CHAPTER VIII

CONCLUSIONS AND POLICY MEASURES

This research study was taken up with a view to reviewing out the resource position of the local governments in a multi-level government set up. The local government derived importance when it acquired the statutory status through 73rd and 74th Amendment Acts to the Constitution. Besides various provisions such as structure, reservations, elections, the above Amendments incorporated the broad functions/responsibilities to be considered by the states for delegation to the decentralised bodies, the type of resources/fiscal powers to be given, the constitution of a Finance Commission, creation of district planning committees etc. The above Amendments were passed by the Parliament exactly 10 years ago. In spite of the Constitutional prescriptions real decentralisation has yet to emerge in the states. Generally, the states follow the provisions of the Amendment Acts like structure, reservation, constitution of election and Finance Commissions. But, as far as the devolution of functions and fiscal powers are concerned a vast majority
of the states have shown least interest and promptness. The evidence for this is that the share of own tax and borrowing components of local governments are low and the local tax-GDP ratio is as low as 0.45 per cent in 1997-98 (Oommen, 2000:3).

In the post Amendment period, the experts, academia have shown interest in the study of the system in comparison to the system that prevailed before. However, most of the studies, especially, by the political scientists and development administration experts concentrated on issues like structure, reservations, people’s participation, powers, gender etc. The studies relating to decentralised planning and fiscal status were scanty and sketchy. The reason for this that while the states have implemented the issues mentioned earlier but little importance has gone to decentralised planning and fiscal issues. However a few states are exception to this. Though Karnataka, compared to other states, has transferred large number of functions and resources, no comprehensive studies has been undertaken on these issues. Hence, the genesis of this study with particular focus on the fiscal decentralisation carried out in Karnataka with particular reference to PRIs in Kolar district. An in-depth
study of the extent of fiscal powers bestowed on PRIs and other issues has also been taken up. As part of achieving this goal, a few sample panchayats in Karnataka were selected. The panchayats selected, as brought out in the first Chapter, are Kolar Zilla Panchayat, three Taluk Panchayats and six Grama Panchayats. Apart from collecting secondary data from the state departments of Rural Development and Panchayat Raj, Finance Department and in the selected panchayats, discussions with the panchayat functionaries and visit to the project sites in the gram panchayats provided useful insights into the manner of functioning of the decentralised governments under study.

The study has been made in the framework of the wider theoretical and historical perspectives. It started with the proposition that the local bodies after 73rd Amendment would be self/autonomous governments and secondly, they would have sufficient fiscal autonomy and resources to discharge their responsibilities.
Major Findings

With the above background, the following paragraphs highlight the important findings of the study.

Under the Panchayat Raj Act, enacted by the state in 1983, the Mandal Panchayats were given the power to raise resources in the form of taxes, rates, rent, fees and income from own property in addition to receiving grants from Zilla Parishads. The ZP entirely depended upon the grants from the higher level governments. Similarly, under the 1993 Panchayat Raj Act, 1993, Grama Panchayats were given taxation powers such as house/building tax, site tax, water tax, entertainment and vehicle tax, tax on advertisements and hoardings etc. The Zilla and Taluk Panchayats were not accorded tax powers and their main source of revenue consists of grants. The State Finance Commission (1996) also did not favour devolution of any tax powers for the higher two tiers. It is really meaningless to have local self-government which do not enjoy the tax raising powers. Further, these local institutions now have
responsibility in spending only but if they are accorded powers to resource raising, they can do better in developing the rural areas.

The analysis of devolution of grants from the state to PRIs reveals that it is declining over the years in percentage terms. The decline is noticed not only in the plan grants but also in the grants devolved from the state's own revenues. The percentage decline in the plan grants is much more than that of the revenues transferred by the state out of its own revenues.

An important point that emerges from the study is that the devolution of resources/grants to PRIs was liberal in the first period (1987-91) than in the later periods. That means, the later governments were not keen to make PRIs financially stronger and self-sufficient.

The study has brought out that the average share of plan grants of each ZP was Rs. 29.89 lakhs per annum. The share of TP was Rs. 350 lakhs and that of GP was Rs. 3.35 lakhs per annum.
It is also observed that the resources/grants available to the PRIs are almost tied grants. They have very little freedom to spend according to their needs and priorities. Several studies have brought out this fact including the State Finance Commission. To set right this lacunae in the grants given to PRIs, the budget for 2001-02 has separately provided Rs. 94 crores at the rate of Rs. 8 lakhs per Zilla Panchayat, Rs. 4 lakhs per Taluk Panchayat and Rs. 1.5 lakhs per Grama Panchayat as untied development grants for taking up various developmental activities by these bodies (Planning Department, 2002:223). This works out to less than 1 per cent of the total plan grants of Zilla Panchayat and Taluk Panchayat and 27 per cent in the case of Grama Panchayat.

The plan grants devolved to PRIs consist of state and Central share. The analysis of this reveals that the share of the former range between 51 and 61 per cent and the latter between 39 and 49 per cent.

Another point that emerges from the study is that the allocation of grants between the three-tiers is not based on any economic rationale/principles although, the state claims that it is distributing grants
across the tiers on the basis of functions delegated. The field experience shows that the allocation is based on the discretion of the state. A look at the extent of grants devolved to grama panchayats brings out this fact. The state is enhancing the grants to grama panchayats at its pleasure. The amount of grant given to each of the grama panchayats was Rs. 1 lakh till 1998, it was Rs. 2 lakh in the year 1999 and 2000 and it has been increased to Rs. 3.5 lakh from 2001-02. The basis for this enhancement in the amount of grants is not known. The State Finance Commission, recognising this discrepancy in the allocation of grants between the tiers, recommended different ratios for the three-tiers in its report (Government of Karnataka, 1996).

A related issue is the basis on which the grants are distributed between the panchayats within the tier. It is claimed that the state has adopted a formula similar to the 'Gadgil Formula' for distribution of grants between the Zilla Panchayats and Taluk Panchayats. However, in reality these have not been applied while distributing grants. The functionaries are unaware about the basis on which the grants were distributed. The practice followed by the state Planning department over
the years was to hike the grants by some percentage to the previous year. In the case of grama panchayats it is open secret that the grants are given uniformly across the grama panchayats and in fixed amount every year, irrespective of their needs.

Of the three tiers, the district and intermediate level panchayats almost entirely depend upon the grants. Their own revenues are very negligible.

At the state level, the average tax collected to the demand was about 41.38 per cent. However, the trends reveal that the percentage collection to demand has been increasing from year to year.

As stated elsewhere, grama panchayats have been entrusted with the powers to raise revenue from tax and non-tax sources. But the resources mobilised by these panchayats leave much to be desired. Of the total revenues, the share of tax revenues accounts for about 20 per cent only. In the case of non-tax revenues it is still worse. It accounts for about 2 per cent only in the total. The reasons for not mobilising
resources up to the expected level are inelastic nature of tax sources, lack of knowledge on the part of functionaries about the tax and non-tax sources, default in tax payment by the members themselves, non involvement of elected representatives with the tax collecting personnel, non revision of tax rates for long years, ignorance about the importance of contributions, lack of monitoring by the higher level panchayats, unscientific method of fixing tax rates by the state, lack of incentive scheme for improved tax collection and many more.

The other two sources of income of grama panchayats, namely, (i) income from panchayat property and common property resources, and (ii) voluntary contributions have not been as productive as anticipated. There are instances of mobilising large revenues from non-tax sources by the Zilla Panchayats and Mandal Panchayats in the state during 1987-91 period (Aziz, 1993; Babu, 1996).

In view of their inability to raise own revenues, the grama panchayats have foregone the opportunity of building 'free outlay' and enjoying financial autonomy.
The panchayats at all the three levels have experienced surplus budgets. Though some panchayats faced financial difficulties they overcame due to the availability of funds under debt and deposits and opening balances. The budgetary surpluses of PRIs were again due to the state's blunt instructions that they should not exceed their expenditure over and above the available resources.

Yet another point that emerges from the study is that no panchayat under reference had tried and secured loans for developmental activities. It is revealed that no panchayat representative is fully aware of this power, the processes involved etc. Contrary to this, the senior personnel of accounts and planning at the ZP and TPs express that they know the powers vested to the PRIs to borrow. But they opine that it is not so easy. The problem of borrowings by the PRIs is the conditions imposed by the state on it which are difficult to meet.

The resources of the PRIs under study are very low and not commensurate with the responsibilities entrusted. This is evident from the low allocation made to a large number of sectors. Nearly 70 per cent
of the grants have been allocated to four sectors, viz., education, health, rural development programmes and welfare of the SC/STs and OBCs.

The study of plan grants shows that it is increasing in absolute terms while it is declining in percentage terms.

The grants allocated to certain sectors by PRIs are very negligible. Further, the state has given certain broad guidelines which restrict the PRIs from making allocations according to their priorities. The discussions with the functionaries bring out that after allocating funds according to the guidelines, usually nothing is left to take up new projects/schemes. Thus, there exists a general mismatch between the resources available and expenditure responsibilities of these institutions.

Policy Suggestions

Based on the above findings, the following modest suggestions have been made towards strengthening and making PRIs fiscally stronger and autonomous.
First, there is need for bestowing taxation powers at the ZP and TP levels in the state. This is important not only from the point of achieving fiscal decentralisation but also in seeking higher grants from the Central Finance Commissions. It may be noted here that the 11th Finance Commission adopted the degree of fiscal decentralisation as one of the criteria for inter-se distribution of grants. Because of this criteria many states which have devolved larger resources to PRIs including Karnataka could not get larger share from the recommendations.

Second, there is a strong case for enhancing the resources of the PRIs by the state. Though, the grants-in-aid given over the years have been increasing in absolute terms it is declining in percentage terms. That means, the resource transfers to the PRIs are not keeping pace with the growing revenues of the state. Thus, the resources made available to the PRIs must be the same as the rate at which the state revenues are increasing.

Third, among the grants, the plan grants have been lower and declining compared to that of the non-plan grants. There is need for
awareness building on the part of panchayat functionaries regarding efficient use of resources. They should gradually reduce their non-plan expenditure and increase the plan expenditure.

Fourth, efficient utilisation of grants by the PRIs leads to the creation of physical assets in the villages and these assets, in turn, would yield sizable non-tax revenues to them. The TPs and ZPs should concentrate on this issue as they have so far not succeeded in this regard.

The PRIs instead of looking at the state and the Central governments for their needs should try to mobilise people’s contribution in the form of cash, kind and labour. This is possible for these institutions as they are close to the people than the state and the Centre and have face-to-face relationship with the people.

The GPs enjoying taxation powers have failed miserably in resource mobilisation. It is partly due to ignorance and partly due to fear of people. The GPs which are responsible for the maintenance and provision of basic services should motivate the people in making
contribution to the maintenance of these services and participate in their affairs.

There are instances of delay in the release of the last quarter instalment to the PRIs by the state and the centre. As a result many panchayats have not been able to utilise the entire budgeted amount during the same year. To avoid such lapses in the grants in the subsequent year and also to avoid uncertainties, the state and the Centre should marks it a policy to release the assured quantum of grant in time.

There is a strong need for training members and officials of PRIs on the subjects like tax and non-tax powers, guidelines in the utilisation of grants, maintenance of accounts, preparation of audit reports and follow up action to be taken on the comments made in the audit reports.
References


