CHAPTER-I

OBJECTIVES, HYPOTHESIS AND METHODOLOGY

1.1 INTRODUCTION

Karnataka has been considered a pioneer in devolution to Panchayats since the past decade and a half. Karnataka is one of the better developed states in India. For over a decade now, the devolution experiments in Karnataka have been going on and these have received attention from both within and outside India. Karnataka has passed a ‘radical’ Act on devolution in the mid 1980’s. The current wave of devolution efforts in the state thus began much earlier. A well known works of James Manor, who has argued that Karnataka was one of the most extensive cases of devolution in the world. (M James 1997). Thus the case of Karnataka is one of the long experiences with devolution.

The local bodies have been in existence in the state for a long time. The report of the Balwantri Mehta committee (1957) contributed to the enactment of the Mysore (Karnataka) village panchayats and District boards Act in 1959. This Act contended to be in force until 1983. During this period, the PRIs did not function well for a number of reasons (an important one was inadequate devolution of powers).

Devolution is a global paradigm. Devolution, a more extensive from of decentralization refers to a situation in which the central government transfers authority for a decision making, finance, and quasi autonomous units of local government. Devolution as a political phenomenon is interpreted as a means to
make the state more responsive and adaptable to the local needs that it could be with concentration of administrative power and responsibility of the state. More specifically, devolution is referred to as a process of sharing of power by the central ruling groups with other groups, each having authority within a specific area or the state. In a devolved system, local governments have clear and legally recognized geographic boundaries one which they exercise authority and within they perform public functions (Rondinelli: 1998).

Devolution is often regarded as a more profound form of decentralization because here the authority of decision making is devolved upon, i.e., invested with the institution or person at the power levels where they are accountable to the publics of the location. Devolution may involve creation or strengthening of the lower levels and allowing them to function outside the center’s control.

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. It is an inevitable process and an attempt to identify the means of strengthening local government in more efficient and equitable ways.
Devolution is considered to be the most effective form of decentralization and involves transfer of functions or decision making authority to legally incorporated local governments, i.e., District, sub-district and municipalities etc. Fiscal devolution exists therefore to the extent that sub national governments have the power given to them by the constitution or by particular law, to raise taxes and carry out activities within clearly established legal criteria (Tanzi: 1996, Hamlata Rao: 2006). Devolution is concerned with:

- The nature of expenditure responsibilities
- Provincial taxation powers
- The extent of borrowing powers of provincial governments
- The role and nature on intergovernmental transfers.

(Hamlata Rao: 2006).

According to Rondinelli devolution has certain characteristics:

1\textsuperscript{st}, it requires that local government be given autonomy and independence, and be clearly perceived as a separate level over which central authorities exercise little or no control.

2\textsuperscript{nd}, local units must have clear and legally recognized geographical boundaries over which central they exercise authority.

3\textsuperscript{rd}, local government units must be given corporate status and power to raise sufficient resource to perform specified function.

4\textsuperscript{th}, devolution implies that local governments are institutions which provide services that satisfy the needs of local citizens and allow their participations in local affairs.
Finally, devolution establishes reciprocal mutually beneficial and coordinative relationship between central and local governments. (Rondinelli: 1998)

Devolution which denotes the transfer of power, specific functions and reasons to sub-national political entities is an evolved form of decentralization and fits well with the definitions of (UNDP 1993; Litvach et.al 1998; Oommen 1998; Shahid et.al 1999; GOI 2001) United Nations Development Programme (UNDP) in its Human Development Report has pointed out that the development process should not be woven around the people, but the people should be woven around the development process.

Definitions:

As parker aptly puts it, "like a soufflé that requires as appropriate proportion of milk, egg and heat to rise. So a successful programme of decentralization will need to include the right combination of political, fiscal and institutional elements" (parker: 1995)

UNDP (1993) considers “Devolution as the strongest form of decentralization”

“Fiscal devolution is the devolution of taxes and spending powers of local levels of governments”. (Fakasuku and De Mello: 1999).

“Fiscal devolution refers to the degree of discretion devolved to sub-national governments to make decisions on fiscal issues, including overall policy to be pursued the act of revenue to be raised and the allocation of available resources” (Rao Hamlata: 2006).
“The transfer of authority from a higher layer government in respect of performance of certain functions, exercise of power and discharge of duties which, under the supreme law of land belong to the former”. (Subrabrnamya and Choudhary: 2000).

“Devolution is the transfer of powers and resources from the centre to authorities at the lower level which are representatives of as well as accountable to the local populations (Manor 1999; Crook and Manor 1998; Agrawal and Ribot 1999 cited in Ribot 2001).

“The authorities at the lower levels are largely or wholly independent of the central government and democratic in some way and to some degree (Manor 1997).

The local units of government are autonomous and independent bodies have a legal status and are separate or distinct from the central government. The first type of autonomous lower units, such as provincial, district and local authorities that are legally constituted as separate governance bodies. The transfer of authorities to such units is often referred to as ‘Devolution’ and is the most common understanding of genuine decentralization. Through devolution the central government relinquishes certain functions or creates new units of government that are outside its direct control. Local bodies function from below i.e., grassroot level. They get assistance from state government through which they carry out the function. Finance has been accepted as life-blood of local bodies which have been entrusted with the task of socio-economic development of the community and estimate of authority.
U. K Hicks has rightly observed that “if local bodies are to play any significant part in economic and social development, they must clearly have access to adequate finance” (Misra: 1996). Jaya Prakesh also emphasized the needs of sufficient resources and pointed out that in the absence of these PRIs cannot run the administration properly (Misra: 1996).

Most of the time there is lack of financial resources to local bodies for their effective functioning. As they are lowest tier and function from below, always starve for funds to carry out their functions smoothly. For this local bodies depends on government transfer and they are much dependent on that funds. After Independence provision was made in the constitution under Directive Principles of State Policy (DPSP). Article 40 states that, “The state shall take steps to organize village panchayat and endow them with such power and authority as may be necessary to enable them to function as units of self-government (Rangarajan: 2005)

A number of committees were appointed by the government of India which dealt with various issues involved in the strengthening of the local bodies finance. However despite various committee realizing the importance of finance of local bodies, it was only through the 73rd Constitutional Amendment Act (CAA) 1993, with this new chapter IX was added to the constitution which provides inter-alia for the constitution of a Finance Commission for the state to review the financial position of local bodies. This was attributed to factors such as insufficient representation for weaker sections, inadequate devolution of power and lack of financial resources. Sound finance of the local bodies
through tax assignment and grants help to determine the transfer of resources to local bodies. However, the discretion allowed to the state government to transfer the functions listed are very large, as a result there is considerable variation in the power and responsibilities assigned to them.

In Karnataka there is a lack of clear demarcation of the functions at different levels of the government. While subjects are transferred to the PRIs, the state government continues to plan and implement over-lapping schemes in respect of the transferred functions. The state government employees in charge of the transferred functions are not accountable to the District and Taluk panchayats. Local bodies are not allowed to appoint personnel, prioritize expenditure, or design their own schemes.

However, fiscal transfers are based more on the cost of schemes transferred to the PRIs than an assessment of the fiscal disabilities with little united grants, the transfers are not exactly equalizing. There is a lack of uniformity in the approach of the State Finance commission in terms of resources from the state government to the local bodies and the absence of reliable estimate of the gap between normative capacities to raise resources from all sources makes the task of the Finance Commission at the national level.

Section 1.2 highlights the Evolution of local bodies in Karnataka. In 1.3 an attempt is made to present the Pre and Post 73rd Constitutional Amendment. In 1.4 Objectives of the study are discussed. 1.5 contain Hypothesis. 1.6 deals with Methodology and Data Collection. 1.7 Limitation of the study. 1.8 Layout of the study.
1.2 EVOLUTION OF LOCAL BODIES IN KARNATAKA

Panchayat literally means an assembly of five elders. Traditionally five Panchayats (elderly people) carried out the executive, administrative, judicial and developmental activities of respective villages. The term local bodies refer to such institutions of government which carry on the local affairs. Local Bodies are an integral part of a political system of a country created by the constitution to manage local affairs. The village panchayats played a vital role in village governance and development. But during the Mughal and British rule these Panchayati Raj Institutions (PRIs) were kept in the back waters and only during the independence movement they regained the prominence under the able leadership of Mahatma Gandhi. His concept of ‘Gram Swaraj’ and ‘Gram Vikas’ brought back the life to PRIs. After India attained independence, the village panchayats got back their due recognition and various local government functions were assigned to them. Before independence there were various resolutions with regard to the establishment of district boards. There was little effort at delegating power below the district boards. It is only after independence that there was a concern for making democracy functional at the grassroot level viz the village. To study the weakness of PRIs, Ashok Mehta Committee was appointed in 1977. Another major attempt to regenerate PRIs was made with the appointment of the L.M. Singhvi Committee in 1986. The committee recommended that PRIs should be enshrined in the constitution. In 1989, Prime Minister Rajiv Gandhi proposed to assign constitutional status to PRIs. Karnataka is often cited as a pro-decentralization state. This derives
from the fact of the state having brought in Panchayat Raj Legislations in 1983 which is regarded as a landmark for two reasons. It anticipated

1) The 73rd Amendment to the constitution almost by decade.

2) It is sometimes argued that the act was an inspiration to the constitutional amendment that the major provisions of the latter resemble quite closely the former. The affairs of the local bodies were managed by panchayats, largely in socio-economic contents and those acquired almost a sacred position. In order to capture the full flavor of the state initiative for devolution it is necessary to trace it within an evolutionary framework.

**History of Panchayat Raj:**

The history of local self-government can be divided into three distinct periods.

1. Setting up of local authority in Madras

2. Lord Rippon's Resolution of 1882

3. Reforms of 1919

During the first period, the concept of local self-government had to face hostile situation because of unwillingness of people to pay direct taxes and also due to lack of interest by the communities in civic affairs.

The second period, which started from the announcement of Government of India Resolution on local self-government in 1882, made a steady beginning in this respect. This resolution initially preceded some exercise to understand the transfer of powers and finances to the local
government from the provincial governments. A detailed information was gathered about the tax base of these local governments and functional responsibilities to be administered by them. Based on this useful information the resolution paved the way for local bodies’ act of 1885, which ushered in an era of decentralized local self-governing institutions down to the village.

In the year 1907 Decentralization Commission submitted its report and its focus was mainly on administrative improvements of these local bodies. It stressed the importance of village level organizations and pleaded for the strengthening of financial base of these bodies. But these recommendations became out-dated by the time they were to be implemented and a fresh policy initiative was taken up in the form of Resolution of 1918.

The third period witnessed announcement of constitutional reforms. Both urban and rural local bodies were expanded all through out the country with democratic principles embodied in them. As a result, most of the provincial governments passed fresh laws for providing democratization of structure and substantial enhancement of the powers of the local bodies. However, due to lack of political maturity, the office bearers did not deliver goods and the bureaucracy did not support this structure for its own vested interest. Added to this, poor raising of resources and lack of financial support from the higher-level governments also dragged the growth of these bodies. In sum, we can say that before independence there was a marked change in the set up of these local bodies i.e. from the traditional village Panchayats to the modern rural local self-governments.
Origins and Evolution:

The origins of devolution to local bodies can be traced to 1862. From then on and especially from 1902 a number of enactment were legislated and some innovative scheme were initiated. Chief among these are the act of 1926 which abolished Taluk Boards. The principal legislative measures are:

1) V. Venkattappa Committee (1950) and Mysore village Panchayat and District Board Act (1952)

The committee recommended Group Panchayats and District Boards indirectly elected by members of the former. There was opposition to the absence of Taluk Boards, abolition of single village panchayats and indirect elections.


This Committee suggested a three-tier system with village Panchayats, Taluk Boards and District Boards. The Venkattappa and Chandrashekaraiya Committee differed from each other in significant ways. The former did not recommend taluk level institutions. It opted for Group Panchayats and District Councils. This committee was more innovative. It recommended a three-tier structure comprising of village panchayat, Taluk Boards and District Boards.

3) Kondajji Basappa Committee (1963)

Its principles recommendations were:

- Constituting the Grama Sabha and Nyaya Panchayat
• A three-tier structure of village Panchayats, Taluk Development Boards and Zilla Parishads.

• Legislators only as associate members (optional).

4) Mysore Panchayat Raj Bill (1964)

In the main bill followed the recommendations of the committee (1964). However, after the Joint Select Committee reported the bill was not processed.

5) Karnataka Zilla Panchayat, Taluk Panchayat Samities, Mandal Panchayats and Naya Panchayat Act (1983)

This pioneering act had strong antecedents in the proposed 1964 bill. However, it went further in terms of power of local bodies.


This has brought in avowedly as conformity legislation after the 73rd Amendment it also introduced other charges. These critics argue, have diluted the extent, purpose and power of the 1983 Act. It can seen later in this chapter.

Overview:

Overview of local government for the entire period before Independence there was not much evidence to suggest that local government institutions had either struck deep rooted or proved vibrant in relation to rural development. One comes across their financial unavailability as fairly constant refrain. A good deal of the substance in the arrangement of strong advocates of decentralization is that even the Constitutional Amendment has not made the
material difference it was expected to empowering local bodies. A number of committees were appointed by the government of India which dealt with various issues involved in the strengthening of the local bodies finance. However despite various committee realizing the importance of finance of local bodies, it was only through the 73rd Constitutional Amendment Act (CAA) 1993, with this new chapter IX was added to the constitution which provides inter-alia for the constitution of a Finance Commission for the state to review the financial position of local bodies. One comes across their financial unavailability as fairly constant refrain.

Facilitators:

After the aborted 1964 bill the state had to wait for almost two decades for the next milestone in devolution. The earlier decade received above a bounded (bordered) in committees on local government (later transformed into panchayati raj). Some experiments and continued controversy on the tiers of rural governance and their functional specifies the decade to be analyzed was almost silent on these issues.

One of the frequently discussed issues was number of tiers in local government. At the purely numerical level discussion has centred on two/three tiers. Major change only in 1983 can be seen. The bill proposed a two-tier structure eliminating the taluk level. Later 73rd amendment provided the opportunity by mandating a uniform 3-tier structure. The Karnataka Panchayat Raj Act, 1993 was claimed to be a piece of conformity legislations but critics argue that the government have clearly utilized the opportunity to introduce
charges which were not required by the constitution. Despite the amendment to
the 1993 Act, recently the government of Karnataka has constituted a Task
Force which suggests further changes and amendment which we learn are on
the anvil.

Devolution Pre-Independence Efforts:

It has been an agenda for a long time. Under princely rule very little
power was devolved on local bodies. Inadequate resources haunted them. But
there were interesting beneficial repercussion. V. Venkattappa Committee
(1950), Local Boards committee (1954) and Kondajji Basappa Committee
(1963) inquired into local government after Independence has more or less
attested to these claims. An important fact is the controversy which surrounded
the abolisation of Taluk Boards in 1926. Interestingly the taluk as a tier of local
government continues to bedevil policy makers. The Venkatappa Committee
(1950) attracted criticisms for not recommending revival of a taluk level and
partly resulted in the recommendations being shelved. Presently there are Taluk
panchayats, but their complaint is that they are uncomfortably sandwiched
between the Zilla Panchayat and Gram Panchayat. To return to the main theme
there was continuous interest in devolution.

Post Independence Development:

The appointment of two committees Venkattappa and
Chandrashekaraiya Committees (1950-1954) soon after independence
evidenced interest in three tire structure and its devolution. Both reports are
lucidly written. More important the latter made far-reaching recommendations
and in some senses was quite ahead of its times. Two of these committees are relevant between pre and post independence periods; continuity is found with respect to questions such as two versus three tiers, supervisory power of government etc. A gradual evolution is also perceptible. So are some disquieting trends. And they two are part of the legacy. The Chandrashekaraiya committee gave its report in 1954. It was not translated into legislation immediately. In the meantime the enlarged state was formed. Fortune favored it when it required power in 1989 through the three-tier structure mandated by the constitution in 1992. Academically, Karnataka attracts plenty of attention related to optimist and the intellectually committed to give more devolution.

The Balwantrai Mehta Committee Report was formulated recommending in effect of two-tier system. By the time a new legislation was framed in 1959. Ashok Mehta Committee Report has argued devolution in 1983 Act. Today PRIs and indeed devolution are not a matter of indifference. They have come to stay, not least because of the constitutional status which they enjoy. They occupy a distinct place within the overall system of governance.

In summing up Karnataka stands out

- The state has long history of attempts to devolution.
- Devolution has had the advantage of facilitating factors, social and political
- Reports, of excellence quality and far-sighted, have rarely been quickly translated into action.
• In many respects the state has shown commendable vision.
• The inter-tier problem is also long standing.

1.3 73rd CONSTITUTIONAL AMENDMENT

Local bodies have been in existence for a long time. They are fairly vibrant bodies but eventually various socio-political factors disintegrated these bodies. The past experience has been a state of neglect and improvement. It has been observed that these institutions have not been able to acquire the status and dignity of viable and responsive people’s bodies due to a number of reasons such as inadequate devolution of power and lack of financial resources.

73rd constitutional Amendment Act (CAA) became effective from 24th April 1993. It created a uniform three-tier system of rural government at the District, Taluk and village level. It provides for transfer of responsibilities and tax powers from the state government to these bodies. It has brought the standardized system of devolution to Karnataka. 73rd Constitutional Amendment Act is the landmark in the evolution of democratic decentralization.

Pre-73rd Constitution Amendment:

Karnataka has made rapid strides in the empowerment of local government much before the 73rd Constitution Amendment Act came into force. The Karnataka Act, pertaining to local government that came into force in 1983, was highly progressive and innovative piece of legislation that,
1) For the first time brought a big chunk of planning and development activities under local governments.

2) The introduction of 25% reserved seats for women.

In 1985, administrative and financial powers were devolved to the District and Mandals. The Panchayat Act 1985 empowered the local governments to carry out most of the development functions. The financial devolution to the local government programmes were placed at the disposal of the Mandal Panchayat, in addition to per capita grant of Rs.10. These features were discontinued in the Karnataka Panchayat Raj Act 1993.

Post 73rd Constitutional Amendment:

Karnataka enacted the Karnataka Panchayat Raj Act in 1993, which was in consonance with the provisions of the 73rd constitutional Amendment and conducted elections to the local government in the same year. Karnataka has approximately 5659 gram panchayat, 175 Taluk Panchayat, and 27 District panchayats. The population range of a gram panchayat (GP), Taluk Panchayat (TP), and District Panchayat (DP) are 5000 to 7000; 10,000 and 40,000 respectively.

The 1993 Act provided for committees at all levels of the local government. It has transferred all the 29 subjects enumerated in the 11th schedule. However, critics of Karnataka decentralization point out that the devolution has been confined only on paper. Karnataka has constituted District Planning Committee (DPC), District Rural Development Agency (DRDA) has been merged with the local government.
First State Finance Commission recommended the share of local bodies in the ratio of 40:35:25 to ZP, TP and GP respectively. The state government devolved significant proportion of the State Non Loan Gross Own Revenue Receipts of 36.6% to panchayats. However, the Second State Finance Commission recommended share in the ratio of 65% and 35% to ZP and TP. Non Loan Gross Own Revenue Receipts has also been increased to 40% and in that 32% should go to PRIs as recommended.

The major difference between the Pre 1993 Amendment - Post 1993 Amendment dispensations is that the functional responsibilities which were distributed between two tiers of panchayats earlier have been redistributed among the three tiers. The functions entrusted to ZP in the earlier system are now being shared by both Zilla Panchayats and Taluk panchayats. At present, there is no distinction between the obligatory and the discretionary functions.

Article 40 of the constitution which enshrines one of the Directive Principles of State Policy (DPSP) lays down that the state shall organize village panchayat and endow them with such power and authority as may be necessary to enable them to function as units of self-government.

In line with the 73rd CAA, Karnataka has in formal sense transferred functions which are not exclusive to local bodies. They are exercised concurrently with the state government and the extent of devolution of powers, functions and finance is at the discretion of the state government. These are laid down broadly in the articles 243-G, 243-H, 243-I, 243-J, 243-N and 243-O. These articles were laid down for local bodies to take on the challenge of
effectively performing the functions indicated for them in schedule Eleventh of the constitution.

Even after getting constitutional status to panchayat raj institutions, power and functions are not properly devolved to them. The clear emphasis is on good governance and accountability through devolution. From an operational perspective, in Karnataka the third phase of devolution is characterized by a focus on empowering the gram panchayat with Zilla Panchayat and Taluk Panchayat taking on the roles of facilitation capacity building and co-coordinating. The thrust is towards ensuring that the Gram Panchayat (GP) functions effectively as an instrument of people’s participation.

Problems of devolution are:

- Local bodies do not receive sufficient funds from government to fulfill their expenditure requirements.
- Grants given to local bodies do not reach in time.
- Power and functions are not properly devolved to them.
- Devolution of powers, functions and finance is at the discretion of the state government.
- Devolved Funds reaches local bodies late due to passing from state to ZP and ZP to local bodies.

With the above background the objectives, hypothesis and methodology of the present work are stated below.
1.4 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.

1.5 HYPOTHESIS

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

1.6 METHODOLOGY AND SOURCES OF DATA

The present study is mainly concerned with Karnataka State. Present study is analytical in nature and is based mainly on both Primary and Secondary data. Secondary Data is obtained from published as well as documented sources, pertinent literature, and previous studies. The reports of SFCs have been critically analyzed and reviewed to draw inferences, trends, and conclusions. Although the data relating to Rural Local Bodies is lacking, efforts have been made to collect data.
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 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. Based on the Composite Index the Taluks and Gram Panchayats are selected. The methodology of selecting Taluks and GPs for the study is explained in chapter V. Relevant and useful statistical techniques have been applied to analyze data.

1.7 LIMITATION OF THE STUDY

The present study is based on Rural local bodies in Karnataka. Urban bodies have not been considered. Main focus of the study is on Panchayat Raj Institutions as they function from grassroot level. Higher bodies like Zilla Panchayat and Taluk Panchayat are not studied here. Secondary data have been collected from the First and Second State Finance Commission Reports of Karnataka to check and analysis the devolution. Primary data is collected to check the revenue and expenditure of local bodies and their performance in each Gram panchayats only and devolution taken place form state.

1.8 LAYOUT OF THE STUDY

The first chapter consists of introduction and evolution of local bodies in Karnataka, Objectives, Hypothesis, Methodology, and Data Collection of the
study. The second chapter deals with review of literature, gap of the study and importance of the study. In third chapter organizational aspect of local bodies is taken. Local bodies' structure, powers, and functions and overlapping of functions and finance and activity mapping has been discussed. The fourth chapter deals with devolution and SFCs Report. The chapter also deals with fiscal autonomy, dependency of local bodies on state government and resource mobilization is also looked upon. Fifth chapter deals with sources of revenue in selected taluks. Sixth chapter deals with analysis of expenditure in selected taluks. The seventh chapter deals with analysis of grants in selected taluks. Last chapter consists of findings and conclusion.