CHAPTER-VIII
FINDINGS AND CONCLUSION

INTRODUCTION

In this study, the present write up has attempted to provide a detailed scheme for financing the activities of the local bodies. The brief statements found in the published plan documents revealing the policies of the government on the subjects and certain academic expert committee reports, the dearth of literature relating to the alternative framework of local bodies finance has motivated to undertake the present research.

Fiscal devolution is a phenomenon that has gained enormous popularity over last few decades. ‘Fiscal’ means financial status and ‘Devolution’ means transfer. Devolution is the transfer of power/resources from the centre to authorities at the lower levels who are representatives of local bodies. Devolution in the context of panchayat means transfer of authority in respect of specific activity from the state to the panchayat raj institutions (PRI) in terms of having right of taking decisions at the local level in respect of planning and implementations of various schemes.

As things stand, fiscal devolution, in terms of resource mobilisation and strengthening the revenue-expenditure link remains week and the success of the future of devolution depends to a large extent on strengthening the revenue base of local bodies.

In the context of 73\textsuperscript{rd} Amendment Act, local bodies have acquired a new meaning and significance. After 73\textsuperscript{rd} amendment to the constitution,
Karnataka was the first state to pass the Karnataka Panchayat Raj Act 1993, as per the amendment act. The Karnataka Panchayat Raj Act 1993 provides for a three tier structure of local bodies in Karnataka. The three tier structure of rural local bodies is Zilla Panchayat (ZP) at District, Taluk Panchayat (TP) at intermediate level and Gram Panchayat (GP) at village level. The financial position of panchayats is being revamped through the mechanism of State Finance commission. However, the State Finance Commission is facing challenges in terms of devolution of functions and finance to Panchayat Raj Institutions. With the change in the orientation and structure of local bodies finance, there is an urgent need to assess the potential and suggesting policy for augmenting local bodies' resources.

‘Power and functions of local bodies’ is concerned, it may be observed that the efforts for rejuvenating panchayats were inadequate till recently. With the 73rd constitutional amendment, the democratic base of decentralized governance has widened and the scope for functional and financial devolution to local bodies ensured through mandatory provisions. The panchayats have been empowered to raise their resources in order to enable them to discharge the functions assigned to them. It has been observed that the powers and functions which have been assigned to local bodies are overlapping in areas, functions and responsibilities between the three tier of Panchayat raj Institutions. The type of functions assigned to any tier of Panchayat Raj Institutions is ambiguous. Often the same function is performed by two or three different tiers of Panchayat Raj Institutions. Another weakness in the structure of local bodies is appropriateness of functions/ areas of responsibility at
different levels. Importantly, there are no principles or criteria adopted for the assignment of responsibilities to the different tiers of local bodies.

State Finance Commission is concerned, the provision relating to the creation of state finance commission rationalizes state and sub-state state level fiscal relations. The State Finance Commissions of Karnataka have developed a simple and transparent framework for fiscal transfers. It can also be stated that the existing criteria for the assessment of the fiscal needs of the states/ local bodies, are not appropriate. Therefore, composite index of backwardness statistically computed may be adopted for fiscal devolution. The regular formation of State Finance Commissions and important implementation of their various recommendations by Government of Karnataka has certainly brought in budgetary certainty and degree of predictability. In conformity with, state legislatures, the state government appointed Finance Commission for assessing the fiscal resources and evolving criteria for fiscal devolution in accordance to devolution of functions and authority to the local bodies. The local bodies were fiscally insignificant and almost entirely dependent on centre and state governments’ finances. However, the constitution for the local bodies has shown the prospects for improving the fiscal status of these bodies.

Significantly, under the present structure, the strongest resources base has been assigned to Central Government. State Government have comparatively weak resources base. Local bodies were fiscally insignificant and almost entirely dependent on Centre and State Government finance.
However, the Constitutional status of the local bodies has shown the prospects for improving the fiscal status of these bodies.

There is no uniform pattern for levying taxes and user charges by the local bodies. Therefore, the income of local bodies varies from GPs to GPs and with taluks. It is interesting to note here that most of the taxes and user charges are being levied only at Gram Panchayat level and very few taxes and user charges are being levied at Taluk Panchayat and Zilla Panchayat level. It can also be observed here that despite the functional/financial devolution after 73rd Amendment Act under the State Panchayat Act at Gram Panchayat, Taluk Panchayat and Zilla Panchayat levels most of the taxation powers are still not in practice. By and large, tax assignment is not liberal and majority of taxes assigned is of traditional type. The existing criteria for the assessment of the fiscal needs of the State/District/villages are not appropriate. The literature on inter-governmental transfer of resources is extensive. Intergovernmental transfer arises largely out of vertical mismatch between functions and finance as well as out of the compulsions necessitated by the horizontal disparities between different jurisdictions. Generally, the State Finance Commission measures the comprehensive assessment of fiscal needs by linking up of financial and real manifestation of needs and means.

Fiscal devolution involves shifting some responsibilities for expenditures and revenue to lower level of government. The degree of autonomy of sub national entities in the allocation of their expenditure is one important factor in determining the type of fiscal devolution. The sources of
income of panchayats can be broadly be classified as tax revenue, non-tax revenue, grants. The own taxes are assigned to panchayats and are levied by them. The tax revenue being collected by the panchayats or being shared with other tiers of the PRIs comprises taxes, user charges. Similarly, non-tax revenue includes income from such sources as properties, fees, fines etc. thus share of revenue to total income has been found to be meager. The expenditure of revenue at panchayat level consists of expenditure on core services such as water supply, drainage, health, street lighting etc. Besides, panchayats devote a huge amount of expenditure on establishment expenses including salaries of staff and maintenance etc. Expenditure assignment must precede tax assignment. The best way the revenue empowerment is to provide the local governments with revenue from local sources and from transfers that are adequate to match expenditure requirements. More autonomy can be ensured by increasing the non-tax revenue raising capabilities of the Panchayat Raj Institutions. It may help in reducing the tax burden without compromising the fiscal autonomy.

There are two types of grants, general grants and specific or conditional grants. The general grants is provided to local authority with additional resources and autonomy to use. On the other hand, conditional or specific grants are being provided to the local authority for improvement in the existing services and creating infrastructure. Sometimes, grants provide matching provisions and therefore they are called as matching grants (Oommen 1998).
With the above background the objectives, hypothesis and methodology of the present work are stated below.

Objectives:

1. To review the existing structure, functions and powers of local bodies in Karnataka.
2. To analyze the finance of each tier of local bodies in Karnataka.
3. To examine the need for devolution from state to local bodies in Karnataka.
4. To evaluate the present status of fiscal devolution in Karnataka.
5. To review the measures needed to improve the financial position of local bodies in Karnataka.

Hypothesis:

1. Own resource availability and expenditure responsibilities are positively correlated.
2. Resource transfers are positively related to the fiscal needs of local bodies.

Methodology and Sources of Data:

In Dharwad district three taluks are taken for the study. Based on the Composite Index of development three Taluks and three Gram Panchayats from each taluk are selected in Dharwad district. The variables used to select the Taluk and Gram Panchayats are Density of population per sq km, Literacy rate, Road Length per 100 sq km and Net shown area as a percentage of geographical area. From the processed data, percentage index for each variable
has been worked out, keeping the mean averages as 100 in each case for Dharwad District. Then Taluk wise development indices were constructed by calculating the mean values of the sum of percentage index of all items. Taluks selected from the Composite Index are Kundgol the Highly developed taluk, Kalghatagi the Moderately developed taluk and Navalgund the Less developed taluk.

Secondary data have also been collected from the documents, literature and studies available at different government officers, academic institutions, Finance Commission Reports and also from NIPFP, Ministry of Rural Development and Government of India.

Primary data on sources of revenue and expenditure of GPs is collected in Dharwad district as Dharwad district is convenient for the study. Dharwad is moderately developed district in Karnataka. Dharwad district has five Taluks namely Kundgol, Kalghatagi, Hubli, Dharwad and Navalgund taluks.

Findings of the study:

➤ There is lack of financial resources to rural local bodies for their effective functioning. Much of the functions and finance have not been devolved to PRIs. So they always starve for finance at grassroot level.

➤ For devolution of powers and functions there is always a gap between the power given and power exercised and between functions as entitled in the schedules and as they are carried out in spite of activity mapping.
The actual grants provided to local bodies do not correspond to the recommended devolution of both the State Finance Commissions reports. Government has transferred more amount than 36 percent of Non Loan Gross Own Revenue Receipts to Panchayat Raj Institutions as found in State Finance Commission Repot. Linking of fiscal transfer of salary commitment instead of prescribed devolution formula is iniquitous distortion and in actual practice is creating inequality among local bodies. But transferring of more amount than the share recommended by the First State Finance Commission does not mean that each individual local body received its due or legitimate devolution as per State Finance Commission formula.

In actual practice Government of Karnataka has not adhered to the First State Finance Commission formulae, it can be observed that not only distortion exists at the first or second stage of devolution but also it has existed in all levels. Government of Karnataka has not followed in actual practice inter se or horizontal distribution framework suggested by the First State Finance Commission report.

The First State Finance Commission, in its devolution scheme had divided the total share of financial transfer going to PRIs in the ratio of 40:35:25 to ZP, TP and GP respectively. The state government has actually affected higher devolution to RPIs, put together each of the 5 year periods from 97-98 to 01-02.

Second State Finance Commission recommended that at the rate of Rs.100 lakh per GP, the EFC grants should be distributed among GP for
the purpose of maintenance of civic services in rural areas. This works out to Rs.56.59 cr.

➢ There is a big gap between the devolution amount proposed in the budget estimates and actually transferred to local bodies. There are many loop holes where the money goes.

➢ Transfers from the central government constitute a significant part of state finance. They finance about 42% of the states current expenditure; their share in states total revenues is 44% and almost 36% of the revenues collected by the central government is transferred to the states by way of tax devolution and grants.

➢ The level of own revenues is low, but there are also large scale variation around the per capita. Analysis of revenue variation shows that the income related variables are not significant in explaining the variation in per capita own revenue of GPs.

➢ There are wide variations in per capita revenue collected among GPs not only between different GPs of the taluks but also within taluks.

➢ It is interesting to note that moderately developed and least developed GPs are collecting high Per Capita tax than the Developed GPs.

➢ Tax and Non-revenue collection shows an increasing trend in Kundgol Taluk. Rs.147.04 was the highest per capita total tax revenue collected in Goudgeri, a moderately developed GP in 2006-07. Per Capita tax revenue collection was highest in moderately developed and was lowest in developed GP.
Share of tax revenue was less compared to non-tax revenue in all the three GPs in Kalghatagi taluk.

Share of tax revenue was higher than non-tax revenue in all the three GPs in Navalgun Taluk.

It is interesting to note that high per capita total revenue collection was made by moderately developed GP and less, by developed GP in Kundgol, Kalghatagi and Navalgun taluks.

Among all the selected three taluks highest growth of total revenue was by Surshettikoppa GP (345.4%) in Kalghatagi taluk and lowest was by Goudgeri GP (0.42%) in Kundgol taluk.

Highest growth of total tax revenue was by Ibrahimpur GP (387.7%) in Navalgun taluk and total non-tax revenue was by Surshettikoppa GP (540.9%) in Kalghatagi taluk.

Highest and lowest was in developed GP and non-development expenditure was high in moderately developed GP and lowest per capita development expenditure was in least developed GP. Least developed GP has done less expenditure than developed GP in Kundgol taluk.

Per capita total expenditure was high in moderately developed GP with Rs.249 and with Rs.33 was lowest in least developed GP. Share of development expenditure was higher than non-developed expenditure. Per capita development expenditure was high with 82% of the total expenditure in moderately developed GP and 14% of the total expenditure in developed GP. Over all moderately developed GP and
least developed GP has done more expenditure than developed GP in Kalghatagi taluk.

➢ Development expenditure increased in developed GP and it has decreased in moderately developed GP and least developed GP. Per Capita non-development expenditure increased in all the three GPs and in terms of percentage it has fallen down. Least expenditure was done in least developed GP and high expenditure was done in developed GP. Developed GP has done more expenditure than least developed GP in Navalgund taluk.

➢ Almost 75 percent of expenditure incurred at the GP level is met from transfers. Because the overwhelming proportion of transfer is given for specific purposes, even the low level of GP expenditures is allocated according to the priorities set by the central and state governments.

➢ In non-development expenditure, salary expenditure and electricity expenditure was higher than other expenditures. On an average its expenditure was more 70% in all the GPs in selected taluks. Less expenditure is done for office purchase in all the GPs.

➢ In development expenditure, high expenditure is done on supply and maintenance of water facilities. Nearly 50% of the expenditure is done for water expenditure. Expenditure on SC/ST and road, building repair and maintenance is the next high expenditure done in all the GPs. Nearly 30%-40% of the expenditure is done. Other expenditure done is less compared with above expenditures in all the selected taluks.
➤ From all the three taluks, moderately developed GPs average expenditure was high compared with other taluks. Expenditures varied from GPs to GPs with each taluk and within each Taluk in terms of percentage and per capita.

➤ Highest growth of total expenditure was done by Shirkol GP (345.4%) in Navalgund taluk and lowest was done by Ibrahimpur GP (0.18%) in Navalgund taluk. High growth of development expenditure was (652.4%) and non-development highest expenditure growth was (322.5%) in Belvanatar GP of Kalghatagi taluk.

➤ The correlation analysis reveals that both revenue and expenditure are positively associated with each other.

➤ On an average General Grants received by all the three GPs was highest compared to other grants. Development grants found to be high in developed GP than least developed GP. Water supply grant given was missing for many years in all the three GPs. FC grant was high in moderately developed GP with 54% of the total grants and 6% was lowest in least developed GP. FC grants given to least developed GP was highest than developed GP in Kundgol taluk.

➤ Highest general grants for least developed GP was 64% of total grants and 32% was lowest in developed GP. Development grant data is missing in all the three GPs. Grant received for water supply to all GPs is very less compared to other grants. SGRY grant with 74% was the highest grant for developed GP and 4% was lowest grant in moderately
developed GP. High FC grant received was only 7% of the total grant. Moderately developed GP received over all high grants than least developed GP in Kalghatagi Taluk.

➢ General grant was highest in moderately developed GP. In terms of percentage it was 46%. On an average development grant was received highest for least developed GP and developed GP received very less development grant. On an average 4% grant was received by all the GPs.

➢ Almost 75 percent of expenditure incurred at the GP level is met from transfers. Because the overwhelming proportion of transfer is given for specific purposes, even the low level of GP expenditures is allocated according to the priorities set by the Central and State Governments.

➢ Among the three taluks, high growth of total grants was reported by Madkhiyonalli GP (251.6%) in Kalghatagi taluk. High growth of General grants, development grant and SGRY grant recorded was in Belvantar GP with (1262.9%), (1484.1%) and (841.4%), respectively. On the other hand highest water supply grant was recorded highest (5629.7%) in Ibrahimpur GP. Even zero growth was also reported for this grant.

➢ The correlation analysis revels that the deficits and transfers are found to be positive and significant. R values in least developed GPS are not significant.

➢ It is difficult to assume whether the amount coming from centre will be adequate to meet out the financial needs of the local bodies but there is
no doubt that this amount will strengthen the financial status of the local bodies.

➢ There is no clear and transparent way in which the aggregate transfers, the relative share of local bodies and allocation of each of the tiers is determined. Based on the expenditures incurred before in the GPs, schemes were transferred to the local bodies.

➢ The analysis brings out the shortcomings of the design of the transfer system at the GP level. Per capita transfer to GPs is not related to any important indicators of fiscal capacity and therefore, the system has not been designed to offset fiscal disabilities.

➢ The challenge of designing the transfer system to GPs is particularly shocking because of the poor information base. It is possible to design the transfer system to offset fiscal disabilities only when the data base on indicators of taxable capacity and cost differences are available.

Recommendations to make rural devolution more effective:

1. There must be clear set of expenditure responsibilities of PRIs at each level.

2. Ensure necessary resources to PRIs through assignment of better tax instruments, user charges, and fees for more efficient resource use.

3. Building a reliable information system is key to designing and implementing an efficient equalizing program. It is necessary to set up the information system on the finances of GPs, TPs and ZPs based on the prevailing book keeping.
4. The state Government should make provisions to suggest the panchayats regarding the maintenance of accounts of work assigned to them.

5. Data base related to finance of local bodies should also be ensured in districts to maintain the accounts in the given format and also to assess the financial resources of panchayats.

6. A clear demarcation of schemes and programmes would reduce the overlapping among PRIs. Moreover, clear-cut criteria should be evolved for devolution of powers and functions to the PRIs.

7. State government makes lump sum transfer to GPs and these do not fulfill the cannon of either equity or efficiency. Transfer should vary with the population and income levels pf panchayats and it should also have better incentives for tax performance.

8. Important problem at the GP level is the lack of enforcement of the tax. It is necessary to create a policy environment that encourages compliance, but it is also necessary to build capacity at the GP level to enforce tax. Unless this is done, whatever are the changes in the tax structure, the revenue productivity is not likely to show any significant improvement.

9. Another approach to enhancing local government revenue is to assign new taxing powers. Often mentioned is land tax. While this ahs the advantage of being a ‘traditional’ local tax where the population bearing the tax burden and those receiving the expenditure benefits roughly correspond, it also has drawbacks.
10. Transfer system needs to be redesigned by making it transparent through a formula driven allocation. The critical element of reform is to unbundle the transfer system from scheme based transfers into broad programs and impart flexibility and autonomy to local governments to make allocation according to their priorities.

11. In expenditure side, it is necessary to activate the GPs to ensure better preference exposure and accountability. The level of expenditures at the GPs level is low and any interest of people in local self government will depend on its activity.

12. Officials of the state government as well as those of the local governments need training on various aspects of local finance and fiscal devolution.