CHAPTER 1

INTRODUCTION

In recent years, an upsurge of interest can be seen in favour of decentralised local governments. This shift towards decentralisation\(^1\) is attributable not only to the disillusionment with the results of Central planning and the shift of emphasis to growth with equity policies, but also to the realisation that development is a complex and uncertain process that cannot be easily planned and controlled from the Centre (Cheema and Rondinelli, 1983:14). It is increasingly realised that the national governments are likely to be ineffective and inefficient in the matter of provision of local services (Harris, 1983). In this context, decentralisation is being seen as a means to increase effectiveness and maintenance of public services and infrastructure (Gerd, 1997:757). Furthermore, decentralisation is believed to help redress existing regional disparities, and the popular participation leads to increased control over resources and regulative institutions in a given social

\(^1\) The term ‘decentralisation’ is referred here to local bodies, local self-governments, panchayats, decentralised governments, sub-state level governments and urban local bodies.
organisations as complementary and function together for the overall development (Babu, 2002:1).

Decentralised local governments in India have spatial differentiation. One - for urban areas and another for the rural areas. The former includes Corporations, Municipalities, Municipal Councils, Town Panchayats etc., and these names differ from state to state. On the other hand, rural local governments consist of Village/Grama Panchayats, Taluk/Block level Panchayats and District level Panchayats and here also the names of these institutions differ from state to state. The former is popularly called as Urban Local Bodies (ULBs) and the latter Panchayat Raj Institutions (PRIs). The ULBs in India have had continuity to some extent whereas the PRIs have been deprived of such continuity.

Panchayat as a platform of settling village disputes of socio-economic nature in various parts of ancient India has a very long history. Free India and its political systems could hardly afford and remain satisfied by their merely adjudicatory role. The conditions and exigency
of our young free India called upon these institutions of self-governing
nature both urban and rural, to play a diversified role and help Indian
democracy and its new socio-economic order to meet the challenges. It
may be appropriate to recall the observation of the late Prime Minister
Rajiv Gandhi that democracy and development would reach the
grassroots only when a sound panchayati raj system responsive to the
people's need was founded (Rao, 1995). However, panchayat raj is the
most talked, experimented and abused system in India (Babu, 1996:1). In
spite of failure, the statesmen, leaders and experts have been advocating
the adoption of panchayat raj system since independence as a pioneer
force overcoming economic, social, political and other problems of
imperial India. One of the Directive Principles of our Constitution is to
establish PRIs by the states. It states that "the state shall take steps to
reorganise village panchayats and endow them with such powers and
authority as may be necessary to enable them to function as units of self-
government" (Eastern Book Company, 1995:29). S.K. Dey, pioneer of
panchayat raj in India, considers two necessary things to be done. One is
for the Government of India to change its policy on devolution of
It had become a topical issue for the political parties to include panchayat raj reform as one of the main agenda in their election manifests. These trends paved the way for the much awaited Amendment to the Constitution (73rd) in the year 1992, thereby making it mandatory for all the states to establish a three-tier panchayat raj system (two-tier in the case of small states). Following the 73rd Amendment, almost all the states have enacted their own new legislations and consequently established PRIs in different years.

With political decentralisation, fiscal decentralisation is also very important for the success of democratic decentralised governments. This requires decentralised local bodies should have some degree of fiscal autonomy. That is, they should have powers to tax, have a share in state taxes/duties, grants-in-aid from the higher level governments, borrowing powers etc. These are important from the point of reduction in vertical fiscal imbalance that exists between the state and third tier government. Further resources devolved to PRIs should be based on certain criteria to reduce horizontal fiscal imbalance between the panchayats which arises
on account of variations in the levels of development and differences in the factor endowments.

The experience shows that in India after the 73rd Constitutional Amendment Act, almost all states have implemented political decentralisation. In other words, the unit of governance has been delegated down to the village through democratically elected institutions. Reservation to the ordinary seats and authority positions in these grass root level institutions have been made. However, the states are yet to implement the genuine fiscal (financial) decentralisation. Studies in the past reveal that the panchayats in India failed to have a strong foothold due to inadequate finances to carry out their responsibilities. The same situation, more or less, prevails at present in many of the states. Very few states have partial fiscal decentralisation. Still, the true picture of the financial position of PRIs has yet to emerge. The reason for this is that we still do not have many studies on this aspect especially after the 73rd Amendment period to present such a picture. A large number of studies were made on aspects like reservations, structure, participation, Gram Sabhas etc. In these studies a
passing reference has been made on the resources of the PRIs. Similar is the case with Karnataka. There is hardly any in-depth study on the finances of PRIs in Karnataka. Almost all the studies have focused on general issues including finances. Recently, an exclusive study on the finances of PRIs in Karnataka was conducted by Babu (Babu, 1999b). This study is again based on a sample study of some panchayats. Thus, there is hardly any study on finances of PRIs in Karnataka undertaken either before or after the 73rd Amendment Act.

Thus, in the above context, there is a genuine need for studying the own resource raising powers, and the financial position of PRIs in Karnataka state, i.e., the extent of resources devolved over the years, extent of own resources mobilised and the extent of budgetary allocation made to various functions entrusted to them. The present study is an attempt to fulfil this need by making an in-depth analysis of finances of PRIs in Karnataka state. Keeping these issues in view, the objective of the study has been spelt out.
Objectives of the Study

This study intends to critically evaluate the present status of finances of PRIs in Karnataka with the following objectives.

- to present the historical perspective of panchayat system in Karnataka state;

- to sketch the socio-economic status of the state, selected district and panchayat functionaries;

- to examine the financial powers bestowed on and the resources mobilised by the PRIs;

- to analyse the expenditure pattern and the needs of PRIs; and

- to make policy recommendations.

Hypothesis

Based on the above objectives the following hypotheses have been framed for examination:

- The panchayats in Karnataka are deprived of financial autonomy

- There is imbalance in the needs and resources available to the PRIs.
Methodology

The study pertains to Karnataka state. Besides examining the above mentioned issues at the macro level, the study also goes into the micro level by way of sketching the financial and expenditure status of the selected panchayats. For this purpose, Kolar, an average district in Karnataka, has been selected purposefully, and within this Kolar Zilla Panchayat, three Taluk Panchayats and six Grama Panchayats have been selected. The criteria for selection of Taluk Panchayats have been on the basis of development levels, i.e., one each in the categories of developed, average and backward taluks. Again, six Grama Panchayats have been selected, two each from the selected Taluk Panchayats. The selected Grama Panchayats represent one situated nearer to the Taluk Panchayat headquarter and the other from backward and interior areas. While selecting the Grama Panchayats, discussions have been made with the functionaries of Kolar Zilla Panchayat and selected Taluk Panchayats. The Taluk Panchayats have been identified on the basis of development indicators. About 13 socio-economic indicators such as rural population, proportion of SC/ST population, dry land area, health and educational status, agricultural labourers, industrial development,
infrastructure levels etc., have been considered for this purpose. The panchayats selected for the study have been given in the following Chart-1.1.

**Chart-1.1: Selected Sample Panchayats**

**KARNATAKA**

- Kolar Zilla Panchayat
  - Chikballapur Taluk Panchayat (developed)
    - Mandikal Paresandra Grama Panchayat
  - Bagepalli Taluk Panchayat (average)
    - Paragodu Devaragudi Grama Panchayat
  - Gudibanda Taluk Panchayat (backward)
    - Ullodu Beechagana-halli Grama Panchayat

The analysis is mainly based on quantitative information. However, wherever possible it has been supplemented with qualitative information. Quantitative information consists of secondary sources of information. The qualitative information is gathered through observations and discussions held with various functionaries, officials of the selected panchayats and citizens in the study area. Generally, the study period covers 1994-95 to 2000-01. This period covers the
panchayats established after 73rd Amendment. In certain cases the study brings out the situation prevailing during 1987-88 to 1991-92 period when the state for the first time established a true panchayat system. Simple statistical tools such as percentages, growth rates, ratios, etc., have been used to show the trends and results.

Data Source

The data required for the study are - functions and responsibilities entrusted to PRIs, taxation powers, sharing of taxes and duties, grants-in-aid given, borrowing powers, resource mobilisation, distribution criteria, growth of expenditure, plan and non-plan expenditure, sectoral allocations etc. Mainly the data available in the link documents of State Finance department, Economic Surveys of Planning department, the Annual Reports of Rural Development and Panchayat Raj department, State Finance Commission Reports, 10th and 11th Finance Commission Reports form all the most important sources. Besides, the data maintained by the Kolar Zilla Panchayat, selected Taluk Panchayats and Grama Panchayats, their annual accounts and audit reports, different
Committee reports on Panchayat Raj Institutions forms an useful data sources.

Organisation of the Study

The following presents the schemata of the thesis:

Chapter I: Introduction

The introductory chapter highlights the problems, objectives, hypotheses, methodology and chapter scheme.

Chapter II: Theoretical Framework and Review of Literature

This chapter discusses some theoretical issues in local finance and reviews of literature. It has been divided into two sections. The first section has been devoted to present the theoretical issues relating to the finances of panchayat raj institutions. The second section deals with a brief review of the selected past studies on panchayats and in particular on finances at the all India and state levels including Karnataka.
Chapter III: Socio-Economic Background of the State, Kolar District and Panchayat Members

As the present study is related to the panchayats in Karnataka, this chapter has been entirely devoted to the study of socio-economic status of the Karnataka state, Kolar district and Panchayat functionaries.

Chapter IV: Panchayat Raj in Karnataka: A Historical Perspective

This chapter presents the panchayat system as evolved in the state over the years. It highlights the structure, powers and functions financial position of panchayats in different phases. For this purpose, four phases have been identified. The first phase belongs to pre-independence period, the second to post Balwanthray Mehta Committee recommendations, the third to that of Asok Mehta Committee recommendations and the fourth phase, the post 73rd Amendment period.

Chapter V: Finances of Panchayats in Karnataka: A Macro Picture

This chapter deals with the nature, growth and pattern of revenues of the panchayats in Karnataka state. The period of analyses relates to
the period from 1987-88 to 2000-01. The issue of horizontal distribution of grants also finds a place in this chapter.

Chapter VI: Pattern of Revenues of Selected Panchayats

This chapter brings out the growth, pattern and composition of revenues of the selected panchayats in Kolar district. The period of study is from 1994-95 to 2000-01. The major issues dealt with are growth of actual receipts, various heads of revenues- revenue, capital and debt and deposits, plan and non-plan categories and resource mobilisation efforts by the panchayats.

Chapter VII: Pattern of Expenditure of Selected Panchayats

This chapter deals with the other face of revenues, i.e., the growth and pattern of expenditure of the selected panchayats in Kolar district. It analyses the expenditure at the aggregate and disaggregate levels, i.e., total actual expenditure of PRIs in Kolar district, expenditure under revenue and capital accounts, plan and non-plan, sector-wise and per capita trends.
Chapter VIII: Conclusions and Policy Measures

In this chapter, a brief summary of the study, salient findings and conclusions have been presented. Finally, some suggestions for the improvement of finances of the PRIs have been highlighted.

References


