receipts, indicating a very high level of fiscal dependency on the higher level governments. In the total receipts, grants for elementary education accounted for 64 to 70%, while other centrally sponsored programmes accounted for the rest. The non-tax revenues were virtually insignificant, while that of assigned revenues in the form of shares in mineral cess/ seigniorage, land cess and surcharge on stamp duty constituted a declining share in the total. Thus, the revenues of the mandal panchayats in the district as a whole depicted a situation of extreme dependency on the state government. In the absence of transfers from the state, the revenues of the mandal panchayats would be virtually insignificant.

The revenues of the sample mandal panchayats reflect the situation at the district level. The revenues of the Allagadda mandal panchayat increased from Rs.45.6 lakhs to Rs.297.5 lakhs during the study period (1992-93 to 2005-06), recording a linear growth of 12%. The per capita revenue registered a steep increase from Rs.73 to Rs.416 during this period. About 80 to 90% of this revenue came in the form of grants from the state government largely for education and partly for implementing centrally sponsored programmes. The assigned revenues increased during this period, but only at a linear rate of 7%. The other sources were insignificant. A similar trend was observed in the
case of Velgodu mandal panchayat which had a relatively smaller revenue base (Rs.29.00 lakhs to Rs.138.00 lakhs). The grants-in-aid constituted 81 to 88% of the total revenues, while assigned revenues varied between 0.6 to 1.29%. The Pattikonda mandal panchayat also revealed similar trends with total revenue ranging between Rs.37.6 lakhs to Rs.178.00 lakhs during 1992-93 and 2005-06. The per capita revenue, however, was a relatively lower (Rs.76/- to Rs.286/-). And 80% of the total revenue came in the form of grants from the higher level governments. As in other mandals, the assigned revenues were insignificant. The variations in per capita revenues across the sample mandal panchayats reflect the variations in the socio-economic features of the mandals and their potential demographic base which by-and-large determines the grants from the higher government.

The expenditure trends of the mandal panchayats in the Kurnool district reveal certain common trends. The expenditure on elementary education (largely salaries) accounts for 80% of the total expenditure followed by expenditure on centrally sponsored programmes and administrative expenditure. A similar trend was observed in the case of Allagadda sample mandal panchayat, the expenditure of which rose from Rs.39.60 lakh to Rs.298.00 lakh during 1992-93 and 2005-06. The proportion of expenditure on elementary education, however, declined from 79 to 67% while that of other expenditure increased relatively (particularly on centrally sponsored programmes). The Velgodu mandal panchayat too experienced similar trends with total expenditure rising from about Rs.27.00 lakhs to Rs.140.00 lakhs during the study period. The expenditure on education formed 83 to 93% of the total expenditure, while the other developmental programmes accounted for less than 10%. There was a decline in the expenditure on administration.

Pattikonda mandal panchayat also exhibited similar expenditure trends, rising from Rs.3.8 lakhs to Rs.167 lakhs during the study period, with elementary education and other essential functions accounted for 82 to 86%, while the other public expenditure constituting less than 10%. There was a decline in the expenditure on administration, but an increase was noticed in the proportion of expenditure on centrally sponsored programmes.
Thus, a study of the mandal panchayats clearly indicates that the Constitutional Amendments has not brought about a fundamental change in the fiscal position or functional responsibilities of the middle-tier viz., the mandal panchayats. The mandal panchayats continue to be driven by the grants made by the State government, largely for running primary schools and for implementing a few centrally sponsored programmes. Further, with the introduction of NREGA in the place of SGRY has further reduced the grants made available to the mandal panchayats, in as much as the NREGP in Andhra Pradesh is implemented outside the PRI framework. Thus, the mandal panchayats have virtually remained as a layer for receiving grants for elementary education and incurring expenditure on largely on salaries of teachers. The appointment as well as the terms and conditions of the work of the teachers are entirely determined by the state government. The mandal panchayats have very limited in determining their own expenditures.

6.6 Finances of Gram Panchayats

Among the three-tiers of PRIs, gram panchayats play a pivotal role in the delivery of services to the rural communities. They are not only closer to the public, but also enjoy certain independent tax and non-tax powers as well as which other layers of PRIs do not enjoy. The gram panchayats are vested with certain obligatory and discretionary taxes under the 1994 Act as well as under the 1964 Act. The obligatory taxes include house tax, tax on water supply, lighting and drainage. However, the 1994 Act entails certain additional responsibilities as well as tax powers on the gram panchayats. They can also levy taxes on Kolagaram and non-motorized vehicles. The 1994 Act added advertisement tax to the list of obligatory taxes. Similarly, the GPs are now empowered to the levy a special tax for the provision of civic services which was earlier an optional tax and an advertisement tax. The gram panchayats have been assigned very important obligatory and discretionary functions under the 1964 as well as 1994 Acts. The 1964 Act, i.e., prior to the 73rd Amendment to the Constitution assigned 38 obligatory and discretionary functions to the gram panchayats. The 1994 Act, based on the Constitutional Amendment have assigned certain additional functions to the gram
panchayats including the public distribution system and maintenance of community assets has obligatory functions, besides adult and non-formal education as a discretionary function.

An analysis of the gram panchayat revenues and expenditures during 1992-93 to 2005-06 clearly reveals that there was no major change in the composition of the revenues and expenditures. The own tax effort of the gram panchayats virtually remained stagnant over the period with tax revenues as proportion of total revenues increasing marginally from 14% to 17.5% during this period. The GPs continued to show a disproportionately large dependence on the state government for grants as well as assigned revenues. However, there had been a continuous increase in the absolute as well as per capita revenues and expenditures of the gram panchayats, both recording a growth rate of over 15%. The increase, however, was not uniform on different functions. The expenditure on obligatory development functions such as roads and drains (sanitation), water supply, lighting and administration recorded differential growth. The expenditure on centrally sponsored programmes declined in their importance, particularly after the NREGA. The NREGA in the state is implemented outside the panchayat raj framework.

6.7 Overall Trends in Revenues of Notified and Non-Notified Gram Panchayats

The overall trends in the revenues of notified and non-notified gram panchayats presented in Tables - 5.4 and 5.5 reveals that there are variations across the panchayats, reflecting the underlying revenue capacity and socio-economic features. An examination of the trends presented in the Tables - 5.22 & 5.23 reveals the following:

- first, the proportion of tax revenue to the total revenue varied between 8% and 24% across 4 select years in respect of 3 notified GPs. In relatively bigger GP of Allagadda, the ratio is higher, while in a relatively smaller GP Velgodu, its share is lower;
• Second, almost the entire tax revenue comes from house tax, with other taxes such as water tax and drainage tax being insignificant. There is considerable reluctance on the part of GPs to exploit this source of revenue as it is prolifically inconvenient;

• Third, non-tax revenues too do not indicate any consistent trend across GPs, over the 4 select years. The principal sources of non-tax revenue viz., tap donations (capital contribution), house construction fees, license fee and penalties, by their very nature are not regular and sustained. The share of non-tax revenues shows a declining trend in Allagadda and Pattikonda, while in Velgodu, it shows an increasing trend;

• Fourth, assigned revenues (shares in land cess, surcharge on stamp duty, profession tax and entertainment tax) show a declining trend in terms of its share in total revenues, pointing to the need for upward revision of shares of GPs, particularly in view of the buoyancy of basic stamp duty and registration fee. Equally significant is to mop up additional revenue share from profession and entertainment taxes; and

• Finally, grants-in-aid appear to be an important and growing source of revenue to all GPs except in one year. This appears to be due to the rising salary bill of the staff of GPs and the revision of one rupee per capita grant to three rupee per capita grant and grants for JRY and JGSY as well as finance commission grants.

The overall trends in expenditures of the notified and the non-notified gram panchayats bring out the following significant trends:

• The expenditure trends across all sample panchayats reveals an increasing trend in absolute and per capita terms. While the average per capita expenditure in notified gram panchayats was higher, it was lower in non-notified gram panchayats. Thus, it implies that the citizens in the notified GPs received higher per capita services/expenditure benefits compared to the people in the non-notified GPs;
the size of expenditure of the gram panchayats, however, vary widely across the panchayats, the variation being determined by the degree of urbanization, size of population and the other socio-economic characteristics of the gram panchayats. Thus, Allagadda gram panchayat enjoying the advantage of being located in an irrigated area with commercial importance has a higher level of revenue and expenditure in both absolute and per capita terms. The Pattikonda gram panchayat, located in a backward area, had a smaller resource base both in absolute per capita terms. This is true of Velgodu gram panchayat as well;

the composition of the revenues also differ significantly across the gram panchayats. While own tax revenues and non-tax revenues are significant in Allagadda, Velgodu and Pattikonda, they were virtually insignificant in the three minor sample gram panchayats. Even among the three major panchayats, Pattikonda had a large non-tax resource base compared to Allagadda and Velgodu due to mineral cess collected by the gram panchayats. Thus, the taxable capacity of the panchayat is an important determinant of actual revenues;

assigned revenue also differ significantly across the panchayats as the two sources of assigned revenue viz., cess on land revenue and surcharge on stamp duty collection vary across them. The number of land and other registered transactions taking place in a gram panchayat area is an important factor affecting the assigned revenue from stamp duty. Cess on land revenue is levied on water charges from public irrigation and therefore only panchayats with public irrigation facility derive revenue from this source;

the variations in grants-in-aid are related to the socio-economic variables such as population, share of SC&ST population and the own revenue status of the gram panchayats. Thus grants-in-aid contribute a significant proportion of revenue of all minor panchayats. In fact, grants-in-aid are the single largest source of
revenue for these panchayats. For others, its relative contribution is lower. Thus, it can be concluded that the own resource base of the non-notified panchayats is insignificant, even after 73rd Amendment to the Constitution and enactment of new Panchayat Raj Act of 1994. Even the major panchayats depend on the grants-in-aid and assigned revenues to a large extent. Unless the gram panchayats mobilize their own revenues from resources available to them, they will be compelled to depend on the state government for grants. As long as the GPs continue to depend almost entirely on the state government, they will not be able to discharge there constitutional obligations independently and in a planned manner;

- the expenditure analysis carried out reveals that administration accounts for 40-50% of the total expenditure in the notified gram panchayats. This is an area which requires to be checked, as an increase in expenditure on general administration eats into the revenues available for development/essential civic functions, which has not been rising steadily. However, in Allagadda, the development expenditure was on the increase, while in others GPs, the trend was not consistent; and

- In the minor panchayats, almost the entire development expenditure is incurred on roads, drains and culverts as well as street lighting. But not all expenditure on roads and drains can be taken as indicative of improved services. Very often, the panchayats undertake this expenditure to provide pecuniary benefits to the contractors /political functionaries. There are a number of other development areas which require the attention of the gram panchayat such as environmental sanitation, maintenance of water supply works, social forestry, roads and drains in SC and ST habitations and street lighting. It is equally imperative to control expenditure on general administration in major panchayats.
6.8 Policy Implications

6.8.1 Functional and Fiscal Devolution

The study has clearly indicated that the 73rd Constitutional Amendment Act and the resultant Panchayat Raj Act of 1994 have not had any significant impact on the state of fiscal devolution. The fiscal situation of the PRIs does not indicate any significant shift or break after 1994. There is no significant change either in the revenues or expenditures of the PRIs as a result of the new Act. There had been a normal growth in revenues and expenditures of the PRIs, notwithstanding the new Act. On the contrary, certain essential expenditures virtually stagnated even after the new Act was passed. Thus, the hypothesis that there was a significant devolution in terms of resources was not proved. Further, the hypothesis that there was a significant change in the expenditure functions of the PRIs as revealed by the actual expenditures was also not proved. Equally significant finding was that there was no significant change in the revenue effort of the PRIs after the 1994 Act. The other hypothesis is that the grants-in-aid have no significant impact on the own tax effort has been disproved. It was found that the grants-in-aid had a significant negative impact on the own tax effort. Further, the grants and assigned revenues had a positive impact on the expenditures of the PRIs.

6.8.2 Vertical and Horizontal Fiscal Imbalance

An examination of the functional responsibilities vis-à-vis fiscal powers assigned to the three-tiers of PRIs in Andhra Pradesh reveals that there is a built in imbalance. While the PRIs in general have been assigned substantial responsibilities which potentially have a significant impact on the rural infrastructure, civic amenities and livelihoods of the poor, the resource allocation to carry out these tasks are insignificant. No independent tax powers have been assigned to the Zilla Parishads and Mandal Parishads, while they are called upon to discharge important functions impacting the livelihoods of the poor. After the Constitutional Amendment and the passage of the 1994 Act, the number of responsibilities has only increased, while the
fiscal powers remained constant. The PRIs have been assigned the new responsibilities of public distribution system, maintenance of community assets, adult and non-formal education and roads and communications. No new tax or non-tax power has been devolved on the Zilla and Mandal Parishads. This has increased the vertical fiscal imbalance in the federation with the state government enjoying fiscal surplus while the lower level governments experiencing fiscal distress.

Even at the gram panchayat level, no major changes have been made to the gram panchayat except the addition of advertisement tax to the list of obligatory taxes and the upgradation of special tax on civic services to the category of obligatory taxes. However, on the expenditure side, certain new expenditure dimensions to the pre-existing responsibilities have been indicated such as agricultural extension services, land improvement, minor irrigation and watershed, primary education etc. In addition, the responsibility of public distribution system, maintenance of community assets etc., have also been added. There is no corresponding increase in the tax powers of the gram panchayats. Equally noteworthy is that there is no change in the assigned revenues or mandatory grants to the gram panchayats. The whole scheme of the transfers of revenue from the state government to the PRIs is left to the discretion of the state government, even the recommendations of the state finance commission are not mandatory and their acceptance is left to the discretion of the state government.

On the other hand, there is nothing in built in the scheme of transfers from the state to the PRIs to reduce the horizontal fiscal imbalance across the GPs, Mandal Parishads and Zilla Parishads. The grant transfers are based on population (per capita grant) and other demographic and social parameters such as the proportion of SC/ST in the total population. As a result, the extent of fiscal imbalance across the PRIs continued to remain unabated.

Thus, the study has clearly indicated the growing vertical as well as horizontal fiscal imbalance among the PRIs on the one hand and between the PRIs and the state government on the other. Fiscal imbalances, both vertical
and horizontal result in serious problems. First, chronic vertical imbalance promotes fiscal dependence of the PRIs on the state government and reduces their autonomy and initiative. Second, it affects the quality of services provided by the PRIs in terms of infrastructure and other basic services provided. Third, the chronic vertical imbalance defeats the very objective of democratic decentralization. On the other hand, the persisting horizontal imbalance as indicated by the disparities in the per capita revenues and expenditures, across gram panchayats and Mandal Parishads, clearly point to disparities in the quantity as well as the quality of services provided to the people in different gram panchayats and mandals. The ultimate objective of decentralization is to reduce the service disparities. From this perspective too, the intent of the Constitutional Amendment does not appear to have yielded the desired results.

Thus, it is imperative that Constitutional/Statutory changes are made to minimize the magnitude of vertical and horizontal fiscal imbalance affecting the PRIs. This would call for amendment to the Constitution to provide independent tax and non-tax powers to the Gram Panchayats, Mandal Panchayats and Zilla Parishads such that they meet part of their obligatory expenditures from their own tax revenues. However, the nature of taxes to be devolved on the PRIs should be thoroughly examined, taking into account the capacity of these bodies to levy and collect the taxes. Initially, these bodies may be entrusted with taxes which can be levied and collected on clearly defined tax bases such as entertainment tax, profession tax, which are in fact within the statutory purview of the PRIs. However, the state government has usurped these powers in the name of uniformity in tax burden and efficiency in collection. A large number of potential sources available to the PRIs need to be identified and entrusted to the PRIs. In addition, assignment of independent, non-tax powers would also help the PRIs in this regard.

The second important policy implication flowing from the study is to make the recommendations of the State Finance Commission mandatory. At present, not all the recommendations of the Finance Commission are accepted by the state government. The state government is not mandatorily
required to accept all the recommendations of the finance commission. This is a serious flaw affecting the autonomy of the PRls and the relevance of the Finance Commission. Therefore, it is essential that the recommendations of the State Finance Commission, at least recommendations relating to tax/revenue shares be made binding on the state government such that the PRls get automatic transfer of revenues from the state revenues. However, any such change should take into account the fiscal disparities among the Gram Panchayats, Mandal and Zilla Parishads. This would in turn require the Finance Commission to adopt objective criteria to bridge both the vertical and horizontal fiscal imbalance.

6.8.3 Transfer of Programmes and Functionaries

The study has clearly brought out the fact that the PRls are not only deprived of independent and elastic fiscal powers to discharge the Constitutionally devolved functions, but are also handicapped by the fact that the programmes/schemes that fall under the jurisdiction are not transferred to them for autonomous management and implementation. The state government line agencies continue to implement several programmes which fall within the domain of the PRls. Thus, the Zilla Parishad does not have any direct and independent role in the management of rural development programmes, which is being done by the DRDA through the line agencies of the state government. Several programmes falling under agriculture, minor irrigation, roads, secondary education, primary health, public distribution system and several welfare programmes which belong to the Zilla Parishads/Mandal Parishads are implemented by the state government agencies. Wherever the PRls are involved, their involvement is indirect and minimal. It is therefore imperative that the programmes/schemes which fall within the domain of the PRls are transferred to them along with the functionaries, fiscal resources/powers and infrastructure. This is an essential pre-requisite for instituting grassroots democracy. This requires a willingness on the part of the state government to part with the powers and functions. The successive state governments have been reluctant to part with the functions, functionaries and fiscal powers that clearly belong to the PRls, for populist politics. The state
governments have a tendency to encroach upon the domain of the PRIs for populist political gains. The political parties in powers see a threat in the transfer of powers and functions to the PRIs. In view of the past experience, it is imperative that the Constitution is amended to make it mandatory on the part of the state government to transfer all the functions/programmes/projects, fiscal resources and the functionaries that belong to the domain of the PRIs to their control and management. The discretionary power vested with the state governments need to be minimized in this regard.

6.9 Own Revenue Effort of the PRIs

The state government alone cannot be blamed for the fiscal distress of the PRIs: The PRIs on their part have not exercised the tax and non-tax effort that is expected of them from their own resources. The gram panchayats which have been assigned obligatory tax revenue powers, have not exploited this source fully for various political reasons. The study of the sample gram panchayats clearly revealed that the GPs were allergic to raising their tax revenues from house tax, water tax, advertisement tax and such other taxes in their domain as such efforts were considered as politically unwise. Taxing the people, particularly, their house property is considered as a politically incorrect measure. Therefore, the GPs, instead of collecting house tax and other taxes have tended to depend on the state government for grants and assigned revenues. A possible reason for this is the grants made by the state government are not related to their tax and non-tax effort. Therefore, if the transfers from the state government are linked to the tax and non-tax effort of the GPs, it would act as an incentive and promote the tax revenues. The regression analysis carried out in Chapter-V, clearly points to the need for introducing an incentive grants-in-aid and assigned revenue transfer scheme in view of their impacts on own expenditures and revenues of PRIs.
6.10 Promotion of Minimum Expenditure on Essential Areas

Another important area for reform is the expenditure of the PRIs. Apart from revenue related reasons, the PRIs do not always spend minimum amounts on essential functions such as infrastructure development, maintenance of roads, drains and other such civic functions. There is also a tendency on the part of PRIs to indulge in expenditures which are not in the realm of obligatory functions. As a result, there are wide disparities between one PRI and another on essential services, causing disparities in service levels. There is also a tendency on the part of the PRIs to undertake inessential expenditures. In view of these trends, certain incentive features could be built into the transfers made to the mandal and zilla parishads such that they spend on priority areas. The grant transfers could be linked to levels of per capita expenditures incurred by the PRIs on different functions. The salary and non-salary items of expenditure could be examined separately to assess the levels of essential expenditures undertaken by the PRIs. It is imperative that there is a cap or normative ceiling on non-plan expenditures incurred by the PRIs on education, roads and their maintenance. An increase in the non-salary maintenance expenditure should be linked to the grants provided by the panchayats. This is particularly true of Zilla Parishads.

6.11 Assigned Revenues

The PRIs are entitled to a share in the revenues derived by the state government from land revenue/cess on land revenue, stamp duties and registration fees, seigniorage on mining etc. The shares of the PRIs are very low and have not been reexamined and revised for a long time. While the revenue from these sources accruing to the state government had increased rapidly during the last 20 years. It is only appropriate that the local bodies are given an appropriate share in the revenues from these sources. In this context, it is highly desirable to entrust the responsibility of fixing the shares of the PRIs in the revenues to the State Finance Commission. The recommendations of the commission should be made mandatory.
6.12 Permanent State Finance Commission

The institution of Finance Commission are present is only semi-permanent. The Commission ceases to exist once the recommendations are made. There is no body to ensure that the recommendations of the commission are implemented and monitor the impact of the transfers on the finances of the PRIs. It is therefore essential that the Finance Commission be made a permanent body and located in the Department of Finance or Panchayat Raj such that the finances of the PRIs can be monitored regularly and suitable recommendations made from time to time. The Finance Commission will gain credibility only if the members appointed to the Commission have the required expertise and competence. It is essential to appoint competent and experienced academicians and administrators to the commission which is expected to act impartially. A permanent secretariat would also enable the commission to undertake regular studies, besides monitoring the fiscal performance of the PRIs.