

Fiscal Decentralization to Rural Local Governments in India: Selected Issues and Reform Options

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CHAPTER I

Decentralization to Rural Local Governments in India: A Summary and the Starting Point

1. Introduction

There has been a world-wide trend towards decentralisation in recent years. Many countries have experienced devolution of administrative, political and fiscal responsibilities to lower levels of government. Dissatisfaction with the prevailing centralised systems of service delivery, transition from centralised planning to market economy, deepening democratic principles and increasing need to recognise social, economic and political diversities in different regions within the countries are some of the important reasons cited for this phenomenon. This trend towards decentralisation is seen in countries with federal as well as unitary systems; it has spanned across developing as well as developed countries. The trend was also seen in transitional countries and even military dictatorships as in democratic countries (Litvack, Ahmad and Bird, 1998).

The world-wide trend towards decentralisation has been accompanied by animated discussions about its gains and losses. Many analysts find inherent merit in decentralisation; often it is considered to be a constituent of human well being and therefore, an end in itself. In many countries, policy makers see decentralisation a panacea for many ills afflicting the society. It is perceived as an important means to enable efficient allocation of resources, improve governance, accelerate economic growth, reduce poverty, achieve greater gender equity and empower weaker sections of society. In contrast, arguments against decentralisation have focused on the weakening the capacity of the central governments to undertake macroeconomic stabilisation, efficiency loss due to poor administrative capacity of local governments to undertake the functions assigned to them and potential for increased corruption (Prud'homme, 1995; Tanzi, 1996, 2001). The empirical studies are yet to settle the issue of the impact of decentralisation on efficiency, growth, poverty and governance.

In keeping with the global pattern, in India too there has been a trend towards greater devolution of powers to urban and rural local governments particularly during the since the 1990s. Of course, attempts to decentralise the administrative system and establishment of self governing institutions has much longer history and there have been sporadic attempts at devolving powers and rights to rural and urban local governments, particularly after independence. However, the impetus gained momentum with the statutory recognition of local bodies as institutions of rural and urban self-government after the 73rd and 74th Constitutional amendments in 1992. Although this was done not as a component of structural reform, the attempt to decentralise allocative decisions was in conformity with the change in the development strategy towards a more open and market friendly economic regime.

2. The System

The 73rd Constitutional amendment envisages panchayats to be institutions of self-government. The State legislature is required under Article 243 G of the Constitution to transfer such powers, functions and responsibilities to village, block and district panchayats to enable them to function as institutions of self-government. The 11th Schedule to the Constitution lists 29 broad areas for the panchayats. In respect of these functions, the State governments, at their discretion are required to devolve the functions to panchayats and the latter are required to undertake them concurrently. The legislature is also required to appoint a State Finance Commission (SFC) to make recommendations on the sharing and assignment of various taxes, duties, tolls, fees etc. and on the grants-in-aid to be given to the panchayats from the consolidated fund of the State.

With the Constitutional amendment, recognition was given to the local level at village, block and district levels, and in 2009 there were as many as 2,39,432 village panchayats including village councils, 6,087 panchayat samities (i.e., block level panchayats), 543 district level panchayats and 14 Autonomous District Councils (ADCs). Thus, altogether, there were 2,46,076 rural local governments at village, block and district levels in the country. Perhaps, this constitutes one of the largest governmental systems in any democratic polity.

The fiscal decentralisation envisaged in the Constitutional amendments has the potential to significantly improve the efficiency of public services delivery in the country. In principle, the

constitutional empowerment of the panchayats enables the panchayats to elicit the preferences of people for public services and has the potential to provide public services according to the preferences efficiently. However, in reality, the situation is different. Despite Constitutional recognition, the design and implementation of rural decentralization do not enable the panchayats to be the institutions of rural self government. The available information shows that in terms of both the revenues raised and expenditures incurred, panchayats play a negligible role.

The Assignment System: Devolution of powers to the panchayats is done under Article 243 G of the constitution which states, "...the Legislature of a State *may*, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self government..." (emphasis added). An important feature of this provision is the discretionary nature of the devolution. The fact that a State *may* endow powers to the panchayats implies that the devolution of functions is to be done at the discretion of the state governments.

Schedule XI to the Constitution specifies a list of 29 areas for the panchayats. The important areas include agriculture, land improvement, minor irrigation, development of water bodies and watershed development, education, healthcare, water supply and sanitation, rural housing, poverty alleviation rural roads, women and development and social welfare. In respect of these areas, the state legislature is required to devolve the functions, functionaries and assign revenue bases or transfer funds to carry out these functions satisfactorily. The extent of devolution of powers as stated above, however, is at the discretion of the state government and the latter undertakes the functions in these areas concurrently with panchayats.

There is considerable difference between what is intended in law and how it is implemented. By all accounts, the states have been reluctant to devolve powers to local governments. Most state governments have devolved only a few of the 29 functions listed in the schedule and the powers devolved even in respect of the devolved functions are not significant. In other words, none of the state governments has devolved the functions after a proper examination of activities the local governments can effectively implement. In fact, there are several functions outside the 29 functions listed which can be undertaken meaningfully at local levels and in respect of the functions listed, given that the functions have to be carried out concurrently with the State governments or parastatals

and independent agencies created by the state governments, it is necessary to undertake a clear activity mapping to achieve clarity in assignments.

The major considerations in transferring the functions are (i) the capacity of the rural local governments to carry out these functions, and (ii) the strategy to deal with the employees who have been undertaking these tasks at the State level. Many State governments transfer the functions to the panchayats along with the employees and estimated finances to pay the salaries of the employees and meet non-salary components of these functions. However, in order to make the system implementable and ensure compliance of the employees to the new plan, the transfers have been tied to several schemes that were originally implemented by these state government employees. With State governments continuing to exercise the powers of transfers and promotions of these employees, the accountability of the employees to the panchayats is totally lost.

Devolving functions in terms of schemes has robbed the advantages of fiscal decentralisation altogether. The basic advantage of fiscal decentralisation is to enable the local governments to provide public services according to the preferences of people. By devolving the functions in terms of schemes, autonomy and flexibility required to implement expenditure programs have been denied to the panchayats. The analysis of transfers given to various schemes in Karnataka, for example, shows that in 2000-01, of the total amount transferred, rural local governments had complete autonomy and flexibility in spending in respect of only about 3.2 per cent of the funds. Of the total expenditure, 5.8 per cent was earmarked for salaries, 11.5 per cent was meant for onward transfers to schools and other institutions, earmarked transfers to individuals constituted 9.8 per cent and 15.6 per cent was meant for specified projects (Rao, Amar Nath and Vani, 2003). Thus, fiscal decentralisation is basically a fiscal de-concentration in the Indian context achieved through the top-down process.

A critical factor in improving fiscal autonomy of rural local bodies is to enhance their own revenues. Improving own revenues is important also to strengthen the link between revenue and expenditure decisions of the rural local bodies at the margin, which is extremely important to promote both efficiency and accountability in the provision of services. At present, the rural local bodies at district and block levels do not have worthwhile own revenue sources. They can raise

revenues, *albeit* meagre, from rents on the buildings let out by them. From the viewpoint of raising revenues, village panchayat is the only meaningful tier of decentralization among rural local bodies. The analysis shows that in 2002-03, the own revenues of panchayats constituted 0.07 per cent of GDP or 0.36 per cent of total revenues raised in the country.

Major revenue raising powers assigned to the village panchayats comprise of (i) tax on land and buildings not subject to agricultural assessment; (ii) taxes on entertainment other than cinematograph shows; (iii) taxes on vehicles other than motor vehicles; (iv) taxes on advertisements and hoarding; (v) pilgrim fees on persons attending jattras, festivals etc., where the village panchayats make arrangement for water supply and sanitation; (vi) market fees; (vii) fees for registration of cattle brought for sale to the market; (fees on buses and taxies and auto stands if the panchayat provides facilities for travellers and (ix) fee for grazing cattle in the grazing lands. Of these, only the tax on land and buildings other than agricultural land has some revenue significance. Other taxes are not important either because, the tax base is negligible or the local bodies do not have the capacity to administer them. In respect of taxes on land and buildings too, the village panchayats can levy and collect this tax subject to the specified exemptions and ceiling rate specified.

There are two important problems with respect to the assignment of tax powers to panchayats. The first is that although in terms of numbers there are quite of few taxes, none of the tax handles is significant from the viewpoint of generating revenues except the property tax. Thus, any serious attempt to improve the fiscal autonomy of the panchayats should ensure greater tax powers to them. It is only when the tax powers are assigned to the panchayats that they would be able to improve the standards of public services, ensure greater efficiency and accountability the provision as there would be greater correspondence between tax payments and benefit from public services.

Equally important problem is the lack of capacity of rural local governments to administer the levy. At present, even in the case of property tax, administration and enforcement of the tax has left much to be desired. The panchayats have to levy the tax below the ceiling rate stipulated the State governments and obsolete method of determining the base of the tax ensures significant

undervaluation and this has rendered effective rates even lower. Thus the demand for property tax collections is much less than the potential. Furthermore, even the low level of tax demand is not actually collected by the panchayats. Even the low effective rate has not helped have a high degree of compliance. There is considerable scope for reforming the property tax system and build capacity in the panchayats to implement it to ensure meaningful fiscal autonomy for the panchayats.

3. Intergovernmental transfers

According to the implementable rules of fiscal decentralization, finances should follow functional assignments (Shah, 1994; Bahl, 2002). It should also be noted that a sound system of fiscal decentralization should ensure a clear linkage between revenue and expenditure decisions. This implies that decentralized levels of government should have powers to raise revenues to enable them to finance public service levels preferred by their residents. Assigning revenue powers and ensuring their effective use, therefore, is extremely important to ensure efficiency as well as accountability in the provision of local services.

The next step in the design of the transfer system is to estimate the fiscal requirements which can not be covered by their own sources of revenue. Indeed revenue bases assigned to the local governments in all multilevel fiscal systems are inadequate to meet their expenditure requirements because, local governments have comparative advantage in implementing expenditures due to their lowest transaction costs but comparative disadvantage in raising revenues for, all broad based, mobile and redistributive taxes can be effectively levied only by the higher level governments. Besides, there are significant differences between different local bodies in their capacity to raise revenues and costs of providing public services. These vertical and horizontal fiscal imbalances have to be offset thorough a system of intergovernmental transfers. Such transfers have to be unconditional but should not have disincentives for resource mobilisation nor should it encourage fiscal profligacy.

In addition to these general purpose unconditional transfers given to *enable* the panchayats to provide a normative standard of public services at stipulated revenue raising effort, it is important to *ensure* prescribed standards of services in the local bodies in respect of some basic services having a bearing on the life of people. These include interventions such as

poverty alleviation, provision of basic education, healthcare, housing, water supply and sanitation and nutrition and child development. Many of these interventions are of national concern, need to be achieved according to nationally set standards and would need to be designed at the national level. Others may be of state wide importance and scope. However, local bodies have comparative advantage in implementing all these services due to lower transaction costs. To *ensure* that the prescribed minimum standards of services are provided in the case of these interventions, specific purpose grants will have to be provided. However, it is important that the design of such transfers should not constrain the capacity and initiative of the local governments, should have sufficient flexibility to enable efficient provision of such services.

Thus, a good transfer system requires designing of the unconditional transfers to offset the general fiscal disabilities of panchayats. The provision for the appointment of the State Finance Commission every five years is essentially to assess the expenditure requirements of Panchayats for carrying out the functions devolved to them at all the three levels, assess their capacity to raise revenues from the sources assigned to them and recommend grants to meet the remaining requirements for the five years under their consideration. In addition to the state transfers to the panchayats based on the recommendations of the SFCs, the central government also gives grants based on the central Finance Commission. One of the terms of reference to the Central Finance Commission is to make recommendation on the "...measures need to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State".

The functioning of the SFCs, the nature and quality of recommendations made by them and States' attitude in implementation does not bring much cheer. In many of the states, SFCs are not constituted regularly, in some states the Chairpersons and Members are not drawn from among the experts, but from politicians and bureaucrats. Also, unlike in the case of the Union Finance Commission where there is a healthy tradition of accepting the recommendations by the Government, rarely do the states accept the recommendations and implement them. A part of the reason for this has to be found in the poor quality of analysis and recommendations. Many of the SFCs make their recommendations without much analysis of the capacities and needs of the panchayats. In fact, most SFCs make their recommendations without collecting and analysing

even the basic data on the revenues and expenditures of panchayats at the three levels. There is hardly any analysis on the revenue capacities and expenditure needs of the panchayats wither in official or academic literature. Not surprisingly, clear activity mapping in the states is yet to be done in the states and in the absence of this, estimating expenditure requirements in a scientific manner could not be done. The consequence of this has been that a scientific system of transfers from the States to Panchayats is yet to be developed. As regards the general purpose transfers given on the recommendation of the Union Finance is concerned, it is at best, an exercise in tokenism; the volume of transfers is negligible in relation to the expenditure requirements. Thus, in most of the states, general purpose unconditional transfers are not very significant and where they exist, they are given on the basis of a properly designed formula.

As mentioned earlier, the scheme based devolution of functions to panchayats in many states has robbed autonomy and flexibility to Panchayats. In addition to the state schemes, there are a number of central schemes which are passed on to the panchayats for implementation. These include schemes on poverty alleviation, education and nutrition, health, water supply and sanitation, women and child development, rural housing, rural roads and rural electrification. The total expenditure on these schemes estimated in the 2009-10 budget is estimated at Rs. crores. Funds for many of the schemes other are directly given to the panchayats/DRDA at the district level. It is necessary to consolidate these multitudes of central and state schemes and provide untied funds to the panchayats to carry out the functions assigned to them. The Report of the Expert group on Planning at the Grassroots Level has made significant recommendations in this regard (India, 2006).

4. Reforming Rural Fiscal Decentralisation in India

Unfortunately, decentralization to rural local governments, as it has been calibrated in India has not had the desired effect of improving the standards of public services for a variety of reasons. The preceding analysis brings out the shortcomings in policies, processes and institutions. The analysis underlines weaknesses in both design and implementation. First, as mentioned earlier, there were inherent problems with the design of decentralization. Devolving functions segmented into various schemes and prioritising them has meant that the rural local bodies do not take any

decisions, but simply implement the schemes designed by the State/Central governments. Second, rural local governments do not have the incentive to raise revenues. Overwhelming proportion of the transfers is scheme based and the preoccupation is with implementing them - particularly those involving contractors. There are serious problems of design and implementation of the tax systems and in any case, the rural local governments' perspective is that they are meant to merely implement the schemes transferred to them by higher level governments and not take any fresh initiatives. Besides, raising revenues in a local area with skewed power structure has not been easy and it is not surprising that not only the property taxes are low, but even that is not collected properly. As the state governments themselves faced increasingly constrained fiscal environment due to large additional liability arising from increase in the pay scales on the one hand, and a steady decline in central tax devolution on the other, the standards of services have actually declined. Thus, while the schemes were transferred, commensurate funds to implement these schemes were not provided for and this has only caused the standards of services to decline.

The rent-seeking behaviour on the part of the local politicians only exacerbated the problem. In some states rotation of Sarpanch/Pradhan of the village panchayat was introduced and when in office, the Sarpanch/Pradhan found it lucrative to initiate a number of works and award contracts. Thus, too many projects are taken up with significant time and cost overruns, and the initial years of each Sarpanch is spent not in planning but in seeing the semblance of completion of projects undertaken under the previous regime. He in turn awards contracts, which will eventually be completed by his successors, with significant efficiency cost.

In the literature, much has spoken about the gains from decentralization. However, these gains accrue when the decentralization is designed according to the implementable rules and there are institutions at the local government level to carry out the functions. However, the decentralization that is attempted in India below the state level does not follow the implementable rules¹. Perhaps, this has to be expected, for, reforms are not implemented *de novo*. Any attempt at achieving greater degree of decentralization starts from the given scenario and it may not be possible to implement the benchmarked rules. In such an environment, it is possible to implement only incremental changes.

¹ For a detailed exposition of implementable rules of decentralization, see, Bahl (2002).

To enable fiscal decentralization can play an important role in providing public services at local level a number of reforms at the local government level should be carried out. These include (i) clear activity mapping based on comparative advantage in implementing expenditures and devolution of functions to the panchayats based thereon; (ii) providing appropriate revenue handles to local bodies; (iii) guiding the local governments to undertake reforms in their tax systems, particularly taxes on land and property; (iv) capacity building of local governments to enable them to raise resources and provide public services efficiently; (v) unbundling the state sector schemes and consolidating the central sector schemes to enable greater flexibility and autonomy to panchayats in the implementation; (vi) Professionalisation of SFCs and reforms in the state transfers to make them adequate, rule based, equitable and incentive compatible; (vii) all these are possible only when there is an up to date information system comprising of fiscal, demographic, geographical and economic data for the village, block and district panchayat jurisdictions.

Some of the suggested reform measures are explained in greater detail. Indeed, given the vast diversity and differences in the capacity of panchayats and varying institutional realities and power structure and asset distribution in rural areas, it would be misleading to suggest one design of local government system to all states. Each state should evolve its decentralization system and institutions taking into account the institutional realities in the state, state of land distribution, nature of power structure and the capacity of local institutions to design and implement fiscal decisions. Nevertheless, there are important general reform issues applicable to all the states and these are detailed in the following.

Keeping these issues in view, the Ministry of Panchayati Raj sponsored a comprehensive study on the financial domain of the panchayats to be undertaken by the NIPFP with the following terms of reference:

- (1) A critical appraisal of the basic theories of fiscal decentralization and in the light of the theoretical propositions, evaluation of the actual decentralization process in India since the 73rd and 74th constitutional amendments. This should lead to recommendations on the structure of decentralisation.
- (2) Analysis of state-wise functional devolution to Panchayats and devolution of finances to examine the correspondence of the one with the other.
- (3) Critical review of the fiscal transfer system and formulae adopted by various states in the devolution to the Panchayats. Analysis of the objective of State transfers to Panchayats and evaluation of the extent to which the objectives have been achieved in

- the actual transfer systems in terms of achieving equity in adequacy to ensure the required level of public service delivery.
- (4) Examination of budgeting and accounting practices in States with regard to Panchayats to understand how fiscal transfers to Panchayats are demarcated and indicated. The analysis should bring out the inadequacies for demarcating allocations and classifying them into budget heads.
 - (5) Analysis of various methods of physical transfer of funds and see its actual functioning both through treasury and banks.
 - (6) Evaluation of the delegation of financial powers to the Panchayats to analyse how a good fiscal transfer design can be stymied by poor delegation of financial approval powers.
 - (7) Analysis of the status of own revenues of Panchayats across states with a view to recommending measures to enhance revenue mobilization.
 - (8) Examination of the approach of the states towards the State Finance Commissions' recommendations and how far they have been accepted and implemented in various states.
 - (9) Finally, suggestions for improvement in each area of reforms for effective decentralization of function and finance and classification of the states based on the effective decentralization.

Collection of important documents and material required for the study, particularly the information relating to Activity Mapping in the States took considerable amount of time. With the submission of the Report by the Thirteenth Finance Commission, the Ministry of Panchayati Raj felt that it is not necessary to deal with all the terms of reference. The Ministry, therefore suggested that the study may be discontinued and the report submitted on whatever aspects the work was completed. As the work on various aspects of the terms of reference were in different stages, we had to devote considerable amount of additional time to ensure that the completed work provides some meaningful insights into the problems confronting rural fiscal decentralisation in the country. Accordingly, the report has been prepared which broadly addresses many of the issues referred to in the terms of reference. Nevertheless, it must be mentioned that to comprehensively deal with the terms of reference, considerable additional time and resources would be necessary and in that sense, the study is by no means complete.

In particular, the work on Activity Mapping has been carried out only in twelve states, though the methodology to undertake the exercise has been elaborated in detail in the Annexure. Nevertheless, it provides useful insights into the issue of ensuring clarity in functional assignments by undertaking the exercise. We hope, similar exercises will be taken up based on

the methodology designed by so that the rural local governments are enabled within a clearly defined functional space.

The next chapter makes a detailed review of the literature on fiscal federalism with a view to bring out the broad lessons. Chapter III makes a critical of the functional devolution to panchayats. The status of activity mapping in different states is also analysed in chapter III. The chapter also provides a framework for activity mapping of the functions in selected States. Chapter IV analyses the reform issues relating to Panchayat's own revenues. Chapter V discusses the problems in the functioning of the State Finance Commissions. Chapter VI pulls together the conclusions from various chapters.

CHAPTER II

Theories of Fiscal Federalism and Decentralisation

1. Introduction

There has been a worldwide trend towards decentralisation in recent years. Many countries have experienced increasing devolution of administrative, political and fiscal responsibilities to lower levels of government. Dissatisfaction with the prevailing centralised systems of service delivery, transition from centralized planning to market economy, deepening democratic principles and increasing need to recognize social, economic and political diversities in different regions within the countries are some of the important reasons cited for this phenomenon. More importantly, it is important to note that inclusive growth is possible only when there is inclusive governance and effective decentralisation is the only way to ensure the latter.

The increasing trend towards fiscal decentralization noted above is an empirical fact observed in many countries, but there are equally strong theoretical reasons for the phenomenon. This paper reviews theoretical literature on fiscal federalism. At the outset, it must be stated that there is no unified theory of fiscal federalism, but a series of propositions providing norms as to how the multilevel fiscal systems should behave or making generalizations on how they actually do. Much of the traditional theories or what is now referred to as the ‘first generation theories’ underline the welfare gains from decentralisation based on the assumption of a benevolent state. In contrast, the second generation theories (SGT) of fiscal federalism expand the framework by assuming that various agents of the government have their own objective functions rather than the state maximizing the welfare of the people. This gives rise to application of industrial organisation theories to the problems of decentralization and more particularly, the principal-agent framework and developments in market promoting and competitive federalism literature. While it is difficult to deal with the literature in detail, the important nuances and the developments in the literature with important lessons for countries like India are discussed in the following.

2. Traditional Theories of Fiscal decentralization

The traditional theoretical approach or what is now called the “First Generation theories” (FGT) of fiscal federalism. This has two major shortcomings: First, much of the mainstream literature takes a view that governments are benevolent and do everything to counter market failures. Second, the normative framework in this body of literature has been developed in the context of developed market economies. Uncritical application of the normative framework in the context of developing and transitional economies with heavy emphasis on planning could be misleading. In contrast, the second generation theories do not approach the subject assuming

Fiscal federalism is considered to be an optimal institutional framework for the provision of public services. As observed by Alexis de Toqueville more than a century ago, “The federal system was created with the intention of combining the different advantages which result from the magnitude and littleness of nations” (1980, Vol. 1, p. 163). The basic issue, however, is that of aligning responsibilities and appropriate fiscal instruments to carry them out to different levels (Oates, 1999). The advantages from the magnitude and littleness can be realised only when the functions of different levels of governments and various units within each of the levels are clearly specified so that economies of scale in the provision of services reaped, advantage of a large common market is realised while retaining the individual identities and public services according to the diversified preferences of people across the nation are provided. This involves mapping the public services to various governments and jurisdictions within each level of government depending on their comparative advantage in terms of their capacity and willingness (incentive) to respond to diverse preferences, reap scale economies, and minimize transaction costs in the provision of public services.

An important implementable rule of fiscal decentralization is the clear assignment of revenue handles to effectively implement the functional responsibilities (Bahl, 2002). Finances should follow functions so that the subnational governments can vary the public services across jurisdictions according to the preferences of the people by varying tax payments on them. Assignment of revenue sources is necessary for, a strong link between the decision to spend and the decision of raise revenues to finance the spending imparts greater efficiency and accountability in public service provision. Thus, proper assignment of functions and sources of

finance, consequences arising from their overlap and the mechanism to match their functions and finances both vertically among different levels of government and horizontally among different governmental units constitutes the subject matter of fiscal federalism.

From this perspective, fiscal federalism is simply an efficient organisation of the multilevel public sector. As Stated by Oates, "...the term *federalism* for the economist is not to be understood in a narrow constitutional sense. In economic terms all governmental systems are more or less federal: even in a formally unitary system" (Italics in the original; Oates, 1977; p. 4).² Similarly, Bird (2000, p. 135) states, "...in the traditional world of *fiscal federalism* in principle everything – boundaries, assignments of finances and functions, the level and nature of transfers and so forth – is malleable."³

The above formulation, however, blurs the difference between decentralisation and federalism. According to Watts (1996), the structure can take the form of "Decentralised Unions" which are basically unitary states in which subnational units have greater or lesser degree of policy autonomy devolved to them by the Central government or *formal federations* which combine a strong Central government with sub-central tiers having their own powers. Indeed, there can be considerable divergence between formal and operational federation, but nevertheless, as a rule there is considerable devolution of powers in formal federations.

Thus, formal federal systems, besides decentralisation, have additional pre-requisites. Most importantly, the issue is not merely one of having an efficient assignment system; it is also important to see how the assignments are made and are the assignments extinguishable. Although it is difficult to get instances of classical federalism conceptualized by Wheare (1964) in which, the participating governments are "coordinate and independent", the assignment system must be determined independently and should have a measure of permanence. There should an effective system of checks and balances to ensure a measure of permanence. In confederal systems, the assignments are done by lower level governments (States) whereas in

² Not surprisingly as Breton (1981, p. 253) States, "Political scientists who know better, have in their more generous moments treated economists as poor souls with a model in hand in need of an application"

³ Bird (2000) makes a distinction between fiscal federalism and federal finance. In his formulation, under fiscal federalism everything - boundaries, assignments, and the transfers - is malleable, under federal finance these must be taken to be fixed at some earlier (constitutional) stage and not open to further change under normal circumstances.

decentralized systems, powers are assigned by senior level governments. A federal system is the one in which the entire set of powers – legislative, fiscal and regulatory - are divided in the Constitution or conventions between different levels of government. There is a measure of permanency in the assignments and in particular, the powers given to lower level governments can not be extinguished by higher level governments (Breton, 2000). Thus, checks and balances to safeguard the system is an inherent part of the federal system whereas, decentralisation does not necessarily entail that. In other words, all federal systems are decentralized whereas all decentralized systems are not federal. The Constitution and other institutions set up to ensure checks and balances and safeguard the domains of different levels of government are inherent components of a federal system.

The political theories make out the case for federalism on the basis of freedom and representation⁴, safeguarding group identities and ensuring security and stability through bargains. On the other hand, economic theories of federalism focus on creating multilevel public sector governance systems to improve efficiency. The traditional analysis or what has come to be known as the first generation theories of economic federalism (Qian and Weingast, 1997; Oates, 2005) implicitly assume that governments are “benevolent” and as “custodians of public interest”, they seek to maximize social welfare. They demonstrate the superiority of the decentralized system over the centralized provision of public services. The new approaches to fiscal federalism or the second generation theories consider the assumption of benevolent governments unrealistic and take that agents within the governments (bureaucrats and politicians) have their own objective functions operating within the constellation of incentives and constraints depending on the given fiscal and political institutions (Oates, 2008). They model the inter-governmental behaviour in terms of principal-agent relationship, underline the importance of hard budget constraints and focus on the importance of competition – both vertically between different levels of government and horizontally among different units within the same level to enhance efficiency in the delivery of public services.

The normative framework of fiscal federalism laid out by the traditional theory presents the assignment of functions to different levels of government as well as appropriate fiscal

⁴ For a review of various political theories of federalism, see Rao and Singh (2005).

instruments to carry them out. Broadly, the theory states that redistributive and stabilization functions belong to the realm of the Central government due to the innate constraints in carrying them out by sub-national governments. In the case of the former, the constraints are posed by the potential mobility of economic units and in the case of the latter, lower potency of the policy instruments due to spillovers arising from the open nature of sub-national economies. However, in carrying out the allocation function, subnational governments have a predominant role. The theory also lays down the norms for the assignment of fiscal instruments to finance the assigned functions. From the efficiency point of view, the decentralised governments should not only refrain from levying non-benefit taxes on mobile economic units but they should actually levy benefit taxation when these mobile units receive benefits from the services provided by them⁵. In addition, there is clearly a case for levying taxes on immobile factors.

A general contention is that decentralised system of governance enables greater efficiency in service delivery. One of the earliest formulations of efficiency rationale for decentralisation was by Tiebout (1956). When there are a large number of localities with different public service – tax mix, and people have footloose mobility, they “vote on their feet” to move to the localities that provide the fiscal package best matching their preferences. In the limiting case, this process can generate an efficient equilibrium outcome. Even when the assumption of ‘footloose’ mobility is relaxed, Oates (1969) shows the superiority of decentralised solution as fiscal differentials are capitalized into property values.

Much of the focus of the first generation theories of fiscal federalism, however, is in demonstrating the superiority of decentralised system over the centralised by exercising their preferences through “voice” – the voters influencing the decisions through the ballot and this is characterized by the ‘decentralization theorem’. The theorem States, “ in the absence of cost savings from the centralized provision of a (local public) good and of inter-jurisdictional externalities, the level of welfare will always be at least as high (and typically higher) if Pareto-efficient levels of consumption are provided in each jurisdiction than *any single, uniform* level of consumption is maintained across all jurisdictions” (italics added; Oates, 1972, p. 54). Notably,

⁵ This, in fact could result in loss of efficiency on another count. Levying benefit taxes on mobile manufacturing activity could result in source-based as against residence-based taxation. See Oates (1999).

in this formulation, the lower efficiency is due to uniform provision of public services and not due to centralization *per se*. Nevertheless, ability of the centralized system in meeting diverse preferences is limited by informational and political constraints and hence, the superiority of decentralized provision of public services (Oates, 1999).

The decentralisation theorem rests on two basic assumptions. First, the governments are benevolent and maximize outputs of public goods so as to maximize the welfare of their residents. Second, centralised provision necessarily results in uniform level of public outputs in all jurisdictions. The support for this is taken from the fact that it is difficult for the Central government to obtain the information needed to provide public services according to diverse tastes and preferences. Second, it may be politically infeasible for the Central government to vary the levels of public services across jurisdictions. These are discussed briefly below.

The classification of public sector according to Musgrave-Oates trilogy – of redistribution, stabilization and allocation results in the first two being predominantly carried out by the Centre and the last – the allocation function being mainly the responsibility of subnational governments. The considerable information asymmetry in carrying out the allocation function at the Centre places the decentralised governments at an advantage. In real world situations, however, it is impossible to attribute divide the powers to the levels of government corresponding to Musgrave-Oates trilogy. Even conceptually, efficiency of the decentralised system in the allocation function presumes that there is an omniscient Central government or a Central planner who has perfect information about the preferences of people, degree of spillovers and magnitude of scale economies of different public services in order to be able to determine the assignment system and a system of transfers⁶. In a setting of perfect information, it would be possible for the benevolent central planner to provide different sets local public services that maximizes the social welfare. As Breton (1995, p. 185) has noted, “If Central governments could perform the difficult task of estimating marginal spillover flows and designing the appropriate grants program, a division of functions is not only unnecessary but wasteful.”

⁶ Interestingly, Breton (1965) was the earliest to demonstrate the superiority of decentralization which was later developed by Olson (1967) and Oates (1968) into what has come to be called the “decentralization theorem”.

However, informational and political constraints could prevent the Central planner from generating an optimal pattern of local public services (Oates, 1999).

The issue is important because, potential welfare gains from decentralisation are large. The gains depend on variations in demand and the gains are inversely related to the price elasticity of demand for local services. Although there are no empirical studies on the demand for local services in India, the evidence from the US shows the price elasticity of demand for local public services is low (Bradford and Oates, 1974; Rubinfeld, 1987). Indeed, technological developments could lower the information cost and reduce information asymmetry and this may favour increased centralization in respect of some services. It is also possible that often the case that is made for decentralization is, in fact, a case for privatization rather than decentralisation. Thus, the assignment system requires to be reviewed from time to time (Tanzi, 2002).

An extension of the traditional theory is the assumption that solutions to fiscal federalism must be found in “co-operative federalism”. Implicit in this proposition is that the assignment system should be unambiguous and powers given to sub-national governments can not be extinguished so that the latter can exercise unfettered choice in their assigned domains. As argued by Coase (1960), clear assignment works like the assignment of property rights. Efficient provision of public services in their respective domains and internalizing externalities and spillovers requires bargaining between different governmental units. Clarity in assignments reduces transaction costs and enables “Coasian bargains” in which, the jurisdictions bargain with one another for mutual gains and resolve many issues arising from spillover of costs and benefits among them. This is the essence of ‘co-operative federalism’ (Inman and Rubinfeld, 1997a, 1997b). However, co-operative federalism is possible only in cases where there is motivation to enter into bargains for mutual gains, there is a measure of equality in the bargaining strength and there is an effective referee and monitor to ensure efficient bargaining processes.

3. Political Economy Approaches to Fiscal federalism

This branch of literature on fiscal federalism draws heavily from the developments in public choice and industrial organization (information) theories – It does not assume an altruistic

government and motivation of public officials as common good in the Samuelson– Musgrave tradition. Instead, it assumes that participants in the political processes have their own objective functions and seek to maximize their own gain rather than the welfare of the society (Oates, 2005). In other words, the new literature recognizes the importance of motivations of incentives of the bureaucrats and politicians. According to the traditional theories, welfare gains accrue from more efficient provision of public services due to better matching of preferences. Thus, the trade off is between the efficiency gains from meeting diversified preferences and inability to internalize the spillovers at the subnational level. The models employing the public choice approach (the second generation theories or SGT), in contrast, bring out the trade off in terms of better “accountability” of decentralized levels versus better coordination of policies to internalize spillovers (Seabright, 1996). Thus, despite significant differences in the models employed under the public choice approach, many of them produce a trade off between centralization and decentralization which is fundamentally similar. As stated by Besley and Coate (2003, p. 2628), “...the lay insight remains that heterogeneity and spillovers are correctly at the heart of the debate about the gains from centralization”.

There are three distinct set of theories under new approach to fiscal federalism or the second generation theories. The first is the application of the developments in industrial organization theory to fiscal federalism, particularly modeling the multilevel fiscal arrangements in terms of the principal-agent framework. The second strand focuses on the problems arising from the soft budget constraints and derives motivation from the fiscal crisis precipitated by exploitation of “fiscal commons” leading to perverse behaviour of subnational governments, particularly in Latin America. Finally, the third strand employs more formal political economy approaches based on legislative structure and electoral process to analyse different kinds of fiscal outcomes under centralised and decentralized politics. Among others, this strand examines the outcomes from “yardstick competition” under the rubric of “competitive federalism”.

(i) Fiscal federalism in the principal-agent framework:

The application of industrial organization theory to fiscal federalism is mainly to model the behavior of agents in terms of principal – agent problem. There are two approaches adopted

in such models. In the first the Central government is treated as the principal and the States are treated as agents (Levaggi, 2002). In this formulation which is akin to what Inman calls “Administrative federalism”. In this model, States are treated simply as agencies that respond to the directives of the Centre. In the second formulation, electorate is taken as the principal and elected officials are taken as agents. In one such formulation Tommasi (2003), demonstrates that decentralisation is preferable even in cases of perfect homogeneity of preferences. In this, the case for decentralisation depends not only on differences in tastes, but also on the potential for better local control or accountability. Similarly, Seabright (1996) considers elections as “incomplete contracts” in his analysis concludes that while centralization allows for greater coordination of fiscal decisions, decentralization promotes preference matching and greater accountability. Thus, like in the case of traditional theories of fiscal federalism, heterogeneity and spillovers are the critical factors determining gains from decentralisation (Besley and Coate, 2003). Thus, the basic trade off is between gains from coordination and providing public services according to preferences and ensuring greater accountability in the public service provision under decentralisation.

(ii) Fiscal federalism and soft budget constraints:

The second strand of literature in the new approaches to fiscal federalism deals with the problems arising from the exploitation of “fiscal commons” by subnational governments and in particular, the problem of soft budget constraints. Prud’homme, argues that decentralised levels of government have strong incentives to ‘raid the fiscal commons’ to create destabilising impact on the economy. The perverse incentives and poor efficiency arising from them is brought out by applying the concept of “soft budget constraint” advanced by Kornai (1979, 1980) which was originally used to explain the behaviour of public enterprises in socialist economies, to analyse the behaviour of decentralised governments. The perverse incentive arises from the existence of soft budget constraints as the authorities in decentralised governments expect the higher level governments to bail them out of their fiscal problems of continuing deficits and increasing stock of debt. The approach adopts a sequential game-theoretic framework to explain the way in which perverse expectations are formed. In the first stage, central government declares that it will not bail out fiscally distressed decentralised governments. Of course, the latter do not take

this as credible because bankruptcy of a local government can have serious consequences and this can spill over to other jurisdictions. Therefore, in stage two, the subnational governments may continue to profligate and build up deficits and debt. Faced with this fiscal debacle at the subnational level, in stage three, the Centre will have to take a call on whether or not to bail out the decentralised government.

The literature identifies various political and economic factors that undermine fiscal discipline at sub-national levels and identifies various sources of soft budget constraints. Rodden, Eskelund, and Litvack (2003) analyse the experiences of various countries and identify five important sources of soft budget constraints for subnational governments which are (i) ill defined responsibilities to units and functionaries; (ii) federal transfers, (iii) borrowing by subnational governments and bail outs by higher level of government; (iv) absence of a strong system of private markets (land, capital), (v) history and precedents.

An important application of the soft budget constraint is the concept of Market Preserving Federalism (MPF) which according to Weingast (1993, 1995) is the ideal type of federalism. He puts forth five preconditions for the MPF which are: (i) existence of a hierarchy of governments clear delineation of function to each level; (ii) subnational autonomy to provide public services and to regulate in areas assigned to them; (iii) the national government should have policies to ensure a common market to allow for factor and product mobility; (iv) all governments, particularly the subnational governments face hard budget constraints; and (v) the political authority of different governments are institutionalized so that one level or a governmental unit can not abridge, expand or extinguish the powers of the others.

The ideal type of federalism is the MPF in which the above five conditions are satisfied the most. Effective intergovernmental competition requires clear assignments, product and factor mobility across jurisdictional boundaries, hard budget constraint and institutional authority. Hierarchical nature of governments helps to deal with externalities. Fiscal autonomy in the assigned jurisdictions means that they cannot create money, access unlimited credit, or get bailouts from higher-level governments in times of fiscal distress. Clarity in assignments is like ensuring property rights; it is necessary both for accountability and incentives. Ensuring a

common market makes subnational governments *de facto* “national governments” and increase penalties for protectionism and rent seeking. Internal trade barriers short-circuit inter-jurisdictional competition.

Applying the concept of “soft budget constraint” which was introduced to describe the behaviour of State –owned enterprises in socialist economies, to the subnational governments looking for fiscal relief from the Central government, Weinghast argues that perverse fiscal behaviour is essentially built into the system. Therefore, the solution to the problem involves a fundamental reform of political and fiscal institutions to alter the structure of incentives in budgetary decisions. Credible commitment to avoid fiscal bailouts is critical to ensuring hard budget constraints. This also requires politically strong Central government which is not constrained by the States’ bargaining strength to bail them out in times of distress.

Weinghast’s formulation of MPF goes a part of the way in removing the assumption of selflessness in pursuing welfare gain⁷. However, the five preconditions required in this formulation can not be found in the real world. Furthermore, actual conditions in a federal system are governed by political decentralisation and given that fiscal federalism is a component of federalism, it is not clear whether the objective function of individual agents is guided by self motivation. Under the circumstances, it is doubtful whether the governments in general and federal governments in particular can be appraised in terms of their commitment to preserving markets. Assuming that any country can carry out non-market responsibilities such as differential treatment of different groups (racial, linguistic, gender, regional) of population and undertake other functions such as national unity, poverty, education, health, environment, culture and arts in ways without constraining the market preservation would be unrealistic. Equally important, the resolution to the difficult problem of assignment of powers under MPF is a matter of definition. Again, by definition, vertical competition among various jurisdictional levels under MPF cannot exist. It must also be noted that in the MPF as in the Tiebout (1956) model, federations are conceived to be two-tier structures. In the latter, national structure is passive so that inter-jurisdictional competition can be precisely defined. However, in MPF, the national tier is not passive, but not active either.

⁷ I am grateful to Albert Breton for drawing my attention to the various implicit assumptions of MPF formulation.

(ii) Competitive Federalism:

Another branch of literature under the SGT brings out the gains from intergovernmental competition in a decentralised system. Brennan and Buchanan (1980) favour decentralisation as the States compete with the Centre and among themselves to provide a check against the government from becoming a “Leviathan”. In Market promoting Federalism (MPF), analysed above, the subnational governments compete to provide enabling environment for businesses. In terms of conceptual clarity, Breton’s construct of “competitive federalism”, provides a more comprehensive representation of the third strand of literature under the SGTs.

Breton (1995, 2006) and Salmon (1987, 2006) provide a more systematic work on vertical and horizontal competition to conclude increase in efficiency under decentralisation. Salmon’s analysis of horizontal competition shows that citizens of a jurisdiction can use information about the public services provided elsewhere to evaluate the performance of their own governments, in the manner of a rank order tournament⁸. Therefore, competition among governments not only affects policies to attract or keep citizens happy, but it also interacts with electoral incentives. Accordingly, “[e]ach government has an incentive to do better than governments in other jurisdictions in terms of levels and qualities of services, of levels of taxes or of more general economic and social indicators.” Empirically, whether this happens (and this is a question that needs to be examined in the Indian context) depends on “the possibility and willingness of citizens to make assessments of comparative performance...and [on] the impact these assessments have on the well-being of politicians” (Salmon, 1987, p. 32). Breton (1995, p. 237) argues that the “Salmon incentive mechanism” is an essential pre-requisite for competitive governments and is quite important in understanding the diffusion of policies and programs among jurisdictions in federations.

There is considerable overlap between the MPF and Breton’s concept of “competitive governments” discussed above, with different relative emphases on government-market boundaries. Indeed, there are differences in the way in which competition between subnational

⁸In general incentive models, incentives are not perfect from the principal’s point of view because the performance of the agent (here the government) is subject to noise. Hence performance is not a perfect indicator of effort. Relative performance can help to reduce this noise in evaluating effort: see Milgrom and Roberts (1990), chapter 7.

governments is analysed and the incentive structures exist between different levels of government. As mentioned earlier, the Weingast's MPF implicitly assumes the existence of two levels of government. Furthermore, Weingast's concept of MPF misses an important point that when there are extreme inequalities in economic power among subnational governments, the efficient solution that is presumed to result from fiscal federalism due to unfettered intergovernmental competition may not realise. This is however, captured in the "competitive equality" of jurisdictions requirement in competitive federalism.

4. Rationale for Inter-governmental Transfers:

The assignment system in the normative framework necessarily results in vertical imbalances. Assignment, according to comparative advantage implies that all broad based taxes are assigned to the Centre and most expenditure functions are assigned to subnational levels. Thus, redistribution and stabilization functions are considered to be mainly the functions of Central government and therefore, all broad based and redistributive taxes, money supply function and borrowing powers are predominantly assigned to the Centre. At the same time, in order to cater to diversified preferences in the provision of public services, the allocation function which involves spending is predominantly assigned to subnational governments. In this scheme, vertical imbalance is unavoidable and the intergovernmental transfer system has to resolve the imbalance. At the same time, it is important to match the revenue and expenditure decisions at the margin for subnational governments for reasons of efficiency and accountability. The efficient system of tax assignment envisages that tax powers should be assigned to subnational levels up to the point where the marginal efficiency loss due to tax disharmony is matched with marginal efficiency gain from fiscal autonomy. Even with such an assignment system, vertical imbalance is a feature seen in all federation.

The rationale for horizontal transfers in this case is purely for equity reasons - to offset the fiscal disabilities arising from lower than prescribed revenue capacity and higher unit cost of providing public services. Differences in the capacity to raise revenues and unit cost of providing public services among subnational jurisdictions create different 'fiscal residuum' or net fiscal benefits (Buchanan, 1950). The problem is exacerbated when there are origin based

taxes and similar other factors alter the net fiscal benefits in different subnational jurisdictions (Boadway and Flatters, 1982). If there is perfect mobility of people across jurisdictions, fiscal differentials will be equalized automatically as people migrate from places where the net fiscal benefits are lower to those where they are higher. Even when there is no perfect mobility, if the property market is reasonably well developed fiscal differentials will be capitalized into property values (Oates, 1969). In developing countries, there is neither perfect mobility nor a developed property market and the only way left is to offset these fiscal disabilities arising from low revenue capacity and high unit cost of providing public services through intergovernmental transfers. Such transfers have to be necessarily unconditional – to enable every State to provide a standard level of public service at a normative tax rate.

Efficiency consequence of equalizing transfers has been a matter of considerable debate in the literature. The debate on the issue of whether the horizontal equalization transfers are efficiency enhancing or involve efficiency cost is an issue that has remained unresolved. While Buchanan (1950) and in the later formulation based on horizontal equity argument by Boadway and Flatters (1982) argue that equalising transfers are growth enhancing. Similarly, the competitive federalism literature recommend transfers to create a level playing field by enabling poorer jurisdictions to compete effectively with fiscally stronger ones (Breton, 1987). Buchanan's claim is that equitable transfers are also efficiency enhancing because, as capital-labour ratio in these regions is lower, the productivity of capital is high and transfer of capital to poorer regions would lead to higher productivity and incomes.

The view that equitable transfers to poorer regions are growth enhancing is not shared by many. The contrarian view is that there is a clear trade off between equalization and growth. Scott (1950) argues that income levels in poorer regions are low mainly because of lower productivity and transfer of capital to these regions will entail lower productivity and incomes and there is clearly a tradeoff between equity and efficiency. Despite a large volume of literature, whether or not there is equity – growth trade off in the case of equalising transfers remains theoretically unresolved and remains an empirical issue. The transfers can help to realise the growth potential of the locality by creating the necessary infrastructure or it may actually be used to impart skills to labour, enhance productivity and accelerate mobility of labour

from regions having surpluses. In any case, the practice of giving equalising transfers is in the realm of history, tradition and political economy and countries such as Australia, Canada, India and Germany have been giving such transfers whereas, the United States does not.

There is a case for transfers also to ensure that people are provided with minimum standards basic services with significant inter-jurisdictional externalities. The efficiency reason for intergovernmental transfers arises from spillovers. The assignment system, however well done, does not match with the geographical boundaries of the jurisdictions and spillovers have to be resolved thorough the transfer system. There are also services which must be available at minimum specified standards to all and these include minimum standards of education, healthcare, water supply and sanitation. Martin Feldstein calls them “categorical equity” goods (1975) as these services have nation-wide externalities and yet, sub-national governments have a comparative advantage in providing them. In respect of all these services which overlap jurisdictions and involve significant externalities, it is necessary to ensure minimum levels for reasons of efficiency.

Ensuring minimum levels of public services for externality reasons is best done with a system of open ended matching grants. The extent of matching by the higher level government is supposed to reflect the degree of externality and open-endedness is necessary to provide incentives of expansion of the service at the margin. In practice, however, the matching ratios do not have any relationship with the extent of externality and in most cases, multiplicity of shared cost programmes and the resource constraint at the Central level results in making such programmes closed ended, but such programmes do not provide the incentive for expansion at the margin. In many cases, both the matching ratios and the volume of transfers is determined not on the basis of the externalities but simply for political reasons.

Using a collective choice framework, Bradford and Oates (1971) showed that lump-sum grants to a group of persons would have identical allocative and distributional effects to a set of transfers directly given to individuals in the group. In other words, the lump sum grants to a group of persons would be simply a “veil” for a central tax cut to individuals in the group. However, empirical analysis has not provided any support to this “veil hypothesis”. In contrast,

empirical analyses show that lump sum grants result in the expansion of public spending rather than private incomes and this has come to be known as “flypaper effect”. There is a large body of literature in the US that tries to explain this empirical fact (Gramlich, 1977). Indeed, in a situation where subnational governments raise very little revenues through taxes like in the case of local governments in India, the possibility of substituting own taxes to transfers simply do not exist and the hypothesis itself does not make much sense.

In the actual design of the transfer system, there are serious operational questions, which can not be resolved easily. The first has to deal with the proper combination of conditional and unconditional transfers. The second issue has to deal with the extent of horizontal and vertical distribution. There is no unambiguous way to measure the degree of vertical imbalance and the extent of violation of horizontal equity. As regards specific purpose transfers are concerned, it is impossible to measure the degree of externalities to work out optimal cost sharing arrangements or matching ratios. Ironically, the very argument for decentralisation is based on asymmetric information or the inability of the Central government to estimate the correct degree of spillovers, but designing specific purpose transfers requires that the matching ratios will have to be determined according to the degree of externalities! Finally, even if some approximations on fiscal disabilities and matching ratios made, there are many non-economic including political objectives and the actual transfer system, differs from the ideal. Nevertheless, the attempt should be to approach the ideal both in designing it and in its evaluations.

Are intergovernmental transfers a good idea? Despite the rationale for transfers detailed above, the review of theoretical literature shows that transfers tend to soften the budget constraint of subnational governments. It shows that intergovernmental grants promote fiscal irresponsibility and macroeconomic instability (Prud’homme, 1995). It is also argued that equalization may actually impede the development of backward regions by preventing the inter-regional mobility of resources, particularly labour (both emigration and immigration) in response to cost differentials (McKinnon, 1997). They create “transfer dependency” (Rodden et.al., 2003), which undermines fiscal discipline. Even in the case of matching transfers, in which matching ratios should be worked out according to the extent of spillover, Inman’s (1988) study in the U.S found that in actual practice, the matching ratios never correspond to the extent of spillovers and

the federal share is invariably much higher than the spillovers involved. Even more serious are the objections raised on equalising transfers given in many federations (the notable exception being the USA). It is argued that the transfers given to offset fiscal disadvantages can interfere with the normal process of income convergence seen in the process of economic growth which occurs due to migration of labour and capital from places with lower productivity to those with higher productivity.

The above analysis casts serious doubts on the efficacy of intergovernmental objectives in serving the long term interests of a federation. Nevertheless, transfers are a part of every federation because, perfect matching of revenue powers with expenditure responsibilities is not possible. Nevertheless, the literature provides guidance on a number of issues relating to transfers. First, the role of transfers should not be too large as to create transfer dependency. There has to be a matching of revenue and expenditure decisions at the margin so that decisions on additional spending are matched by financing it through taxation (Bird and Vaillancourt, 1998). Second, the system of grants must be transparent and predictable and should not have incentives to free-ride. Surely, designing and implementing the transfer system is the most important issue in fiscal federalism.

5. Lessons from Theory

The preceding analysis helps us to identify the factors determining the success of a federation in terms of achieving economic prosperity and reducing poverty while retaining individual identities and receiving the public services closely matching the diversified preferences. In other words, there are important preconditions to be met if a federation has to benefit from its magnitude (largeness) and littleness as Alexis de Toquille asserted over a hundred years ago. Besides, these theoretical approaches provide a number of lessons.

It must be noted that the theories of fiscal federalism reviewed above do not distinguish between different multilevel fiscal systems. The theories have been developed irrespective of the number of level and the size of jurisdictions. Indeed, each public service would have its area of benefit span and it is not possible to have as many tiers as the number of public services

provided. Therefore, aggregation of public services within the limited number of jurisdictions is unavoidable and with this spillovers and efficiency concerns become a part of the fiscal federalism problem. The type of problems faced in the provision of public services by different tiers could be different, but the theoretical approaches do not distinguish between them. Thus, it would be inappropriate to consider the challenges faced by the state governments to be similar to those faced by the local governments, the types of public services provided, the method and the nature and quality of institutions and their capacities are vastly different.

One of the most important preconditions for a successful fiscal federalism is clarity in the assignment system. Not only that the assignment system should be clear as far as possible, but when there is overlapping, there should be systems and institutions to deal with it. Clarity in assignments does not only imply mere assignment of revenue and expenditure powers; it is also necessary to ensure that the functions of different functionaries within a level are unambiguous. In a democratic polity, it is necessary to make the elected representatives responsible for decision making and bureaucrats to implement the decisions taken by the executive.

According to the theory, the functions should be assigned according to comparative advantage and the financial powers should follow the functions specified. It is important to ensure that the subnational governments are not constrained by transfer dependency. Ensuring a strong “Wicksellian link”, - the linkage between revenue and expenditure decisions at the margin requires that the subnational governments are given adequate revenue powers. Accountability requires that subnational services should be paid for by the residents of the jurisdiction. The analysis of appropriate revenue handles at subnational levels shows that user charges should cover the cost of most private goods provided by them; the cost of public services benefiting the jurisdiction should be collected by way of taxes on the residents; and those with spillovers should be partly paid for by taxes on the residents (equivalent to the benefits received by them) and partly through intergovernmental transfers. Analysis also shows that the subnational governments can levy taxes on immobile bases and can levy taxes on mobile bases based on the

benefit principle. However, taxing mobile bases could prove to be ineffective in raising revenues besides transferring the burden to non-residents⁹.

The transfer system should address the problem of imbalance between revenue and expenditure powers. To enable every governmental unit to provide comparable levels of public services at comparable tax rates, it is necessary that the equalising transfer system is designed to offset fiscal disadvantages. At the same time, it is important to ensure that the subnational governments are not provided with the incentive to “raid the fiscal commons”. Ensuring proper incentive structure in the transfer system is critical to preventing the soft budget constraint. It is necessary that the states are not enabled to pass on the burden of their public services to non-residents through the transfer system. In addition to equalization transfers, specific purpose matching (open ended) transfer should be designed to compensate the public services provided by the subnational governments the benefit of which spill over the jurisdictions and the matching ratios should be equivalent to the extent of spillovers. However, measurement of spillovers is not easy and therefore, these transfers are hardly designed to offset the spillovers. Besides, in most cases, the transfers are never properly designed.

A major advantage of a multilevel fiscal system is the large common market, but the benefit can accrue only when not only all impediments to trade in factors of production as well as commodities are removed, but also mobility of commodities, capital and goods is facilitated. Ensuring a common market is at the heart of creating dynamism in fiscal federalism. The impediments can come in terms of policies restricting the movement of labour, capital and commodities or various institutional factors such as linguistic barriers and lack of secure environment. The literature on MPF shows that it is important to avoid soft budget constraint at subnational levels to ensure efficient and market friendly policies. This requires an efficient assignment system, policies to promote responsible fiscal behaviour and measures to strengthen and deepen the markets, particularly the land and capital markets. Removal of impediments to mobility and trade in factors and products include abolition of laws restricting the markets and removal of institutional rigidities.

⁹ For a detailed analysis of appropriate tax handles see, Bird and Slack, 2007 and the analysis in the context of Australian federation, Bird and Smart, (2009)

There can be gains from intergovernmental competition. Competition can lead to efficiency gains in public service provision; it can also motivate innovations and productivity increases in public service delivery. However, to reap the gains, it is important to ensure that there is a measure of competitive equality and predatory competition does not take place. Unequal competition could be destabilizing and can, in the extreme, break up the federation. This is particularly important in the context of globalization as the States with more developed markets and infrastructure can reap higher benefits from access to domestic and international markets and grow faster than those with less developed markets and infrastructure. To ensure a measure of competitive equality of jurisdictions, it is necessary to ensure that the combined impact of regional policies and intergovernmental transfers should ensure a defined standard of physical and social infrastructure in each jurisdiction and the transfer system and the transfer system is not subjective and discretionary.

The analysis brings out the need for strong systems and institutions to promote and regulate efficient competition. One method to deal with the problems of predatory competition is centralization, but that would tantamount to ‘throwing the baby with the bath water’. The argument for decentralisation in the first instance is to create a system to take advantage of lower information and transaction costs in public service delivery and, therefore, this can not be a viable solution. The solution has to be found within the decentralised framework to create institutions to bargain and resolve inter-State and Centre-State conflicts.

Some of the important features of strong institutions for creating hard budget constraints emerge in a well developed market economy. Efficient credit markets and a mature banking system and well developed debt market with developed credit rating institutions is an important precondition for the Centre to keep itself away from bail outs. Similarly, well developed land and property markets and efficient mobility of factors and products can prevent public decisions that impede the development of markets. These will promote intergovernmental competition and minimize incentives for bail outs. It is important to discourage protectionist policies at subnational levels. Equally important is the need to have strong fiscal institutions. Effective local system of taxation, to match revenue – expenditure decisions at the margin, and the efficient system of intergovernmental transfers which do not involve perverse incentives are

extremely important to ensure a hard budget constraint. Legislatively imposed constraints on deficits and requirement to balance the current budgets, will place a limit on fiscal expansion and ensure more productive public spending. Limitations placed on borrowings both internally can also help to contain perverse incentives for fiscal expansion. It is also necessary to have a well designed bankruptcy laws that specify the fiscal crisis and the way that needs to be handled is another important institutional requirement. Indeed, the type of systems and institutional developments to encourage efficient and regulate inefficient competition and to ensure hard budget constraints will have to be found according to the requirements of each country.

Often arguments are made for centralization on the grounds that technological improvements have reduced the information cost and asymmetry and it possible for the Centre to design and implement the programmes according to diverse preferences. Indeed, it is important to use the technology if it helps efficient provision of public services without sacrificing the capacity to cater to preference diversity. Sometimes, the arguments for decentralisation is actually for privatization and in such a case, simply decentralizing the supply may not yield the desired results (Tanzi, 2002). It is therefore, important to examine the case for decentralisation in each case and judge it based clearly on efficiency grounds.

From the above discussion, it is clear that much of the theoretical literature on fiscal decentralization has been modeled on western democracies having mature market economies. There are a variety of reasons to modify the mainstream fiscal federalism analysis before it is applied to the multilevel fiscal systems in developing and transitional countries (Rao, 2007). This is because developing countries have a predominant primary sector, coexistence of a large traditional sector with low market penetration and a small modern sector which links itself with the market. It has segmented labor markets, low level of savings and investment, large part of the savings in physical rather than financial assets. There is imperfect mobility of labour, competition with significant trade distortions and scarcity of foreign exchange. The adoption of planned development strategy in them has further distorted the markets (Newbery, 1987). Secondly, most of these economies have adopted centralised planning in a decentralised system. In India, in addition to all these, the development strategy has adopted the mixed economy framework. Even as most countries have chosen to make a transition from centralized planning

to market based resource allocation, the vestiges of planning continue to influence resource allocation outcomes. Developmental planning adopted by developing countries in the past and the vestiges of centralized planning in the economies making a transition from plan to market do influence the fiscal federalism outcomes and therefore, need to be analyzed in greater detail. In most such economies, several impediments to the movement of factors and products continue. Similarly, as a part of planning system, controls and prices and outputs continue in many countries in transition and this alters the allocation of resources and determines incomes in different regions in unintended ways. As Stated by Oates (1999, p. 1145), “ While the existing literature on fiscal federalism can provide some general guidance, ...my sense is that most of us working in the field feel more than a little uneasy when proffering advice on many of the decisions that must be made on vertical fiscal and political structure. We have much to learn”.

CHAPTER III

Functional Devolution to Rural Local Bodies: Progress in Activity Mapping

1. Background

Improvement of service delivery at the local level has become one of the most important goals in recent time. In pursuance of inclusiveness in the growth process, the 11th Plan recognizes the criticality of involving Panchayati Raj Institutions (PRIs) in planning, implementing and supervising the delivery of services at the local level that would require functional, fund and staff devolution to them. The government of India has committed to accelerate the ongoing decentralization as one of the important means for successful implementation of its flagship programmes like -Bharat Nirman, National Rural Employment Guarantee Act (NREGA) and National Rural Health Mission (NRHM) and hence has articulated important roles for PRIs in implementation of these schemes. Yet all would agree that simply providing greater responsibility onto PRIs without systematic reform and capacity building is unlikely to lead to dramatic improvements in service delivery.

Under Article 243G of the Constitution states that, states may by law endow Panchayats with such functions that are required to enable them to function as institutions of self-government. These powers and responsibilities are to include:

- (a) The preparation of plans for economic development and social justice; and
- (b) The implementation of schemes entrusted to Panchayats in relation to subjects, which may include those listed in the 11th Schedule of the Constitution.

In order to make devolution functional, the matters listed in the 11th Schedule of the Constitution need to be broken down into discreet activities because it may not be appropriate to transfer all the activities within a broad function or a subject to the PRIs. Because a 'function' listed in the 11th Schedule of the Constitution may be devolved through the law but activities and sub-activities within each function can only be devolved through Activity Mapping. Self evidently, Activity Mapping does not mean that subjects or sectors are devolved wholesale rather

they need to be unbundled into activities or into smaller units of work and thereafter assigning these units to different levels of government. For example, a sector viz. elementary education may consist of several services. A particular ‘service’ of this sector viz. setting up and running primary schools is composed of several ‘activities’ like procuring funds for meeting the cost of free primary education, preparing curriculum, appointing teachers, construction and maintenance of school buildings, management of individual schools etc. Thus without Activity Mapping of a broad function or a subject it is not possible to devise a workable devolution scheme for the local bodies.

In considering the distribution of responsibilities among governments at different levels for the discharge of individual activities of a service, one has to follow the well known principle of subsidiarity which means that any task that can be done at the lower level should not move to a higher level which is also meant to ensure allocative efficiency. Besides, Activity Mapping must be undertaken in accordance with an objective standard of planning, asset creation, setting standards, operation and Monitoring & Evaluation. In doing so we need to apply following public finance principles namely economies of scale, externalities, equity, heterogeneity of demand and accountability principles. That apart, two other relevant matters namely community participation and unit of an activity and the information needs should also be taken into account that has been elaborated in detail as follows:

Economies of scale: If the unit cost of delivery of certain activities tends to be lower when the responsibility for delivery is given to a government having larger jurisdiction, then it is judicious to earmark those activities to the government at that level. For example, an activity like supplying and buying school books, uniforms and other equipments for target group of student should be entrusted with Zila Parishad for the unit cost of delivery of such activity will be lower when those will be purchased in a large volume.

Externality: When certain activities produce externalities that spread beyond the geographic jurisdiction of a government, then those activities should preferably remain in charge of that government whose geographic jurisdiction is large enough to cope with the effects of such

‘externalities. For instance a higher level of government like state or district government should have the responsibility of assessing storage requirements, selection of locations and establishment of godowns/ ware houses for storing foods and food grains for Public Distribution System.

Equity: Where the delivery of certain services concerns the issue of equity, framing of policies on the same should remain at the hands of the higher level government. For example, the central government has to take initiative in deciding on issues involving universalization of primary education or eradication of poverty.

Heterogeneity of demand: Where correspondence between local conditions/preferences and the activities undertaken by the government is a necessary condition for improved service delivery, such activities should ideally be the responsibility of the local government. For example, the activity like providing mid-day meal to primary school kids should be entrusted with local government because it is better informed regarding varying food habits of different region across the country.

Unit of an activity and the information needs: Where an activity consists of a large number of functions (for example, monitoring attendance of teachers of all the primary schools of a large area), but the size of an individual unit of the function is small (for example, monitoring attendance of teachers of one primary school), local governments of the size of Gram Panchayats (GPs) are in a better position in performing such activities. For, being called upon to monitor a few schools located within their jurisdiction, it is easier for the GPs to access the information needed for executing the task of monitoring the attendance of teachers.

Community participation: Where the success of an activity depends much upon community participation (say universal immunization), it is the government at the lowest level that should play a major role in discharging that activity.

Accountability: Most important aspect in accountability relationship is the question of enforcing accountability, which means rewarding good performance and punishing bad performance. It is reasonable to argue that where the unit of operations of an activity is small (for example vaccinating a child, the activity being vaccination of children), the local government is in a better position to enforce accountability of the actual service providers (for example, the vaccinator). For, the capacity of the local government to obtain information on the performance of such operations is much more than that of the government at the higher level. However, there is a rider. The local government can be made answerable for the discharge of a task only if it is given responsibility for such task and is endowed with administrative authority over the service providers and such financial resources as are necessary for performing the task. Thus the accountability issue is linked up with the issue of devolution of functions, finance and functionaries.

2. Procedures to be followed while pursuing Activity Mapping

Since different governments will have some responsibility in respect of a sector or services within the sector, the exercise of fixing out autonomous functional jurisdiction for each level of governance would necessitate breaking down of sectors into services and then unbundling of services into activities. Thus the first step in the exercise of Activity Mapping is identification of individual sectors. The next step is to disaggregate an individual sector into a number of services. Each service is composed of several activities. Hence the third step would be to unbundle each service into activities. The fourth and the last step in the exercise of distribution of functions is to allot the activities to the different levels of governance. Which activity will go to which level is to be determined on the basis of the criteria developed earlier. It may be stressed that the responsibility must accompany authority. Hence when a government is made responsible (or accountable) for certain activities, it must have commensurate authority over the administrative and financial resources (See Box2.1).

Box 2.1: Procedures to be followed while pursuing Activity Mapping

Step 1: Identification of individual sector

- Primary Health Care

Step 2: Disaggregate an individual sector into a number of service(s)

- Immunization

Step 3: Unbundle each service into activities

- Procuring vaccine,
- Establishing cold chain,
- Appointing and training vaccinators,
- Setting up immunization centers,
- Monitoring vaccination activities,
- Educating parents on immunization of children

Step 4: Distribution of the activities to the different levels of governance

- Establishing cold chain and setting up immunization centers can be entrusted with Zila Parishad
- Procuring vaccine can be entrusted with Panchayat Samiti
- Monitoring vaccination activities, educating parents on immunization of children can be entrusted with Gram Panchayat

3. Progress made by the states in carrying out Activity Mapping

Most of the states said to have assigned a majority of the important subjects to the Panchayats. Some of the states have gone even to the extent of devolving all the 29 subjects through the State Conformity Act (CA) itself. The Task Force on Devolution on Powers and Functions upon Panchayati Raj Institutions (MoRD, 2001) felt that by and large most states have incorporated all 29 subjects in the their CA. but a glance at the devolution reveals that these aforesaid 29 subjects are a combination of sectors, sub-sectors, broad activities in a sub-sector and sub-activities /specific responsibilities in a broad activity which are haphazardly distributed among different levels of PRIs. Thus even if necessary statutes are enacted by the states for

devolution of functions to PRIs but in most cases they have failed to alter the functional domain of local government and hence do not significantly add to the existing functional domain of the PRIs.

It is quite disheartening to note that in several states the Conformity Acts just reiterated the functions listed in the 11th Schedule of the Constitution without having much thought of which of them have relevance to the concerned state. The states before enacting Conformity Acts should have reviewed the adequacy and relevance of the existing provisions with a view to exploring the desirability of enlarging the functional domain of local government. Moreover, in practice such transfers have remained by and large incomplete for the total functional devolution was done vaguely without having any role clarity. There has been hardly any rational thinking as to which of the disaggregated activities based on the considerations like economies of scale, externality, equity, heterogeneity of demand and accountability along with other important aspects like efficiency, capacity, enforcibility and proximity ought to be devolved to which level of government. This has led to overlapping jurisdiction of different tiers of government.

There has been also non-standardization in the reporting of the devolution of functions to Ministry of Rural Development (MoRD) and Ministry of Panchayati Raj (MoPR). Thus some states tend to report a high range of devolution, by counting individual activities assigned under law separately as ‘subjects’ devolved. Others tend to devolve ‘departments’. It is important, both from a point of view of conceptual clarity as also to permit comparisons between States, to maintain the distinction between ‘activities’, ‘subjects’ and ‘departments’ when analyzing functional devolution. Problems as regards to current status of functional devolution to PRIs undertaken by states can be summarized as follows:

Incomplete devolution of function: On paper many state governments have chosen to devolve subjects to PRIs wholesale-without unbundling them into specific activities and sub-activities. Thus the functions assigned to them are more of subjects rather than in terms of activities or sub-activities.

AD-HOC devolution: There has been little consideration on the basis of principles of public finances and accountability of which services to devolve to which tiers. As a result, the higher tiers of governments tend to have responsibility for most services.

Overlapping roles: The most difficult step in Activity Mapping is to identify the roles and responsibilities of the each tier of local government in sufficient detail. Functionaries and funds can then be allocated on the basis of this mapping. State governments are supposed to transfer 29 subjects listed in the 11th Schedule of the Constitution. The lack of clarity in functional allocation and absence of dis-aggregation into detailed activities has led to considerable overlapping and duality of control in most cases. This situation seriously undermines accountability.

Lack of role clarity: In most of the states, the PRIs are not very clear about the role that they are expected to play in rural development. This is mostly due to the absence of role clarity with regard to the statutory functions assigned to them.

Follow-up measures are not taken: It would be difficult to assess the degree of devolution of the basis of legal provisions of functional devolution to PRIs itself. Because follow up action in terms of appropriate administrative measures and formulating relevant rules or guidelines to operationalize the intent legislature is very tardy. It is a common experience that legislative devolution by states often remains on paper and are not followed up with executive orders. Such orders not only mandate the devolution of functions but also devolves requisite finances and place functionaries with the Panchayats for effective performance of the devolved functions.

Significant dominance of line departments: In several states many functions are still being planned and implemented by the line departments of the state government and line departments of some states still exercise the powers of supervision and control over the schemes of subjects transferred to the Panchayats. In some cases mere administrative approval of the relevant standing committee of the District or Intermediate Panchayats is obtained by the line departments before implementing the schemes. Moreover, in many cases, while states assign responsibilities to local governments, they leave the performance of key activities and sub-

activities necessary to deliver such devolved services with state line agencies. Besides, because of no changes being made in long established codes prescribing technical standards and approval processes (such as the PWD code), circulars, OMs, transfer orders etc, implementation might still de-facto continue to vest with line departments concerned.

Staff and funds were not transferred: Most states after devolving several responsibilities upon the PRIs have not transferred the requisite staff needed by the Panchayats to carry out responsibilities. The 11th Plan Document also recognizes that devolution of functions to PRIs through legislation or executive orders has not been matched by a concomitant transfers of funds. Furthermore, many government officials at the district and sub-district levels do not want to work under the administrative control of the elected PRIs.

4. Pursuance of MoRD and MoPR in Undertaking Activity Mapping

Following the 73rd and 74th Amendment Act to the Constitution, Ministry of Rural Development (MoRD) and later Ministry of Panchayati Raj (MoPR) have been relentlessly pursuing the issue of effective functional devolution to PRIs. Consequently an initial attempt in the regard was to circulate a booklet among the states entitled “Devolution of Powers and Functions to PRIs.” in 1995 describing suggested framework for functional devolution. The Task Force on Devolution on Powers and Functions upon Panchayati Raj Institutions (MoRD, 2001) noticed that the states by and large had not adopted the guidelines of the booklet provided by MoRD. Later a conference of the State Ministers of Panchayati Raj was held on 11th July 2001, New Delhi to discuss the measures to be taken to devolve functions and powers in accordance with the provisions of the Constitution. The conference resolved that a Task Force comprising senior officers of the Ministry of Rural Development and of the State Governments should be set up to suggest measures for administrative decentralization of funds, functions and functionaries with regard to the matters listed in the 11th Schedule. Accordingly a Task Force on Devolution on Powers and Functions upon Panchayati Raj Institutions was constituted on 16th July, 2001. The Task Force was asked to analyze all the 29 subjects and to identify specific activities under the subjects and specify the inter-se division of activities among the three tiers of PRIs.

While recommending broader guidelines and norms, the Task Force (2001) noted the varying sizes of Panchayats in the states which ranges from a population of as low as 300 to as high as 25000 for Gram Panchayats. Similarly intermediate Panchayats have different size of and areas of jurisdictions. The Task Force (2001) is, therefore, of the view that sizes of Panchayat have to be kept in view while exercising the devolution of funds, functions and functionaries.

The Task Force also emphasized that there should be no rigid guidelines in this respect due to the existence of over lapping functional domain of different level of governments. The 29 subjects mentioned in the 11th Schedule of the Constitution covers some overlapping areas and in the operation of Activity Mapping also there are activities which fall under the jurisdiction and responsibilities of more than one agency. A rigid classification would therefore not be feasible. Consequently, the Task Force (2001) would like to emphasize that states would have freedom and flexibility to make suitable modifications within the broad framework of the recommendations made by them. However, the Task Force opined that while there will be some freedom and flexibility of states in carrying out the exercise of Activity Mapping, it needs to be ensured that this exercise should have clear time schedule and time limit. Therefore, devolution of functionaries and funds along with disaggregated activities among different level of governments should be completed by a specified time limit. The Task Force submitted their report in August 2001 and a deadline of 31st March 2002 for states to complete the Activity Mapping was set.

Successive committees and commissions took an attempt to review the actual progress of Activity Mapping being undertaken nationwide. Most of them, however, did not provide us optimistic views. The Standing Committee on Urban and Rural Development, 2004 noted that although more than nine years had passed since the 73rd Amendment Act was enacted, very few states seem to be serious about the implementation of the said provision of Part IX. The commission was also unhappy to note that very few states have linked the very important devolution of function to the means of actualizing such devolution through the devolution of functionaries and funds for all 29 subjects enlisted in the 11th Schedule (Quoted in SARC, Sixth Report, 2007:46-47).

Later a Standing Committee on Rural Development May (2006) have reviewed the whole process of current status of Activity Mapping. The Committee stressed that MoPR took several

initiatives in accelerating the process of Activity Mapping. But despite of holding as many as 7 Round Table Conference and 150 action points along with following actions namely providing technical assistance, visits of the Ministers to states, reviewing interactions with state governments, introduction of the award scheme and the Panchayat empowerment incentive scheme by the Ministry the way the whole Activity Mapping was making progress was very unsatisfactory. Next deadline for states to complete the Activity Mapping exercise was set for 31st March 2005 and later it was extended to 30th June 2005.

The Committee also noted that there was hardly any considerable improvement in the status of devolution of subjects. Whereas a definite improvement was noted in the number of subjects devolved in the states of Gujarat and Maharastra but there was also a reversal of devolution by some states such as Haryana where number of functions assigned to PRIs had decreased from 25 to 23. However, as reported to the Committee, MoPR attributed the slow progress of Activity Mapping to the fact that it is being state matter for that reason they can not be forced in undertaking Activity Mapping. Following this argument, the Committee opined that union government can not bypass the responsibility of successful implementation of Activity Mapping on the pretext that it is being a state matter since implementation of Part IX of the Constitution is the responsibility of the Union Government where the aim of the Part IX of the Constitution is to endow the Panchayats with such powers and responsibilities as may be necessary to enable them to function successfully as institutions of self government.

In order to institute a standardized model for the collection of data on Activity Mapping, MoPR prepared an elaborate fact sheet and conveyed this to states just before and during the first meeting of the Council of State Ministers of Panchayati Raj at Kochi held on 5th-6th August, 2005. This fact sheet was designed to be filed up separately for each subject matter in the 11th Schedule and contained three parts, namely, description of the devolution of functions, financial devolution and devolution of functionaries. This fact sheet was designed to ensure that all states report in a standardized format the progress and Activity Mapping. Individual fact sheets were to be prepared in respect of each matter listed in the 11th Schedule. Therefore, each state was to fill up 29 fact sheets.

Despite these attempts undertaken by MoPR, Second Administrative Reform Commission (SARC) (Sixth Report, 2007) expressed its concern over the fact that the

implementation space of local government has become limited due to half-hearted way of implementing the whole Activity Mapping exercise. The view of the SARC is summarized as follows:

- Functional devolution has been done by reproducing all 29 subjects in which matters are just repeated in the states' Conformity Act
- Progress in delineation of functions across the states are very slow
- Due to persistent effort of MoPR, there has been Activity Mapping in some states. However, the exercise continues to be partial and prolonged. The draft Activity Mapping list have not been approved by the state governments in some cases
- Even where Activity Mapping has been approved, parallel action has not been taken.

The SARC noticed that almost all states have chosen to assign function to the PRIs not through statute but by delegated legislation in the form of rules or executive orders. It is in this context, SARC recommended Amendment to the Article 243G and 243W to make it mandatory for state government to vest power and authority to local government. And clear delineation of function for each tier of local government and passing of framework law to formalize the relationship between the state and local government was also emphasized by them.

Table 2.1 Latest Position of State wise-Status of Activity Mapping

| State | Transfer of Subjects through Legislation | Subjects Covered under Activity Mapping | Latest Position |
|----------------|--|---|---|
| Andhra Pradesh | 17 | 9 | A Task Force constituted under the Special Chief Secretary for Activity Mapping has prepared detailed formulations. Draft Government Orders incorporating Activity Mapping in accordance with the recommendations of the Committee are under consideration of a Group of Ministers for finalization. After the completion of these discussions, the departments have been directed to finalize the Government Orders for issue. |

| State | Transfer of Subjects through Legislation | Subjects Covered under Activity Mapping | Latest Position |
|-------------------|--|---|--|
| Assam | 29 | 29 | Assam claims that it has done Activity Mapping more than three years back. However, individual departments have not operationalized this order through executive orders transferring funds and functionaries. However, after the recent visit of the Minister Panchayati Raj to Assam, the state has renewed its efforts at Activity Mapping. It has now set out a road map for undertaking Activity Mapping in the current year and matching it with fiscal devolution by the time of the supplementary estimates to the State's budget for 2007-08. |
| Arunachal Pradesh | -- | 3 | The state government has engaged one of its officers to carry out Activity Mapping with assistance from NGO, PRIA. This officer has submitted his report on Activity Mapping to the state government in May 2006. It has now promised that work on Activity Mapping will be expedited. Currently only section of beneficiaries in respect of Rural Development, Agriculture and Horticulture programmes has been devolved to the Panchayats. |
| Bihar | 25 | 25 | Bihar had earlier taken Activity Mapping in 2001. However, these orders were not operationalized. Therefore the state again undertaken a detailed exercise in Activity Mapping with the assistance from NGO, PRIA. Currently a Committee chaired by the Commissioner and Principal Secretary, Rural Development and Panchayati Raj is undertaking a detailed exercise on Activity Mapping. The exercise will also include devolution of finances and functionaries. In respect of finances, separate Committee headed by the Finance Commissioner has been constituted to address the modalities on creation of a Panchayat Sector Window in the budget. |
| Chattisgarh | 27 | 27 | Although Activity Mapping has been completed for 27 subjects, the requisite executive orders have not been issued so far |
| Goa | 6 | 18 | 18 functions have been devolved to village Panchayat and 6 to ZP. Goa needs to follow up with fiscal devolution |
| Gujarat | 15 | 14 | Activity Mapping has been done for 14 subjects. 5 subjects have been partially devolved. Activities are yet to be devolved with respect to 10 functions. A matrix for Activity Mapping has been prepared by the State. |
| Haryana | 29 | 10 | Activity Mapping in respect of 10 subjects was released on 17.2.06 in the joint presence of the Chief Minister, Haryana and the Union Minister for Panchayati Raj |
| Himachal Pradesh | 26 | -- | 15 departments had issued orders delegating powers to Panchayat. But no Activity Mapping has been attempted in the formal model matrix as suggested by MoPR. |
| Karnataka | 29 | 29 | Activity Mapping has been completed in respect of all 29 items in August 2003, followed by devolution of funds through the State Budget in October 2004 |
| Kerala | 26 | 26 | Activity Mapping was completed in the form of a responsibility mapping by preparing a new Activity Mapping matrix that also covers Municipalities. Untied funds are also being devolved to Panchayats for the devolved functions |

| State | Transfer of Subjects through Legislation | Subjects Covered under Activity Mapping | Latest Position |
|----------------|--|---|--|
| Madhya Pradesh | 23 | 23 | Activity Mapping for undertaken in two stages-first 7 subjects were covered with assistance from NGO, Samarthan. This NGO has now completed Activity Maps for remaining 16 more matters that have been devolved. These are under discussion with the line departments concerned |
| Maharashtra | 18 | -- | There has not been much progress on Activity Mapping in the state. The state recently decided to review the progress in this regard. |
| Manipur | 22 | 22 | Earlier Activity Mapping of 22 subjects were said to have been completed. However, since these were not operationalised, the state has reviewed matters once again and issued a notification for Activity Mapping for 16 subjects in January 2006. This is now being operationalised. |
| Orrisa | 25 | 7 | Activity Mapping in progress in respect of 9 subjects has been issued in the joint presence of the Union Minister for Panchayati Raj and the Chief Minister. The state is now undertaking fiscal devolution to the Panchayats and aims to complete the same by the next financial year |
| Punjab | 7 | -- | Draft Activity Mapping has been prepared for all departments in a detailed fashion . Significant work is being undertaken in certain sectors such as Health and Education. The matrix has been discussed with the Ministry of Panchayati Raj and is ready for notification |
| Rajasthan | 29 | 12 | The Activity Mapping exercise was stated for 18 departments and has now been completed for 12. A Cabinet sub-committee was constituted in August 2004 to recommend measures to strengthen PRIs. Its eports recommends full devolution by 2007, when the Eleventh Plan starts. |
| Sikkim | 28 | -- | Activity Mapping has started and is expected to be announced in October 2006 |
| Tamil Nadu | 29 | -- | Tamil Nadu claims to have issued instructions for devolving all subjects relating to Panchayati Raj but these remain on paper. Subjects relating to rural roads, water supply, sanitation and rural housing schemes are now being taken up for discussion in respect of Activity Mapping |
| Tripura | 29 | 21 | In 1994 orders were issued for devolving 21 subjects. With respect to 8 subjects, orders are awaited because of operational problems related to the 6 th Schedule. The Activity Mapping exercise is underway |
| Uttar Pradesh | 12 | -- | Activity Mapping was completed in respect of 32 departments as part of the recommendations of a committee (Bholanath Tiwari report) However, this report has not been implemented |
| Uttaranchal | 14 | 9 | Activity Mapping is respect of 9 departments has been completed and is under consideration of the government |
| West Bengal | 29 | 15 | Activity Mapping ha been completed and orders issued in respect of 15 subjects on 7.11.05 |

Source: Report of the Working Group on Democratic Decentralization and PRIs, MoPR, November 2006, pp. 34-36

It is evident from the above table that as many as four states namely Assam, Karnataka, Kerala and West Bengal seem to have completed Activity Mapping satisfactorily as provided in the Report of the Working Group on Democratic Decentralization and PRIs (2006). However, the study carried out by Ghosh and Sirkar (undated) concluded that the Activity Mapping exercises undertaken so far by some state governments, including West Bengal Government, have been largely unsatisfactory. Most of them have approached the issue from the angle of transferring various on-going schemes sponsored by the governments at the centre or the states. This is an erroneous approach, because the objective of Activity Mapping is not to transfer schemes, but to transfer certain functional responsibilities from one level of government to another. In fact, after a specific activity is transferred, a Panchayat should have the right to determine whether an on-going scheme of the higher level government attached to the devolved activity should be continued or not.

Another type of error was committed in preparing the activity map for West Bengal's Panchayats. There was no attempt to prioritize the 11th Schedule services to choose the most deserving candidates for decentralization. The attempt to touch all the 11th Schedule items at one go make the whole business about Activity Mapping somewhat ritualistic – an exercise that does not need to be translated into practice. If the intention was to improve the delivery system, then the first task should have been to identify those services where the need for decentralization was being felt most at present (ibid).

A detailed analysis of functional, funds and functionaries' devolution in Gujarat has been undertaken in this study by describing the respective provisions of The Gujarat Panchayati Raj Act, 1993. An attempt has also been made to ascertain and list out the extent of functional devolution in respect of each matter listed in the 11th Schedule of the Constitution through State legislation to the three levels of Panchayats. Using the details of the legislative assignment of activities as a base, the existing regime in respect of Activity Mapping could be analyzed and presented in juxtaposition with the relevant provisions of the State legislation which would also provide us the quality of the Activity Mapping undertaken, mainly with a view to ascertain whether the exercise amounts to substantive devolution or is merely lip service to Panchayati Raj (See Annexure 2.1).

The present study also endeavored to provide a birds-eye-view as regards to the current status of Activity Mapping of twelve states namely Andhra Pradesh, Madhya Pradesh Sikkim, Assam, Haryana, Karnataka, Orissa, Tamil Nadu, Bihar, Himachal Pardesh, Rajasthan and West Bengal. This section is mainly based on the information provided by MoPR (See Annexures 2.2 to – 2.13).

CHAPTER IV

Status of Own Revenues of the Panchayats

1. Introduction

Provision of services responding to local needs and preferences in a decentralized government system depends to a large extent upon the willingness and the ability of local governments to raise revenue from their own sources. The constitutional amendment in India assigned the state governments with exclusive legislative authority to empower the PRIs to levy taxes. The major objective of devolving revenue raising powers to the PRIs is to enable them to function as effective institutions of self-government at local level by improving their autonomy in planning and decision making.

While recent studies on Panchayati Raj Institutions (PRIs) in India have focused on issues relating to the role of panchayats in poverty alleviation and employment generation programmes, resource allocation favouring disadvantaged groups and improved participation of women in decision making process, the own revenue effort of panchayats has received little attention¹⁰. There is no standing national data base on panchayat finances in India, which limits any meaningful analysis of revenue effort of panchayats. Reports of the Central Finance Commissions serve as the only source of information. Central Finance Commissions collect data on own revenue of panchayats from the state governments. The Eleventh Finance Commission (FC-XI) Report provides data on own revenue of the PRIs for the period 1990-91 to 1997-98, which was further extended by the Twelfth Finance Commission (FC-XII) Report up to 2002-03. However, the data reported by the successive Central Finance Commissions are not comparable and reliable. It is for this reason that the Thirteenth Finance Commission (FC-XIII) which collected data on own revenues of panchayats have not utilized it.¹¹

¹⁰ The recent studies which deal with own revenues of PRIs is Rao and Rao (2008), and Jena and Gupta (2008).

¹¹ FC-XIII has collected data on own revenues of PRIs for the period 2002-03 to 2007-08. They have not used this data in their analysis of local bodies and hence have not reported this data in their report but have placed it on their website (<http://www.fincomindia.nic.in>).

The present chapter analyses the status of revenues raised by the Panchayati Raj Institutions (PRIs). It reviews the statutes (i.e, the Panchayati Raj Acts) of different states in order to study the assignment of revenue raising rights - both tax and non-tax to the three tiers of panchayats and examines the extent to which the PRIs have exploited their statutorily designated revenue rights based on a survey conducted in the four states of Chhattisgarh, Madhya Pradesh, Orissa and Rajasthan for the fiscal year 2005-06. The chapter looks into the sources of own revenues of the PRIs comprising of own tax and own non-tax sources as provided by the Central Finance Commissions and finds them to be inadequate (a fact also supported by the survey of PRIs in the four states) thereby underlying the need for undertaking reforms to empower the panchayats to augment revenues for them to play a meaningful role in the development of the country. Finally, it suggests measures to augment the own revenues of the panchayats.

2. Background

In the three-tier PRI structure it is the lower-most tier or the gram panchayat which is largely endowed with the revenue-raising tax and non-tax powers, while the intermediate and the district tiers by and large have very limited or no revenue raising powers assigned to them. Review of the statutes of twenty three Indian states¹² reveal that in most of the states it is only the gram panchayats which are assigned with tax rights. While in some states in addition to gram panchayats, the block panchayats are empowered to levy a few taxes, in very few states (six states) apart from the lower two tiers, the zila panchayats or the district panchayats are also empowered to levy taxes but the number of taxes which they can levy is very limited.

Some of the taxes assigned to the PRIs are designated as obligatory taxes while in others all taxes are optional. In three states namely, Madhya Pradesh, Chhattisgarh and Uttar Pradesh the statute designate some of the taxes as obligatory or mandatory. The assignment of tax rights to the three tiers of panchayats in the twenty-three states is shown in annexure 3.1 tables A3.1, A3.3 and A3.4. Both in case of obligatory and optional taxes the tax rate and the base is decided by the state governments while in case of optional taxes the statutes stipulate that these can only be levied with the prior permission of the state governments. The relevant state statute or the

¹² Panchayati Raj Acts of 5 states were not available. These states are Andhra Pradesh, Manipur, Mizoram, Meghalaya, and Nagaland.

executive orders issued by the state government lay down the tax rates, tax base and exemptions for the taxes assigned to PRIs. The statute also prescribes the maximum rate at which the panchayats can levy the tax.

The house and building tax, which is the core element in the PRI fiscal domain, is assigned to panchayats in most states, but not in Orissa despite recommendation by successive State Finance Commissions. Even in states where this tax is assigned to panchayats it may either be (i) a specific absolute levy not linked to floor area, or (ii) may have different slabs depending upon the floor area. In many states the revenue from the house tax is virtually stagnant because, the rates of house tax are not revised periodically in accordance with the market values. Furthermore, the values imputed for floor area is not done according to any scientific principle.

In addition to the tax sources, the PRIs are also empowered to collect non-tax revenues in the form of fees, fines, and user charges. The panchayats are vested with public properties like irrigation sources, ferry ghats, waste lands and communal lands, orchards, tanks, markets and fairs. Income from these vested properties form part of their non-tax revenues, although where these are still owned and controlled by the line departments of the state governments the non-tax revenues accrue to the state. The properties built by the panchayats such as sewerage, drains, public roads, and buildings are also panchayat properties and some of these do generate non-tax revenues. The assignment of non-tax rights to the three tiers of panchayats in the twenty three states is shown in annexure 3.1 tables A3.2, A3.3 and A3.4.

3. Current state of revenues of PRIs

A major handicap in analyzing panchayat revenues is the paucity of information and data on the panchayat finances. As mentioned earlier there is no standing national database on panchayat finances in India and the reports of the Central Finance Commissions serve as the only source of information. As stated by FC-XIII in its report “The data provided varied in quality across State Governments. While some State Governments furnished good quality data, most of them provided data which was sparse, and frequently inconsistent with the data furnished to earlier Finance Commissions.” They also noted that significant problems remain with the quality of data on local bodies made available to it by the State Governments. The report further states that “there are significant discontinuities in data relating to revenue and expenditure of local

bodies submitted by State Governments to FC-XI, FC-XII, and to this Commission. These discrepancies detract from the credibility of the data.” Hence, the Commission did not utilise the data on local bodies as provided by the states in its report but has placed in its website.

Despite a grant of Rs. 200 crores given to the states by FC-XI for creation of database at the local body level no state has taken necessary steps to compile data on PRIs and only 93 crores (i.e., 30 percent) of the allocated Rs. 200 crores were utilized by the states. Most states do not have accurate information on panchayat finances a point also reiterated by FC-XIII. The FC-XIII pointed out that “Ten years have elapsed since FC-XI underlined the need for maintaining a data base as well as up-to-date accounts and made a provision for supporting State Governments in addressing these shortcomings. Five years have elapsed since FC-XII highlighted similar inadequacies and made similar recommendations. Much has been said by the earlier Finance Commissions on this important subject. Despite this, little improvement has been noted in the situation.” In its view an alternative approach may need to be adopted to address these issues beyond funding these initiatives.

In order to collect information on the own revenues of the PRIs letters (dated 2 March 2010) were sent from the Ministry of Panchayati Raj addressed to the Secretaries in-charge of the Panchayati Raj Department of all states/UTs (except Meghalaya, Mizoram, Nagaland and Delhi) requesting them to furnish necessary information. The format in which data had to be provided was also enclosed with the letter (see annexure 3.2 for the letter and the enclosed format). We did not receive any response from any of the states/UTs or from the Ministry of Panchayati Raj.

In the absence of any other information available, we were left with no other option but to use the own revenue data provided by FC-XIII in its website (<http://fincomindia.nic.in>). Given the doubts about the reliability of data as pointed out by Finance Commission in their report and by several other studies (see Rao and Rao, 2008; Jena and Gupta, 2008), the analysis should be taken with some measure of caution. Table 4.1 presents information on own revenues (both tax and non-tax) collected by the three tier panchayats taken together as percent of their state domestic product from agriculture and allied activities. We have used state domestic product

from agriculture and allied activities as it broadly represent the rural incomes which is the relevant indicator.¹³

Table 4.1: Own revenues of PRIs (as percent of agricultural GSDP)

| States | Own Revenue (as per cent of Agricultural GSDP) | | | | |
|--------------------|--|-------------|-------------|-------------|-------------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| 1 Andhra Pradesh | 0.56 | 0.61 | 0.60 | 0.59 | 0.61 |
| 2 Assam | 0.07 | 0.06 | 0.06 | 0.07 | 0.08 |
| 3 Bihar | 0.00 | 0.00 | 0.00 | 0.02 | 0.03 |
| 4 Chhattisgarh | 0.24 | 0.30 | 0.23 | 0.22 | 0.18 |
| 5 Goa | 1.14 | 0.97 | 0.87 | 1.20 | 1.13 |
| 6 Gujarat | 0.23 | 0.45 | 0.24 | 0.25 | 0.27 |
| 7 Haryana | 0.53 | 0.94 | 1.18 | 1.00 | 0.82 |
| 8 Himachal Pradesh | 0.10 | 0.11 | 0.09 | 0.10 | 0.09 |
| 9 Jharkhand | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 |
| 10 Karnataka | 0.50 | 0.28 | 0.35 | 0.49 | 0.76 |
| 11 Kerala | 1.31 | 1.39 | 1.43 | 1.32 | 1.07 |
| 12 Madhya Pradesh | 0.17 | 0.20 | 0.20 | 0.13 | 0.15 |
| 13 Maharashtra | 1.45 | 1.25 | 0.97 | 0.87 | 0.78 |
| 14 Manipur | 0.02 | 0.03 | 0.02 | 0.02 | 0.02 |
| 15 Meghalaya | 2.84 | 3.21 | 4.13 | 3.46 | 3.54 |
| 16 Orissa | 0.05 | 0.05 | 0.05 | 0.05 | 0.04 |
| 17 Punjab | 0.38 | 0.49 | 0.45 | 0.46 | 0.10 |
| 18 Rajasthan | 0.04 | 0.05 | 0.05 | 0.04 | 0.03 |
| 19 Tamil Nadu | 0.95 | 0.90 | 0.79 | 0.73 | 0.63 |
| 20 Tripura | 0.03 | 0.04 | 0.05 | 0.06 | 0.06 |
| 21 Uttar Pradesh | 0.09 | 0.10 | 0.10 | 0.09 | 0.10 |
| 22 Uttarakhand | 0.15 | 0.15 | 0.18 | 0.18 | 0.00 |
| 23 West Bengal | 0.10 | 0.14 | 0.13 | 0.17 | 0.00 |
| All State | 0.40 | 0.42 | 0.40 | 0.39 | 0.35 |
| Std Dev | 0.676 | 0.725 | 0.886 | 0.759 | 0.766 |
| Mean | 0.477 | 0.509 | 0.530 | 0.501 | 0.457 |
| COV | 1.417 | 1.424 | 1.673 | 1.514 | 1.676 |

Note: The data for Arunachal Pradesh, Jammu & Kashmir, Mizoram, Nagaland and Sikkim not reported as these state have not provided the information to FC-XIII.

Source: 1) Based on data provided by the Thirteenth Finance Commission (<http://fincomindia.nic.in>)

2) CSO, Ministry of Statistics and Programme Implementation, Government of India.

From the table we see that the revenue mobilization by the panchayats is extremely low and there are significant interstate variations. Among the general category states the own revenue to agriculture GSDP varies from 0 percent in case of Bihar and Jharkhand to 1.45 percent for Maharashtra. If we include special category states this variation is even larger. For all states

¹³ In the chapter the term both agriculture GSDP and agriculture and allied activities GSDP implies state domestic product from agriculture and allied activities.

taken together this percent age varies between 0.35 - 0.42. From the table it is also evident that this inter-state variation is not only very high but has also shown a steady increase over the years. The coefficient of variation of revenue as percent of agriculture GSDP has increased from 1.417 in 2003-04 to 1.676 in 2007-08. Over the years the own revenue mobilization has shown a decline. The all state own revenues as percent of all state agriculture GSDP which was 0.40 in 2003-04 declined to 0.35 in 2007-08 after registering an increase to 0.42 in 2004.05. All this only reiterates the point that revenue mobilization by the panchayats is abysmal and efforts should be made by the panchayats to mobilize own revenues.

Table 4.2: Total revenues of PRIs (as percent of agricultural GSDP)

| States | Total Revenue (as per cent of Agricultural GSDP) | | | | |
|--------------------|--|-------------|-------------|-------------|-------------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| 1 Andhra Pradesh | 2.83 | 2.96 | 3.21 | 2.85 | 3.13 |
| 2 Assam | 8.34 | 8.86 | 12.10 | 16.34 | 9.89 |
| 3 Bihar | 0.63 | -- | 1.49 | 1.17 | 1.26 |
| 4 Chhattisgarh | 6.66 | 9.75 | 10.92 | 14.62 | 17.64 |
| 5 Goa | 3.71 | 4.00 | 3.61 | 4.73 | 1.62 |
| 6 Gujarat | 14.85 | 18.09 | 16.17 | 16.32 | 13.50 |
| 7 Haryana | 1.11 | 1.57 | 2.78 | 2.40 | 2.82 |
| 8 Himachal Pradesh | 2.54 | 2.89 | 3.11 | 3.57 | 3.47 |
| 9 Jharkhand | 0.26 | 0.24 | 1.65 | 2.42 | 0.40 |
| 10 Karnataka | 21.17 | 17.26 | 20.97 | 26.95 | 27.16 |
| 11 Kerala | 11.07 | 11.79 | 11.91 | 11.60 | 12.12 |
| 12 Madhya Pradesh | 0.79 | 2.75 | 3.89 | 7.90 | 10.09 |
| 13 Maharashtra | 18.67 | 19.97 | 19.98 | 17.93 | 16.02 |
| 14 Manipur | 4.92 | 4.27 | 4.34 | 4.93 | 4.74 |
| 15 Meghalaya | 4.28 | 4.80 | 4.43 | 4.30 | 4.25 |
| 16 Orissa | 5.12 | 5.03 | 5.30 | 7.97 | 7.04 |
| 17 Punjab | 1.10 | 1.44 | 1.92 | 2.95 | 0.51 |
| 18 Rajasthan | 0.66 | 1.12 | 1.23 | 0.95 | 0.72 |
| 19 Tamil Nadu | 12.40 | 11.46 | 9.50 | 9.11 | 10.37 |
| 20 Tripura | 5.24 | 8.19 | 9.43 | 8.56 | 14.92 |
| 21 Uttar Pradesh | 2.59 | 2.78 | 3.60 | 2.40 | 2.61 |
| 22 Uttarakhand | 1.40 | 1.51 | 2.55 | 3.33 | 3.31 |
| 23 West Bengal | 1.83 | 2.30 | 3.61 | 3.46 | 4.54 |
| All State | 6.02 | 6.53 | 7.48 | 7.79 | 7.70 |
| Std Dev | 5.987 | 5.929 | 5.921 | 6.710 | 6.873 |
| Mean | 5.747 | 6.220 | 6.856 | 7.685 | 7.483 |
| COV | 1.042 | 0.953 | 0.864 | 0.873 | 0.919 |

Notes: 1) Total revenues of PRIs consists of own revenues and all funds received by three tier panchayats from Central & State governments (including Central & State Finance Commission funds)
2) The data for Arunachal Pradesh, Jammu & Kashmir, Mizoram, Nagaland and Sikkim not reported as these state have not provided the information to FC-XIII.

Source: As in Table 1.

However, total revenues of panchayats comprising of assigned taxes, shared taxes and grants-in-aid from both central and state governments as a percent of agricultural GSDP is considerably higher than the own revenues (see table 4.2). The all state total revenue as percent of agriculture GSDP increased from 6.02 in 2003-04 to 7.70 in 2007-08, but there are considerable inter-state variations. The total revenue to agriculture GSDP percentage varied from 0.24 percent in Jharkhand to 27.16 percent in case of Karnataka. The coefficient of variation of total revenue accruals though high at 1.042 in 2003-04 is still lower than that of own revenues and has over the years registered a steady decline. It declined from 1.042 in 2003-04 to 0.919 in 2007-08. This variation in total revenues to agriculture GSDP percentages across states is indicative of variation which exists in the expenditure levels of panchayats.

Table 4.3: Per capita revenues of PRIs (Rs.)

| States | Per capita Own Revenue | | | | | Per capita Total Revenue | | | | |
|--------------------|------------------------|--------------|--------------|--------------|--------------|--------------------------|---------------|---------------|---------------|---------------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| 1 Andhra Pradesh | 50.00 | 57.41 | 62.41 | 65.72 | 83.41 | 253.76 | 281.05 | 335.23 | 320.47 | 429.85 |
| 2 Assam | 3.69 | 3.76 | 3.81 | 5.26 | 6.66 | 461.30 | 520.59 | 796.74 | 1153.99 | 778.46 |
| 3 Bihar | 0.00 | 0.00 | 0.00 | 0.81 | 1.17 | 17.45 | 0.89 | 40.87 | 40.83 | 43.02 |
| 4 Chhattisgarh | 13.04 | 13.53 | 14.04 | 14.58 | 15.59 | 359.07 | 441.17 | 662.52 | 964.98 | 1496.06 |
| 5 Goa | 150.00 | 134.62 | 170.34 | 201.46 | 202.01 | 488.77 | 556.76 | 703.82 | 792.87 | 289.66 |
| 6 Gujarat | 20.89 | 37.53 | 25.67 | 31.46 | 41.61 | 1344.42 | 1512.12 | 1724.35 | 2015.48 | 2063.54 |
| 7 Haryana | 70.47 | 127.20 | 163.05 | 173.81 | 165.62 | 145.99 | 213.00 | 383.43 | 418.12 | 566.24 |
| 8 Himachal Pradesh | 8.86 | 10.87 | 10.22 | 10.50 | 10.80 | 231.13 | 290.18 | 336.54 | 371.00 | 410.44 |
| 9 Jharkhand | 0.14 | 0.16 | 0.18 | 0.18 | 0.22 | 8.12 | 8.41 | 45.17 | 73.87 | 12.37 |
| 10 Karnataka | 32.55 | 23.46 | 34.80 | 44.38 | 83.76 | 1384.77 | 1449.47 | 2094.63 | 2442.49 | 2988.25 |
| 11 Kerala | 92.14 | 103.81 | 121.54 | 126.41 | 105.84 | 778.49 | 882.61 | 1014.99 | 1108.63 | 1202.47 |
| 12 Madhya Pradesh | 11.42 | 12.10 | 13.71 | 9.71 | 11.25 | 52.72 | 168.37 | 265.75 | 595.78 | 753.10 |
| 13 Maharashtra | 123.94 | 105.11 | 92.00 | 98.41 | 107.45 | 1593.99 | 1682.43 | 1891.70 | 2031.56 | 2211.54 |
| 14 Manipur | 1.52 | 2.15 | 1.95 | 1.92 | 1.95 | 351.67 | 336.32 | 348.01 | 403.28 | 396.10 |
| 15 Meghalaya | 166.32 | 190.58 | 259.67 | 267.77 | 292.78 | 250.65 | 284.82 | 278.87 | 332.78 | 351.99 |
| 16 Orissa | 2.97 | 3.00 | 3.02 | 3.08 | 3.15 | 288.13 | 281.57 | 313.05 | 540.93 | 544.09 |
| 17 Punjab | 69.16 | 92.76 | 91.78 | 107.22 | 27.87 | 198.97 | 271.37 | 393.04 | 684.75 | 137.85 |
| 18 Rajasthan | 3.17 | 3.28 | 3.16 | 3.38 | 2.96 | 48.80 | 75.89 | 82.52 | 75.88 | 66.87 |
| 19 Tamil Nadu | 56.20 | 67.80 | 73.06 | 83.16 | 80.18 | 732.69 | 859.07 | 879.99 | 1040.53 | 1325.20 |
| 20 Tripura | 2.19 | 2.79 | 3.68 | 5.19 | 5.01 | 358.70 | 587.85 | 741.84 | 718.79 | 1286.67 |
| 21 Uttar Pradesh | 4.96 | 5.24 | 6.09 | 5.53 | 6.50 | 136.97 | 151.32 | 209.15 | 148.75 | 174.44 |
| 22 Uttarakhand | 10.66 | 12.34 | 14.18 | 16.02 | 0.41 | 102.25 | 120.64 | 202.60 | 298.94 | 301.78 |
| 23 West Bengal | 8.71 | 11.33 | 12.10 | 16.29 | 0.00 | 152.01 | 192.61 | 328.18 | 337.96 | 508.10 |
| All State | 27.40 | 29.64 | 30.96 | 33.55 | 34.07 | 409.56 | 456.15 | 573.56 | 665.59 | 745.52 |

Source: Based on data provided by the Thirteenth Finance Commission (<http://fincomindia.nic.in>)

Table 4.4: Own revenue as percent of total revenue

| States | Own revenue as per cent of total revenue | | | | |
|--------------------|--|-------------|-------------|-------------|-------------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| 1 Andhra Pradesh | 19.70 | 20.43 | 18.62 | 20.51 | 19.41 |
| 2 Assam | 0.80 | 0.72 | 0.48 | 0.46 | 0.86 |
| 3 Bihar | 0.00 | 0.00 | 0.00 | 1.99 | 2.71 |
| 4 Chhattisgarh | 3.63 | 3.07 | 2.12 | 1.51 | 1.04 |
| 5 Goa | 30.69 | 24.18 | 24.20 | 25.41 | 69.74 |
| 6 Gujarat | 1.55 | 2.48 | 1.49 | 1.56 | 2.02 |
| 7 Haryana | 48.27 | 59.71 | 42.53 | 41.57 | 29.25 |
| 8 Himachal Pradesh | 3.83 | 3.75 | 3.04 | 2.83 | 2.63 |
| 9 Jharkhand | 1.69 | 1.88 | 0.39 | 0.25 | 1.75 |
| 10 Karnataka | 2.35 | 1.62 | 1.66 | 1.82 | 2.80 |
| 11 Kerala | 11.84 | 11.76 | 11.97 | 11.40 | 8.80 |
| 12 Madhya Pradesh | 21.66 | 7.19 | 5.16 | 1.63 | 1.49 |
| 13 Maharashtra | 7.78 | 6.25 | 4.86 | 4.84 | 4.86 |
| 14 Manipur | 0.43 | 0.64 | 0.56 | 0.48 | 0.49 |
| 15 Meghalaya | 66.36 | 66.91 | 93.12 | 80.47 | 83.18 |
| 16 Orissa | 1.03 | 1.06 | 0.96 | 0.57 | 0.58 |
| 17 Punjab | 34.76 | 34.18 | 23.35 | 15.66 | 20.22 |
| 18 Rajasthan | 6.50 | 4.32 | 3.83 | 4.45 | 4.43 |
| 19 Tamil Nadu | 7.67 | 7.89 | 8.30 | 7.99 | 6.05 |
| 20 Tripura | 0.61 | 0.47 | 0.50 | 0.72 | 0.39 |
| 21 Uttar Pradesh | 3.62 | 3.46 | 2.91 | 3.71 | 3.72 |
| 22 Uttarakhand | 10.42 | 10.23 | 7.00 | 5.36 | 0.14 |
| 23 West Bengal | 5.73 | 5.88 | 3.69 | 4.82 | 0.00 |
| All State | 6.69 | 6.50 | 5.40 | 5.04 | 4.57 |

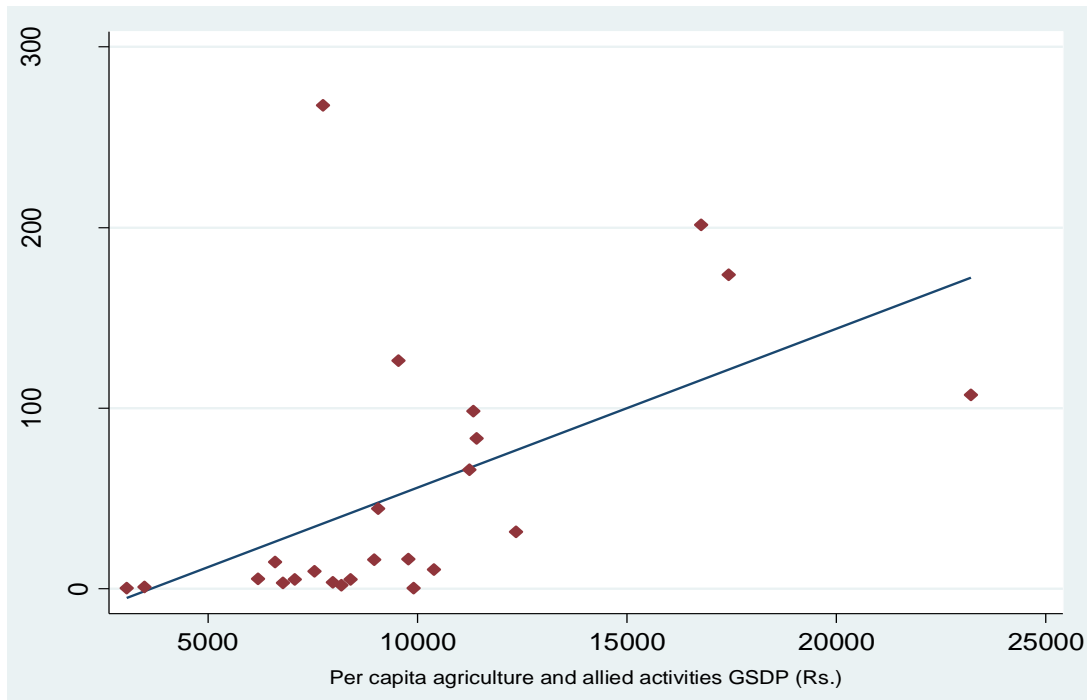
Source: As in Table 3

level of service delivery in panchayats depends on the per capita revenues raised and per capita revenues accruing (i.e., total revenues) to them. Table 4.3 shows the state-wise per capita own revenues and total revenues at current prices for the period 2003-04 to 2007-08. These per capita estimates of own revenue and total revenues for each state has been derived by dividing respectively the own revenue and total revenues of panchayats with the rural population of the concerned state. From the table we see that during this period both per capita own revenue and per capita total revenue have registered and increase. All state per capita own revenue increased from Rs. 24.70 in 2003-04 to Rs. 34.07 in 2007-08 while per capita total revenue registered an increase from Rs. 409.56 to Rs. 745.52 during this period. Own revenues of PRIs constitute a very small portion of their total revenues and has over the years declined as can be seen in table

4.4. All state own revenues as a percent of all state total revenue was 6.69 in 2003-04. It declined to 4.57 in 2007-08. The generation of own revenues by the PRIs has been extremely low and they are more dependent on fund transfers from higher levels of government for their functioning. Such dependence on funds from higher levels on governments considerably reduces the autonomy of the panchayats thereby reducing their role to merely performance of agency functions of both the Central and State governments.

Analysis on own revenues of panchayats also suggest that per capita own revenues are higher in states which have higher per capita agriculture and allied activities GSDP as can be seen from figure 4.1. The correlation coefficient of per capita own revenues and per capita agriculture and allied activities GSDP being 0.524. Thus, while the revenue mobilisation by panchayats in general is low, the states with higher per capita agriculture sector GSDP mobilized larger revenues.

Fig 4.1: Relationship between own revenues of PRIs & per capita agriculture & allied activities GSDP



4. Own revenues of panchayats - Survey Results

In this section we analyse the own revenue effort of PRIs based on a survey conducted in the four states of Chhattisgarh, Madhya Pradesh, Orissa and Rajasthan for the fiscal year 2005-06. The survey was conducted in 2006-07 by NIPFP under a project funded by UNDP ¹⁴ in which 780 gram panchayats, 78 block panchayats and 17 district panchayats were surveyed across four states of Chhattisgarh, Madhya Pradesh, Orissa and Rajasthan. Assessment of own revenues of PRIs was one of the many objectives of the project. We present below findings of the survey.

Table 4.5 shows the matrix of GPs by number and type of own taxes. From the table we see that a large percentage of GPs (74.36 percent) in the four states have not collected any tax revenue from the sources assigned to them. The remaining, around 20 percent of the GPs have exploited only one source. That leaves very few GPs collecting from more than one source of tax revenue (5.51 percent of the surveyed GPs). Among the taxes collected by the GPs house tax, water tax and animal taxes are most usually levied. The water tax was collected by a large number of GPs in Madhya Pradesh and Chhattisgarh. Profession tax was not levied by the GPs in these two states even though it is an obligatory tax.

Table 4.5: Matrix of GPs by Number and Type of Own Taxes

| | House tax | Lighting tax | Animal tax | Water tax | Other misc. | Total no. of GPs by source | Percent |
|--------------------|-----------|--------------|------------|-----------|-------------|----------------------------|---------|
| 0 source | 0 | 0 | 0 | 0 | 0 | 580 | 74.36 |
| 1 source | 35 | 4 | 31 | 27 | 60 | 157 | 20.13 |
| More than 1 Source | 21 | 18 | 15 | 26 | 21 | 43 | 5.51 |
| Total | 56 | 22 | 46 | 53 | 81 | 780 | 100.00 |
| | (7.18) | (2.82) | (5.90) | (6.79) | (10.38) | | |

Source: Author's calculations based on survey data from the NIPFP study (2006-07)

Notes: 1. Figures in parenthesis refer to percent of GPs to total number of GPs.

2. Percentages in the bottom row do not add up to 100. Taxes from miscellaneous sources such as markets and fairs, commercial property, and water charges that vary considerably across the states are included in the 'other misc.' category.

The spread of GPs collecting non-tax revenue is large as compared to those collecting taxes both in terms of total number of GPs and number of sources. Table 4.6 shows that around 27 percent of GPs in the surveyed district in the four states do not raise any non-tax revenues.

¹⁴ Refer to Rajaraman (2007) for the details of the project.

Income from physical properties vested with the panchayats are the major source of non-tax revenue for GPs with 41.41 percent reported having received income from these sources. This category includes renting out panchayat properties, auctioning of ferry ghats, orchards, trees and leasing out properties for public use. A large number, 38.72 percent also receive interest receipts from the bank deposits of funds received by them under various central and state schemes. However, this source of income depends upon the amount of unspent funds under different schemes remaining with the banks and is not based on any revenue effort of the GPs. Royalty from minor minerals and income from forest products accrue to relatively fewer GPs, depending upon the endowment of such properties. Other sources mainly include fees for issuing various certificates and for use of shops and buildings in markets and fairs, user charges on services provided by the GPs, sale of scrap, and fines.

Table 4.6: Matrix of GPs by Number and Type of Own Non-Tax Revenues

| | Property rental & lease income | Interest receipt | Royalty from minor minerals | Income from forest products | Others | Total no. of GPs by source | Percent |
|--------------------|--------------------------------|------------------|-----------------------------|-----------------------------|---------|----------------------------|---------|
| 0 source | 0 | 0 | 0 | 0 | 0 | 211 | 27.05 |
| 1 source | 81 | 98 | 5 | 1 | 78 | 263 | 33.72 |
| 2 source | 130 | 105 | 15 | 3 | 127 | 190 | 24.36 |
| More than 2 Source | 112 | 99 | 25 | 34 | 112 | 116 | 14.87 |
| Total | 323 | 302 | 45 | 38 | 317 | 780 | 100.00 |
| | (41.41) | (38.72) | (5.77) | (4.87) | (40.64) | | |

Source: Author's calculations based on survey data from the NIPFP study (2006-07)

Notes: Figures in parenthesis refer to percent of GPs to total number of GPs. Percentages in the bottom row do not add up to 100.

The mapping between assigned tax sources and the survey results is shown in table 3.7. The table merely shows the taxes that have been collected by at least one of the surveyed GPs and not the number of GPs collecting such taxes. For example, if in Chhattisgarh only one GP collects animal tax then the table would show that animal tax is being collected by the GPs in the state. In Madhya Pradesh and Chhattisgarh the assigned tax rights seems to have been exploited, where the GPs are collecting a number of taxes. However, this should be interpreted in conjunction with the survey findings that few GPs collect any taxes. Conservancy tax and profession tax, although designated as obligatory in Madhya Pradesh and Chhattisgarh, are not levied by the GPs. In Rajasthan only house tax, water rates and fees on markets are exploited.

The education cess imposed by the JPs in Rajasthan piggy backs on the state taxes and in no way reflects their revenue effort. However, in Orissa with the exception of market fees none of the assigned taxes are collected.

Table 4.7: Taxes assigned and collected by the PRIs

| Taxes | Chhattisgarh | | Madhya Pradesh | | Orissa | | Rajasthan | |
|--------------------------------|--------------|-----------|----------------|-----------|----------|-----------|-----------|-----------|
| | Assigned | Collected | Assigned | Collected | Assigned | Collected | Assigned | Collected |
| Gram Panchayats | | | | | | | | |
| House tax | √ (O) | √ | √ (O) | √ | | | √ | √ |
| Vehicle tax | √ | | √ | | √ | | √ | |
| Latrine/conservancy tax | √ (O) | | √ (O) | | √ | | | |
| Water rate | √ | √ | √ | √ | √ | | √ | √ |
| Lighting rate | √ (O) | √ | √ (O) | √ | √ | | | |
| Drainage tax | | | | | √ | | | |
| Tax on works of public utility | √ | | √ | | √ | | √ | |
| Market fees | √ (O) | √ | √ (O) | √ | √ | √ | √ | √ |
| Fee on registration of cattle | √ (O) | √ | √ (O) | √ | | | | |
| Profession tax | √ (O) | | √ (O) | | | | | |
| Animal tax | √ | √ | √ | √ | | | | |
| Pilgrim tax | | | | | | | √ | |
| Tax on commercial crops | | | | | | | √ | |
| Others (Ferry service tax) | | √ | | √ | | √ | | |
| Block Panchayat | | | | | | | | |
| Tax on theatrical performances | √ (O) | | √ (O) | √ | | | | |
| Development tax on agri. land | | | | | | | | |
| Profession tax | | | | | | | √ | |
| Tax on use of agri. land | | | | | | | √ | |
| Education cess | | | | | | | √ | √ |
| Tax on fairs | | | | | | | √ | √ |
| District Panchayat | | | | | | | | |
| License fee for fairs | | | | | | | √ | |
| Water rates | | | | | | | √ | |
| Surcharge on stamp duty | | | | | | | √ | |

Source: Jena and Gupta (2008)

- Note:**
- 1) 'O' refers to obligatory tax and rest of the taxes are as optional
 - 2) House tax includes property tax on lands and/or buildings
 - 3) The latrine tax includes tax for construction or maintenance of public latrine and scavenging and tax on private latrines if cleaned by the GP. Tax on private latrine is obligatory in Chhattisgarh & Madhya Pradesh
 - 4) Lighting rates and water rates are charged if such services are provided by the GP

Revenue effort of the surveyed GPs is presented in table 4.8. The average per capita own tax and own tax revenue of the four states was Rs. 1.39 and Rs. 4.37 respectively but there was variations across states. The average per capita own revenue was Rs. 5.76. The share of own revenues of PRIs, both from tax and non-tax revenue, in total receipts comprising centrally-sponsored schemes funds (CSS), central finance commission funds, state scheme funds and funds from the state finance commissions is very low. It was less than 2 percent of the total revenue received by the GPs in these surveyed districts.

Table 4.8: Revenue Effort of Gram Panchayats (survey results) – 2005-06

| State | Sample size | Per capita revenues of GPs (Rs.) | | | | Own revenue as per cent of total revenue |
|----------------|-------------|----------------------------------|---------------------|-------------|---------------|--|
| | | Own Tax revenue | Own Non Tax revenue | Own Revenue | Total Revenue | |
| Orissa | 138 | 0.33 (22) | 5.14 (132) | 5.47 | 223.31 | 2.45 |
| Chhattisgarh | 201 | 1.56 (53) | 4.66 (143) | 6.22 | 321.54 | 1.93 |
| Madhya Pradesh | 262 | 2.62 (66) | 5.43 (179) | 8.05 | 317.55 | 2.54 |
| Rajasthan | 179 | 0.22 (59) | 1.91 (115) | 2.13 | 223.95 | 0.95 |
| 4 states | 780 | 1.39 (200) | 4.37 (569) | 5.76 | 280.42 | 2.05 |

Note: 1) Figures in parenthesis refers to the number of surveyed GPs collecting any tax or non taxes.
 2) Own revenues of a GP consist of its own tax and own non tax revenues.
 3) Total revenue of a GP consists of own revenues and all funds received from Central and State governments (including Central and State Finance Commission funds)

Source: Authors' calculation based on the survey data from the NIPFP study (2006-07)

Thus, from the above analysis, based on data provided by the Finance Commission and also on the survey of PRIs in the four states of Chhattisgarh, Madhya Pradesh, Orissa and Rajasthan we see the own revenue efforts of the panchayats have been extremely poor.

5. Reasons for poor revenue efforts of panchayats

The poor performance of panchayats in generating own revenues can be attributed to a number of factors. Excessive state control over panchayat tax domain has limited the autonomy of the PRIs. The recommendations of State Finance Commissions to expand the tax domain of

panchayats have not been heeded by the state governments. The tax rates are specific and are not periodically reviewed and revised. For instance in Orissa the vehicle tax rates prescribed in 1975 continue to exist. For many taxes there is absence of floor rate as only an upper limit is prescribed. This adversely affects revenue mobilization. However, in some cases the statute prescribes a range i.e., minimum and maximum rates. For example in Chhattisgarh and Madhya Pradesh the statute prescribes a range for tax on land and buildings, profession tax, and entertainment tax.

Within their limited tax domain failure of the PRIs can also be attributed to factors like reluctance to levy taxes, poor administrative capacity, and electoral politics. The non-collection of even obligatory taxes by large number of GPs in Madhya Pradesh and Chhattisgarh can be attributed to lack of willingness and poor administrative capacity. It is important to build the capacity of the panchayats to administer and enforce the taxes assigned to them. The basic requirement in building their capacity is to create a reliable data and information system. Unless attempt is made to build the basic information system, and update it from time to time, it will be impossible to create the capacity to levy administer and enforce any tax. The GPs by and large are provided with one secretary who acts as record keeper and looks after their administrative matters. However, all the record keepers are not GP appointees. State appointed record keepers in many places manage more than one GP and panchayats have less control over them. With greater emphasis on PRIs as preferred implementing agency for various central and state development schemes, the administrative capacity of the panchayats is overstretched. As a result the panchayat administration is more geared towards implementation of these schemes and owns revenue collection effort takes a back seat. The political factors like proximity to voters also act as disincentive to levy taxes. The elected representatives are many a time handicapped by the lack of clarity as regards their functional responsibilities and powers to levy taxes.

6. Measures to augment own revenues of PRIs

On the basis of the information received from 10 states Rao and Rao (2008) found property tax to be the most important source of revenues of gram panchayats in all states. However, there are other important sources like octroi (Gujarat, Maharashtra and Rajasthan), professional tax

(Assam, Bihar, Himachal Pradesh, Kerala, Madhya Pradesh and Punjab), and entertainment tax (Assam, Gujarat, Kerala, Punjab, Uttar Pradesh and Tamil Nadu). They pointed out that barring these taxes there is no separate information on the revenue realised by the gram panchayats on the other tax handles that are listed in respective acts.

Although in terms of numbers there are quite a few taxes and fees assigned to the panchayats, very few sources have been exploited. This could be due to problems with respect to the assignment of tax powers to panchayats or these sources may not be significant from the viewpoint of generating revenues. Efforts should be made to augment own revenues of the panchayats. Some of the measures could be in terms of improving the administrative capacity of the panchayats while other could be in terms of providing additional revenue handles to them. Some of these measures are:¹⁵

- 1) It is essential to build the capacity of the panchayats to administer and enforce the taxes assigned to them. The basic requirement in building their capacity is to create a reliable database and information system. Unless attempt is made to build the basic information system, and update it from time to time, it will be impossible to create the capacity to levy administer and enforce any tax. The information system should be developed in such a manner that it is useful for planning and should be subject to norms of accountability.
- 2) In order to augment the revenue powers of the panchayats it is necessary to take a re-look at the tax powers assigned to them and examine the possibility of assigning additional productive revenue handles. This issue merits careful consideration. With the introduction of full-fledged VAT at the state level, some of the revenue handles such as entertainment tax will be merged with the VAT and some such as octroi will be abolished for reasons of efficiency and competitiveness (Rao and Rao, 2008). Therefore, new tax handles will become necessary even to maintain the revenues at the prevailing level.
- 3) The poor administrative and enforcement capacity of the village panchayats has more to do with the power structure in the villages rather than the ability of the tax collectors. The way to enforce the tax, therefore, will have to mandate complimentary benefits for payment of taxes and penalties for its non-payment. Some specific measures can be suggested in this regards like: (a) If it is feasible, a law should be enacted to disqualify those families

¹⁵ This section is largely based on Rao and Rao (2008)

defaulting on the taxes from voting and contesting in elections. (b) The defaulters could be made ineligible to receive cooperative credit, supplies from the public distribution system. (c) There could be a one-time settlement of arrears to begin with without any penalty. (d) Panchayats collecting revenues above 80 per cent of the demand could be given a bonus at specified pre-announced rates. Alternatively, matching element could be introduced to the grants to be given from the state governments. (e) In addition to these it is important that there should be trained tax collectors in each of the villages. If one collector for each village panchayat is not viable, a tax collector can be assigned to multiple villages with appropriate specification of responsibility. The training should equip the tax collectors to determine the tax demand for each of the properties.

Chapter V

State Finance Commissions - An Overview

1. Introduction

Local governments of India were provided constitutional status through the 73rd and 74th Constitution Amendment Act (CAA), 1992 where three pillars of decentralization i.e., devolution of financial and functional power coupled with provision of adequate functionaries were ensured. Of these three provisions, financial power is considered to be the most important element of all. Article 243 H and 243 X of the Constitutional Amendment Act authorizes states to pass legislation aimed at increasing the financial resources available to local bodies by augmenting the latter's statutory taxation powers and providing for grants-in-aid from state governments. To assist states in this process, Article 243I (1) and 243Y (1) of the CAA mandate the constitution of a State Finance Commission (SFC) every five years. Under this provision, the SFC was entrusted with advising state governments on the principles to be applied in determining the allocation of funds to local bodies and the range of taxes and non-taxes to be devolved to local bodies.

It is about more than one and half decade since the Constitutional Amendment was enacted. Experience thus far suggests that one may be optimistic about the overall functioning of SFCs. All states except three (Mizoram, Meghalaya and Nagaland have been excluded from the operation as per Article 243 M) constituted their first generation of SFC and as many as 21 states except Arunachal Pradesh, Chattisgarh, Jammu & Kashmir and Jharkhand constituted their second SFC and except for Arunachal Pradesh, Chattisgarh, Gujarat and Uttarakhand all states constituted or under process of being constituted their third generation of SFC as per the information provided by the 13th Union Finance Commission (UFC) (GOI, Report of the 13th FC, 2009: 416-423). This phenomenon is likely to have positive impact on the financial power of local government including their share of own revenues-one of the most important indicators of financial decentralization. The macro level data which has so far been available shows that the share of own revenues of the Panchayats (all tiers) that enable them to enjoy discretionary decision making authority and budgetary autonomy was only 4.17 per cent for the period 1990-

91 to 1997-98 and was increased to 6.40 per cent over the period of 1998-99 to 2002-03. That is a definite improvement from a low base though it is still low (GOI, Report of the 12th FC, 2004: 147; Rao M G, Amar Nath and Vani, 2004).

However, such a low level of share of own revenues of Panchayati Raj Institutions (PRIs), despite the existence of SFCs for more than one and half decades forces us to question whether there are inherent weaknesses in their operation and functioning. This paper attempts to unearth major issues and problems relating to this matter. Section I one of this study aims at describing the processes involved in setting up of SFC and factors that are responsible for causing delay in submission of SFC reports which is evident in almost all SFCs across the states. Section II analyses difficulties faced by the SFCs in sourcing data. By and large all SFC reports that have so far been available in the public domain expressed their concern over the virtual absence of necessary database at local government level which consequently compel them to make recommendations in an ad-hoc and half hearted manner. Section III of this paper describes the extent to which States have so far shown their seriousness regarding the recommendations of SFCs by tabling Action Taken Report (ATR) before the State Legislature timely and pursuing follow up actions on the recommendations of the SFCs consistently.

2. The Status of SFCs in India

Before entering the discussion of problem of functioning of SFCs, one should examine the Constitutional provision of the formation of SFC as laid under the Constitutional (73rd Amendment) Amendment Act (CAA). Article 243 I (1) of CAA states “The Governor of a state shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the Panchayats and to make recommendations to the Governor..”

By and large all states have merely reproduced the wordings of the Constitutional mandate relating to functioning of SFCs in their respective Conformity Acts and hence, at least on paper, they broadly complied with the provision of the CAA with few exceptions. However, although Conformity Act of some states pertaining to few provisions failed to comply with the

relevant section of CAA, yet in practice these states complied with the Constitutional mandate indicating casual approach of the states in dealing with this matter¹⁶.

Extent of deviation from states' Conformity Acts as well as from CAA seems to be quite severe in case of periodicity of SFCs. Almost all states have made provision for constituting their first SFCs within the prescribed date mandated in the CAA (except for a few States like West Bengal, Bihar and Goa) and successive SFCs at the expiration of every fifth year. The reality, however, belies the statutory provision laid under the respective Conformity Acts of the states. Except for Bihar, Goa, Himachal Pradesh, Kerala, Maharashtra, Manipur, Punjab, Rajasthan, Tamil Nadu and Tripura all other States did not comply with the stipulation of constituting their first SFCs within one year of the commencement of CAA i.e., 24.4.1993. However, Bihar, Gujarat, Madhya Pradesh, Orissa, Sikkim and Manipur reconstituted their first SFCs twice and Goa thrice. Even then, Bihar failed to submit the report of its first SFC. And Goa managed to submit the report of its first SFC after five years and Gujarat after four years and Manipur after two and half years from the date of the initial constitution of their respective first SFCs (GOI, Report of the 11th FC, 2000: 226).

Although as many as ten states constituted their first generation of SFCs by the prescribed deadline, thereafter, however, the record of individual states has varied significantly. It was expected that states who could not constitute their first batch of SFC within a constitutionally mandated time period will eventually take initiative to constitute their successive SFCs regularly i.e., "at the expiration of the every fifth year" as committed by them in their Conformity Acts. However, none of these states eventually follow the cycle of constituting their successive SFCs on time i.e., at the expiration of the every fifth year as committed by them in their Conformity Acts. As regards the formation of their second SFCs, the extent of delay varies from one month in case of Himachal Pradesh to five years in case of Goa. Even if we consider

¹⁶For example, The Assam Panchayat Act, 1994 prescribes that the State Government instead of the Governor of the state, as laid under the CAA, will constitute a SFC. But in practice, all three SFCs, that have so far been available in the public domain, were constituted by the order of the Governor. However, The West Bengal Panchayat (Amendment) Act, 1994 prescribes that first SFC of the state will be constituted as soon as may be after the commencement of the West Bengal Panchayat (Amendment) Act, 1994 instead of constituting the first SFC within one year of the commencement of CAA i.e., 24.4.1993. Thus the state's Conformity Act neither complied with the provision as laid under the CAA regarding the time period within which the first SFC has to be constituted nor the state followed it in reality because constitution of the first SFC of the state came much later than the constitutionally mandated date i.e., on 30.5.1994.

the final date of the reconstitution of their first SFCs for states like Goa, Manipur, the extent of delay in constituting second SFCs may be less but delay is still there. Regarding the constitution of third SFCs, here too, except for Himachal Pradesh none of these states constituted their third SFC on time i.e., at the expiration of the every fifth year of the constitution of second SFC. It is worth mentioning that few states have even constituted their second and third SFCs earlier than the constitutionally mandated time period violating both their Conformity Acts as well as the provisions laid under CAA (GOI, Report of the 13th FC, 2009: 416-423).

By and large Conformity Acts of the states tend to fail to specify issues pertaining to efficient functioning of SFCs mentioned below.

- a) No clear guidance is provided in the states' Conformity Act regarding the time span for constitution of SFCs and period of coverage
- b) Absence of time allowed to SFCs for submission of their report in the states' Conformity Act.
- c) Absence of maximum time limit and specific reasons under which extension of life span of SFC could be granted.
- d) Absence of timeframe for tabling ATR before the state Legislature in the states' Conformity Act
- e) No relevant statute either in the Conformity Act or in the states' legislature regarding the eligibility required of the persons to be appointed as members of SFCs except for few states.

(1) No clear guidance is provided in the states' Conformity Act regarding the time span for constitution of SFCs and period of coverage

Almost all states reproduced the wordings of CAA regarding the time cycle of setting up of SFCs i.e., at the expiration of every fifth year without specifying whether it will be constituted every fifth year from the date of Notification order of constitution of previous SFC or otherwise. That apart, the lack of a statutory mechanism for ensuring continuity of setting up of SFCs is an added problem. Article 243 I (1) that provides for the constitution of the SFC “at the expiration of every fifth year “, in effect disallows the constitution of a new SFC before the completion of five year period. Under some circumstances such earlier constitution of SFC might be effective in maintaining timely cycle of constitution of SFCs so that no time period is left uncovered by SFCs. For example, a state might like to constitute its SFC well before the expiration of the fifth year of the constitution of its previous SFCs in order to give the concerned SFC enough time to

submit their report in anticipation of some potential disruption (viz. forthcoming election) that might take place during the tenure of the concerned SFC¹⁷.

However, it is worth mentioning that, lack of a statutory mechanism of constituting SFC earlier does not deter some states from doing so. A number of states constituted their second and third SFCs earlier than the constitutionally mandated time period without citing any reasons. Second Administrative Reform Commission (SARC) is of the view that the Article 243 I (1) should be amended to include the phrase “as such earlier time” after the words “every fifth year” to enable a state to set up a SFC at the expiration of every fifth year or earlier akin to the provision that already exists under Article 280 for constituting the Union Finance Commission (UFC) (GOI, SARC, 2007: 65-66). Thirteenth UFC agrees with the recommendation made by SARC. Necessity of such amendment, however, felt more in respect of ensuring synchronicity between the SFCs and UFC with an objective to enable UFC to fulfill the constitutional mandate of measuring the financial requirements of local bodies on the basis of the recommendations made by SFCs.

Another problem is regarding the lack of a specific mention of a period of coverage of a SFC either in the Conformity Acts or in the CAA. This lack of specification gives the states the leverage to change the coverage period frequently at their discretion and convenience leading to a chaotic situation. Although period of coverage of SFCs is normally for five years in most states following the norms set by UFCs, yet it is different in the case of number of SFCs. Probably with the objective of maintaining the continuity of the cycle of setting up of SFCs that gets often disrupted consequent upon delay in tabling ATR and submission of report of SFCs, significant number of states tend to frequently change the period of coverage of their SFCs resulting in the situation where the period of coverage of different SFCs not only varies across the states but also it is quite different from one SFC to another within a single state¹⁸. The lack of uniformity

¹⁷For instance during the tenure of the Second SFC of Orissa (2005-06 to 2009-10) the general election to the 14th Parliamentary and to the 13th Legislative Assembly elections of the state were held. These elections prevented the Commission from gathering information from local bodies and government offices and hence caused delay in submission of the SFC report (Report of the Second SFC, Orissa, 2004: 5). Likewise, submission of the report of the third SFC of Himachal Pradesh (2007-08-2011-12) was partly delayed due to the delayed response from local bodies on account of elections to the local government institutions (Report of the Third SFC, Himachal Pradesh: 9).

¹⁸The period covered by the recommendations **of SFC1 of Andhra Pradesh** is only for three years (1997-98 to 1999-00) while both for SFC2 (2000-01 to 2004-05) and SFC 3 (2005-06 to 2009-10) it is for five years. For **Haryana**, period covered by the recommendations **of SFC1** is only for four years (1997-98 to 2000-01) while for

regarding the period of coverage of SFCs across the states as well as for different SFCs within a single state makes it difficult for inter-state comparison and intra-state comparison.

(2) Absence of time allowed to SFCs for submission of their report in the states' Conformity Act.

Almost no states except very few like West Bengal specify maximum time limit for the submission of the reports of SFCs in their respective Conformity Acts. Relevant section of the Conformity Act of West Bengal clearly specifies that the Chairman and other members of the State Finance Commission shall hold the office for one year. However, even though there is no mention of the maximum time limit for submission of SFC report in the Conformity Acts of the states yet by and large all states specify certain time limit for the submission of the reports of SFCs in their respective Terms of Reference (ToR) provided to SFC at the time of constitution. If we consider the maximum time limit for submission of SFC reports as mandated in the respective ToR (including the time limit granted for extensions) with the time period actually needed to submit the SFC reports in different states, it will be evident that in few cases even it was not strictly followed (Subrahmanyam, 2004: page numbers are not mentioned).

There is hardly any uniformity in submission of SFC reports. The time varies considerably across the states. Unlike the UFC which has to give their recommendations well before the date from which they have to be given effect to, there is no such compulsions for the SFCs. As per the information provided by the 11th UFC, time span allowed by the respective states in the ToR for submission of reports of first SFCs varies from 36 months (Andhra Pradesh) to 3 months (Bihar, Goa). And as many as five states (Gujarat, Himachal Pradesh, Kerala, Sikkim and West Bengal) did not provide any time limit for SFC report submission in their ToR provided to the first SFCs (GOI, 11th FC, 2000: 226). As per the information provided by the 13th UFC, time taken for submission of SFC reports varies considerably across the states. For first

SFC2 (2001-02 to 2005-06) it is for five years and for SFC 3 (2006 to 2009) it is for three years. For **Maharashtra**, period covered by the recommendations of **SFC1** (1994-95 to 1996-97) and **SFC2** (1999-00 to 2001-02) is only for three years while for SFC 3 (2006-07 to 2010-11) it is for five years. For **Orissa**, period covered by the recommendations of **SFC1** is for seven years (1997-98 to 2000-01) while both for SFC2 (2005-06 to 2009-10) and SFC3 (2010-11 to 2014-15) it is for five years. For **Tripura**, period covered by the recommendations of **SFC1** is for more than five years which started from January 1997 and continues till date as reported by the 13th FC (13th UFC: 418) while for SFC2 (2003-04 to 2007-08) it is for five years. And finally for **Uttar Pradesh**, period covered by the recommendations of **SFC1** is for four years (1997-98 to 2000-01) while both for SFC2 (2001-02 to 2005-06) and SFC 3 (2006-07 to 2010-11) it is for five years.

SFCs, it varies from one year (Sikkim) to five years (Arunachal Pradesh) and in case of second SFCs it varies from four and half years (Bihar) to one year one month (Uttarakhand). Respective variation in case of third SFCs is from four years (Andhra Pradesh) to one year one month (Kerala) (GOI, Report of the 13th FC, 2009: 416-423).

However, it is worth mentioning that as many as seven states namely Bihar, Goa, Gujarat, Madhya Pradesh, Manipur, Orissa and Sikkim reconstituted their SFC more than once. The information provided by the 13th UFC did not have any uniformity relating to provision of the dates of constitution of first SFCs of these state. As evident in the report, in case of Bihar, Manipur and Gujarat dates of first/initial constitution of first SFCs were mentioned but in case of Goa, Madhya Pradesh and Sikkim dates of last constitution were mentioned. And in case of Orissa, two dates were provided by the report of the 13th UFC i.e., both initial date of constitution and final date of reconstitution. For the sake of convenience, foregoing analysis is based on the dates of initial constitution (as provided by the 11th UFC, p. 226) of SFCs of the states which constituted their SFCs more than once.

3. Absence of maximum time limit and specific reasons under which extension of life span of SFC could be granted.

None of the states' Conformity Acts prescribes the maximum time limit for the extension of the life span of SFCs and the specific reasons under which such extension could be granted. However, few states specify the maximum time limit for the extension of the lifespan of SFCs in their respective ToR but as usual in most cases these are not strictly followed as mentioned before.

4. Absence of timeframe for placing ATR before the state Legislature in the states' Conformity Act

Almost no states except for few like West Bengal specify a maximum timeframe for placing ATR before the state Legislature in the states' Conformity Act. However, for West Bengal, although Conformity Act of the state fails to specify exact time limit for placing ATR before the state Legislature, yet the pertaining provision emphasizes that ATR should be laid before the state Legislature as soon as possible after such recommendations are received and should be laid before the state Legislature not less than 14 days and the state Legislature will accept the

recommendation with few modifications during the session in which they were laid. Despite such legal provision, the state took eight months to table ATR on the recommendations made by the first SFC and for the second SFC the state took more than three years to table the respective ATR.

5. Absence of relevant statute either in the Conformity Act or in the states' legislature regarding the eligibility required of the persons to be appointed as members of SFCs except for few states.

In case of the UFC, Article 280 of the Constitution provides that Parliament may, by law, determine the qualification for the members. Accordingly, Parliament enacted the Finance Commission (Miscellaneous Provisions) Act 1951 which prescribed the qualification for a person to be appointed as the chairman or a member. In case of SFCs, Article 243 I (2) makes similar requirement for the state Legislatures. Eleventh UFC recommended that states should by legislation ensure that the chairperson and members of the SFCs may be drawn from amongst expert in specific discipline (GOI, Report of the 11th FC, 2000:74) and 12th UFC urged that it is necessary that states constitute SFCs with people of eminence and competence instead of perceiving the formation of SFC as a mere constitutional formality (GOI, Report of the 12th FC, 2004:150). Likewise, 13th UFC noted that the views of 11th and 12th UFC is valid and merit attention and consequently went further by introducing performance grant where one of the pre-requisites for attaining performance grant awarded by the 13th UFC during the period between 2011-12 and 2014-15 is that state governments must prescribe through an Act the qualifications of persons eligible for appointment as members of the SFC consistent with the Article 243 I (2) of the Constitution in order to improve the quality of the SFC reports (GOI, Report of the 13th FC, 2009: 179).

The study undertaken by Subrahmanyam (2004) indicates that the qualifications required of the chairman and members of the SFCs are specified in the Conformity Acts in the states of Andhra Pradesh, Assam, Gujarat, Kerala, Madhya Pradesh, Orissa, Pondicherry, Rajasthan, Sikkim and West Bengal whereas they are governed by separate Acts or prescribed by the state government through executive Notifications/rules in Bihar, Goa, Haryana, Himachal Pradesh, Tripura and Uttar Pradesh.

However, regardless of these statutory provisions in practice composition of different SFCs across the states indicates that majority of the members and Chairpersons of SFCs are serving/retired senior level bureaucrats both for different SFCs within a single state and for a particular SFC across the states. For example Assam prescribed the qualification required for appointment of members of SFCs by introducing a statute-The Assam Finance Commission (Miscellaneous Provision) Act, 1995. Yet out of five members/chairpersons of second SFC of Assam, four are serving/retired bureaucrats and for the third SFC of the state out of six members/chairpersons five members are serving bureaucrats and one is a retired bureaucrat. On the other hand a state like Tamil Nadu which is yet to make similar statute also practicing the same. If we look at the composition of Second and third SFCs of the state, it is evident that out of five all four are serving/bureaucrats and one is a political party member. Therefore, it remains to be seen the extent to which performance grant to be provided by the 13th UFC will be able to countercheck the situation as described above.

Needless to say, the usual trend of composition of SFCs across the states not only puts limitation on the ability of the SFC to act as an autonomous body to make recommendations in a free and an independent manner as has envisioned in the Constitution but also makes it difficult for SFCs to submit their report in a timely manner. Because given their normal duties and responsibilities, the serving bureaucrats can hardly spare much time for their work for SFC.

It is worth noting that careful examination of the provision laid under either in the Conformity Acts of the states or separate statute regarding specific mentioning of qualifications required of the Chairman and members of the SFCs, indicates that these relevant provisions neither rule out the possibility of appointing serving/retired senior level bureaucrats nor rule out the possibility of ruling party members from being Chairperson or members of SFC (see Box 5.1). In this respect we can mention the relevant clause of The Rajasthan Panchayat Act, 1994. Article 118 (ii) of the Act clearly says that a person who have had wide experience in financial matters and in administration is eligible for being member of SFC. The West Bengal Panchayat (Amendment) Act 1994, prescribed the same in the relevant statute. Therefore, with a view to check frequent reconstitution of SFCs and/or constitution in phases consequent upon frequent transfer of these serving bureaucrats and ensuring neutrality/objectivity in the recommendations made by SFC, it is not only necessary to introduce relevant statute, as suggested by the different

UFCs, but also there must be some provision along with the relevant statute clearly specifying person who will be disqualified from being appointed as or being a member and/or Chairperson of SFC. In addition, states that have already made the statute regarding qualifications required of the chairman and members of the SFCs could also consider introducing a clause in the main body of the relevant statute whereby it will be clearly specified that serving bureaucrats and ruling political party members should not consist of more than a certain percentage of total members of SFC in order to check the usual trend of overwhelming majority of these persons in the composition of SFC. And states who have not made the statute yet may consider enacting the relevant legislation while including these clauses, as suggested above, in order to introduce certain built-in-efficiency in the functioning of SFCs.

Box 5.1

The West Bengal Panchayat (Amendment) Act 1994 states: The SFC should consist of not more than five members including the Chairman, selected from amongst the jurists, economists, **administrators** and social and political workers of eminence

The Gujarat Panchayats Act, 1993 states: The Commission shall consist of such number of members not exceeding five including the Chairman as may be determined by the State Government:

The Chairman of the Commission shall be selected from amongst persons who have had experience in public affairs and the other members shall be selected from among persons who-

- (a) are, or have been or are qualified to be appointed as judges of a High Court; or
- (b) have special knowledge of the finances and accounts of Government and local authorities; or
- (c) have had wide experience in financial matters and in administration; or
- (d) have special knowledge of economics

The Kerala Panchayat Act, 1994 states: The Commission shall consist of such number of members not exceeding three including the chairman as may be determined by the Government:.

Persons who are to be appointed as member of the Commission shall be-

- (a) One shall be a person having special knowledge and experience in financial matters and economics; and
- (b) The other two shall be persons having experience in public administration or local administration or having special knowledge in financial matters and accounts of the Government and local bodies

The Rajasthan Panchayat Act, 1994 states: The SFC shall consist of the following members-

- (a) A Chairperson from amongst persons who have had experience in public affairs; and
- (b) Such number of the other members not exceeding four from amongst persons who-
- (c) have special knowledge of the finance and accounts of the Government; or
- (d) have had wide experience in financial matters and in administration; or
- (e) have special knowledge of functioning of the Panchayati Raj institutions and Municipal Bodies; or
- (f) have been closely associated with preparation and/or implementation of rural and urban development programmes

Apart from the structural lacunae in functioning of SFCs, there has been some major drawbacks in implementation dealing with SFCs across the states which leads to delay in submission of reports of SFC.

1. **Frequent reconstitution of SFCs:** As many as seven out of twenty five States (Meghalaya, Mizoram and Nagaland are exempted under Article 243M), reconstituted their first SFCs. It is heartening to note that number of reconstitution was nil in case of the second SFC as well as third SFCs as reported by the 12th and 13th UFC. But careful examination of reports and Notification order tell us a different story. Assam third SFC was first constituted on 6th February 2006. Due to certain procedural inadequacies of the original Notifications, the Commission had to be reconstituted. A fresh Notification order was issued on 3rd July 2006.
2. **Frequent changes in the composition of SFCs:** There has been frequent changes in the composition of SFCs across the SFCs of the states on account of the fact that majority of the members of SFCs consist of serving bureaucrats and one was appointed in place of others on account of the latter's inability to spare time due to increase in his/her work-load or they are sent on deputation for serving other departments under different designation by the respective state government¹⁹.
3. **Constitution of SFCs in phases:** Appointment of all SFC members does not come along with the date of issuance of Notification order of SFC i.e., there is a time lag between issuance of Notification order of constitution of SFC and appointment of SFC members and chairperson. Again SFC members are not appointed simultaneously rather they are appointed and hold office in phases due mainly to the fact, as concluded from the SFC reports, that heavy responsibilities of serving bureaucrats prevent them from taking charge of the office promptly.

¹⁹Few examples could be cited in this respect. Rajasthan second SFC had experienced frequent change of Member Secretary. The commission had five bureaucrats as Member Secretaries from time to time varying for a period of one month to nine months. As admitted by the Commission, this partly accounts for the delay in submission of final report by the Commission (Report of the Second SFC, Rajasthan, 2001: Preface). Likewise, second SFC of Himachal Pradesh had as many as six Chairman. It is, therefore, suggested that the entire commission should be constituted at one go to curtail delay in submission of report which is one of the most serious handicaps in the functioning of the SFCs. Second SFC of Haryana feels that the state should ensure that the composition of SFC is not disturbed till the completion of the task entrusted to it while frequent changes resulting in discontinuity and cohesiveness of thoughts and methodology (Second SFC, Haryana, 2000:13).

4. **Time lag between issuance of ToR of the Commission and Notification order of constituting SFC:** In several instances, ToR came much later than Notification order of the constitution of SFC and even some cases ToR is not at all provided to several SFCs.
5. **Non-provision of office space immediately after the constitution of SFC:** Number of SFC reports complained that there has been a significant delay in providing office space to them after constitution of SFC that eventually makes it difficult for them to submit their reports within a prescribed time period²⁰.
6. **Absence of permanent SFC cell:** Such absence actually leads to maximum time being spent on collecting basic data and other relevant information required by SFC that could have been collected in a routine manner by the permanent cell for the use of SFC

There seems to be no well thought out planning or co-ordination between submission of reports of SFCs and tabling ATR before the respective state Legislatures. As discussed earlier, some structural drawbacks in the functioning of SFCs have been causing inordinate delay in submitting reports of SFC but it is completely inexplicable why the same delay is present in tabling ATR. Is it due to the fact that states are looking for excuses to bypass and to delay implementing recommendations of SFCs? The apprehension seems to be valid in the light of the fact that with regard to implementation of the SFC recommendations which were accepted, by and large most states not only failed to take follow up action in terms of legislative/administrative measures but also did not honor their commitment for the release of additional funds (GOI, 12th FC, 2004: 143-144). This aspect will be discussed in detail in the subsequent section of this study.

²⁰As experienced by the first SFC of UP, filling up the posts at the office of SFC and arrangement for suitable accommodation for the chairman, members and staff and computers was completed and made fully functional only in August 1995 though the Commission was constituted on 22nd October 1994. Thus greater part of the tenure of the Commission remained very less effective due to the problems of staff, offices and accommodation (First SFC, Uttar Pradesh, 1996: 12). Experience of the third SFC of Himachal Pradesh could also be worth mentioning in this respect. The Commission was constituted on 26th May 2005 and it was required to submit its report by 31st July 2006. However, its Member Secretary assumed charge on 27th May, 2005 and Chairman assumed charge on 3rd June 2005 but the officers and staff could not be appointed in time due to various official formalities. Despite best efforts, the secretariat staff of the Commission could only be appointed in December 2005. As mentioned above, the Commission was constituted on 27th May 2005 was required to make its report available by 31st July 2006 but it actually became functional only in December 2005 thus leaving hardly 6-7 months time according to the original notification to complete its job which was impossible given the prevailing circumstances (Report of the third SFC, Himachal Pradesh, 2007:8-9).

Moreover, delayed submission of SFC reports combined with delayed tabling of ATR before the state Legislature compounded the problem of maintenance of timely cycle of SFC in a greater extent. The date of submission of first SFC along with tabling ATR was so delayed that most part of its award period of first SFCs across the states was covered. Therefore, very little time was left for consideration of the recommendations made by the first SFCs. Of 25 states, period covered by the recommendations of first SFCs were five years only in case of Assam. However, we have excluded Orissa and Tripura in this respect since period of coverage of their first SFCs are more than five years hence not comparable with other states mentioned above. In case of second SFC, submission of SFC reports along with tabling of respective ATRs were so delayed that no state has five years coverage period and for third SFC only Kerala has five years period to be covered by the recommendations of third SFCs (GOI, Report of the 13th FC, 2009: 416-423).

It is worth mentioning that foregoing conclusion was based on the information provided by the 13th UFC regarding the constitution of SFCs, submission of SFC reports, tabling of ATR and period covered by SFCs. Careful examination of different SFC reports might lead us to slightly different conclusion than that of the previous one. The 13th UFC report seemed to have failed to take into account the fact that few SFCs produced interim reports with a view to enable the respective state governments to consider the recommendations of the concerned SFCs. In the anticipation of the delay in submission of SFC reports few SFCs like third SFC of Rajasthan whose mandated coverage period was from 2005-06 to 2009-10 was asked by the government to produce an interim report in order to enable the state government to reflect the recommendations of the Commission in the Revised Estimates 2005-06 and Budget Estimates 2006-07 (Report of the Third SFC, Rajasthan, 2008:7). Likewise, the second SFC of Rajasthan whose mandated coverage period was from 2000-01 to 2005-06 was also asked to produce an interim report in order to enable the state government to reflect the recommendations of the Commission in the Revised Estimates 2000-01 and Budget Estimates 2001-02 (Report of the Second SFC, Rajasthan, 2001:3).

In conclusion, it can be said that in case of most SFCs across the states combination of different factors like delayed issuance of ToR, frequent changes in the composition of SFCs, significant delay in providing office space and considerable period of time being taken in

completing final composition of SFC led to a situation where greater part of the mandated life span of SFCs remained ineffective and hence non-functional. Therefore it is not only necessary to fix a time span of SFC for report submission but the casual approach shown by the state governments in dealing with SFCs should also be checked.

3. Difficulties Faced by the SFCs in Sourcing Data

Reports of SFC should contain an estimation and analysis of the finances of the state as well as the local bodies at the pre and post transfer stages along with a quantification of the revenues that could be generated additionally by the local bodies by adopting the measures recommended therein. The gap that still remains would then constitute the basis for the measure to be recommended by the UFC. For undertaking this task, SFCs should be equipped with credible and up to date data base of local bodies. But the existing condition regarding maintenance of database of local bodies across different states barring only few is as follows:

- There is no comprehensive system of collecting, compiling and monitoring the status of Panchayati Raj Institutions (PRI) finances regularly
- Compilation of disaggregated data in the formats suggested by Comptroller of Auditor General (CAG) in a time series which would enable SFCs to assess the income and expenditure of the local bodies is grossly absent
- Lack of information on the initiatives taken by PRIs of the respective states towards data base building for which funds were earmarked by Eleventh and Twelfth Union Finance Commission.
- Absence of permanent SFC cell in the Finance Department of each state where raw data could be furnished regularly.

The main source of data pertaining to local bodies used by different UFCs and SFCs is data provided by the state governments. Unfortunately, states are providing inconsistent poor quality data to SFCs as well as to UFC as noted by the 11th, 12th and 13th UFCs along with different SFCs. Thirteenth UFC regretted that ten years had elapsed since the 11th UFC underlined the need for maintaining a data base as well as up to date accounts and five years had

elapsed since the 12th UFC made similar recommendation. Despite this, little improvement has been noted in the situation. Data provided to the 13th UFC by the states are sparse, inconsistent with the data provided to other UFCs. Moreover, there are also significant discontinuities in the data provided to the 13th UFC by the states relating to finances of local bodies (GOI, Report of the 13th FC, 2009:165).

Consequent upon such gross absence of database, different UFCs observed that each SFC devised its own format for the collection of the data and preparation of the report and hence the SFC reports had wide variance in the content and the data presented making absolutely difficult for the UFCs to get a clear picture of the state of the finances of the Panchayats and municipalities from these reports. Self evidently, the existing situation has been preventing UFCs from fulfilling their constitutional mandate relating to quantification of the required augmentation of the consolidated fund on the basis of the SFC recommendations. Thus the data supplied by the states as well as the reports of the SFCs did not provide a sound basis to quantify uniformly across all states the supplementation required to the resources of their respective rural and urban local bodies. In other words, the absence of data necessary for rational determination of the gap between the cost of service delivery and the capacity to raise resources makes the task of recommending measures for achieving equalization of services among local bodies almost impossible.

The 11th and 12th UFCs, therefore, took initiative to collect data on the finances of the Panchayat and municipalities here too they had to depend on the states for receiving the database. The states tend to be quite casual in furnishing data to UFCs as evidenced from several instances. Urban Local Body (ULB)-data supplied by the Government of West Bengal to the 12th UFC was without that of the Kolkata Corporation which commands about a third of ULBs budget of the state. Again Maharashtra and Rajasthan data combined both revenue and capital items. Thus, as opined by NIPFP (2010) study, data on ULBs and Rural Local Body (RLBs) presented by the 12th UFC is suspect and should be treated as indicative and not used for decision making (NIPFP, 2010: 25).

Against this backdrop of virtual absence of database at local level it remains to be seen how many SFCs admitted lack of database and recommended measures to remedy the situation? And how did they develop their methodologies of estimating resource requirements of local bodies in the absence of database and fulfilled their constitutional mandate of recommending measures of horizontal and vertical devolution of resources to PRIs? Different studies indicate that no state has any data base on RLBs this is also true for the ULBs except Tamil Nadu, Kerala and to some extent Gujarat. A study by NIPFP (2010), shows that the data base on which the SFCs based their reports was absent in West Bengal and poor in most states except in Kerala. Furthermore, SFC report of Uttaranchal was not based on processed data and meaningful budget classification of the local bodies (NIPFP, 2010: 15 and 26).

It is surprising to note that successive finance commissions of all states unanimously expressed their concern over lack of data base and almost all of them felt the need of an agency who can collect and provide comprehensive and up to date data and information relating to the finances of local bodies centrally at the state level but very few of them recommended specific measures relating to this issue (e.g., First, Second and Third SFC of Assam, First SFC of Rajasthan and Second SFC of Orissa). And even among these few SFCs, only small number of SFCs attempted to go deep into the issue of unearthing the causes of lack of database and actual status of utilization of database improvement grants provided both by Eleventh (2000-2005) and Twelfth UFC (2005-2010) particularly those of second and third batch of SFCs across the states. The actual state-wise status of utilization of grants provided by these two Union Finance Commissions earmarked for database improvement is not yet known. But complaint made by successive SFCs regarding lack of data base and their perpetual recourse to time consuming method of collection of primary data through circulating questionnaire to concerned government offices, Urban and Rural Local Bodies, holding discussions with different stake holders and inviting views and suggestions from the same combined with collection of secondary data from government documents makes it clear that grant earmarked for database improvement by some SFCs and UFCs did not produce the desired result. Moreover, the data collected through questionnaires are hardly satisfactory because due to time constraint, data has to be collected on sample basis and even then responses are very poor. And even among such poor responses, considerable number of questionnaire are being rejected on account of serious inconsistencies

and discrepancies in their information particularly in terms of classificatory nature where it was difficult to determine what constituted their own revenue receipts and what conspired the object specific grant from the higher level of governments.

Apart from that the collection of data by applying this methodology takes long time particularly for gathering information from different quarters and analyzing them and preparing the report. Data collected through questionnaires had to be reclassified, harmonized, segregated and frequently cross checked for turning it into useable form leading to substantial delay in submission of reports as acknowledged by different SFCs.

The above mentioned methodology applied by different SFCs for collection of necessary data by SFCs can at best work as a supplementary information but can not be substituted for proper database. Thus in the absence of any budgetary format and reliable figures of receipt and expenditure particularly at PRIs level any attempt of making financial projection for the future in respect of PRIs would tend to be a purely theoretical exercises and hence can affect the quality of SFC reports and recommendations therein.

The SFC should have been primarily concerned with horizontal resource gap of the local bodies with a view to redressing intra-regional inequality. But the existing database does not enable the SFC to undertake the task satisfactorily. Even the primary task of SFC can not be performed due to the absence of database. The study undertaken by Mishra (2003) highlights that due to gross lack of database most SFCs have not even made estimates of the magnitude of resources which local bodies need for improving and maintaining their basic services. Of the 20 SFCs under the purview of the study undertaken by Mishra (2003), 13 have made efforts in the direction of quantification of the requirements of local bodies while others have not quantified their demands for funds. Even those which have quantified have not specifically indicated as to how much funds they need from the UFC and how much would be met by additional resource mobilization through own sources and how much by devolution from the respective state governments. That apart, the estimates made by the SFC may not be reliable because of questionable assumptions on which they have based their estimates. Moreover, there has been no uniformity in the norms adopted in the approach and methodology deployed for arriving at these estimates and with few exceptions the SFCs have not indicated the requirements for funds

separately for the Operation & Maintenance of different individual basic services (Mishra, 2003: 31-33).

Gravity of the existing problem of inconsistent analytical methodologies applied by SFC reports could be understood from the study undertaken by Mathur and Peterson (2006) where they mentioned that the different SFCs have adopted widely varying and often ad hoc, definitions of resource gap. Successive SFCs in the same state often used different and contradictory definitions of resource gap. Even within a single SFC report, the conceptual definitions of resource gap are frequently followed by a short-cut quantification procedure that is inconsistent with the definition set out (Mathur and Peterson, 2006: 8).

4. Reasons for the lack of database

Absence of budget window for local bodies in the states' budget coupled with antiquated accounting practices and the tendency of keeping accounts and audit pending for years seem to be the main reasons for non-availability of credible data on financial performance of local bodies i.e., income and expenditure of local bodies. Accurate data on the financial performance of local bodies are best obtained from accounts of the local bodies themselves apart from the budget documents of the state governments and the respective Finance Accounts. This requires that all state governments make distinct budget provisions for local bodies, the expenditure relating to which are reported in the Finance Accounts. Such an approach has been recommended by 11th, 12th and 13th UFC as well as the SARC.

A number of states do maintain distinct budgetary provision for amounts transferred by them to each tier of PRIs and each category of ULBs. They provide object head wise details in the budget documents. It is desirable that this best practice be followed by all states. 13th UFC recommends that a supplement to the budget documents be prepared by the state governments. The supplement should show the details of plan and non-plan wise classification of transfers for all categories of ULBs and all tiers of PRIs from major head to object head, which have been depicted in the main budget under the minor heads this supplement could also incorporate details of funds transferred directly to the local bodies outside the state government budget (GOI, Report of the 13th FC, 2009:168).

5. Measures taken by UFCs in developing database of local bodies

Eleventh UFC recommended ad hoc annual grant of Rs. 1600 crore for Panchayats and Rs. 400 crore for municipalities and mandated certain activities such as maintenance of accounts, development of database and audit to be first charge on this grant. Amount remaining thereafter was to be utilized by the local bodies for maintenance of core civic services. Like 11th UFC, 12th UFC also noted the importance of building database and maintenance of accounts by local bodies and urged that the part of their support be earmarked by the state government for this purpose. As noticed by the 13th UFC, while a few states have set up an excellent set of accounts, the majority of states have not done so. As a result financial and operational performance by local bodies continues to be of poor quality and the data remains cross sectionally unreliable for the determination of local body grant amongst states. In response to this critical situation, 13th UFC opted for a stronger incentive system. The Commission noticed that conditions imposed by the previous commissions in utilizing grants have met with limited success and the Commission feels that incentive-based approach may yield better results than an exhortation based one in matters relating to maintaining a comprehensive database as well an upto-date accounting system (GOI, Report of the 13th FC, 2009:167). However, NIPFP (2010) study feels that 11th and 12th UFC started from the wrong side. It is required to earmark at least 20 per cent under the service up-gradation grant to be monitored by the State Statistical Bureau for building the data base of local bodies (NIPFP, 2010:28).

Thirteenth UFC recommended that grants to be devolved to local bodies should have two components –a basic component and a performance based component. All states will have access to this grant for all the five years as per the criteria and weights mentioned by them. The states will be eligible to draw down its share of the general performance grant which will be effective from 2011-12 and till 2014-15 only if it complies with the nine conditions. These conditions must be met by the end of a fiscal year for the state to be eligible to draw down its performance grant for the succeeding fiscal year. Of these nine conditions, two can be mentioned in this context.

1. **Budget Window for Local Bodies in the State Budget:** The state government should put in place a supplement to the budget documents for local bodies (separately for PRIs and ULBs) furnishing the details of plan and non-plan wise classification of transfers separately for all

categories of ULBs and all tiers of PRIs from major head to object head which have been depicted in the main budget under the minor heads.

2. **Account and Audit of all Local Bodies be Entrusted with CAG:** The CAG must be given Technical Guidance and Supervision (TGS) over the audit of all the local bodies in a state at every tier/category. And its Annual Technical Inspection Report as well as the Annual Report of the Director of Local Fund Audit must be placed before the State Legislature (GOI, Report of the 13th FC, 2009: 178-179).

6. Reasons for low level of grant utilization earmarked for database improvement

Out of the total grant provided by the 11th UFC, Rs. 200 crore was earmarked for creation of database and Rs. 483 crore for maintenance of accounts by local bodies. As per the information received from the Ministry of Finance, only Rs. 93 crore and Rs. 113 crore was utilized for creation of database and for maintenance of accounts respectively by local bodies. The total utilization has thus been hardly 30 percent of the total allocation (GOI, Report of the 12th FC, 2004: 153-154).

The reasons for such gross under utilization are far from clear. However, in pursuance of the detailed examination of gross lack of utilization of total grants released by the UFC, 12th UFC realized that conditionalities imposed for release of funds to local bodies ultimately handicapped the very local bodies for which they were meant. As noticed by the Commission, the central government imposes condition on the disbursement of such grant. The 12th UFC recommended that no additional conditionality be imposed over and above the conditions suggested by them (GOI, Report of the 12th FC, 2004: 158). But despite such liberal approach some states have not been able to draw down even the 12th UFC grant. As viewed by the 13th UFC, this is primarily due to non-submission of Utilization Certificates by the state governments. It appears that part of this handicap is attributable to lack of maintenance of accounts by the local bodies and their slack attitude towards getting accounts audited. This clearly reinforces the need for all local bodies to create and maintain a database encompassing their resources, operations and financial performances indicators (GOI, Report of the 13th FC, 2009: 152).

Detailed study regarding state-wise break up of lack of utilization of grants earmarked for data improvement of local bodies provided by both the 11th and 12th UFC could have thrown some light on the fact why it has been unable to yield the desired result. However, some SFC reports helped us to understand the problem better. Third SFC reports of Assam noticed that Government of Assam (GoA) could avail hardly about 50 percent of the recommended 11th UFC grant earmarked for improvement of database of local bodies of the state and the Rural Development Department of the state spent the major portion of it for up-gradation of database at the Head Quarter. This was not the intention of the 11th UFC. Moreover, what came as rude shock was that the failure of the Head Quarter to immediately provide the data required by the third SFC of the state. Meanwhile the grants recommended by the 12th UFC started flowing in. But no amount till the financial year 2006-07, as noticed by the Commission, was allowed to percolate down to the grass root level except that SMC computers have been centrally purchased and sent to PRIs. These computers are yet to be used and in many places even the cartons have not been opened. Moreover, there is no computer operator in the Gram Panchayats of the state as observed by the Commission (Report of the Third SFC, Assam, 2008:7-8). NIPFP (2010) study feels that absence of monitoring and supervisory agency at the state level causes such low level of grant utilization earmarked for creation of database by 11th UFC and 12th UFC (NIPFP, 2010: 27).

7. SFC Recommendations and its Implementation by State Governments

Articles 243 I(1) and 243 Y(1) of the 73rd and 74th Constitutional Amendment Act provides for the mandatory constitution of a finance commission at the state level at specified intervals. For most states, the Third State Finance Commissions have either submitted their reports or are in the process of doing so. In case of some states even the report of the Fourth State Finance Commissions are now available. Table 5.1 provides information on the constitution and submission of the most recent SFCs for which reports are available and the devolution recommended by them. In other words, if, for a state, the Third SFC has submitted its report but the same is not available in the public domain we have in table 5.1 reported information pertaining to the state's second SFC only.

Table 5.1 summarises the status of the most recent SFCs in different states and the action initiated in regard to them. It may be seen from the table that in respect of most of the states, Action Taken Reports on the SFCs are not available. Therefore, we are not in a position to undertake a serious analysis of the implementation of these SFC recommendations. However, for the states for which ATRs are available for the latest SFC reports, we have reported the action taken by these state governments in column 7 of table 5.1.

For earlier SFC reports for which Action taken reports are available the overall observations relating to SFC recommendations are contained later in this section.

Table 5.1 Constitution and submission of Latest SFC Reports and Recommended Devolution

| Sl. No | State (latest SFC)* | Date of Constitution of SFC | Date of submission of SFC report | Date of submission of ATR | Period covered | Devolution Recommended |
|--------|-----------------------------|-----------------------------|----------------------------------|--------------------------------|--------------------|--|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1 | Andhra Pradesh (2nd SFC) | 8.12.1998 | 19.08.2002 | 31.3.2003 (ATR not available) | 2000-01 to 2004-05 | The total devolution by way of assignments and grants recommended by the commission for both rural and urban local bodies is Rs. 1793.94 cr (Rs. 1167.33 cr for rural bodies and Rs. 626.61 cr for urban bodies). It works out to 10.385% (6.76% to rural bodies and 3.63% for urban bodies) of the total tax and non-tax revenues of the state including the share of central taxes for the year 2000-01 |
| 2 | Arunachal Pradesh (1st SFC) | 22.09.2005 | April 2008 | N.A. | N.A. | Recommended an overall devolution package of at least 50% of the total state revenues to the PRIs. After keeping in view the requirement of resources of the PRIs and financial position of the state government the commission recommended that 20% of the state's share in central taxes may be assigned to PRIs and 30% of the staff position of the concerned line departments may be put to strengthen the workforce of PRIs |
| 3 | Assam (3rd SFC) | 06.02.2006 | 27.03.2008 | 25.09.2009 (ATR not available) | 2006-07 to 2010-11 | a) No devolution for 2006-07; b) 10 % of Non Loan Gross Own Tax Revenue Receipt, minus actual collection expenditure of Govt of Assam for the year 2007-08; c) 25 % of Non Loan Gross Own Tax Revenue Receipt, minus collection expenditure of Govt of Assam should form the Divisible pool out of which allocations should be made to PRIs and ULBs during the three financial years 2008-11 |
| 4 | Bihar (4th SFC) | 22.06.2007 | 26.06.2010 | N.A. | 2010-11 to 2014-15 | 7.5% in state's own tax revenue, net of collection costs should be devolved to Local Bodies |
| 5 | Chhattisgarh (1st SFC) | 22.8.2003 | 15.05.2007 | 30.07.2009 | 2005-06 to 2009-10 | Recommended that 8.287 % of State's net own tax revenue to be devolved to local bodies (6.628 % to RLBs and 1.659 % to ULBs based on 2001 popIn). <ul style="list-style-type: none"> The state government through it ATR awarded 6% State's net own tax revenue from 2007-08 onwards to local bodies (4.79% to RLBs and 1.21 % to ULBs) |

| Sl. No | State (latest SFC)* | Date of Constitution of SFC | Date of submission of SFC report | Date of submission of ATR | Period covered | Devolution Recommended |
|--------|---------------------------------------|-----------------------------|----------------------------------|--------------------------------|--------------------|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 6 | Goa (2 nd SFC) | 16.08.2005 | 31.12.2007 | N.A. | 2007-08 to 2011-12 | 2 % of State's own revenue to PRIs out of which 25 % to ZPs and the rest to GPs and PSs |
| 7 | Gujarat (1 st SFC) | 15.9.1994 | RLBs- 13.7.1998; ULBs Oct.,1998 | 28.08.2001 | 1996-97 to 2000-01 | Additional taxation of worth Rs.293.09 crores per annum; Profession tax; 50%; Entertainment tax: 75%; other Grants |
| 8 | Haryana (3rd SFC) | 22-12-2005 | 31.12.2008 | 01.09.2010 | 2006-07 to 2010-11 | Recommended global sharing of state taxes @ 4 % of the total own tax revenue of the state excluding Excise duty, Local area development tax (LADT) to local bodies after retaining 1.25 % as collection charges of the government. (The state government through its ATR accepted the following: (i) For 2006-07 and 2007-08: sharing of state taxes @ 2 % of the total own tax revenue of the state excluding Excise duty, Local area development tax (LADT) to local bodies after retaining 1.25 % as collection charges of the government; (ii) 3 % for 2008-09 and 2009-10; and (iii) 2% for 2010-11) |
| 9 | Himachal Pradesh (3rd SFC) | 26-05-2005 | 2.11.2007 | 04.06.2008 (ATR not available) | 2007-08 to 2011-12 | Recommended devolution equivalent to 2.75 per cent of the aggregate State's own tax and non-tax revenues to the local government institutions starting with the year 2008-09. This percentage may be kept fixed for the forecast period upto 2011-12. |
| 10 | Jammu & Kashmir (1 st SFC) | 15.1.2008 | N.A. | N.A. | 2009-10 | Report Not Submitted |
| 11 | Jharkhand (1 st SFC) | 28.01.2004 | N.A. | N.A. | Not specified | |
| 12 | Karnataka (2nd SFC) | 28.08.2006 | 31.12.2008 | N.A. | 2010-11 to 2014-15 | 1.33% of state's own revenue receipts to be devolved to PRIs and ULBs in the ratio of 70:30. |

| Sl. No | State (latest SFC)* | Date of Constitution of SFC | Date of submission of SFC report | Date of submission of ATR | Period covered | Devolution Recommended |
|--------|--------------------------|-----------------------------|----------------------------------|--------------------------------|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 13 | Kerala (4th SFC) | 19.09.2009 | 18.01.2011 | N.A. | 2011-12 to 2015-16 | Recommended a vertical transfer system comprising of the following components: (1) General purpose funds : Local governments be given 3.5% of State's own tax revenue (SORT) using the t-2 method i.e., devolution in a particular year is determined based on the tax collection figures of two years back; (2) Support for the fiscally weak LGs : Recommended gap funding to such GPs and set apart a lumpsum of Rs.25 crore from General Purpose Fund (GPF) from the share of GPs; (3) Maintenance funds : 4.5% of SOTR (t-2) in 2011-12; 5% of SOTR (t-2) in 2012-13 and 5.5% of SOTR (t-2) in 2013-16; (4) Development funds : Commission recommends an allocation of 25% of the proposed plan size in 2011-12; 27.5% in 2012-13; 28.5% in 2013-14; 29.5% in 2014-15; and 30% in 2015-16; and (5) Special grants for deprived Gram Panchayats : Recommend a special grant of Rs. 25 lakh to each of the 16 very vulnerable GPs and a grant of Rs. 15 lakh to each of the vulnerable 58 GPs as identified by the commission |
| 14 | Madhya Pradesh (3rd SFC) | 12.07.2005 | 01.11.2008 | 05.02.2010 | 2006-07 to 2010-11 | 5 % of the State's total own tax revenue of the previous year net of 10% as collection charges and net of assigned taxes to the local bodies. 80 % of the 5 % (i.e., 4%) to be allocated to PRIs and the remaining 1 % to ULBs. <ul style="list-style-type: none"> • State government accepted this recommendation in its AT) |
| 15 | Maharashtra (2nd SFC) | 22.06.199 | 27.03.2002 | 29.03.2006 (ATR not available) | 1999-2000 to 2001-02 | State should devolve 40 % of its share of taxes, duties, tolls and fees leviable to the panchayats and the municipalities |
| 16 | Manipur (2nd SFC) | 03.01.2003 | Nov 2004 | 02.12.2005 | 2001-02 to 2005-06 award period extended to | 10% of tax and non-tax and state's share in central taxes of State; PRIs: 34.38% and 20.60% to ULBs. |

| Sl. No | State (latest SFC)* | Date of Constitution of SFC | Date of submission of SFC report | Date of submission of ATR | Period covered | Devolution Recommended |
|--------|---------------------|------------------------------|----------------------------------|--------------------------------|--------------------|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | | | | | 31.3.2010 | |
| 17 | Meghalaya | Exempt under Article 243 (M) | | | | |
| 18 | Mizoram | Exempt under Article 243 (M) | | | | |
| 19 | Nagaland | 01.08.2008 | 22.10.2009 | Under consideration | 2010-15 | Exempt under Article 243 (M). SFC constituted under State Act. No specific devolution has been recommended for local bodies |
| 20 | Orissa (3rd SFC) | 10.09.2008 | 27.01.2010 | February, 2011 | 2010-11 to 2014-15 | 15% of the average gross tax revenue of the State for the years 2005-06 to 2007-08 @ Rs 896.17 crore per annum(4480.85 crore for the 5 year period 2010-11 to 2014-15) <ul style="list-style-type: none"> State government accepted this recommendation in its ATR |
| 21 | Punjab (3rd SFC) | 17.09.2004 | 28.12.2006 | 22.05.2007 (ATR not available) | 2006-07 to 2010-11 | SFC recommend that the state Government devolve 4% of its net tax collection (minus compensation for abolished octroi) to meet their operating expenses |
| 22 | Rajasthan (3rd SFC) | 15.09.2005 | 27.02.2008 | 17.03.2008 (ATR not available) | 2005-06 to 2009-10 | The Commission recommended devolution of 3.50% of the net proceeds of State's own tax revenue to PRIs and ULBs. Out of this, 0.50% share will be earmarked for incentives to these local bodies for mobilizing revenue from their own sources. (i.e., it recommended 3% of net proceeds of State's own tax revenue for devolution to local bodies and 0.5% as incentive for revenue mobilization by the PRIs and the ULBs; Entertainment tax:100%; Royalty on minerals: 1%. |
| 23 | Sikkim (3rd SFC) | 04.03.2009 | 27.02.2010 | (ATR not available) | 2010-11 to 2014-15 | Recommended transfer of 2% of the proceeds of state's own revenue (from Land revenue, stamps & registration, tax on sale & trade etc., animal husbandry, forest and wildlife, minor irrigation, village & small industries and Tourism) net of collection costs in 2010-11; 2.14% in 2011-12; 2.28% in 2012-13; 2.43% in 2013-14; and 2.58% in 2014-15 |

| Sl. No | State (latest SFC)* | Date of Constitution of SFC | Date of submission of SFC report | Date of submission of ATR | Period covered | Devolution Recommended |
|--------|-------------------------------------|-----------------------------|----------------------------------|--------------------------------|--------------------|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 24 | Tamil Nadu (3rd SFC) | 02.12.2004 | 30.09.2006 | 10.05.2007 (ATR not available) | 2007-08 to 2011-12 | State's Own Tax Revenue as arrived at by adopting Compounded Annual Rate of Growth for major State Taxes viz. Sales Tax, Motor Vehicle Tax, Stamp Duty & State Excise and for other taxes and expenses at MTFP projections, the devolution transfer to local bodies shall be 10% for each year during the entire award period of 3rd SFC; |
| 25 | Tripura (2 nd SFC) | 29.10.1999 | 10.04.2003 | 30.04.2004 | 2001-02 to 2005-06 | 5% of the divisible pool to PRIs; 7.5% of state's net proceeds of tax revenue to ULBs. |
| 26 | Uttar Pradesh (3 rd SFC) | 23.12.2004 | 29.08.2008 | N.A. | 2006-07 to 2010-11 | 6% of net tax proceeds to PRIs and 9% to ULBs. |
| 27 | Uttaranchal (2nd SFC) | 30.04.2005 | 06.06.2006 | 05.10.2006 (ATR not available) | 2006-07 to 2010-11 | Recommended that 10 per cent of state's own revenues (both tax and non-tax excluding interest receipts, dividend, profits, royalties from minerals and sale proceeds from forest produce etc.) should devolve on the local bodies in each of the five years of its award period (2006-07 to 2010-11) |
| 28 | West Bengal (3rd SFC) | 22.02.2006 | 31.10.2008 | 16.07.2009 (ATR not available) | 2008-09-2012-13 | The Commission recommended an 'untied' fund allocation to the tune of Rs.800 crore constituting around 5% of the State's own net tax revenue for the year 2008-09. It also recommended a progressive increase of the 'untied' fund allocation at the minimum rate of 12% p.a. on a cumulative basis for the subsequent 4 financial yrs. |

Notes:

- 1) * Here the latest SFC means the latest SFC for which the report is available.
- 2) For Andhra Pradesh, Karnataka, Maharashtra and Tripura the reports of the 3rd SFC is not available as they are either not submitted or still under consideration. For these states we have provided information for 2nd SFC in the table. Similarly for Gujarat as the report of the 2nd SFC is not available we provided information for 1st SFC of the state.

Source: Panchayati Raj Department of different state Governments; and Report of the Thirteenth Finance Commission.

Though the 73rd and 74th Amendment Act requires the mandatory constitution of a finance commission at the state level at specified intervals under Article 243 I (1) and 243 Y (1), the state governments enjoy the discretion to accept or reject the recommendations of SFCs. Unlike in the case of the Union Finance Commission recommendations which have a convention of being accepted by the Union Government, there is no such convention in the case of SFC recommendations. Not surprisingly, the recommendations of the SFCs are not taken seriously by the state governments. Successive UFCs particularly the Twelfth Finance Commission (GOI, 12th FC, 2004:149) and Second Administrative Reforms Commission (SARC) (GOI, SARC, 2007:64-65) suggested that states should follow the norms set by the central government by accepting the recommendations made by the respective SFCs. However, the question remains the extent to which the reports of SFCs could be accepted if these reports lack necessary quality on account of inconsistent analytical methodologies applied by them coupled with lack of proper estimation of the magnitude of resources required by the local bodies for improving and maintaining their basic services. It is worth mentioning that 12th UFC went so far as to conclude that failure to implement SFC recommendations defeats the very purpose of constituting the SFCs. The above conclusion made by the 12th UFC, as stated by Mathur and Peterson (2006), “..appears paradoxical, in light of the Twelfth Central Finance Commission’s assessment about the poor quality of the State Finance Commission reports and the lack of adequate analysis to justify SFC recommendations” (Mathur and Peterson, 2006:8-9).

Detailed recommendations of State Finance Commissions are given in table 5.1. Though only a few states have brought out action taken reports (ATR) with modified acceptance, it is not clear from other states whether these recommendations have been accepted or not as the ATRs are not available. Irrespective of whether or not the recommendations of the most recent SFCs are either accepted, we have attempted to analyse in actual devolution from the State to rural local bodies based on the information collected from the Finance Accounts for some of the states (5.2). From the table we see that excepting in the states of Tamil Nadu, Madhya Pradesh and Chhattisgarh, the devolution in all other states have been much lower than those recommended by the SFCs. In Madhya Pradesh it is around 15 per cent of the state’s own revenues for the years 2006-07 and 2007-08. Here the Grants-in-aid recommended by the SFC is also included in

the devolution. The other state Tamil Nadu, devolved 11.12 per cent of its own tax revenues to local bodies in 2007-08 as against the SFC recommended devolution of 10 per cent.

Table 5.2: Recommendation of State Finance Commissions and Devolution to Local Bodies in Selected States

| State | Finance Commission Recommendations | Actual Disbursement | | | Remarks |
|----------------|---|----------------------------------|---|--|---------|
| | | 2002-03 | 2004-05 | 2005-06 | |
| Andhra Pradesh | 10.385 % of Own Revenues for Local Bodies 6.76 for RLB 3.63 for ULB | 2002-03 | 2004-05 | 2005-06 | |
| | | 6.52 | 6.20 | 7.06 | |
| | | 3.56 2.96 | 3.61 2.60 | 3.44 3.62 | |
| Assam | 10% of Gross Own Tax Revenue for 2007-08, No devolution for 2006-07 | 2007-08 | | | |
| | | 6.73% of Own Tax Revenue | As % of own tax revenue and is Grants in Aid and not Assignment | | |
| Chhattisgarh | Total 6% of Own Tax RLBs 4.79% ULBs 1.21 for the year 2007-08 | 13.77 | Data is for 2007-08 | | |
| | | 3.93 | | | |
| | | 9.85 | | | |
| Goa | 2% of Own revenues of the State for the year 2007-08 | 0.25% of Own revenue for 2007-08 | Data is for 2007-08 | | |
| Madhya Pradesh | 5% of States own tax revenue of the previous year | 2006-07 | 2007-08 | | |
| | | 14.90 | 15.06 | | |
| Punjab | 4% of Net tax collection | 2006-07 | 2007-08 | data pertains only to ULBs and no assignments are reported from RLBs in the 13 FC report | |
| | | 0.64 | 0.24 | | |
| Rajasthan | 3.5 % of own tax revenues | 2005-06 | 2006-07 | 2007-08 | |
| | | 1.85 | 1.60 | 1.69 | |
| Tamil Nadu | 10% of own tax revenues for 2007-08 | 11.12 % | of Own tax revenue for 2007-08 | | |
| Uttaranchal | 10 % of States Own revenues | 2006-07 | 2007-08 | | |
| | | 0.36 | 0.43 | Of own tax revenue and not of own revenues net of interest receipts | |

Source: Panchayati Raj Department of different state Governments and Finance Accounts

Andhra Pradesh has devolved only a half of what the SFC recommended for rural local bodies during the period 2003-04, 2004-05 and 2005-06. Even in case of ULBs, it devolved lower than what was recommended by the SFC. However, for 2005-06, its devolution to ULBs was similar to that recommended by SFC. Goa, Punjab and Uttaranchal have devolved insignificant portion of their own revenues in comparison to the recommendation of the SFCs.

Thus, our analysis shows that, by and large, the states have not followed SFC recommendations in making transfers to rural local bodies. Although it is true that the states are not legally bound to accept the recommendations of SFCs, completely neglecting them makes the Institution irrelevant. We find that even when the states proclaim that they accept the recommendation of the SFCs in their ATRs, in most cases we find that they do not actually implement them. Another issue here is the confusion between Grants in aid and devolution. The states are not making clear-cut distinction between these two in maintaining the information.

According to Article 243 I (4) and 243 Y (2) the recommendations not being accepted have also to be presented before the state Legislature along with the reason thereof. This has not strictly followed by the most states as evident from different Action Taken Reports (ATR). Moreover, as mentioned before, the absence of any time limits for placing ATR before the state Legislature in the Conformity Act as well as in the 73rd and 74th Constitutional Amendment Act provides opportunity to the states to delay in taking action on recommendations made by SFCs. The Twelfth Finance Commission suggested that SFC should be constituted for a lifespan of eighteen months and a time limit for six months be prescribed for a state government to act on the SFC recommendations (GOI, 12th FC, 2004: 142). However, there is hardly any uniformity in time taken for tabling ATR before the state Legislatures. The time taken for tabling ATR on first batch of SFCs across the states ranging from one month (Assam) to three and half years (Haryana). For Second SFCs it ranges from four months in case of Uttarakhand to five years two months for Tripura and for third SFC, though most are reported as under consideration as provided by 13th UFC report but available information shows that it ranged from half month (Rajasthan) to one and half years (Assam) (GOI, 13th FC, 2009: 416-423).

An attempt has been made to measure the quality of ATR placed before the respective state Legislatures in terms of following criteria. It is disheartening to note that most states fail to attain these basic qualities because;

- Current status of implementation of SFC recommendations is not provided in the respective ATRs
- Reasons for partial acceptance and non-acceptance of recommendations of SFCs is not given in the ATR
- The number of recommendations provided in ATR does not tally with those provided in the SFC reports
- Previous commission's recommendations categorized under "for further consideration" or "under active consideration" have never been considered. Although states are constituting their next SFC, several recommendations of the previous SFC are still continued to be "under examination". In other words states hardly take timely action on such recommendations
- There is an absolute lack of clarification in ATR regarding the provisions like "accepted with modifications" and "accepted in principle" often used by the state governments against some recommendations made by SFCs
- In some ATRs only numbers of accepted recommendations are mentioned, in this number game sometime the most crucial recommendations are found rejected surreptitiously.

So far as existing situation regarding the status of implementation of the accepted recommendations are concerned it is noticed that allocation in the budget for additional resources to the Panchayats are made following the recommendations of SFCs but funds are released by the state governments to line departments/parasatals which operate independent of PRIs. Follow up actions needed to implement the recommendations that are already accepted are very tardy particularly regarding administrative and legislative measures (see Box 5.2).Formally accepted recommendations of SFCs pertaining to financial measures are half-heartedly followed by the states. There are four types of situations:

- Accepted the recommendations of SFCs in totality i.e., in budgetary allocation and actual transfer made to PRIs
- Accepted the recommendations of SFCs fully in the respective ATR but neither it was reflected in budgetary allocation nor in actual transaction
- Accepted the recommendations of SFC partially in ATR but even such partial acceptance is neither reflected in their budgetary allocation nor in the actual transfer.

- Accepted the recommendations of SFCs partially but the figure shown in budgetary allocation is less than the accepted amount committed in ATR and actual transfer is even less than the budgetary allocation²¹.

Box 5.2

Even though most of the recommendations of the Second SFC of Tamil Nadu were accepted by the State government yet there was laxity in implementing the recommendations by the administrative department of the Secretariat. In fact on the recommendations relating to the improving of resource base casual approach is noticeable. For example, second SFC has recommended change in property tax reforms and it is related to urban local body. This recommendation was accepted by the state but no orders are placed yet and no initiative was taken regarding the Amendment of the Tamil Nadu District Municipalities Act 1920 and Municipal Corporation Acts, which is required in this respect (Report of the Third SFC, Tamil Nadu, 2006: 14).

Regarding the status of the implementation of the First SFC of Tamil Nadu, it is noticed that in case of PRIs the implementation only centred around devolution and its related package. On civic services no specific orders have been passed either relating the norms recommended by the First SFC or modifying them except for fixing norms for water supply. Even the government introduced some modifications in few recommendations which the First SFC had not suggested. That apart, Tamil Nadu government in their ATR accepted the recommendation of the First SFC for direct remittance to the Village Panchayat account on the local body share of minerals and also share from the black granite but subsequently Rural Development Department of the Secretariat have rejected this recommendations (Report of the Second SFC, Tamil Nadu, 2001: 12-13).

Second SFC report of the Uttar Pradesh government noticed that administrative department have shown a lackadaisical approach towards implementing some of the recommendations of the First SFC and noticed following status of the accepted recommendations of the first SFC by the Uttar Pradesh government:

- Administrative department is yet to examine the issues relating to recommendations made by the First SFC
- Accepted by the government in ATR but the implementing department did not find it practical
- Referred to the concerned department but follow up action is yet to be taken

²¹In AP the 1st SFC recommended Rs. 818.84 crore to PRIs per year, state accepted Rs. 363.95 crore. But the actual transfer was only Rs. 265.95 crore that too only during 1998-99 and 1999-00. In Maharashtra 1st SFC recommended an additional resource flow of Rs. 364.32 crore per year to panchayats for 1999-00 to 2001-02. The state accepted a financial commitment of Rs. 160.82 crore. However in practice the state released only Rs. 78.25 crore against a budget provision of Rs. 317.91 crore (Subrahmanyam, 2004).

- Concerned department did not know whether a decision has been taken or not
- Orders are yet to be issued on recommendations of the First SFC (Report of the Second SFC, Uttar Pradesh, Vol. I, 2002:7-11).

Against this backdrop, different SFC reports suggested that there is an evident need for prescribing specific time limits for completing follow-up action in respect of SFC recommendation. And the follow up action on ATR needs to be monitored on quarterly basis by the High Level Committee constituted for this purpose.

8. Conclusion

The creation of State Finance Commissions as mandated in the 73rd and 74th Constitutional Amendment Act initiated a landmark in the evolution of the state-local body fiscal relationship in the country. However, after more than 15 years of operation and functioning of successive SFCs, one can not be highly optimistic about the expected outcome regarding the augmentation of financial power of local bodies.

Generally SFCs across the states are constrained by two main inadequacies: conceptual and functional. The experience so far has shown that SFCs are perceived more as a constitutional formality than as an effective institution of restructuring state-local financial relations with a view to augmenting the financial power of the latter. Such conceptual limitation leads to an acute functional inadequacy where states in general have been showing lackadaisical approach towards constitution of SFCs, provision and maintenance of updated database for the use of SFCs and implementing and following-up recommendations of SFCs.

Needless to say, consequent upon the lack of database of finances of local bodies, SFCs are compelled to follow inconsistent analytical methodologies, that prevent SFCs from fulfilling their constitutional mandate relating to the quantification of the required augmentation of the consolidated fund on the basis of the SFC recommendations, and also put severe constraint on most SFCs in estimating the magnitude of resources which local bodies need for improving and maintaining their basic services.

Almost all SFC reports criticized the fact that most state governments are quite casual about taking the necessary actions regarding recommendations made by SFCs. The number of

recommendations provided in ATR quite often do not tally with those provided in the SFC reports, and although states are constituting their next SFC, several recommendations of the previous SFC are still continued to be “under examination”. In other words states rarely take timely action on such recommendations. Moreover, even the status of implementation and acceptance of the recommendations made by SFCs are very unsatisfactory across the states. Against this backdrop, SFC reports along with 12th UFC and SARC stressed the fact that failure to implement SFC recommendations defeats the very purpose of constituting the SFCs. However, concerned academia argues that the above conclusion appears to be paradoxical particularly in light of the unanimous consensus regarding the poor quality of the SFC reports and the lack of adequate analysis to justify SFC recommendations.

Nevertheless, it can be expected that over time necessary remedial measures will be taken with the objective of creating efficient operating and functioning SFCs that would in turn enable them to go a long way in putting the finances of local bodies on a relatively more systematic, regular and predictable footing. It is also expected that future SFCs will be able to build up the edifice of local finances on the foundation laid by the first generation of SFCs.

CHAPTER 6

Concluding Remarks

Functional Devolution to Rural Local Bodies

Article 243G of the Constitution prescribes that, states may by law endow Panchayats with such functions that are required to enable them to function as institutions of self-government. However, functions listed in the 11th Schedule of the Constitution may be devolved through the law but activities and sub-activities within each function can only be devolved through Activity Mapping. Instead of devolving 29 subjects listed in the 11th Schedule of the Constitution on a wholesale basis, functional Activity Mapping suggests that these major subjects need to be unbundled into activities and sub-activities and assigned to appropriate level of local governments following the principle of subsidiarity. Activity Mapping must also be undertaken in accordance with an objective basis viz. setting standards, planning, asset creation, operation and monitoring & evaluation. In doing so we need to apply public finance principles namely economies of scale, externalities, equity, heterogeneity of demand and accountability principles.

Most of the states said to have assigned a majority of the important subjects to the Panchayats through the State Conformity Act but in most cases they have failed to add to the existing functional domain of local government due to the fact that devolution of functions are done without unbundling each function into activities and sub-activities. In addition, total functional devolution was done vaguely without having any role clarity. There has been hardly any rational thinking as to which of the disaggregated activities based on the considerations like economies of scale, externality, equity, heterogeneity of demand and accountability along with other important aspects like efficiency, capacity, enforceability and proximity ought to be devolved to which level of government. This lack of clarity in functional allocation coupled with absence of disaggregation into detailed activities has led to considerable overlapping and duality of control in most cases. This situation seriously undermines accountability. Moreover, in several states many functions that have already been statutorily devolved to the PRIs are still being planned and implemented by the line departments of the respective state governments. What is worse is

the fact that follow-up action in terms of appropriate administrative measures and formulating relevant rules or guidelines to operationalise the intent legislature pertaining to devolution of disaggregated activities to the appropriate level of government is very tardy.

The actual progress in pursuing comprehensive Activity Mapping could only be measured in terms of the fact that whether devolution of functions to PRIs through legislation or executive orders has been matched by concomitant transfers of funds and functionaries. Most states after devolving several responsibilities upon the PRIs have neither transferred the requisite staffs nor necessary funds needed by the Panchayats to carry out responsibilities.

The progress of Activity Mapping being undertaken by the State Governments has been slow as perceived by the successive committees and commissions who attempted to review the actual progress in this context. Some concerned academia have pointed out that some state governments have approached the whole issue from the angle of transferring various on-going schemes sponsored by the Central and State governments. Activity Mapping, according to them, is not to transfer schemes, but to transfer certain functional responsibilities from one level of government to another. Ministry of Panchayati Raj (MoPR) attributed the slow progress of Activity Mapping to its inability to force the states to carry out activity mapping since it is a state matter. Following this argument, the Standing Committee on Rural Development May (2006) opined that union government cannot bypass the responsibility of successful implementation of Activity Mapping on the pretext that it is being a state matter since implementation of Part IX of the Constitution is the responsibility of the union government. The Report of the Working Group on Democratic Decentralization and PRIs (2006), which examined 23 states, has however, indicated that some states, namely, Assam, Karnataka, Kerala and West Bengal have made good progress.

Own Revenues of Panchayats

A major handicap in analyzing panchayat revenues is the paucity of data on panchayat finances. There is no standing national data base on panchayat finances in India and the reports of the Central Finance Commissions serve as the only source of information. This data is also not

reliable and subjected to lot of inconsistencies. Over the years not much has been done to improve the panchayat database.

Analysis of the data provided by FC-XIII shows that the revenue mobilisation by panchayats has been abysmally low and they are more dependent on fund transfers from higher levels of government for their functioning, a fact also supported by the survey of PRIs in the four states. Such dependence on funds from higher levels on governments reduces their autonomy thereby reducing their role to being agents of higher levels of governments performing their functions. The analysis also suggest that per capita own revenues are higher in states which have higher per capita agriculture and allied activities GSDP. Thus, while the revenue mobilisation by panchayats in general is low, the states with higher per capita agriculture sector GSDP mobilized larger revenues.

The poor performance of panchayats in generating own revenues can be attributed to a number of factors. Excessive state control over panchayat tax domain has limited the autonomy of the PRIs. The state control of tax domain of panchayats through statutory provisions regarding rates, base and exemptions limits their revenue raising capacity. The absence of a floor rate has the potential of adversely affecting the revenue mobilization as the panchayats may fix the tax rate at a very low level. In addition, the state statutes have not changed much for long period of time to address the ground realities. The tax structure needs to be revised with respect to rates and base. Infusing flexibility to the system is required and innovations at local level should be encouraged. The recommendations of State Finance Commissions to expand the tax domain of the PRIs should be calibrated and considered on merit. The non-assignment of house and building tax despite recommendations of successive State Finance Commissions in Orissa is an evidence of rigidity that has crept into the system.. Within their limited tax domain failure of the PRIs can also be attributed to factors like reluctance to levy taxes, poor administrative capacity, and electoral politics. The elected representatives of the PRIs and the supporting staffs need to be made aware of the various statutory provisions regarding tax rights through proper training.

The chapter also suggests measures to augment revenues of panchayats. These include incentivising tax effort of the PRIs, improving their administrative capacity, providing additional tax handles to the local bodies, etc.

Issues in State Finance Commissions

The creation of State Finance Commissions as mandated in the 73rd and 74th Constitutional Amendment Act initiated a landmark in the evolution of the state-local body fiscal relationship in the country. However, after more than 15 years of operation and functioning of successive SFCs, one cannot be highly optimistic about the expected outcome regarding the augmentation of financial power of local bodies.

Generally SFCs across the states are constrained by two main inadequacies: conceptual and functional. The experience so far has shown that SFCs are perceived more as a constitutional formality than as an effective institution of restructuring state-local financial relations with a view to augmenting the financial power of the latter. Such conceptual limitation leads to an acute functional inadequacy where states in general have been showing lackadaisical approach towards constitution of SFCs, provision and maintenance of updated database for the use of SFCs and implementing and following-up recommendations of SFCs.

Needless to say, consequent upon the lack of database of finances of local bodies, SFCs are compelled to follow inconsistent analytical methodologies, that prevent SFCs from fulfilling their constitutional mandate relating to the quantification of the required augmentation of the consolidated fund on the basis of the SFC recommendations, and also put severe constraint on most SFCs in estimating the magnitude of resources which local bodies need for improving and maintaining their basic services.

It has been observed that most state governments are quite casual about taking the necessary actions regarding recommendations made by SFCs. The number of recommendations provided in ATR quite often do not tally with those provided in the SFC reports, and although states are constituting their next SFC, several recommendations of the previous SFC are still continued to

be “under examination”. In other words states rarely take timely action on such recommendations. Moreover, even the implementational status of accepted recommendations made by SFCs is very unsatisfactory across the states. Against this backdrop, SFC reports along with UFCs and Second Administrative Reform Commission stressed the fact that failure to implement SFC recommendations defeats the very purpose of constituting the SFCs. However, it appears to be paradoxical particularly in the light of the unanimous consensus regarding the poor quality of the SFC reports and the lack of adequate analysis to justify SFC recommendations.

Nevertheless, it can be expected that over time necessary remedial measures will be taken with the objective of creating efficient operating and functioning SFCs that would in turn enable them to go a long way in putting the finances of local bodies on a relatively more systematic, regular and predictable footing. It is also expected that future SFCs will be able to build up the edifice of local finances on the foundation laid by the first generation of SFCs.

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ANNEXURES

ANNEXURES TO CHAPTER II

Annexure 2.1: Gujarat

1. Legislative devolution of functions in Gujarat - General features:

Gujarat has a long history of three-tier Panchayati Raj System which has been functioning since 1963. Till the amendment of 73rd Constitutional Amendment Act, 44 Amendments to Gujarat Panchayati Act (GPA), 1961 had been effected to strengthen local governance.

The functions, functionaries and funds to PRIs are devolved under the provisions of section 175 of the Gujarat Panchayats Act 1993. Panchayat Act of Gujarat came into force on April 15, 1994 and it was further amended in year 1999, 2000 and 2004.

1.1 Functions Assigned to the District Panchayat

It is worth mentioning that the legislative pattern of functional devolution to three tiers of PRIs in Gujarat was made both through schedules appended to the Gujarat Panchayat Act, 1993 and through few provisions described in the main body of the Act. Therefore certain provisions for functional devolution to the District Panchayat is available both at different clauses spread over the Gujarat Panchayat Act, 1993 and in the schedule 111 of the Act.

Section 175 (1) of the Gujarat Panchayat Act, 1993 states that the State Government may transfer to a district Panchayat any such powers, functions and duties relating to any matter that are exercised or performed by the State Government and allot to the district Panchayat such fund and personnel as may be necessary to enable the district Panchayat to exercise the powers and discharge the functions and duties so transferred.

Section 175 (2) of the Gujarat Panchayat Act, 1993 states that the State Government, may transfer to the district Panchayat such powers, functions and duties as are exercised or performed by the following departments of the State namely

1. Agriculture
2. Animal Husbandry
3. Public Health & Medical Relief
4. Public Works Department activities in the district
5. Social Welfare
6. Land Department
7. Prohibition Department so far as prohibition propaganda is concerned
8. Co-operative Department
9. Cottage Industries and Small scale Industries
10. District Statistical Officer

Section 175 (3) of the Gujarat Panchayat Act, 1993 also states that on the transfer of any powers functions and duties under **sub-section (1) and (2)** the **District Panchayat** shall if the State Government so directs and with the previous approval of the State Government may delegate to any Panchayat subordinate to it any of the function, power and duties so transferred and allot to such Panchayat such fund and staff as may be necessary to enable the Panchayat to exercise the powers and discharge the functions and duties so delegated

Section 180 (2) of the Act states that the State government may entrust to a district Panchayat schemes for economic development and social justice in relation to the matters listed in the 11th schedule.

Section 155 (1) of the Act states: A District Panchayat may with the previous sanction of the State government incur expenditure on education or medical relief outside its jurisdiction, if its finances permit. Sub section of (2) of the Act states: A district Panchayat may also make provision for carrying out in the area within the limits of its jurisdiction any other work or measure which is likely to promote;

- (i) the health safety, comfort or convenience and
- (ii) social, economic or cultural well being of the inhabitants of the areas

Section 155 (6) of the Act states: A District Panchayat shall perform such other duties and functions as are entrusted to it by or under any other law for the time being in force.

Section 155 (7) of the Act states: It shall be lawful for the District Panchayat to render financial or other assistance to any person for carrying on in the district any activity which is related to any of the matters specified in Schedule III of the Act.

Section 154 of the Gujarat Panchayat Act, 1993 states that subject to the provision of this Act, it shall be the duty of each District Panchayat to make in the area within its jurisdiction and so far as the fund at its disposal will allow reasonable provision, in regard to all or any of the matter specified in Schedule 111 of the Act that are described as follows:

Table 1: Functional Devolution to District Panchayat

| Details of Appended Section of the Act | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|---|--|---|
| Schedule III Item No. 6 (a) | undertaking intensive pioneering schemes relating to paddy, wheat bajari, juwar, ground-nuts and cotton | Agriculture, including agricultural extension |
| Schedule III Item No. 6 (b) | construction and maintenance of building for seeds distribution centres | |
| Schedule III Item No. 6 (c) | implementation of schemes of manure | |
| Schedule III Item No. 6 (d) | promoting the planting of coconut palm | |
| Schedule III Item No. 6 (e) | arranging for purchase and sale of necessary equipment for the protection of plants | |
| Schedule III Item No. 6 (f) | arranging for the purchase and sale of insecticides | |
| Schedule III Item No. 6 (g) | establishment and maintenance of model agricultural farms | |
| Schedule III Item No. 6 (h) | procuring and distributing improved seeds | |
| Schedule III Item No. 6 (i) | implementing schemes relating to agricultural production and agricultural development | |
| Schedule III Item No. 6 (j) | arranging exhibitions as competitions and other programmes in connection with agricultural development and cattle breeding | |
| Schedule III Item No. 11 (a) | provision for irrigation by canals tanks and bunds | |
| Schedule III Item No. 11 (b) | the implementation of the schemes of tube-wells | |
| Schedule III Item No. 11 (c) | digging new wells and repairing old wells for irrigation | |
| Schedule III Item No. 11 (d) | giving assistance for purchase of pumping sets and machinery | |

| Details of Appended Section of the Act | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains | |
|---|---|---|--|
| Schedule III Item No. 11 (e) | provision and propaganda for improved Kosi | | |
| Schedule III Item No. 11 (f) | providing detonators and boring equipment for wells | | |
| Schedule III Item No. 11 (g) | encouraging and assisting irrigation schemes on a co-operating basis | | |
| Schedule III Item No. 7 (a) | establishment and maintaining supply centres for cattle breeding | Animal husbandry, dairy and poultry | |
| Schedule III Item No. 7 (b) | giving encouragement and assistance to cattle breeding centres run by recognized institutions | | |
| Schedule III Item No. 7 (c) | the implementation of schemes of key villages | | |
| Schedule III Item No. 7(d) | the implementing of the schemes of <i>Goshala</i> development | | |
| Schedule III Item No. 7 (e) | provision for the rearing of stud calves | | |
| Schedule III Item No. 7 (f) | the development of grass-lands | | |
| Schedule III Item No. 7(g) | encouraging and assisting schemes for the storage of grass | | |
| Schedule III Item No. 7 (h) | implementing schemes of poultry farming | | |
| Schedule III Item No. 7 (i) | the implementation of the schemes of cattle breeding | | |
| Schedule III Item No. 7 (j) | establishment and maintaining veterinary hospitals and dispensaries | | |
| Schedule III Item No. 8 (a) | examining the possibilities of village industries and small scale industries in the district preparation and execution of plans for their revival, organization and development | | Small scale industries including food processing industries |
| Schedule III Item No. 8 (b) | providing for necessary assistance and encouragement of technical training to village workers in village industries and small scale industries relating to their crafts | | |
| Schedule III Item No. 3 (a) | undertaking all educational activities entrusted to it | Education including primary and secondary schools | |
| Schedule III Item No. 3 (b) | planning of education in the district within the framework of the national policy and the national plan | | |
| Schedule III Item No. 3 (c) | survey and evaluation of educational activities | | |
| Schedule III Item No. 3 (d) | distribution of Government aid in regard to primary education between the Taluka Panchayats | | |
| Schedule III Item No. 3 (e) | recognizing private educational institutions within its area | | |
| Schedule III Item No. 3 (f) | recommending the courses of study | | |
| Schedule III Item No. 3 (g) | selection of text-books | | |
| Schedule III Item No. 3 (h) | implementation of any programme in regard to secondary education that may be entrusted to it by the State Government | | |

| Details of Appended Section of the Act | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|---|---|--|
| Schedule III Item No. 3 (i) | inspection of primary schools managed by the Taluka Panchayats and conduct of their examination | |
| Schedule III Item No. 3 (j) | Accepting and managing educational funds | |
| Schedule III Item No. 3 (k) | Assisting, encouraging and guiding all educational activities in the district | |
| Schedule III Item No. 3 (l) | organizing camps, conferences and gatherings of members of Village Panchayats, Taluka Panchayat and District Panchayat in the district (related to this area) | |
| Schedule III Item No. 9 (c) | arranging fairs and festivals other than fairs and festivals arranged by the state government | Cultural activities |
| Schedule III Item No. 8 (c) | establishing maintaining expanding and aiding secondary, technical and industrial schools | Technical training and vocational education |
| Schedule III Item No. 1 (a) | establishment and maintenance of dispensaries | Health and sanitation including hospitals primary health centres and dispensaries |
| Schedule III Item No. 1 (c) | taking necessary action or steps for improvement in public health and public amenities | |
| Schedule III Item No. 1 (d) | establishment and maintenance of primary health centres | |
| Schedule III Item No. 1 (h) | giving protection against diphtheria, whooping cough and tetanus | |
| Schedule III Item No. 1 (i) | establishment and maintenance of ayurvedic and homeopathic dispensaries | |
| Schedule III Item No. 1 (j) | provision of medical relief through ayurvedic and homeopathic centres | |
| Schedule III Item No. 1 (k) | assisting recognized medical relief-centres | |
| Schedule III Item No. 1 (l) | providing for training of nurses | |
| Schedule III Item No. 1 (e) | assisting family planning | |
| Schedule III Item No. 1 (f) | supply of milk of children and nursing mothers in families in the low income group | Women and child development |
| Schedule III Item No. 1 (g) | providing for training to mid-wives | |
| Schedule III Item No. 9 (a) | providing necessary assistance and encouragement to the work of institutions of social service | Social welfare including welfare of the handicapped and mentally retarded |
| Schedule III Item No. 9 (b) | conducting necessary social welfare activities in the district | |
| Schedule III Item No. 10 | Establishment and management of relief centres in times of natural calamities such as famine and scarcity, floods, fire and earthquake | |
| Schedule III Item No. 1 (b) | provision and maintenance of drinking water supply | Drinking water |
| Schedule III Item No. 2 (a) | construction and maintenance of roads | Roads, culverts bridges, ferries, waterways and other means of communication |
| Schedule III Item No. 2 (b) | the planting and rearing of trees on both sides of the roads | |
| Schedule III Item No. 2 (c) | execution of works (related to this subject) entrusted to it by the State Government | |

| Details of Appended Section of the Act | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|---|---|---|
| Schedule III Item No. 2 (d) | supervision repairs and preservation of building vested in the District Panchayat | Maintenance of community assets |
| Schedule III Item No. 2 (e) | construction and maintenance of buildings required for the activities of the District Panchayat | |

In addition, to the above mentioned functional devolution, The Gujarat Panchayat Act, 1993 also devolves other functions to **District Panchayat** as listed below:

Table: 1a

| Details of Appended Section of the Act (Section 154) | Functions (In the sphere of administration) |
|---|---|
| Schedule III Item No. 4 (a) | collection of necessary stores and materials |
| Schedule III Item No. 4 (b) | publication of statistical and other information relating to activities of Panchayats |
| Schedule III Item No. 4 (c) | co-ordination and the use of statistics and other information required for the activities of the village Panchayat, Taluka and district Panchayat |
| Schedule III Item No. 4 (d) | periodical supervision and evaluation of the projects and programme entrusted to the different Panchayats in the district |
| Schedule III Item No. 4 (e) | accepting donations in the furtherance of the purposes for which fund might have been raised |

Table: 1b

| Details of Appended Section of the Act (Section 154) | Functions (In the sphere of Community Development) |
|---|---|
| Schedule III Item No. 5 (a) | co-ordination and integration of development schemes of all Talukas in the district and preparing a plan therefore for the whole district |
| Schedule III Item No. 5 (b) | preparation of projects plans and schemes concerning two or more Talukas in the district |
| Schedule III Item No. 5 (c) (i) | promoting the establishment and development of Panchayats |
| Schedule III Item No. 5 (c) (ii) | inspection, regulation and control of the Taluka Panchayats in the district |
| Schedule III Item No. 5 (c) (iii) | performance of all such functions as are assigned to it under any law or as may be assigned by the State Government from time to time |
| Schedule III Item No. 5 (d) | Implementation of any development programme that may be entrusted by the State government |
| Schedule III Item No. 5 (e) | Distribution and co-ordination of work among village, Taluka and District Panchayats |

The Gujarat Panchayat Act, 1993 also entrusted District Panchayat to exercise control over The Education Committee. **Section 145 (1) (iii)** of the Gujarat Panchayat Act, 1993 states that an Education Committee will perform the functions and duties pertaining to education and such other literacy and cultural activities as the Panchayat may assign to it.

Hence **Part 11 of Schedule 111 of the Act** depicts that it shall be the duty of The Education Committee of a District Panchayat;

- (i) to undertake all educational activities
- (ii) to undertake the planning of education in the district within the framework of the national policy and the national plan
- (iii) to survey and evaluate educational activities
- (iv) to act as a channel for the State Government in regard to primary education to reach Panchayat
- (v) to make suggestions as to the selection of text-books by the State Government
- (vi) to make suggestions as to courses of study for being determined by the State Government
- (vii) to implement any programme in regard to secondary education entrusted to the District Panchayat by the State Government
- (viii) to arrange for inspection of primary schools managed by the Taluka Panchayat and to conduct their examinations
- (ix) to supervise the working of all primary schools and of such other educational institutions under the control of the District Panchayat as that Panchayat may decide from time to time
- (x) to supervise the activities of Village Panchayats within the jurisdiction of the District Panchayat to ensure that each such Panchayat pays its contribution to the school funds, if any, and to bring cases of default to the notice of the Educational Inspector of the District and generally to guide them to maintain and improve primary school or school in their charge
- (xi) to accept and manage educational funds
- (xii) to assist, encourage and guide all educational activities in the district

- (xiii) to discharge the following duties if the District Panchayat makes provision for secondary and other education
- (xiv) to conduct secondary school providing for diversified courses in rural areas where private enterprise is not available and to introduce a Number of High School Scholarships for poor and deserving in rural area
- (xv) to conduct hostels for High School as well as for pupils in Standard V to VII
- (xvi) to provide for part-time education of children who leave school at about the age of 11 and of the children whose age is between 11 and 14 years and who are absolutely illiterate
- (xvii) to make arrangement for vocational education in rural areas
- (xviii) to push the scheme of social education classes, village libraries and pre-primary education
- (xix) to recognize and aid gymnasia and to organize recreational centres and holiday and school camps

1.2 Functional Devolution to Taluka Panchayat

Likewise, certain provisions for functional devolution to the Taluka Panchayat is available both at different clauses spread over The Gujarat Panchayat Act, 1993 and in the schedule 11 of the Act. That apart, **Section 180 (3) of the Act also provides that** the District Panchayat shall if the State Government so directs and may with previous approval of the State Government, entrust to a Taluka Panchayat subordinate to it any scheme entrusted to it under **section (1) and (2)** and allot to such Panchayat such fund and personnel as may be necessary to enable the Panchayat to implement the scheme so entrusted.

Section 131 (1) of the Gujarat Panchayat Act, 1993 states: A Taluka Panchayat may, with the previous sanction of the District Panchayat incur expenditure on education or medical relief outside its jurisdiction, if its finances permit.

Section 131 (3) of the Gujarat Panchayat Act, 1993 states: A Taluka Panchayat may also make provision or carrying out in the Taluka any other work, measure, scheme or project which is likely to promote:

- (a) the health safety, comfort or convenience
- (b) social, economic or cultural well being and

(c) education including secondary education of the inhabitants of the Taluka or part thereof

Section 130 of the Gujarat Panchayat Act, 1993 states: Subject to the provision of this Act, it shall be the duty of each Taluka Panchayat to make in the area within its jurisdiction and so far as the fund at its disposal will allow reasonable provision, in regard to all or any of the matter specified in **Schedule 11**. Thus **Part 1 of Schedule 11 of the Act** stated matters in respect of the duty of Taluka Panchayat to make provision as listed below:

Table 2: Functional Devolution to Taluka Panchayat

| Details of Appended Section of the Act (Section130) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|--|--|---|
| Schedule II Item No. 6 (a) | planning for agricultural improvement in the Taluka | Agriculture, including agricultural extension |
| Schedule II Item No. 6 (b) | use of land and water resources and preparation of improved agricultural methods according to the latest researches | |
| Schedule II Item No. 6 (e) | maintenance of seed multiplication farms, assisting registered seed produces and distribution of seeds in the Taluka | |
| Schedule II Item No. 6 (f) | raising the production of fruits and vegetables | |
| Schedule II Item No. 6 (h) | promoting the use of improved agricultural implements and arranging to make them easily available | |
| Schedule II Item No. 6 (i) | the protection of crops fruit trees and plants against diseases | |
| Schedule II Item No. 6 (j) | establishment and management of model agricultural farms | |
| Schedule II Item No. 6 (d) | reclamation and conservation of agricultural land in the Taluka | Land Improvement, implementation of land reforms, land consolidation and soil conservation |
| Schedule II Item No. 6 (g) | conservation of manorial resources, preparing compost manure, organic manure and mixture and to arrange for making them easily available | |
| Schedule II Item No. 6 (c) | construction and maintenance of irrigation works in the Taluka | Minor irrigation, water management and watershed development |
| Schedule II Item No. 6 (k) | providing credit and other facilities for irrigation and agricultural development | |
| Schedule II Item No. 6 (l) | increasing the area of land under irrigation by construction and repairs of wells, digging and repairs of private ponds by undertaking minor irrigation works and by supervision of field channels | |
| Schedule II Item No. 6 (m) | increasing the use of sub soil water by boring wells and giving assistance in regard to such wells | |
| Schedule II Item No. 6 (n) | providing for the timely and equitable distribution and full use of water available under irrigation scheme | |
| Schedule II Item No. 7 (a) | improving cattle breed by introduction of stud bulls by castration of stray bullocks and establishment and maintaining artificial insemination centres | Animal husbandry, dairy and poultry |

| Details of Appended Section of the Act (Section130) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|--|--|--|
| Schedule II Item No. 7(b) | introducing improved breeds of cattle sheep poultry etc giving grants therefore and maintenance of small breeding centres | |
| Schedule II Item No. 7 (c) | controlling and checking infectious diseases | |
| Schedule II Item No. 7 (d) | introducing improved grass and cattle feeds and providing for their storage | |
| Schedule II Item No. 7 (e) | starting and maintaining first-aid centres and veterinary dispensaries | |
| Schedule II Item No. 7 (f) | providing for milk supply | |
| Schedule II Item No. 7 (g) | solving the problem o stray cattle | |
| Schedule II Item No. 8 | to promote cottage village and small scale industries with a view to providing increased employment and raising people standard of living and especially- | |
| Schedule II Item No. 8 (a) | to establish and maintain production and training centres | |
| Schedule II Item No. 8 (b) | to improve the skills of artisans | |
| Schedule II Item No. 8 (c) | to popularize improved implements | |
| Schedule II Item No. 8 (e) | to establish industrial township at the Taluka level | |
| Schedule II Item No. 8 (f) | To develop wool industry | |
| Schedule II Item No. 8 (d) | to ensure the implementation of scheme for Cottage, Village and Small Scale Industries run by the Khadi and Village Industries Board and All India Association | Khadi, village and cottage industries |
| Schedule II Item No. 3 (a) | establishment and maintenance of primary schools | Education including primary and secondary schools |
| Schedule II Item No. 3 (b) | preparing and implementing the programme of constructing buildings for primary schools | |
| Schedule II Item No. 3 (c) | assisting educational activities of a Village Panchayat | |
| Schedule II Item No. 3 (d) | enforcing in the Taluka the law relating to compulsory primary education | |
| Schedule II Item No. 3 (f) | assisting the propagation of pre-primary education | |
| Schedule II Item No. 3 (e) | conducting and encouraging libraries reading rooms and other cultural activities | Libraries |
| Schedule II Item No. 4 (d) | encouraging physical and cultural activities | Cultural activities |
| Schedule II Item No. 4 (d) | controlling small pox and other epidemics and expansion and maintenance of health services | Health and sanitation including hospitals primary health centres and dispensaries |
| Schedule II Item No. 1 (d) | maintenance and supervision of stores of drugs dispensaries, pharmacies, maternity homes and primary health centres | |
| Schedule II Item No. 1 (e) | cultivating public opinion on following methods for the preservation of health and sanitation | |

| Details of Appended Section of the Act (Section 130) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|---|--|--|
| Schedule II Item No. 1 (e) (ii) | nourishment | |
| Schedule II Item No. 1 (e) (iii) | control and eradication of contagious diseases | |
| Schedule II Item No. 1 (f) | providing for help and protection to the people against epidemics | |
| Schedule II Item No. 4 (e) | establishing voluntary health associations | |
| Schedule II Item No. 1 (b) | family planning | Family welfare |
| Schedule II Item No. 15 | Promoting the development of village jungles and pastures | Social forest and farm forestry |
| Schedule II Item No. 1 (e) (ii) | maternity and child welfare | Women and child development |
| Schedule II Item No. 4 (h) | promoting children activities | |
| Schedule II Item No. 4 (g) | training gram-laxmis and gram sevikas and utilizing their services | |
| Schedule II Item No. 10 | Implementing of schemes for women and children's welfare and maintaining women's and children's welfare centres , education centres craft centres and tailoring centres | |
| Schedule II Item No. 4 (a) | establishing and maintaining information centre community educational centres and recreation centres | Social welfare including welfare of the handicapped and mentally retarded |
| Schedule II Item No. 4 (b) | establishing institutions for rendering social service such as youth clubs women's club and farmers association and encouraging any such institutions if already established | |
| Schedule II Item No. 4 (c) | establishing a village defense crops | |
| Schedule II Item No. 5 (a) | planning for increased employment and production as well as for co-ordination of village institutions | |
| Schedule II Item No. 5 (b) | training in self-help and self-sufficiency among the village community on the principles of mutual co-operation | |
| Schedule II Item No. 4 (f) | training gram sevikas and utilizing their services | |
| Schedule II Item No. 5 (c) | utilizing the surplus energy resources and time of the village for benefit of the community | |
| Schedule II Item No. 5 (d) | providing for the implementation of development programmes entrusted to it by the State Government | |
| Schedule II Item No. 4 (g) | to establish and promote the development of multi-purpose co-operative societies for credit sale, industry, irrigation and agriculture | |
| Schedule II Item No. 4 (h) | promoting savings through thrift small savings and insurance schemes | |
| Schedule II Item No. 11 (d) | sponsoring voluntary institutions of social welfare and coordinating and assisting their activities | |
| Schedule II Item No. 11 (e) | propaganda for publication and against drug addictions | |
| Schedule II Item No. 12 | Providing immediate relief in cases of floods fires epidemics and other natural calamities on a small or large scale | |

| Details of Appended Section of the Act (Section130) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|--|---|--|
| Schedule II Item No. 17 (a) | community radio listening programme | |
| Schedule II Item No. 17 (b) | arranging exhibitions | |
| Schedule II Item No. 17 (c) | publications | |
| Schedule II Item No. 4 (h) | planning for increased employment and production as well as for co-ordination of village institutions | |
| Schedule II Item No. 5 (a) | training in self-help and self-sufficiency among the village community on the principles of mutual co-operation | |
| Schedule II Item No. 5 (b) | providing facilities for pure drinking water | Drinking water |
| Schedule II Item No. 11 (b) | implementing schemes of rural housing | Rural housing |
| Schedule II Item No. 16 | Development of village sites with the co-operation of the village population and planning of rural housing | |
| Schedule II Item No. 2 (a) | construction and maintenance of village link roads | Roads, culverts bridges, ferries, waterways and other means of communication |
| Schedule II Item No. 2 (b) | providing necessary assistance for construction and maintenance of village approach roads | |
| Schedule II Item No. 11 (a) | provision of hostels for students of backward class and scheduled castes and scheduled tribes | Welfare of the weaker sections and in particular of the Scheduled Castes and Scheduled Tribes |
| Schedule II Item No. 11 (c) | maintaining decrepit beggars | |

In addition, to the above mentioned functional devolution, The Gujarat Panchayat Act, 1993 also devolves other functions to Taluka Panchayat as listed below:

Table: 2a

| Details of Appended Section of the Act (Section130) | Functions |
|--|--|
| | (In the sphere of co-operation) |
| Schedule II Item No. 9 | to promote the idea of co-operation in different field of life and to organize and encourage co-operative institutions in the economic and social fields and especially- |
| Schedule II Item No. 9 (a) | to establish and promote the development of multi-purpose co-operative societies for credit sale, industry, irrigation and agriculture |
| Schedule II Item No. 9 (b) | promoting savings through thrift small savings and insurance schemes |
| | In the sphere of collection of statistics |
| Schedule II Item No. 13 | Collecting and coordinating statistics as may be required by the village Panchayat Taluka Panchayat or District Panchayat or by the State Government |
| | In the sphere of collection of trusts |
| Schedule II Item No. 14 | Managing trusts in furtherance of the objects of any programme that may be carried out with the Taluka Fund |

Section 130 of The Gujarat Panchayat Act, 1993 also entrusted Taluka Panchayat to undertake following functions pertaining to education under their jurisdiction. Hence Part 11 of Schedule 11 of the Act depicts that it shall be the duty of a Taluka Panchayat;

- a) to assist in conducting and revising educational surveys and in preparing and implementing Five year Plan for the development of primary educational and all other educational activities entrusted to it.
- b) to provide adequate accommodation and equipment for primary schools
- c) to open with the sanction of the district Panchayat new primary school in places where they are needed
- d) to determine the exact location of primary schools
- e) to supervise the working of all primary schools and of such other educational institutions under the control of the district Panchayat as that Panchayat may decide from time to time
- f) to exercise such powers over the staff employed in primary schools and other educational institutions under the control of the district Panchayat as may be delegated to it from time to time
- g) to supervise the activities of the village Panchayat within the jurisdiction of the Taluka Panchayat to ensure that each such Panchayat pays its contribution to the school funds. If any and bring cases of default to the notice of the Educational Inspector of the district and generally to guide them to maintain and improve the primary school or schools in their charge
- h) to be responsible for the enforcement of compulsory primary education and without prejudice to the generality of the foregoing provisions
 - (i) to determine on the recommendation of the competent officer of the district Panchayat the distance measured according to the nearest road between an approved school and the residence of the child for the purposes of the Bombay Primary Education Act 1947
 - (ii) to grant on the recommendation of the aforesaid competent officer exemption from attending an approved school to a child who is receiving instruction otherwise in an approved school

- i) to grant sanction to the changes in the dates of birth and the names of pupils attending primary schools
- j) to construct new buildings for primary schools and to carry out special repairs
- k) to sanction grants-in-aid to Gram Panchayats for their standing committee for education
- l) to inform and if necessary to advise the district Panchayat generally on all matters connected with primary education and educational activities undertaken by the district Panchayat in the Taluka
- m) to carry on propaganda in the Taluka for the expansion and improvement of education in general and primary education in particular and
- n) to exercise such other powers and to perform such other duties as may be delegated to it by the district Panchayat from time to time
- o) to hire building for primary schools with sanction of the Taluka Panchayat on reasonable rent which shall be certified by the competent authority
- p) the supervision of individual primary schools
- q) to secure the enforcement of the Bombay Primary Education Act 1947, and the rules or orders made there under

1.3 Functional Devolution to Village Panchayat

Likewise, certain provisions for functional devolution to the Village Panchayat is available both at different clauses spread over the Gujarat Panchayat Act, 1993 and in the schedule 1 of the Act.

Section 100 (1) of the Gujarat Panchayat Act, 1993 states: A Panchayat may with the previous sanction of the district Panchayat incur expenditure on education or medical relief outside its jurisdiction if its finances permit.

Section 100 (2) of the Gujarat Panchayat Act, 1993 states: A Panchayat may also make provision for carrying out in the areas within the limits of its jurisdiction any other work or measure which is likely to promote—

- (i) the health, safety, comfort or convenience
- (ii) social, economic or cultural well being and
- (iii) education including secondary education of the inhabitants of the areas

Section 100 (6) of the Gujarat Panchayat Act, 1993 states: A Panchayat shall perform such other duties and functions as are entrusted to it by or under any other law for the time being in force

Section 100 (7) of the Gujarat Panchayat Act, 1993 states: It shall be lawful for a Panchayat to render financial or other assistance to any person for carrying on in the Village Panchayat any activity which is related to any of the matters specified in Schedule 1

Section 103 of the Gujarat Panchayat Act, 1993 states: In case of any institution managed by a Taluka Panchayat or district Panchayat or any work to be done out of the fund of a Taluka Panchayat or district Panchayat, the Taluka Panchayat, as the case may be, the district Panchayat any, if the village Panchayat so agrees entrust to the village Panchayat the management of such institutions or the execution of such work.

Section 99 of the Gujarat Panchayat Act, 1993 states: Subject to the provision of this Act, it shall be the duty of each Village Panchayat to make in the area within its jurisdiction and so far as the fund at its disposal will allow reasonable provision, in regard to all or any of the matters specified in **Schedule 1**.

Schedule 1 of the Act stated matters in respect of the duty of Village Panchayat to make provision as listed below

Table 3: Village Panchayat

| Details of Appended Section of the Act (Section 99) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|--|---|---|
| Schedule 1 Item No. 7(a) | planned improvement of agriculture | Agriculture, including agricultural extension |
| Schedule 1 Item No. 7(b) | securing minimum standards or cultivation in the gram with a view to increasing agricultural production | |
| Schedule 1 Item No. 7(c) | establishment and management of model agricultural farm | |
| Schedule 1 Item No. 7(d) | the establishment and maintenance of granaries | |
| Schedule 1 Item No. 7(e) | bringing under cultivation waste and fallow lands vested by the State Government in the Panchayat | |
| Schedule 1 Item No. 7(f) | ensuring conservation of manurial resources preparing composts and sale of manure | |
| Schedule 1 Item No. 7(g) | production of improved seeds, the establishing of nurseries of improved seeds and promoting the use of improved seeds | |
| Schedule 1 Item No. 7(h) | promoting the use of improved agricultural implements and making such implements easily available | |

| Details of Appended Section of the Act (Section 99) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|--|---|---|
| Schedule 1 Item No. 7(i) | the promotion of co-operative farming | |
| Schedule 1 Item No. 7 (j) | crop-protection and crop-experiments | |
| Schedule 1 Item No. 7(m) | taking steps against harmful animals with a view to protection of crops | |
| Schedule 1 Item No. 5 (b) | assisting the implementation of soil improvement projects of the state government | Land improvement, implementation of land reforms, land consolidation and soil conservation |
| Schedule 1 Item No. 7(k) | minor irrigation, construction and maintenance of filled channels and distribution of water | Minor irrigation, water management and watershed development |
| Schedule 1 Item No. 8(a) | improvement of cattle and cattle breeding | Animal husbandry, dairy and poultry |
| Schedule 1 Item No. 8 (b) | the general care of livestock | |
| Schedule 1 Item No. 8 (c) | providing and maintaining stud bills for purposes of cattle breeding | |
| Schedule 1 Item No. 8(d) | promotion of dairy farming | |
| Schedule 2 Item No. 2(m) | establishment, control and management of cattle ponds | |
| Schedule 1 Item No. 1 (o) | regulating the keeping of cattle and taking necessary steps against stray cattle and dogs | |
| Schedule 1 Item No. 7(l) | raising preservation and improvement or village forest pastures and orchards | Social forestry and farm forestry |
| Schedule 1 Item No. 9 (a) | surveying and harnessing industrial and employment potential of the gram | Small scale industries including food processing industries |
| Schedule 1 Item No. 9 (b) | promoting hand spinning, hand weaving, dying, printing, embroidery, sewing, oild pressing industry, leather industry pottery carpentry, smithy, industries, processing, agricultural raw materials into finished product, other cottage industries and special arts or craft of the village if any and protecting encouraging and assisting these with a view to improving and develop them | Khadi, village and cottage industries |
| Schedule 1 Item No. 9 (c) | providing necessary raw materials for cottage industries and arts and crafts | |
| Schedule 1 Item No. 9 (d) | making efforts for the production by the village craftsmen of modern and improved tools for cottage industries and making such tools easily available to them | |
| Schedule 1 Item No. 9 (e) | encouraging and assisting artisans for training in cottage industries and handicraft | |
| Schedule 1 Item No. 9 (f) | providing for the organization management and development of cottage industries on a co-operative basis | |
| Schedule 1 Item No. 1 (a) | supply of water for domestic use and for cattle | Drinking water |

| Details of Appended Section of the Act (Section 99) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|--|--|--|
| Schedule 1 Item No. 2 (b) | construction, maintenance and repair of public roads, drains bunds and bridges provided that if the roads drains bunds and bridges vest in other public authority such works shall not be undertaken without the consent of that authority | Roads, culverts, bridges, ferries, waterways and other means of communication |
| Schedule 1 Item No. 2 (d) | lighting of the village | Rural electrification including distribution of electricity |
| Schedule 1 Item No. 2 (r) | generation distribution and supply of electrical energy and other matter matters connected therewith | |
| Schedule 1 Item No. 2(c) | establishment and maintenance of works for the provision of employment particularly in times of scarcity | Poverty alleviation programme |
| Schedule 1 Item No. 5 (n) | economic survey of the gram accompanied by the provision of employment to the unemployed or under-employed residents thereof | |
| Schedule 1 Item No. 3 (a) | spread of education | Education including primary and secondary schools |
| Schedule 1 Item No. 3 (f) | assisting the introduction of compulsory primary education as planned by the state | |
| Schedule 1 Item No. 3 (g) | provision of school buildings and of necessary equipment for education | |
| Schedule 1 Item No. 3 (i) | repairs and maintenance of school buildings | |
| Schedule 1 Item No. 3 (j) | maintenance of school funds | |
| Schedule 1 Item No. 3 (o) | establishment, construction and maintenance of secondary schools | |
| Schedule 1 Item No. 3 (n) | provision for light meals for school children if possible | |
| Schedule 1 Item No. 3 (d) | establishment and maintenance of libraries and reading rooms | |
| Schedule 1 Item No. 3 (c) | establishment and maintenance of theaters for promotion of art and culture | Cultural activities |
| Schedule 1 Item No. 3 (l) | celebration of school functions and festivals | |
| Schedule 1 Item No. 3 (m) | arranging cultural programmes for the purpose of popular education | |
| Schedule 1 Item No. 5 (i) | establishment, maintenance and regulation of fairs pilgrimages and festivals | |
| Schedule 1 Item No. 3 (b) | establishment and maintenance of akhada parks, clubs and other places of recreation for the welfare of women and youth | |
| Schedule 1 Item No. 2 (j) | establishment and maintenance of markets | Market and fairs |
| Schedule 1 Item No. 2 (p) | construction and maintenance of buildings for warehouse, shops purchasing centres and such others | |
| Schedule 1 Item No. 1 (c) | sanitation, conservancy, the prevention and abatement of nuisance | Health and sanitation including hospitals primary health centres and dispensaries |
| Schedule 1 Item No. 1 (d) | preservation and improvement of public health establishing and maintaining public hospitals and dispensaries providing public relief | |
| Schedule 1 Item No. 1 (g) | ensuring systematic disposal of carcasses, provision of definite place for the purpose and other means for disposal of unclaimed corpses and carcasses | |

| Details of Appended Section of the Act (Section 99) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|--|--|--|
| Schedule 1 Item No. 1 (i) | taking measures to prevent the outbreak, spread and recurrence of any infectious disease | |
| Schedule 1 Item No. 1 (k) | removal of rubbish heaps jungle, prickly pear the filling in of disused wells, insanitary ponds, pools, ditches pits or hollows the prevention of water-logging in irrigated areas and other improvements of sanitary conditions | |
| Schedule 1 Item No. 1 (m) | the encouragement of human and animal vaccination | |
| Schedule 1 Item No. 1 (n) | the provision and maintenance of compost pits | |
| Schedule 1 Item No. 1 (r) | cleaning public streets places and sewers and all spaces not being private property which are open to the enjoyment of the public whether such places are vested in the Panchayat or not, removing the noxious vegetation and abating all public nuisances | |
| Schedule 1 Item No. 6 (d) | propagation of family planning | Family welfare |
| Schedule 1 Item No. 3 (h) | pre-primary education and child welfare activities | Women and child development |
| Schedule 1 Item No. 1 (l) | maternity and child welfare | |
| Schedule 1 Item No. 3 (k) | offering financial assistance to needy student | Social welfare including welfare of the handicapped and mentally retarded |
| Schedule 1 Item No. 6 (a) | relief of the crippled, destitute and the sick | |
| Schedule 1 Item No. 6 (b) | assistance to the residents when any natural calamity occurs | |
| Schedule 1 Item No. 6 (c) | organizing encouraging and assisting co-operative activities in the economic and social fields | |
| Schedule 1 Item No. 1 (z) | Giving relief and establishing and maintaining relief works in time of famine or scarcity to or the destitute persons within the limits of the Panchayat | |
| Schedule 1 Item No. 6 (e) | organizing voluntary labour for community works and works for the up-liftment of the village | |
| Schedule 1 Item No. 4 (a) | watch and ward of the village and of crops therein and raising volunteer organization or organizations of any other kind encouraging and assisting such organizations | |
| Schedule 1 Item No. 4 (b) | providing for training facilities to the youth of the gram for the purpose of self-defense and village defense and assisting such training that may be organized by the Government | |
| Schedule 1 Item No. 4 (c) | preventing of fires, rendering assistance in extinguishing fires and protecting life and property when fire occurs | |
| Schedule 1 Item No. 3 (e) | promotion of social and moral welfare of the village including prohibition propaganda removal or untouchability amelioration of the condition of the backward classes the eradication of corruption and the discouragement of gambling and other antisocial activities | |
| Schedule 1 Item No. 6 (f) | opening fair price shops | Public distribution system |

| Details of Appended Section of the Act (Section 99) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|--|--|---|
| Schedule 1 Item No. 1 (b) | construction and cleaning of public roads, drains, pond, tanks and wells other than tanks and wells used for irrigation purposes and other public places | Maintenance of community assets |
| Schedule 1 Item No. 1 (e) | regulation by licensing or otherwise of tea coffee and milk shops | |
| Schedule 1 Item No. 1 (f) | provision, maintenance and regulation of burning and burial ground | |
| Schedule 1 Item No. 1 (h) | construction and maintenance of public latrines | |
| Schedule 1 Item No. 1 (j) | reclaiming of unhealthy localities | |
| Schedule 1 Item No. 1 (q) | watering public streets and places | |
| Schedule 1 Item No. 1 (t) | removing obstruction and projection in public streets or places and in spaces not being private property which are open to the enjoyment of the public whether such spaces are vested in the Panchayat or belong to Government | |
| Schedule 1 Item No. 1 (u) | securing or removing dangerous buildings or places | |
| Schedule 1 Item No. 1 (v) | constructing alerting and maintaining public streets culverts Panchayat boundary marks markets slaughter houses latrines privies urinals drains sewers drainage works, sewage works baths washing places drinking fountains tanks wells dams and the like | |
| Schedule 1 Item No. 1 (x) | paying the salary and contingent expenditure on account of such police or guards as may be required by the Panchayats for the purpose of the Act or for the protection of any Panchayat property | |
| Schedule 1 Item No. 1 (y) | constructing and maintaining residential quarters for the conservancy staff of the Panchayat | |
| Schedule 1 Item No. 2 (c) | maintenance and regulation of the use of building handed over to the Panchayat or of government buildings under the control of the Panchayat grazing lands, forests land including lands assigned under section 28 of the Indian Forest Act 1927, and tanks and wells (other than tanks and wells or irrigation) | |
| Schedule 1 Item No. 2 (e) | control of fairs, bazaars, tonga stand and cart stands | |
| Schedule 1 Item No. 2 (f) | construction and maintenance or control of slaughter houses | |
| Schedule 1 Item No. 2 (g) | planting of trees in market places and other public places and their maintenance and preservation | |
| Schedule 1 Item No. 2 (h) | construction and maintenance of Dharamsalas | |
| Schedule 1 Item No. 2 (i) | management and control of bathing and washing ghats which are managed by any authority | |
| Schedule 1 Item No. 2 (k) | construction and maintenance of houses for conservancy staff and village functionaries of the Panchayat | |
| Schedule 1 Item No. 2 (l) | provision and maintenance of camping grounds | |
| Schedule 1 Item No. 2 (q) | construction and maintenance of buildings for common use and of buildings necessary for development activities | |

| Details of Appended Section of the Act (Section 99) | Detailed provisions on devolution of powers | Item in the 11th Schedule to which this provision pertains |
|--|---|---|
| Schedule 1 Item No. 5 (h) | control of cattle stands, thrashing floors, grazing grounds and community lands | |
| Schedule 1 Item No. 1 (p) | regulating checking and abating of offensive or dangerous trade or practices | |
| Schedule 1 Item No. 1 (s) | extinguishing fires and protecting life and property when fires occur | |
| Schedule 1 Item No. 1 (w) | obtaining a supply of an additional supply of water, proper and sufficient for preventing danger to the health of inhabitants from the insufficiency or unwholesomeness of the existing supply when such supply or additional supply can be obtained at a reasonable cost | |
| Schedule 1 Item No. 2 (O) | extension of village sites and the regulation of buildings and housing schemes in accordance with such principles as may be prescribed | |
| Schedule 1 Item No. 3 (b) | establishment and maintenance of akhada parks, clubs and other places of recreation for the welfare of women and youth | |

In addition, to the above mentioned functional devolution, The Gujarat Panchayat Act, 1993 also devolves other functions to Village Panchayat as listed below:

Table: 3a

| Details of Appended Section of the Act Section 99 | Functions |
|--|---|
| | In the sphere of Planning and Administration |
| Schedule I Item No. 5 (a) | the preparation of plans for the development of the village |
| Schedule I Item No. 5 (d) | preparation of budget collection and maintenance of accounts custody and utilization of funds assessment and collection of taxes and maintenance of an Account Code |
| Schedule I Item No. 5 (e) | use of assistance given by the central and state government for and purpose of the village |
| Schedule I Item No. 5 (f) | making independent surveys of the gram or assisting such surveys undertaken by the central or state government |
| Schedule I Item No. 5 (g) | recruitment training and management of staff to be employed by Panchayat |
| Schedule I Item No. 5 (j) | reporting to proper authorities complaints which are not removable by the Panchayat |
| Schedule I Item No. 5 (k) | preparation maintenance and up-keep of the Panchayat records |
| Schedule I Item No. 5 (l) | registration of births deaths and marriages in such manner and in such form as may be laid down by the State Government by general or special order in this behalf |
| Schedule I Item No. 5 (m) | numbering of premises |
| | In the sphere of collection of land revenue |
| Schedule I Item No. 10 (a) | collection of land revenue when so empowered by the State government under section 168 |
| Schedule I Item No. 10 (b) | maintenance of records relating to land revenue in such manner and in such form as may be prescribed from time to time by or under any law relating to land revenue |

The analysis of the legislation as above may be summarized in the table below:

Table: 4

| Item in the Eleventh Schedule | Village Panchayat | Taluka Panchayat | District Panchayat |
|--|--------------------------|-------------------------|---------------------------|
| Agriculture, including agricultural extension | √ | √ | √ |
| Land improvement, implementation of land reforms, land consolidation and soil conservation | √ | √ | X |
| Minor irrigation, water management and watershed development | √ | √ | √ |
| Animal husbandry, dairying and poultry | √ | √ | √ |
| Social forestry and farm forestry | √ | √ | X |
| Small scale industries, including food processing industries | √ | √ | √ |
| Khadi, village and cottage industries | √ | √ | X |
| Rural housing | X | √ | X |
| Drinking water | √ | √ | √ |
| Roads, culverts, bridges, ferries, waterways and other means of communication | √ | √ | √ |
| Rural electrification, including distribution of electricity | √ | X | X |
| Poverty alleviation programme | √ | X | X |
| Education, including primary and secondary schools | √ | √ | √ |
| Technical training and vocational education | X | X | √ |
| Libraries | √ | √ | X |
| Cultural activities | √ | √ | √ |
| Markets and Fairs | √ | X | X |
| Health and sanitation, including hospitals, Primary health centres and dispensaries | √ | √ | √ |
| Family Welfare | √ | √ | √ |
| Women and Child Development | √ | √ | √ |
| Social Welfare, including welfare of the handicapped and mentally retarded | √ | √ | √ |
| Welfare of the weaker sections, and in particular of the Scheduled Castes and the Scheduled Tribes | √ | √ | X |
| Public distribution system | √ | X | X |
| Maintenance of community assets | √ | X | √ |

In total, activities relating 22 matters are devolved to the Village Panchayats and 18 matters to the Taluka Panchayats and 14 matters to the District Panchayats.

2. Financial Devolution to PRIs

2.1 Devolution of Property and Fund and Taxation Power to Village Panchayat

Property

Section 108 (1) of the Act states: For the purpose of this Act, the State Government may subject to such conditions and restrictions as it may think fit to impose vest in a Panchayat open sites, waste, vacant or grazing lands or public road, streets, bridges, ditches, dikes and fences, wells, river-beds, tanks, streams, lakes nallas, canals, water-courses, trees or any other property in the village vesting in the Government.

(More Clarifications)

Section 109 (1) of the Act states: A Taluka Panchayat or the District Panchayat may from time to time direct that any property vesting in it shall vest in a Village Panchayat and thereupon notwithstanding anything contained in the Transfer of Property Act, 1882 or the Indian Registration Act, 1908. Such property shall vest in the Village Panchayat.

Section 109 (2) of the Act states: Every work constructed by a Panchayat out of its fund or with Government assistance or peoples participation shall vest in the Panchayat

Section 110 (1) of the Act states: Subject to the provision of the subsection (2) no lease, sale or other transfer of any immovable property vesting in or acquired by a Panchayat shall be valid unless such lease, sale or other transfer has been made with the previous sanction of the competent authority-

Section 110 (2) of the Act states: In the case of a lease of immovable property other than the property vesting in the Panchayat under section 108 no such previous sanction shall be necessary if the period of lease does not exceed three years.

Village Fund

Section 111 (1) of the Act states: There shall be in each village a fund to be called the **Village Fund**.

Section 111 (2) of the Act states: The following shall be paid into and form part of the fund namely:

a) the proceeds of any tax or fee imposed by or assigned to the Panchayat under this Act

- b) all sums ordered by a court to be paid as compensations
- c) all other sums ordered by a court to be placed at the credit of the village fund
- d) the sale proceeds of all dust, dirt, dung, refuse or carcasses of animals, except in so far as any person is entitled to the whole or portion thereof
- e) sums contributed to the fund by the State Government or the Taluka Panchayat or the district Panchayat
- f) all sums received by way of loans from State government or Taluka Panchayat or the district Panchayat or out of the District Development Fund or otherwise
- g) all sums received by the Panchayat by way of gift or contribution
- h) the income or proceeds of any property vesting in the Panchayat
- i) the net proceeds (after deducting the expenses of assessment and collection) of the cess authorized by section 203
- j) all sums realized by way of rent or penalty otherwise than as the amount of any fine in a criminal case
- k) all sums realized as pound fees after deducting the expenses

Taxes, Fees and Rates

Section 200 (1) of the Gujarat Panchayat Act states: Subject to any general or special order (including an order fixing the minimum and maximum rates of a tax or fee) which the State Government may make in this behalf it shall be competent to a Village Panchayat to levy all or any of the following taxes and fee at such rates as may be decided by it and in such manner and subject to such exemptions as may be prescribed namely:-

- (i) a tax on buildings (whether subject to payment of agricultural assessment or not) and lands (which are not subject to payment of agricultural assessment) within the limits of the village
- (ii) octroi on animals or goods or both brought within the village for consumption use or sale therein
- (iii) a pilgrim tax
- (iv) a tax on fairs, festivals and other entertainments not being a tax on payments for admission to any entertainments

- (v) a tax on vehicles, boats or animals used for riding, draught or burden, kept for use within the village, whether they are actually kept within or outside the village
- (vi) a toll on vehicles and animals used as aforesaid entering the village but not liable to taxation under clause (v) of this section
- (vii) a tax on dogs kept within the village
- (viii) a general sanitary cess for the construction or maintenance of public latrines and for the removal and disposal of refuse
- (ix) a general water rate which may be imposed in the form of a rate assessed on buildings and lands or in any other form as may be best adapted to the circumstances of any class of cases
- (x) any other prescribed tax (not being a toll on motor vehicles or trailers, save as provided by section 20 of the Bombay Motor Vehicles Tax Act, 1958 or tax on professions, trades callings and employments or a tax on payments for admission to any entertainment) which the State Legislature has under the Constitution powers to impose in the State
- (xi) a fee on market and weekly bazaars
- (xii) a fee on cart-stands and tonga-stands
- (xiii) a special water rate for water supplied by the Panchayat through pipes which may be imposed in any form including that of charges for such water supplied fixed in such mode or modes as shall be best adapted in the circumstances of any class of cases
- (xiv) a fee for the supply of water from wells and tanks vesting in it for purposes other than domestic use and for cattle
- (xv) fee for temporary erection on or putting up projections over or temporary occupation of any public street or place
- (xvi) a special sanitary cess upon private latrines, premises or compounds cleaned by the Panchayat agency
- (xvii) a drainage tax
- (xviii) a lighting tax
- (xix) a fee for cleansing a cess pool constructed on land whether belonging to Panchayat or not
- (xx) A fee for gazing cattle on gazing lands vesting in a Panchayat

- (xxi) In lieu of any two or more separate taxes specified in clauses (i), (viii), (ix), and (xviii), a consolidated tax on buildings or lands or both situated the limits of the village

Other Financial Powers

Section 201 (1) of the Act states: Subject to any rules that may be made under this Act and regard being had to the fact that a factory itself provides in the factory area all or any of the amenities which such Panchayat provides, village any factory with the sanction of the State Government top receive a lump-sum contribution in lieu of all or any of the taxes levied by the Panchayat.

Section 203 (1) of the Act states: A Village Panchayat may by resolution passed by its meeting apply to levy a cess at the rate not exceeding 25 paise according to its needs and capacity on every rupee of every sum payable to the State Government land revenue and on which a cess is leviable under clause (a), (b) and (c) of sub-section (1) of section 191 and thereupon the state government shall in addition to any cess leviable under section 191) levy and collect such cess in the area within the jurisdiction of such Panchayat.

Section 204 (1) of the Act states: power of Taluka Panchayat to increase taxation of Panchayat

Section 205 of the Act states: If under clause (a) of item 4 of Schedule 1, a Village Panchayat incurs any expenditures on watch and ward of the village and of the crops therein the cost of such watch and ward shall be levied and recovered by the Panchayat from such persons and in such manner (including the levying of a fee) as may be prescribed

2.2 Devolution of Property and Fund and Taxation Power to Taluka Panchayat

Property

Section 133 (1) of the Act states: In addition to the movable or immovable property acquired by a Taluka Panchayat the following shall vest in the Taluka Panchayat namely:

- (i) every road building or other works constructed by a Taluka Panchayat out of the Taluka fund with or without the Government assistance or people's participation
- (ii) any land or property vesting in the State Government when transferred to a Taluka Panchayat by the State Government for local public purposes

(iii) any land or property which vesting in any other Panchayat when vested in the Taluka Panchayat by that Panchayat for the purpose of this Act. Provided that any land or property transferred to a Taluka Panchayat under clause (b) shall not unless otherwise expressly provided in the instrument of transfer belong by right of ownership to the Panchayat but shall vest in it subject to the terms and conditions of the transfer and in the circumstances specified in such terms or conditions, the land or property with all things, if any, attached thereto including all fixtures and structures thereon shall revert in the State Government and it shall be lawful for the State Government to resume possession thereof

Section 133 (2) of the Act states: Notwithstanding that any immovable property vest in Taluka Panchayat, no lease, sale or other transfer thereof shall be valid unless it has been made with the previous sanction of the competent authority-Provided that in the case of a lease of immovable property other than the property referred to in clause (b) of subsection (1), on such previous sanction shall be necessary if the period of lease does not exceed three years

Taluka Fund

Section 134 (1) of the Act states: There shall be in each Taluka fund which shall be **called a Taluka Fund.** And **Section 134 (2) of the Act states:** The following shall be paid into form part of the Taluka fund namely:

- (i) the proceeds of any tax or fee imposed by or assigned to the Panchayat under this Act
- (ii) the sale proceeds of all dust, dirt, dung, refuse or carcasses of animals except in so far as any person is entitled to the whole or portion thereof
- (iii) sums contributed to the Taluka fund by the State Government or the district Panchayat
- (iv) all sums received by way of gift or contributions by the Taluka Panchayat
- (v) the income or proceeds of any property vesting in the Taluka Panchayat
- (vi) the net proceeds (after deducting the expenses of assessment and collection) of the stamp duty authorized by section 207
- (vii) all sums realized by way of rent or penalty otherwise than as the amount of any fine in a criminal case

Other Financial Power

Section 193 of the Act states: The State Government may levy a cess not exceeding twenty paise on every rupee of water rate leviable under the provisions of the Bombay Irrigation Act, 1879

Section 197 of the Act states: The local cess leviable on water rate under section 193 in respect of lands shall be paid by the State Government to the Taluka Panchayat within the jurisdiction of which the land are situated, after deducting such portion thereof as cost of collection as the State Government may prescribe by rules

Section 206 (1) of the Act states: Subject to any general special orders which the State Government may make in this behalf, every Taluka Panchayat may after observing the preliminary procedure required by section 212 impose an education cess and any of taxes and fees which a leviable by a village Panchayat under section 200.

Provided that the rate of tax or fee leviable by a Taluka Panchayat in respect of any matter within the limits of any village shall not exceed 15per cent of the rate of the tax or fee actually levied by the village Panchayat in respect of the same matter and where no such tax or fee has been levied by the village Panchayat shall not exceed 15per cent of the prescribed maximum rate of tax or fee in respect of the same matter.

Section 207 (1) of the Act states: A Taluka Panchayat may by resolution passed at its meeting apply to the State Government for **increasing the rate of stamp duty** leviable under the **Bombay Stamp Act, 1958** on instruments of sale mortgage, lease or any other kind of transfer on immovable property situated within the limits of the Taluka to such extent exceed 15per cent of the rate duty so leviable and specified in the resolution

The State Government shall every year after due appreciation made by law in this behalf pay to the Taluka Panchayat from the Consolidated Fund of the State a **grant-in-aid** approximately equal to the extra duty realized under subsection (1) in respect of properties situated within the jurisdiction of the Taluka Panchayat

2.3 Devolution of Property, Fund and Taxation Power to District Panchayat

Property

Section 157 (1) of the Act states: In addition to the movable or immovable property acquired by a district Panchayat the following shall vest in the district Panchayat namely:

- (i) every road building or other works constructed by a district Panchayat out of the district fund with or without the Government assistance or people's participation
- (ii) any land or property vesting in the State Government when transferred to a district Panchayat by the State Government for local public purposes
- (iii) any land or other property which vesting in any other Panchayat, when vested in the district Panchayat by that Panchayat for the purposes of this Act. Provided that any land or property transferred to a district Panchayat under clause (b) shall not unless otherwise expressly provided in the instrument of transfer, belong by right of ownership to the Panchayat but shall vest in it subject to the terms and conditions of the transfer and in the circumstances specified in such terms and conditions, the land or property with all things, if any, attached thereto including all fixtures and structures thereon shall revert in the State Government and it shall be lawful for the State Government to resume possession thereof

Section 157 (2) of the Act states: Notwithstanding that any immovable property vest in a district Panchayat, no lease, sale or other transfer thereof shall be valid unless it has been made with the previous sanction of the competent authority-Provided that in the case of a lease of immovable property other than the property referred to in clause (b) of subsection (1), no such previous sanction shall be necessary, if the period of lease does not exceed three years.

District Fund

Section 158 (1) of the Act states: There shall be in each district a fund which shall be called a **District Fund. And Section 158 (2) of the Act states:** The following shall be paid into and form part of the district fund namely:

- (i) the proceeds of any tax or fee imposed under this Act
- (ii) the sale proceeds of all dust, dirt, dung, refuse or carcasses of animals except in so far as any person is entitled to the whole or portion thereof

- (iii) sums contributed to the district fund by the State Government or otherwise
- (iv) all sums received by way of gift or contributions by the district Panchayat
- (v) the income or proceeds of any property vesting in the district Panchayat
- (vi) the net proceeds (after deducting the expenses of assessment and collection) of the cess authorized by section 191
- (vii) all sums realized by way of rent or penalty otherwise than as the amount of any fine in a criminal case

Application of District Fund

Section 159 (1) of the Act states: All property vested in a district Panchayat under this Act, and all funds received by it in accordance with the provisions of this Act, and all sums accruing to it under the provisions of any law for the time being in force, shall be applied subject to the provisions of any law for the time being in force, shall be applied subject to the provisions and for the purposes of this Act and all such sums and funds shall be kept in such custody as may be prescribed. Provided that out of the net proceeds of the cess referred to it in clause (g) of sub section (2) of section 158, a portion calculated at the rate of 8 paise on every rupee of every sum on which the cess is levied under section 191, shall be applied by a district Panchayat for the purpose of primary education in the district

Section 159 (2) of the Act states: any surplus funds in the hands of a Panchayat which may not be required for current charges may be invested in such manner as may be prescribed

Section 159 (3) of the Act states: in the case of any loan by a Panchayat, the payment of the principal or installment, thereof and the payment of interest thereon shall be a first charge on its fund

District Welfare Fund

Section 160 (1) of the Act states: Notwithstanding anything contained in section 158 and 159 in each district, there shall be established by the district Panchayat a fund to be called the **District Welfare Fund** which shall consist of-

- (i) all the sums received by way of gifts or contribution from the State Government or the Central government or any person for the purpose of the family welfare programme
- (ii) the proceeds of entertainment programme arranged by the Panchayat
- (iii) the same proceeds of family welfare seals

Application of District Welfare Fund

Section 160 (2) of the Act states: The Fund shall be applied by the Panchayat for the purpose of family welfare programme in the district.

Section 160 (3) of the Act states: Any sum in the fund which may not be required for the current expenditure may be invested in such manner as may be prescribed

Other Financial power

Section 191 (1) of the Act provided that the State Government can levy of fifty paise cess on every rupee of land revenue. **Section 191 (3) (a) of the Act states:** If it appears to a district Panchayat that for the purposes of its functions under schedule 111 and additional provision of funds is necessary, it may be a resolution passed at its district, the rate of cess levied under sub-section (1) to such extent and for such period as may be prescribed in the resolution. Provided that by such increase the rate of cess shall not exceed three hundred paise on every rupee on which such cess is leviable under sub-section (1) of the section 191 of the Act.

Section 191 (3) (b) of the Act states: on receipt of an application under clause (a) State Government may, by notification in the Official Gazette increase the rate of cess as proposed by the district Panchayat and thereupon subsection (1) shall have effect as if for the rate specified therein the rate as so increased has been substituted

Section 198 of the Act states: The local cess leviable on lands under section 191 shall be paid by the State Government to the District Panchayat within the jurisdiction of which lands are situated after deducting such portion thereof as cost of collection, as the State Government may prescribe by rules.

Section 199 of the Act states: The State Government may on the application of the District Panchayat to which the cess is payable, suspend or remit the collection of cess or any portion thereof in any year in any area, subject to the jurisdiction of such District Panchayat

Section 115 of the Act states: Every Village Panchayat shall contribute every year to the District Development Fund constituted under section 223 a sum equal to such percentage not exceeding ten percent of its income from such sources as may be prescribed-provided that where any Village Panchayat fails in any year to make a contribution under this section it shall be lawful for the State Government to deduct such amount from the grant payable to the Panchayat

under section 219 in the next Deseeding year as may be sufficient to make the contribution and credit the same to the District Development Fund on behalf of the Village Panchayat

Section 208 of the Act states: Subject to any general or special order which the State Government may make in this behalf every District Panchayat may after observing the preliminary procedure require 1 by section **212 impose any of the taxes and fees which are leviable by a Village Panchayat under section 200.**

Provided that the rate of tax or fee leviable by a district Panchayat in respect of any matter within the limits of any village shall not exceed 10per cent of the rate of the tax or fee actually levied by the Village Panchayat in respect of the same matter and where no such tax or fee has been levied by the village Panchayat shall not exceed 10per cent of the prescribed maximum rate of tax or fee in respect of the same matter.

Section 209 (1) of the Act states: A District Panchayat may by resolution passed at its meeting apply to the state government **for increasing the rate of stamp duty** leviable under the **Bombay Stamp Act, 1958** in instruments of sale mortgage, lease or any other kind of transfer on immovable property situated within the limits of the district to such extent exceed 20per cent of the rate duty so leviable and specified in the resolution

The State Government shall every year after due appreciation made by law in this behalf pay to the District Panchayat from the Consolidated Fund of the **State a grant-in-aid** approximately equal to the extra duty realized under subsection (1) in respect of properties situated within the jurisdiction of the District Panchayat

Section 210 of the Act states that tax on profession etc. levied by District Panchayat to be collected by village Panchayat

Financial Assistance to Panchayat by the State Government

Section 218 of the Act states: The State Government shall having regard to the recommendations, if any, of the Finance Commission, in each year after due appropriation made by the State Legislature by law in this behalf make provision for making grants to the Panchayats in accordance with this chapter

Section 219 (1) of the Act states: For the purpose of section 218, the State Government shall in each year determine a sum which shall be equal to the average of the **land revenue collected or recovered during the three preceding revenue years in the State.**

Section 219 (2) states: Out of the sum determined under subsection (1) an amount equal to (a) such percentage of the sum as may be prescribed shall be set apart for meeting the expenditure on the salaries of the secretaries of village Panchayat and of the village accountants in the State and on their training; (b) five per cent of the sum shall be paid into the **State Equalization Fund established under Section 220.**

Out of the balance remaining after making the provisions in accordance **with sub-section (2)**

- (i) an equal to (a) 50 per cent of the balance shall be distributed among the village Panchayats (b), 25 per cent of the balance shall be distributed among the Taluka Panchayat and (c) 10 per cent of the balance shall be distributed among the district Panchayats in proportion to the average collection and recovery of land revenue from the respective village, Taluka or as the case may be district Panchayat in the three revenue years immediately preceding;
- (ii) an equal to (a) 7.5 per cent of the balance shall be paid into **District equalization Fund** established under section 221 (b) 7.5 per cent of the balance shall be paid into **District Gram Panchayat Encouragement Fund** under section 222

Section 220 (1) of the Act provides the establishment of **State Equalization Fund** by the State Government to be utilized for making **special grants to backward districts** so as to minimize the social and economic inequalities between the districts of the State

Section 221 (1) of the Act provides the establishment of **District Equalization Fund** by the District Panchayat to be utilized by the **district Panchayat for making special grants to backward Panchayats** subordinate to it so as to minimize the social and economic inequalities between the Panchayats in the district

Section 222 of the Act states: In each District there shall be established by the district Panchayat a fund to be called **District Village Encouragement Fund** to be utilized by the district Panchayat for **making incentive grants to village Panchayat to encourage them to raise their income by levying taxes and fees leviable by them under this Act.**

Section 223 states:

Section 223 (1) of the Act states: In each district there shall be established a fund to be called the **District Development Fund** which shall consist of the contributions made by the village Panchayats under section 115 **to be utilized for granting loans** to village Panchayats in accordance with the rules and for payment of interest on contributions made by the said Panchayats.

Section 224 of the Act states: The State Government shall after due appropriation made by the State Legislature by law in this behalf pay to every district Panchayat an equal amount to **two percent of the forest revenue** collected in the revenue year immediately preceding within the limits of the district

Section 225 of the Act states: Where any village is situate in a forest area and is not assessed under the Land revenue Code then the State Government **shall in lieu of a grant of land revenue under section 219 pay to the village Panchayat of the village**, in each year such amount out of the forest revenue of the village collected in the revenue year immediately preceding as it may fix but the amount so fixed shall not be:

- (i) less than Rs. 500 and
- (ii) more than an amount calculated on the basis of the population of the village at such per capita rate as is equal to the per capita rate arrived at in respect of grants made under section 219

3. Staff under PRIs of Gujarat

3.1 Staff under Village Panchayat

Section 114 (1) of the Act states: Subject to the provision of this Act and the rules there under—

- (a) there shall be a Secretary for every village Panchayat who shall be appointed in accordance with the rules
- (b) a village Panchayat shall have other servants as may be determined under section 227. Such servant shall be appointed by such authority and their conditions of services shall be such as may be prescribed-

Provided that the State Government having regard to the population of a village and income of the Panchayat thereof may direct in respect of a group of village Panchayats that such group shall have one Secretary and thereupon there shall be one Secretary for that group.

Section 114 (2) of the Act states: A secretary of the a village Panchayat shall subject to the control of the Sarpanch

- (a) keep in his custody the records and registers of the Panchayat
- (b) issue receipts under his signature for sums of money received by him on behalf of the Panchayat
- (c) prepare all statements and reports required under this Act and
- (d) perform such other functions and duties under this Act as may be prescribed

3.2 Staff under Taluka Panchayat

Section 136 (1) of the Act states: Subject to the provisions of this Act and the rules made there under-

- (i) there shall be a Secretary for every Taluka Panchayat
- (ii) The Taluka Development Officer who shall be an officer belonging to the State service and posted under the Panchatayat shall be the ex-officio Secretary of the Panchayat
- (iii) A Taluka Panchayat shall have such other officers and servants as may be determined under section 227

Section 136 (2) of the Act states: The officers and servants referred to it in clause(c) of subsection (1) shall be appointed by such authority and their conditions of service shall be such as may be prescribed.

Section 136 (3) of the Act states: The officers and servants appointed under sub-section (2) shall in the discharge of their functions and duties exercise such powers as may be conferred on them by the Panchayat subject to rules if any, made in this behalf

3.3 Staff under District Panchayat

Section 180 (1) (b) of the Act states: Where the State Government entrusts a scheme under clause (a) to a district Panchayat, it shall allot to the district Panchayat such fund and personnel as may be necessary to enable the district Panchayat to implement the scheme.

Section 161 (1) of the Act states: Subject to the provisions of this Act and the rules made thereunder—

- a) there shall be a secretary for every district Panchayat
- b) a District Development Officer posted under the Panchayat shall be Ex-Officio Secretary of the Panchayat
- c) a district Panchayat shall have such other officers and servants as may be determined under section 227

Section 161 (2) of the Act states: The officers and servants referred to in clause © of sub section (1) of section 161 shall be appointed by such authority and their conditions of service shall be as may be prescribed

Section 161 (3) of the Act states: The officers and servants appointed under sub-section (2) shall in the discharge of their functions and duties, exercise such powers as may be conferred on them by the Panchayat subject to rules if any made in this behalf

Section 114 (3) of the Act states: The other servants of the Panchayat shall perform such functions and duties and exercise such powers under this Act as may be imposed or conferred on them by the Panchayat, subject to rules, if any, made in this behalf

Appended Information

Section 176 of the Act states that transfer of rights and liabilities in respect of property transferred to Panchayat.

Section 177 of the Act states that obligation of liability of servants transferred under section 175 not affected.

Section 178 of the Act states withdrawal of powers and functions etc from district Panchayat.

Section 180 (1) (b) of the Act states: Where the State Government entrust a scheme under clause (a) to a district Panchayat such fund and personnel as may be necessary to enable the district Panchayat to implement the scheme

Annexure 2.2: Analysis of Activity Mapping in Andhra Pradesh

The State Government constituted a Task Force Committee under the Chairmanship of Special Chief Secretary to the Government along with other 3 Secretaries in G.O. Rt. No. 1469, PR&RD Department dated 24.09.2004 to work out and make suggestive measures on devolution of power to PRIs on each subject. The draft activity maps firmed up in workshops convened, which were attended by the Panchayat members and were placed before the Task Force Committee for further consideration. The meetings of Task Force Committee were held between 2004 and 2006. The Committee prepared the draft Activity Mapping for 27 matters (except Housing and Libraries). Based on this exercise, the Government has issued 9 Government Orders (GO) between January and March 2008, which pertains to different departments and covers 12 matters listed in 11th Schedule of the Constitution for all 3 tiers of Panchayats at Andhra Pradesh. An analysis of all three tiers of Panchayat indicates the following range of activities devolved to Panchayats:

Gram Panchayat

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | | Funds | Functionaries |
|------------------------------------|---|-----------|----------------|-------------|-----------|-------|---------------|
| | | Planning | Implementation | Supervision | Promotion | | |
| 3 | Minor irrigation, water management & watershed development | √ | √ | √ | √ | √ | √ |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | √ | | √ |
| 5 | Fisheries | √ | √ | | √ | √ | √ |
| 11 | Drinking Water | √ | √ | √ | √ | √ | √ |
| 12 | Fuel and Fodder | √ | √ | | | √ | √ |
| 17 | Education including primary and secondary schools | | | √ | | √ | √ |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | √ | √ | √ | | √ | √ |
| 24 | Family welfare | | √ | √ | | √ | √ |
| 25 | Women & child development | √ | | √ | | √ | √ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | √ | | √ | | | |
| 27 | Welfare of the weaker sections and scheduled castes and scheduled tribes | √ | √ | √ | | | |
| 28 | Public distribution system | √ | | √ | | | √ |
| | Total | 10 | 8 | 10 | 4 | 8 | 10 |

Mandal Parishad

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | | Funds | Functionaries |
|------------------------------------|---|-----------|----------------|-------------|-----------|-------|---------------|
| | | Planning | Implementation | Supervision | Promotion | | |
| 2 | Land Improvement, implementation of land reforms, land consolidation | | √ | √ | | | √ |
| 3 | Minor irrigation, water management and watershed development | √ | √ | √ | √ | | √ |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | √ | √ | √ |
| 5 | Fisheries | √ | √ | | √ | √ | √ |
| 11 | Drinking Water | | √ | √ | √ | √ | √ |
| 12 | Fuel and Fodder | √ | √ | | | √ | √ |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | √ | √ | √ | | | √ |
| 24 | Family welfare | | | √ | √ | √ | √ |
| 25 | Women and child development | | √ | √ | √ | √ | √ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | | √ | | √ | √ | √ |
| | Total | 5 | 9 | 7 | 7 | 7 | 10 |

Zilla Parishad

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | | Funds | Functionaries |
|------------------------------------|---|-----------|----------------|-------------|-----------|-------|---------------|
| | | Planning | Implementation | Supervision | Promotion | | |
| 2 | Land Improvement, implementation of land reforms, land consolidation | | √ | | | √ | √ |
| 3 | Minor irrigation, water management and watershed development | √ | √ | √ | √ | √ | √ |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | | √ | √ |
| 5 | Fisheries | √ | √ | √ | | √ | √ |
| 11 | Drinking Water | | √ | √ | | √ | √ |
| 12 | Fuel and Fodder | √ | √ | √ | | √ | √ |
| 17 | Education including primary and secondary schools | | | √ | | | √ |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | √ | √ | √ | | √ | √ |
| 24 | Family welfare | | | √ | | | √ |
| 25 | Women and child development | | | √ | | √ | √ |

| | | | | | | | |
|----|---|---|---|----|---|----|----|
| 26 | Social welfare including welfare of the handicapped and mentally retarded | | √ | √ | | √ | |
| 27 | Welfare of the weaker sections and scheduled castes and scheduled tribes | | | √ | √ | √ | √ |
| | Total | 5 | 8 | 11 | 2 | 10 | 11 |

The analysis indicates that the devolved functions through Activity Mapping, mainly pertain to planning, implementation, supervision and promotion. Of the 29 matters listed in the 11th Schedule, functions have been devolved for 12 matters whereas funds and functionaries have been devolved for 8 and 10 matters respectively at Gram Panchayat level. In the case of Mandal Parishad, functions have been devolved for 10 matters whereas funds and functionaries have been devolved for 7 and 10 matters respectively. At Zila Parishad level, functions have been devolved for 12 matters whereas funds and functionaries have been devolved for 10 and 11 matters respectively. Since ZPs depend upon the Activity Mapping orders for the actual devolution of sector-specific powers to them, the Activity mapping is a step forward for them.

Annexure 2.3: Activity Mapping in Madhya Pradesh:

In the current circumstances where the devolution of powers under the law to the Panchayats is conflicting, imprecise and conditional, the onus is upon the government to bring in role clarity through Activity Mapping. In this respect, it appears from the documentation that Madhya Pradesh has undertaken reasonably good work by issuing executive orders (between 1996 and 1997) regarding the devolution of functions, funds and functionaries. A compendium on department wise devolution of functions, funds and functionaries was released in 1998 by Panchayat and Rural Development Department, Government of Madhya Pradesh. According to the compendium, out of the 29 matters listed in the Eleventh Schedule, executive orders containing the Activity Mapping in respect of 25 matters have been issued. These executive orders pertain to 22 departments. Details are given in the table below:

| Sl No | Matters in 11 th Schedule | Executive Orders | Functions | | | Funds | Functionaries |
|-------|---|---|---------------------------|-------------|-------------|-------------|---------------|
| | | | Planning & Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | B-1-6/96/14-2 (30.10.1996) B-1-5/93/14-2 (2.5.1998) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 2 | Land improvement, implementation of land reforms, lands consolidation and soil conservation | B-1-6/96/14-2 (30.10.1996) B-1-5/93/14-2 (2.5.1998) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 3 | Minor irrigation, water management and watershed development | B-1-6/96/14-2 (30.10.1996) B-1-5/93/14-2 (2.5.1998) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 4 | Animal Husbandry, dairying and poultry | 189-F-2/96/35/93 (12.12.1996) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5 | Fisheries | 2886/96/36 (31.10.1996) E-23/11/94/36/P (09.05.1997) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 6 | Social Forestry & Farm Forestry | F 3/77/94/10/2 (29.10.1996) | | | ✓ | ✓ | |
| 7 | Minor Forest Produce | Not covered | Not covered | Not covered | Not covered | Not covered | Not covered |

| | | | | | | | |
|----|---|--|-------------|-------------|-------------|-------------|-------------|
| 8 | Small scale industries including food processing industries | FA-1-41/52/96 (30.10.1996) 3-104-52-97 (22.10.1997) | ✓ | | ✓ | | ✓ |
| 9 | Khadi, village and cottage industries | FA-1-41/52/96 (30.10.1996) 3-104-52-97 (22.10.1997) | ✓ | | ✓ | | ✓ |
| 10 | Rural Housing | 18036/22/V-7/JRY/96 (30.10.1996) 18224/22/V-6/97 (20.11.1997) 6094/22/V-7/JRY/96 (02.04.1997) | ✓ | ✓ | | ✓ | ✓ |
| 11 | Drinking water | F8-16/34-2/96/6062 (29.10.1996) F-8/16/96/2/34 (24.10.1997) | ✓ | ✓ | | ✓ | |
| 12 | Fuel & Fodder | 189-F-2/96/35/93 (12.12.1996) | ✓ | ✓ | | ✓ | ✓ |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | 207 (20.04.1996) F.3-2-94-XVI-A(17.04.1996) | ✓ | ✓ | | | |
| 14 | Rural electrification including distribution of electricity | Not available | ✓ | ✓ | ✓ | | |
| 15 | Non Conventional energy resources | Not available | ✓ | ✓ | ✓ | | |
| 16 | Poverty alleviation programmes | 18067/V-2/96 (30.10.1996) 18224/22/V-6/97 (20.11.1997) | ✓ | ✓ | | ✓ | ✓ |
| 17 | Education including primary and secondary schools | F.44-65/85/B-2/20 (30.10.1996) F-44-65-85-B-2-20 (25.03.1998) F-44-65-85-B-2-20 (27.06.1997) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 18 | Technical training and vocational education | Not covered | Not covered | Not covered | Not covered | Not covered | Not covered |
| 19 | Adult and non-formal education | F.44-65/85/B-2/20 (30.10.1996) F-44-65-85-B-2-20 (25.03.1998) F-44-65-85-B-2-20 (27.06.1997) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 20 | Libraries | F-8/3/94/26-2 (28.11.1996) F/2/5/95/26-2 (21.11.1996) | ✓ | ✓ | | ✓ | ✓ |

| | | | | | | | |
|----|---|--|-------------|-------------|-------------|-------------|-------------|
| 21 | Cultural activities | F/6/35/94/9 (05.11.1996) F/6/35/94/9 (09.12.1997) | ✓ | ✓ | | ✓ | ✓ |
| 22 | Markets and fairs | Not covered | Not covered | Not covered | Not covered | Not covered | Not covered |
| 23 | Health and sanitation including hospitals primary health centres and dispensaries | F.3-10/9517-Medi-1 (1.8.1995) (6.9.1995) (15.9.1995) (6.10.1995) F 1-27/96/17/Medi - 1 (30.10.1996) F-3-7- (1)/98/17/Medi-1 (16.07.1998) | ✓ | ✓ | | ✓ | ✓ |
| 24 | Family welfare | F.3-10/9517-Medi-1 (1.8.1995) (6.9.1995) (15.9.1995) (6.10.1995) F 1-27/96/17/Medi - 1 (30.10.1996) F-3-7- (1)/98/17/Medi-1 (16.07.1998) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 25 | Women and child development | F-8-3/95/50-2 (29.10.1996) F 8-21/93/50-2 (29.10.1996) F 1- (A)/99/95/50-1 (18.11.1997) F 3/83/96/50-2 (30.03.1997) F 8/21/93/50-2 (17.12.1996) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | F-8/3/94/26-2 (28.11.1996) F-1-13-B-96-26-2- 216 (2.2.1998) | ✓ | ✓ | | ✓ | ✓ |
| 27 | Welfare of the weaker sections and in particular of the scheduled castes and scheduled tribes | F-4-226/96/1/25 (29.10.1996) F-4-245/96/1/25 (30.10.1996) F 4/1/98/1/25 (3.1.1998) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 28 | Public distribution system | F 7-8-92-29-I (24.12.1994) | ✓ | ✓ | | | |
| 29 | Maintenance of community assets | Not covered | Not covered | Not covered | Not covered | Not covered | Not covered |

The above analysis indicates that of 29 matters listed in the 11th Schedule, functions have been devolved for 25 matters, whereas funds and functionaries have been devolved for 19 matters. The matters that are left out are Minor Forest Produce, Technical training and vocational education, Markets and fairs and maintenance of community assets. However, while the Activity Mapping for social forestry does not cover minor forest produce as a separate item, there are elaborate provisions of the law inserted through PESA that vest MFP in Gram Sabhas and GPs in fifth schedule areas. Though Activity Mapping does not explicitly cover the maintenance of community assets as a separate item, in some of the activity maps relating to education, health etc., assets such as schools PHCs, Anganwadis, etc have been vested in the Panchayats. Therefore, one can safely conclude that this aspect has been partly covered in the Activity Mapping undertaken. Madhya Pradesh has undertaken to revisit the Activity Mapping. However, matters are proceeding very slowly. The task of preparing an improved Activity Mapping was assigned to an NGO named Samarthan, Bhopal by the Government.

Annexure 2.4: Activity Mapping in Sikkim:

On 15th April, 2006 a Task Force was constituted to make recommendations on the activities which may be transferred to the PRIs. The final report of the Committee was jointly released by the Chief Minister and the Union Minister of Panchayati Raj on 25th October, 2006 in Gangtok. Activities of 14 Departments: Agriculture and Food Security, Horticulture and Cash Crops, Animal Husbandry, Livestock, Veterinary Services, Education, Health and Family Welfare, Forests, Environment and Wild Life, Commerce and Industries, Disaster Management, Irrigation, Cultural Activities, Rural Water Supply, Rural Bridges, Rural Sanitation, Cooperatives are devolved. In addition there is a Miscellaneous sector and sector of all centrally sponsored schemes. Under the Miscellaneous head, several activities are covered pertaining to subjects related to maintenance of community assets, child and women development, non-conventional energy sources and tourism. However, under the heading 'Centrally Sponsored Scheme' nothing specific is mentioned, except stating that these are to be "as per guidelines given by the GOI".

An analysis of the Activity Mapping indicates the following range of activities devolved to Panchayats:

Gram Panchayat:

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | | Funds* | Functionaries |
|------------------------------------|--|-------------|----------------|-------------|-----------|--------|---------------|
| | | Planning | Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | √ | √ | √ | √ | | √ |
| 2 | Land improvement, implementation of land reforms, land consolidation and soil conservation | √ | √ | | | | √ |
| 3 | Minor irrigation, water management and watershed development | √ | | | √ | | √ |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | √ | | √ |
| 5 | Fisheries | Not covered | | | | | |
| 6 | Social Forestry | √ | √ | √ | √ | | √ |
| 7 | Minor Forest Produce | Not covered | | | | | |
| 8 | Small Scale Industries | √ | √ | | √ | | √ |
| 9 | Khadi, village and | | | | √ | | √ |

| | | | | | | | |
|----|---|-------------|---|---|---|--|---|
| | Cottage Industries. | | | | | | |
| 10 | Rural Housing | Not covered | | | | | |
| 11 | Drinking Water | | | | √ | | |
| 12 | Fuel and fodder | √ | √ | | | | |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | | | | √ | | √ |
| 14 | Rural Electrification including distribution of electricity. | Not covered | | | | | |
| 15 | Non Conventional energy resources | | | | √ | | |
| 16 | Poverty alleviation programmes | Not covered | | | | | |
| 17 | Education including primary and secondary schools | | | √ | √ | | √ |
| 18 | Technical training and vocational education | Not covered | | | | | √ |
| 19 | Adult and non-formal education | Not covered | | | | | √ |
| 20 | Libraries | | | | √ | | √ |
| 21 | Cultural activities | | | √ | √ | | |
| 22 | Markets and fairs | | | | √ | | |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | √ | | √ | √ | | √ |
| 24 | Family welfare | √ | | √ | √ | | |
| 25 | Women and child development | √ | | √ | √ | | |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | Not covered | | | | | √ |
| 27 | Welfare of the weaker sections and scheduled castes and scheduled tribes | Not covered | | | | | √ |
| 28 | Public distribution system | Not covered | | | | | |
| 29 | Maintenance of community assets. | | √ | √ | √ | | |

Zilla Parishad:

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | | Funds* | Functionaries |
|------------------------------------|--|-------------|----------------|-------------|-----------|--------|---------------|
| | | Planning | Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | √ | √ | √ | √ | | √ |
| 2 | Land improvement, implementation of land reforms, land consolidation and soil conservation | Not covered | | | | | |
| 3 | Minor irrigation, water management and watershed development | | | | √ | | √ |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | √ | | √ |
| 5 | Fisheries | √ | | | | | |
| 6 | Social Forestry | √ | | √ | √ | | √ |
| 7 | Minor Forest Produce | Not covered | | | | | |
| 8 | Small Scale Industries | | | | √ | | √ |
| 9 | Khadi, village and Cottage Industries. | √ | | | √ | | √ |
| 10 | Rural Housing | Not covered | | | | | |
| 11 | Drinking Water | | | | √ | | |
| 12 | Fuel and fodder | | √ | | √ | | |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | | | | √ | | √ |
| 14 | Rural Electrification including distribution of electricity. | Not covered | | | | | |
| 15 | Non Conventional energy resources | | | | √ | | |
| 16 | Poverty alleviation programmes | Not covered | | | | | |
| 17 | Education including primary and secondary schools | | | √ | √ | | |
| 18 | Technical training and vocational education | Not covered | | | | | |
| 19 | Adult and non-formal education | Not covered | | | | | |
| 20 | Libraries | Not covered | | | | | √ |
| 21 | Cultural activities | √ | | √ | | | |
| 22 | Markets and fairs | | | | √ | | |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | √ | √ | √ | √ | | √ |
| 24 | Family welfare | | | | √ | | |
| 25 | Women and child development | Not covered | | | | | |

| | | | | | | | |
|----|---|-------------|--|---|---|--|---|
| 26 | Social welfare including welfare of the handicapped and mentally retarded | | | | | | √ |
| 27 | Welfare of the weaker sections and scheduled castes and scheduled tribes | | | | | | √ |
| 28 | Public distribution system | Not covered | | | | | |
| 29 | Maintenance of community assets. | | | √ | √ | | |

The above table would show that the scope of the functional devolution contained in the Activity Mapping is quite detailed and include planning and implementation responsibilities.

There has been a special emphasis on the devolution of powers and responsibilities relating to sports activities to Panchayats. Since 2004-05, the State has provided funds for conducting sports and games with the intention of promoting rural sports, identification of talent and providing basic equipment in the villages. During 2005-06 each GP was provided Rs 50,000.00 and Rs 1 lakh to each Zilla Panchayat . Apart from devolution of funds, functionaries are also devolved to the Sports and Youth Affairs Department. At ZP level Deputy Directors are posted and at GP level Physical Education Teachers and Physical Training Instructors are posted.

Annexure: 2.5: Activity mapping in Assam:

Assam had committed in its Statement of Conclusions that it would undertake a comprehensive Activity Mapping exercise. Following detailed consultations at the highest level in the Government, the State undertook an Activity Mapping exercise dated 25th June 2007. The format used by the State for the Activity Mapping was the same that the Ministry had provided as the fact sheet – therefore the Activity mapping was intended to be comprehensive and covered the devolution of funds and functionaries too. The Activity Mapping undertaken by Assam has been analyzed separately in detail for each level of Panchayat.

Gram Panchayats

| Item in the Eleventh Schedule | | Functions | | | | Funds | Functionaries |
|-------------------------------|--|-----------|-----------------|--------------|------------|-------|---------------|
| Sl. No | Matter | Plan ning | Impleme ntation | Super vision | Promot ion | | |
| 1 | Agriculture, including agricultural extension | √ | √ | √ | √ | X | √ |
| 2 | Land improvement, Implementation of land reforms, land consolidation and soil conservation | √ | √ | √ | √ | X | √ |
| 3 | Minor irrigation, water management and watershed development. | √ | √ | X | √ | X | √ |
| 4 | Animal husbandry, Dairying and poultry | √ | X | √ | √ | √ | √ |
| 5 | Fisheries. | √ | √ | X | √ | X | √ |
| 6 | Social forestry | √ | √ | X | √ | X | √ |
| 7 | Minor Forest Produce | √ | √ | √ | √ | X | √ |
| 8 | Small Scale industry including food processing industry | √ | X | X | X | X | √ |
| 9 | Khadi, village and Cottage Industries. | √ | √ | √ | √ | X | √ |
| 11 | Drinking water | √ | √ | √ | √ | √ | √ |
| 12 | Fuel and Fodder | √ | √ | X | X | X | √ |
| 13 | Roads, culverts, Bridges, Ferries, waterways & other means of communication. | X | √ | √ | X | X | √ |
| 14 | Rural electrification including distribution of electricity | √ | X | √ | X | X | √ |
| 16 | Poverty alleviation programme. | √ | √ | √ | √ | √ | √ |
| 17 | Education including primary and secondary schools | √ | √ | √ | √ | √ | X |
| 19 | Adult and non-formal education. | √ | √ | √ | √ | X | √ |

| | | | | | | | |
|----|--|---|---|---|---|---|---|
| 23 | Health and sanitation, including hospitals, primary health centers and dispensaries. | X | √ | √ | √ | X | √ |
| 24 | Family Welfare | √ | X | X | √ | X | √ |
| 25 | Women and Child development | √ | √ | X | √ | X | √ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded. | √ | √ | X | √ | X | √ |
| 28 | Public distribution system. | √ | √ | √ | √ | X | √ |

[The executive order in respect of all matters excluding Fuel and fodder is reported to be in force since 25-06-2007. In the case of fuel and fodder, the relevant order came into force on 15-02-2007.]

Anchalik Panchayats

| Item in the Eleventh Schedule | | Functions | | | | Funds | Functionaries |
|-------------------------------|--|-----------|-----------------|--------------|------------|-------|---------------|
| Sl. No | Matter | Plan ning | Imple mentation | Super vision | Promot ion | | |
| 1 | Agriculture, including agricultural extension | √ | √ | √ | √ | X | √ |
| 2 | Land improvement, Implementation of land reforms, land consolidation and soil conservation | √ | √ | √ | √ | X | √ |
| 3 | Minor irrigation, water management and watershed development. | √ | √ | √ | √ | X | √ |
| 4 | Animal husbandry, Dairying and poultry | X | √ | √ | √ | √ | √ |
| 5 | Fisheries. | √ | √ | √ | X | X | √ |
| 6 | Social forestry | √ | √ | X | √ | X | √ |
| 7 | Minor Forest Produce | √ | √ | X | X | X | √ |
| 8 | Small Scale industry including food processing industry | √ | √ | X | √ | X | √ |
| 9 | Khadi, village and Cottage Industries. | √ | √ | √ | √ | X | √ |
| 11 | Drinking water | √ | √ | X | √ | √ | √ |
| 12 | Fuel and Fodder | X | X | X | √ | X | √ |
| 13 | Roads, culverts, Bridges, Ferries, waterway & other means of communication. | √ | √ | √ | X | X | √ |
| 14 | Rural electrification including distribution of electricity | X | X | √ | X | X | √ |
| 16 | Poverty alleviation programme. | √ | √ | √ | X | √ | √ |
| 17 | Education including primary and secondary schools | √ | √ | √ | √ | X | √ |
| 19 | Adult and non-formal education. | X | √ | √ | √ | X | √ |
| 23 | Health and sanitation, including hospitals, primary health centers and dispensaries. | √ | X | √ | √ | X | √ |
| 24 | Family Welfare | X | √ | √ | √ | X | √ |
| 25 | Women and Child development | √ | √ | X | √ | X | √ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded. | √ | √ | √ | √ | X | √ |
| 28 | Public distribution system. | X | √ | √ | √ | X | √ |

[The executive order in respect of all matters is reported to be in force since 25-06-2007.]

Zila Paridhad

| Item in the Eleventh Schedule | | Functions | | | | Funds | Functionaries |
|-------------------------------|--|-----------|-----------------|--------------|------------|-------|---------------|
| Sl. No | Matter | Plan ning | Impleme ntation | Super vision | Promot ion | | |
| 1 | Agriculture, including agricultural extension | √ | √ | √ | √ | X | √ |
| 2 | Land improvement, Implementation of land reforms, land consolidation and soil conservation | √ | X | √ | √ | X | √ |
| 3 | Minor irrigation, water management and watershed development. | √ | √ | √ | √ | X | √ |
| 4 | Animal husbandry, Dairying and poultry | √ | √ | √ | √ | √ | √ |
| 5 | Fisheries. | √ | √ | √ | √ | X | √ |
| 6 | Social forestry | √ | √ | X | √ | X | √ |
| 7 | Minor Forest Produce | √ | √ | √ | √ | X | √ |
| 8 | Small Scale industry including food processing industry | √ | √ | X | √ | X | √ |
| 9 | Khadi, village and Cottage Industries. | √ | √ | √ | X | X | √ |
| 11 | Drinking water | X | √ | √ | √ | √ | √ |
| 12 | Fuel and Fodder | √ | √ | X | X | X | √ |
| 13 | Roads, culverts, Bridges, Ferries, waterway & other means of communication. | √ | √ | √ | X | X | √ |
| 14 | Rural electrification including distribution of electricity | X | X | X | √ | X | √ |
| 16 | Poverty alleviation programme. | √ | √ | √ | X | √ | √ |
| 17 | Education including primary and secondary schools | √ | √ | √ | √ | X | √ |
| 19 | Adult and non-formal education. | √ | √ | √ | X | X | √ |
| 23 | Health and sanitation, including hospitals, primary health centers and dispensaries | √ | √ | √ | √ | X | √ |
| 24 | Family Welfare | √ | √ | √ | √ | X | √ |
| 25 | Women and Child development | √ | √ | √ | √ | X | √ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded. | √ | √ | √ | √ | X | √ |
| 28 | Public distribution system. | √ | √ | √ | √ | X | √ |

[The executive order in respect of all matters is reported to be in force since 25-06-2007.]

Salient features of the range of activities devolved:

The extent of Activity Mapping matrix is given in Table below:

(in terms of number of matters listed in 11th Schedule)

| Nature of Devolution / Level of PRI | Functional devolution in one way or other | Planning function devolved | Implementation Function devolved | Supervision function devolved | Promotion Function devolved | Fund devolved | Functionary devolved |
|-------------------------------------|---|----------------------------|----------------------------------|-------------------------------|-----------------------------|---------------|----------------------|
| GP | 21 | 19 | 17 | 11 | 17 | 4 | 20 |
| AP | 21 | 15 | 18 | 15 | 16 | 3 | 21 |
| ZP | 21 | 19 | 19 | 17 | 16 | 3 | 21 |

The salient features of the Activity Mapping are as follows:

(a) Though legislative devolution of functions has been done for 28 matters at one or more level of PRIs, Activity Mapping has been undertaken only for 21 out of 29 matters listed in the 11th Schedule of the Constitution. Sports and Youth affair is an additional matter where Activity Mapping has been carried out. The 8 matters listed in the Eleventh Schedule, which are not covered under Activity Mapping are as follows:

| | | | |
|--------------------------------|-------------------------|---|---------------------------------|
| welfare of the weaker sections | non conventional energy | technical training and vocational education | maintenance of community assets |
| cultural activities | market and fairs | rural housing, | libraries |

(b) At all three level of PRI, the nature of the functions devolved covers planning, implementation and promotion. This indicates that the Activity Mapping is indeed a serious and substantive exercise, as far as functional devolution in concerned.

(c) The strength of the Activity Mapping carried out by Assam is further fortified by the fact that the Activity Mapping clearly covers supervision of the functionaries for almost all the functions devolved. The functionaries are deputed with the PRIs by the State government and their salary is placed with the Panchayats. The Activity Mapping is detailed and covers the writing of CRs and leave sanction authority of the functionaries, which is also vested with the Panchayats. The disciplinary authority of the Panchayats is limited to minor penalties and the major penalty is to be taken by the State against the functionaries devolved.

(d) However, the Activity Mapping falls short of being a really comprehensive one when the range of fiscal devolution covered by it is considered. The Activity Mapping covers the devolution of funds only for 4 matters, namely, animal husbandry, drinking water, poverty alleviation programmes and education including primary and secondary education at the GP level and only for 3 matters, namely, animal husbandry, drinking water and poverty alleviation programmes, in respect of Anchalik Panchayats and Zilla Parishads.

Annexure 2.6: Analysis of Activity Mapping in Haryana:

According to information dated 4-5-2007 the State Government reports that it has undertaken Activity Mapping of detailed legislative assignment of functions in different phases. In February 2006, an Activity Mapping was released by the Chief Minister in the presence of the Union Minister for Panchayati Raj through which activities of 10 departments cover ten matters listed in the Eleventh Schedule namely, Irrigation, Food and Supplies, Education, Public Health Department, Women and Child Development, Social Justice and Empowerment, Health Department, Animal husbandry, Agriculture, and Forest department were assigned. It is reported that for the ten devolved matters, funds have been devolved in respect of nine (except PDS) and functionaries for eight matters (except Primary and Secondary Education and PDS). The letter also mentions an instance of reversal of functions vide notification dated 10-8-2005, functional control of all Government primary Schools in rural areas, which was handed over to the ZPs has reverted to the Education Department of Haryana.

An analysis of the Activity Mapping indicates the following range of activities devolved to Panchayats:

| Sl. No. | Subject | Planning & Implementation | Funds & Functionaries transferred | Promotion / Development | Assistance | Supervision/ Maintenance |
|----------------|---|--------------------------------------|--|--------------------------------|-------------------|---------------------------------|
| 1 | Agriculture including Agricultural extension | √ | √ | | | √ |
| 3 | Minor irrigation, water management and watershed development | | √ | | | √ |
| 4 | Animal husbandry, dairying and poultry | | √ | | √ | √ |
| 6 | Social forestry and farm forestry | | √ | | | √ |
| 11 | Drinking water | √ | √ | | | √ |
| 23 | Health and sanitation, including hospitals, primary health centres and dispensaries | √ | √ | | | √ |
| 24 | Family welfare | | | | | |
| 25 | Women and Child Development | √ | √ | | | √ |
| 26 | Social Welfare, including welfare of handicapped and mentally retarded | √ | √ | | | √ |
| 17 | Primary education | | √ | | | √ |
| 28 | Public distribution system | | | | | √ |

The above table would show that the scope of the functional devolution contained in the Activity Mapping of 12-02-2006 is quite detailed and include planning and implementation responsibilities. Therefore, on the face of it, the Activity Mapping contained in the circular issued in 2006 is relatively much better as compared to other States. This would mean that the focus in Haryana ought to be much more on ensuring whether financial assignments have followed the functional assignments contained in the Activity Mapping.

Meantime a well known NGO, PRIA has conducted a study to track the progress made in disseminating the information at the grassroots on devolution of power. The study involved a survey in 46 villages across 5 districts of Ambala, Mahendragarh, Sonipat, Fatehabad and Sirsa and a FGD with Panchayat Samiti members. Some of the findings are as follows:

| S.No | Matters in the 11 th Schedule | Response |
|------|--|---|
| 1 | Agriculture, including agricultural extension. | 52per cent of the respondents were not aware that the activities of agricultural development officers will be monitored by the Panchayats. |
| 2 | Minor irrigation, water management and watershed development | 82per cent of the respondents were not aware that scheme of minor irrigation is available to Panchayats. |
| 3 | Animal husbandry, dairying, poultry and veterinary services | In respect of Veterinary services 39per cent of the respondents did not know that the Gram Panchayats are empowered to supervise veterinary services centers upto hospitals levels. |
| 4 | Education, including primary and secondary schools | It was told that no action has been taken yet. |
| 5 | Women and Child Development | 11per cent of the respondents were not aware that anganwadi workers supervision, recruitment and identification of beneficiaries are assigned to PRIs. |
| 6 | Social Welfare, including welfare of the handicapped, mentally retarded and old age pension. | 100per cent of the respondents were aware that old age pension is disbursed through the GP. Power has been devolved to all the three tiers of PRIs, but there has been no action taken yet on the delegation of functionaries. |
| 7 | Social forestry | 52per cent of the respondents said that they do not know that village and social forestry schemes are to be supervised by the GPs. |

The PRIA report indicates that there is widespread lack of knowledge about “Activity Mapping” among the PRI members. It appears from the PRIA’s study that Haryana has not taken any concrete steps following the release of Activity Mapping in February, 2006. Therefore it is likely that the Activity Mapping of February 2006 remains a dead letter and is limited to paper.

Annexure 2.7: Activity Mapping in Karnataka:

Karnataka was the first State to undertake Activity Mapping after consideration of the report of the Task Force constituted by the Union Ministry of Rural Development dated August 2001. First, the Working Group on decentralization, constituted by the State Government in June 2001 examined the Activity mapping matrix and made detailed recommendations in its report submitted in February 2002. After its recommendations were considered by the Cabinet, the Activity Mapping Framework was issued as a Government Order in August 2003. Broadly, the Activity Mapping positions the Zilla and Taluk Panchayat as planners, facilitators and owners of common executive machinery, Gram Panchayats as the cutting edge of local service provision and Gram and Ward Sabhas as instruments of downward accountability.

Activity Mapping of Karnataka has been done through a process of compromise, so there is some level of concurrency in devolution of functions. However, there is a conscious effort to operationalise it as also give wide publicity to Activity Mapping. Fiscal devolution on the basis of Activity Mapping is described more fully under the appropriate heading, in this study. The Activity Mapping undertaken by Karnataka has been analyzed separately for each level of Panchayat in the table below:

Gram Panchayat:

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | Funds* | Functionaries** |
|------------------------------------|--|---------------------------|-------------|-----------|--------|--|
| | | Planning & Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | | | √ | | √ |
| 2 | land improvement, implementation of land reforms, land consolidation and soil conservation | | | √ | | Covered under agriculture including extension services |
| 3 | Minor irrigation, water management and watershed development | √ | √ | | √ | √ |
| 4 | Animal Husbandry, dairying and poultry | | √ | √ | √ | √ |
| 5 | Fisheries | √ | | √ | | √ |
| 6 | Social Forestry | √ | | √ | √ | √ |
| 7 | Minor Forest Produce | | | √ | | |
| 8 | Small Scale Industries | | | √ | | |
| 9 | Khadi, village and Cottage Industries. | | | √ | | √ |

| | | | | | | |
|----|---|---|---|---|---|--|
| 10 | Rural Housing | √ | √ | √ | √ | Covered under poverty alleviation |
| 11 | Drinking Water | √ | √ | √ | √ | Covered under PRED Engineering division. |
| 12 | Fuel and fodder | √ | | √ | | |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | √ | √ | √ | | √ |
| 14 | Rural Electrification including distribution of electricity. | √ | | √ | | |
| 15 | Non Conventional energy resources | | √ | √ | √ | √ |
| 16 | Poverty alleviation programmes | | | √ | √ | √ |
| 17 | Education including primary and secondary schools | √ | √ | √ | √ | √ |
| 18 | Technical training and vocational education | | | √ | | |
| 19 | Adult and non-formal education | | √ | √ | | |
| 20 | Libraries | √ | | | √ | |
| 21 | Cultural activities | √ | | √ | √ | √ |
| 22 | Markets and fairs | √ | | √ | | |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | | | √ | | √ |
| 24 | Family welfare | | | | | √ |
| 25 | Women and child development | | | √ | | √ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | | | | | Covered under Welfare of weaker sections & SCs & STs |
| 27 | Welfare of the weaker sections and scheduled castes and scheduled tribes | | | | | √ |
| 28 | Public distribution system | | | √ | | |
| 29 | Maintenance of community assets. | √ | √ | | | |

Taluk Panchayat:

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | Funds | Functionaries |
|------------------------------------|--|---------------------------|-------------|-----------|-------|--------------------------------|
| | | Planning & Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | √ | | √ | √ | √ |
| 2 | land improvement, implementation of land reforms, land consolidation and soil conservation | √ | | | √ | Covered under Minor irrigation |

| | | | | | | |
|----|---|---|---|---|---|---|
| 3 | Minor irrigation, water management and watershed development | √ | | √ | √ | √ |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | √ | √ |
| 5 | Fisheries | √ | √ | √ | | √ |
| 6 | Social Forestry | √ | | √ | | √ |
| 7 | Minor Forest Produce | | | √ | | |
| 8 | Small Scale Industries | | | | √ | √ |
| 9 | Khadi, village and Cottage Industries. | | | √ | | √ |
| 10 | Rural Housing | √ | | | √ | Covered under poverty alleviation |
| 11 | Drinking Water | √ | | √ | √ | Covered under the PRED Engineering |
| 12 | Fuel and fodder | | | √ | | Covered under the Animal husbandry |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | √ | | √ | | √ |
| 14 | Rural Electrification including distribution of electricity. | | | √ | | |
| 15 | Non Conventional energy resources | √ | | √ | | √ |
| 16 | Poverty alleviation programmes | √ | | | √ | √ |
| 17 | Education including primary and secondary schools | √ | | √ | √ | √ |
| 18 | Technical training and vocational education | √ | | √ | √ | |
| 19 | Adult and non-formal education | √ | | | | |
| 20 | Libraries | | | √ | | |
| 21 | Cultural activities | | | √ | | √ |
| 22 | Markets and fairs | √ | | √ | | |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | √ | √ | √ | √ | √ |
| 24 | Family welfare | | | √ | | √ |
| 25 | Women and child development | √ | √ | √ | √ | √ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | | √ | | √ | Covered under welfare of weaker sections, SC & ST |
| 27 | Welfare of the weaker sections and scheduled castes and scheduled tribes | | | | √ | √ |
| 28 | Public distribution system | | | | | |
| 29 | Maintenance of community assets. | | | √ | | |

Zilla Parishad:

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | Funds | Functionaries |
|------------------------------------|--|---------------------------|-------------|-----------|------------------------------------|------------------------------------|
| | | Planning & Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | √ | | √ | √ | √ |
| 2 | land improvement, implementation of land reforms, land consolidation and soil conservation | √ | | | √ | Covered under Minor irrigation |
| 3 | Minor irrigation, water management and watershed development | √ | √ | √ | √ | √ |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | √ | √ |
| 5 | Fisheries | √ | √ | √ | √ | √ |
| 6 | Social Forestry | | √ | √ | | |
| 7 | Minor Forest Produce | √ | √ | √ | √ | √ |
| 8 | Small Scale Industries | √ | | √ | √ | √ |
| 9 | Khadi, village and Cottage Industries. | √ | | √ | √ | √ |
| 10 | Rural Housing | √ | | √ | | |
| 11 | Drinking Water | √ | √ | √ | √ | Coverd under PRED Engineering |
| 12 | Fuel and fodder | | | √ | Covered under the Animal husbandry | Covered under the Animal husbandry |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | √ | | √ | √ | √ |
| 14 | Rural Electrification including distribution of electricity. | | | √ | | |
| 15 | Non Conventional energy resources | √ | | √ | | √ |
| 16 | Poverty alleviation programmes | √ | | √ | √ | √ |
| 17 | Education including primary and secondary schools | √ | | √ | √ | √ |
| 18 | Technical training and vocational education | | | √ | | |
| 19 | Adult and non-formal education | √ | | | √ | |
| 20 | Libraries | | | √ | | |
| 21 | Cultural activities | | | √ | | √ |
| 22 | Markets and fairs | | | √ | √ | |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | √ | | √ | √ | √ |
| 24 | Family welfare | √ | | | √ | √ |

| | | | | | | |
|----|---|---|---|---|---|---|
| 25 | Women and child development | √ | | √ | √ | √ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | √ | | √ | √ | Covered under Welfare of weaker sections, SC & ST |
| 27 | Welfare of the weaker sections and scheduled castes and scheduled tribes | √ | | √ | √ | √ |
| 28 | Public distribution system | | | | | |
| 29 | Maintenance of community assets. | | √ | | | |

Salient features of the range of activities covered in Activity Mapping are as follows:

Activity Mapping for GPs:

An analysis of the Activity Mapping in respect of GPs further strengthens the powers given under the Panchayati Raj Act of the state to GPs. Thus, wherever the Act in Schedule I has indicated that promotional responsibilities are with the Grama Panchayats, the Activity Mapping has gone ahead and entrusted the actual implementation, planning and supervision functions. Examples in this regard are in respect of rural sanitation, housing, minor irrigation tanks and fisheries. Activity Mapping for Grama Panchayats in Karnataka is an example of where Activity Mapping has carried forward the evolutionary process of Panchayati Raj and increased the responsibilities at the GP level by further decentralization. In respect of public distribution system though this was not covered under the Activity Mapping, separate orders were issued in 2005 devolving responsibilities concerning the public distribution system to the Gram Panchayats.

Activity Mapping for Taluk Panchayats:

Activity Mapping in respect of Taluk Panchayats indicates that it has been given major responsibilities in minor irrigation and watershed development, animal husbandry, dairying and poultry, fisheries development, social forestry, khadi and village industries, drinking water, roads, education, health care and health centres, women & child welfare and social welfare. These activities cover activities of planning, implementation and maintenance of facilities and services delivered under these departments. However, it is interesting to note that Activity Mapping for Taluk Panchayats has not covered welfare of the weaker sections and the aspect of

public distribution system. This goes contrary to the actual ground position where it is the Taluk Panchayats that are constructing and maintaining SC/ST hostels in Karnataka.

Activity Mapping for Zilla Parishads:

Activity Mapping for Zilla Parishads reflects the strong commitment to Zilla Centric Panchayati Raj in Karnataka, which has come right from 1987 onwards. Therefore, it is the Zilla Parishad that has been given the planning and consolidation of rural plan responsibilities in almost all matters in the 11th Plan Schedule. The areas of Activity Mapping has been undertaken for ZPs in respect of education, training and vocational education and the public distribution system.

Annexure 2.8: Analysis of Activity Mapping in Orissa:

A detailed note on Activity Mapping, devolution of functions, finances and functionaries in Orissa, which was submitted by the Government of Orissa before the second meeting of the Council of State Ministers of PR held in Bhubaneswar in June, 2006. It may be recalled that an Activity Mapping order was issued by the Government of Orissa during the visit of MoPR to Orissa in October, 2005. It may be noticed that the Activity Mapping undertaken only covers 18 matters listed in the 11th Schedule, whereas in other occasion, the Activity Mapping indicates that 21 matters have been covered. Abstract details of the Activity Mapping undertaken are given in the tables below, separately for each level of Panchayat.

Gram Panchayat

| SL in 11 th Schedule | Matters in 11 th Schedule | Executive Orders | Functions | | | Funds | Functionaries |
|---------------------------------|--|--|---------------------------|-------------|-----------|-----------|---------------|
| | | | Planning & Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005. b) No.i.PS-2/20036 dated 4/07/03 | √ | | √ | Not Given | √ |
| 3 | Minor irrigation, water management and watershed development | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036 dated 4/07/03 | √ | √ | √ | Not Given | √ |
| 4 | Animal Husbandry, dairying and poultry | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005. b) No.i.PS-2/20036 dated 4/07/03 | √ | √ | √ | Not Given | √ |
| 5 | Fisheries | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036 dated 4/07/03 | √ | √ | √ | Not Given | √ |
| 7 | Minor Forest Produce | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036 dated 4/07/03 | √ | | √ | Not Given | √ |

| | | | | | | | |
|----|---|--|---|---|---|-----------|---|
| 10 | Rural Housing | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036 dated 4/07/03 | √ | √ | √ | √* | √ |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036 dated 4/07/03 | √ | √ | √ | √* | √ |
| 15 | Non Conventional energy resources | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036 dated 4/07/03 | √ | √ | | Not Given | √ |
| 16 | Poverty alleviation programmes | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, b) No.i.PS-2/20036886/PS dated 4/07/032005. | √ | | | √* | √ |
| 17 | Education including primary and secondary schools | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, b) No.i.PS-2/20036886/PS dated 4/07/032005. | | | | | √ |
| 19 | Adult and non-formal education | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036 dated 4/07/032005 | | √ | √ | Not Given | √ |
| 22 | Markets and fairs | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036 dated 4/07/032005 | √ | | | Not Given | √ |

| | | | | | | | |
|----|---|--|---|---|---|-----------|---|
| 23 | Health and sanitation including hospitals primary health centres and dispensaries | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005 b) No.i.PS-2/20036 dated 4/07/032005 | √ | | √ | Not Given | √ |
| 24 | Family welfare | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036 dated 4/07/032005 | √ | √ | √ | Not Given | √ |
| 25 | Women and child development | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036 dated 4/07/032005 | √ | | √ | Not Given | |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036 dated 4/07/032005 | √ | | √ | Not Given | |
| 27 | Welfare of the weaker sections and in particular of the scheduled castes and scheduled tribes | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036 dated 4/07/032005 | √ | √ | √ | Not Given | √ |
| 28 | Public distribution system | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036 dated 4/07/032005 | √ | | | Not Given | √ |

Panchayat Samiti

| SN in 11 th Schedule | Matters in 11 th Schedule | Executive Orders | Functions | | | Fund s | Functiona ries |
|---------------------------------|---|--|---------------------------|--------------|------------|-----------|----------------|
| | | | Planning & Implementation | Super vision | Promot ion | | |
| 1 | Agriculture including agriculture extension | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | | | Not Given | √ |
| 3 | Minor irrigation, water management and watershed development | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | Not Given | √ |
| 4 | Animal Husbandry, dairying and poultry | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | √ | Not Given | √ |
| 5 | Fisheries | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | Not Given | √ |
| 7 | Minor Forest Produce | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | | √ | Not Given | √ |
| 10 | Rural Housing | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | | | √* | √ |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | √* | √ |
| 15 | Non Conventional energy resources | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | Not Given | √ |
| 16 | Poverty alleviation programmes | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | √* | √ |
| 17 | Education including primary and secondary schools | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | | √ |

| | | | | | | | |
|----|--|--|---|---|---|-----------|---|
| 19 | Adult and non-formal education | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | | | Not Given | √ |
| 22 | Markets and fairs | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | | | Not Given | √ |
| 23 | Health & sanitation including hospitals primary health centre & dispensaries | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005 b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | √ | | Not Given | √ |
| 24 | Family welfare | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | √ | | Not Given | √ |
| 25 | Women and child development | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | √ | √ | Not Given | |
| 26 | Social welfare including welfare of handicapped & mentally retarded | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005 b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | | √ | Not Given | |
| 27 | Welfare of the weaker sections and in particular of SCs and STs | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | | | Not Given | √ |
| 28 | Public distribution system | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | √ | | Not Given | √ |

Zilla Parishad

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Executive Orders | Functions | | | Fund s | Functiona ries |
|------------------------------------|---|--|---------------------------|--------------|------------|-----------|----------------|
| | | | Planning & Implementation | Super vision | Promot ion | | |
| 1 | Agriculture including agriculture extension | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | Not Given | √ |
| 3 | Minor irrigation, water management and watershed development | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | Not Given | √ |
| 4 | Animal Husbandry, dairying and poultry | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | Not Given | √ |
| 5 | Fisheries | a) No.1-PS-1/05(Pt.ii) 8430 Bhubneswar, the 25 th Octob b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | | √ | Not Given | √ |
| 7 | Minor Forest Produce | a) No.1-PS-1/05(Pt.ii) 8430 Bhubneswar, the 25 th Octob b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | √ | Not Given | √ |
| 10 | Rural Housing | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | √* | √ |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | √ | | √* | √ |
| 15 | Non Conventional energy resources | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/03 | √ | | √ | Not Given | √ |
| 16 | Poverty alleviation programmes | a) No.1-PS-1/05(Pt.ii) 8430 Bhubneswar, the 25 th Octob No.i.PS-2/20036886/PS dated 4/07/032005. | √ | √ | | √* | √ |
| 17 | Education including primary & secondary schools | a) No.1-PS-1/05(Pt.ii) 8430 Bhubneswar, the 25 th Octob No.i.PS-2/20036886/PS dated 4/07/032005. | √ | √ | | | √ |
| 19 | Adult and non-formal education | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. | √ | √ | | Not Given | √ |

| | | | | | | | |
|----|---|--|---|---|---|-----------|---|
| | | b) No.i.PS-2/20036886/PS dated 4/07/032005 | | | | | |
| 22 | Markets and fairs | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | √ | | Not Given | √ |
| 23 | Health and sanitation including hospitals primary health centres and dispensaries | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005 b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | | √ | Not Given | √ |
| 24 | Family welfare | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October, 2005. b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | √ | √ | Not Given | √ |
| 25 | Women and child development | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | √ | √ | Not Given | |
| 26 | Social welfare including welfare of handicapped & mentally retarded | a) No.1-PS-1/05(Pt.ii) 8430 Bhubneswar, the 25 th Octob b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | | | Not Given | |
| 27 | Welfare of the weaker sections and in particular of SCs & STs | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | √ | | Not Given | √ |
| 28 | Public distribution system | a) No.1-PS-1/05(Pt.ii) 8430(8)/PR, Bhubneswar, the 25 th October ,2005 b) No.i.PS-2/20036886/PS dated 4/07/032005 | √ | | | Not Given | √ |

Salient features of the range of activities covered in Activity Mapping are as follows:

The matters of Drinking Water, Welfare of the weaker sections and Maintenance of community assets which are reported to be covered but are not contained in the Activity Mapping that was undertaken in October 2005. In respect of maintenance of community assets, elements of this aspect are contained in the departmental Activity Mapping undertaken. However, more needs to be done as section 49 of the Act directly vests community assets in the GP. There are conflicting reports regarding the devolution of functions in respect of drinking water and this matter requires

further investigation. The Grama Panchayat Act is very clear about the responsibilities of GPs over drinking water, laying down elaborate provisions in this regard in Sections 50 to 54. However, it is given to understand that drinking water assets are still operated by line departments, which are even claiming that 12th Finance Commission grants that Panchayats are to get as an entitlement, should go to the departments instead. In respect of SC/STs and Tribal development, in Scheduled areas, development activities in Orissa are primarily undertaken by separate ITDAs, which give nominal membership to Panchayat representatives, but function independently of the Panchayats.

A perusal of the notification would show that much of the functions given to ZPs and PSs are promotional in nature – they just do not go far enough. For instance, though the Panchayat law gives clear powers to the Panchayat Samitis in respect of control and management of Primary education, substantive activities relating to education, such as appointment and placement of teachers, construction and management of school building, supply of school equipment etc. are not covered under Activity Mapping. Similarly, much of the Activity Mapping in respect of primary sector matters, such as Agriculture etc is set out in very broad terms.

Annexure 2.9: Analysis of Activity Mapping in Tamil Nadu:

In 1996, soon after the conclusion of the first post constitutional amendment elections to the three levels of Panchayats, the Government of Tamil Nadu constituted a Committee under the Chairmanship of Dr. L.C. Jain, the then full-time Member of the State Planning Commission to give recommendations on the entrustment of powers to the three tiers of Panchayats. The Committee submitted its report to the Government in April, 1997. Following the submission of this report, Government Orders for devolution of functions in respect of Rural Development Department, Agriculture, Animal Husbandry, Forests, Social Welfare, Revenue, Khadi and Village Industries, Education, Health and Family Welfare, Adi-Dravidar Welfare, Co-operation, Food and Consumer Protection, were issued assigning certain powers and functions to the three levels of Panchayats as given below:

Gram Panchayat

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | | Funds | Functionaries |
|------------------------------------|--|-----------|----------------|-------------|-----------|-------|---------------|
| | | Planning | Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | √ | | | √ | * | * |
| 2 | Land Improvement, implementation of land reforms, land consolidation | | | | √ | | |
| 3 | Minor irrigation, water management and watershed development | √ | √ | | √ | | √ |
| 4 | Animal Husbandry, dairying and poultry | √ | | √ | √ | | |
| 5 | Fisheries | √ | | | √ | | |
| 6 | Social Forestry and farm forestry | | | | √ | | |
| 7 | Minor Forest Produce | | | | √ | | |
| 8 | Small Scale industries including food processing industry | | | | √ | | |
| 9 | Khadi, village and cottage industry | √ | | | √ | | |
| 10 | Rural Housing | | √ | √ | | | √ |
| 11 | Drinking Water | | | √ | | | √ |
| 12 | Fuel and Fodder | | | | √ | | |

| | | | | | | | |
|----|---|---|---|---|---|--|--|
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | | √ | √ | | | |
| 14 | Rural Electrification including distribution of electricity | | √ | | | | |
| 15 | Non Conventional energy resources | √ | | √ | √ | | |
| 16 | Poverty alleviation programmes | √ | | | | | |
| 17 | Education including primary and secondary schools | | √ | √ | | | |
| 18 | Technical training and vocational education | √ | | | √ | | |
| 19 | Adult and non-formal education | | √ | | √ | | |
| 20 | Libraries | | √ | √ | √ | | |
| 21 | Cultural Activities | | | | √ | | |
| 22 | Markets and fairs | | | √ | | | |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | - | √ | | √ | | |
| 24 | Family welfare | | | | √ | | |
| 25 | Women and child development | | | √ | √ | | |
| 26 | Social welfare including welfare of handicapped and mentally retarded | | | √ | √ | | |
| 27 | Welfare of the weaker sections and SCs & STs | √ | √ | √ | | | |
| 28 | Public distribution system | | | √ | √ | | |
| 29 | Maintenance of Community Assets | | √ | √ | | | |

Panchayat Union Council

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | | Funds | Functionaries |
|------------------------------------|--|-----------|----------------|-------------|-----------|-------|---------------|
| | | Planning | Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | | | | √ | | |
| 2 | Land Improvement, implementation of land reforms, land consolidation | | | √ | | | |
| 3 | Minor irrigation, water management & watershed development | | √ | | | | |

| | | | | | | | |
|----|---|---|---|---|---|--|--|
| 4 | Animal Husbandry, dairying and poultry | | | √ | √ | | |
| 5 | Fisheries | √ | | | √ | | |
| 6 | Social Forestry and farm forestry | | | √ | √ | | |
| 7 | Minor Forest Produce | | | | √ | | |
| 8 | Small Scale industries including food processing industry | | | | √ | | |
| 9 | Khadi, village and cottage industry | √ | | | √ | | |
| 10 | Rural Housing | | | √ | √ | | |
| 11 | Drinking Water | √ | √ | √ | | | |
| 12 | Fuel and Fodder | | | | √ | | |
| 13 | Roads, culverts, bridges, ferries, waterways & other means of communication | | √ | √ | | | |
| 14 | Rural Electrification including distribution of electricity | | √ | | | | |
| 15 | Non Conventional energy resources | √ | | √ | | | |
| 16 | Poverty alleviation programmes | √ | | | | | |
| 17 | Education including primary & secondary schools | | | √ | √ | | |
| 18 | Technical training and vocational education | | | | √ | | |
| 19 | Adult and non-formal education | | √ | √ | √ | | |
| 20 | Libraries | | | √ | √ | | |
| 21 | Cultural Activities | | | | √ | | |
| 22 | Markets and fairs | | | √ | | | |
| 23 | Health & sanitation including hospitals primary health centers & dispensaries | | √ | √ | | | |
| 24 | Family welfare | | √ | √ | √ | | |
| 25 | Women and child development | | √ | | √ | | |
| 26 | Social welfare including welfare of handicapped and mentally retarded | | √ | √ | √ | | |
| 27 | Welfare of the weaker sections and SCs & STs | | | √ | √ | | |
| 28 | Public distribution system | | | √ | √ | | |
| 29 | Maintenance of Community Assets | | | √ | | | |

District Panchayat

| Sl.No in 11 th Schedule | Matters in 11 th Schedule | Functions | | | | Funds | Functionaries |
|------------------------------------|---|-----------|----------------|-------------|-----------|-------|---------------|
| | | Planning | Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | | | | √ | * | * |
| 3 | Minor irrigation, water management and watershed development | | | √ | | | |
| 4 | Animal Husbandry, dairying and poultry | | | √ | √ | | |
| 5 | Fisheries | √ | | √ | √ | | |
| 6 | Social Forestry and farm forestry | | | √ | √ | | |
| 7 | Minor Forest Produce | | | | √ | | |
| 8 | Small Scale industries including food processing industry | √ | | | √ | | |
| 9 | Khadi, village and cottage industry | √ | | | √ | | |
| 10 | Rural Housing | √ | | | √ | | |
| 11 | Drinking Water | √ | | √ | | | |
| 12 | Fuel and Fodder | | | | √ | | |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | √ | | √ | | | |
| 14 | Rural Electrification including distribution of electricity | | | | √ | | |
| 15 | Non Conventional energy resources | √ | | √ | √ | | |
| 16 | Poverty alleviation programmes | | | √ | | | |
| 17 | Education including primary and secondary schools | √ | | √ | | | |
| 18 | Technical training and vocational education | √ | | √ | √ | | |
| 19 | Adult and non-formal education | | | √ | √ | | |
| 20 | Libraries | √ | | √ | √ | | |
| 21 | Cultural Activities | √ | √ | √ | √ | | |
| 22 | Markets and fairs | | | √ | √ | | |
| 23 | Health and sanitation including hospitals primary health centers and dispensaries | √ | | √ | | | |
| 24 | Family welfare | | | √ | | | |

| | | | | | | | |
|----|---|---|--|---|---|--|--|
| 25 | Women and child development | | | √ | √ | | |
| 26 | Social welfare including welfare of handicapped and mentally retarded | | | √ | | | |
| 27 | Welfare of the weaker sections and SCs & STs | √ | | √ | √ | | |
| 28 | Public distribution system | | | √ | | | |
| 29 | Maintenance of Community Assets | | | √ | | | |

Though an analysis of the activity mapping would indicate that they are quite detailed, the actual devolution of substantive functions is limited. The above table would show that the scope of the functional devolution contained in the Activity Mapping is largely limited to planning and promotional responsibilities. It is only in a few instances that the Panchayats have been given the responsibility of implementation.

The abstract of number of matters contained in the 11th Schedule that have been devolved directly through provisions in the law, or through executive orders, is given below. As can be seen in the abstract, out of 29 matters in the 11th Schedule, concrete and definite powers and responsibilities have been devolved in respect of 2 matters to DPs, in 15 matters to PCs and in 13 matters to GPs, through the Tamil Nadu Panchayati Raj Act. These are as follows:

| Sl | Village Panchayats | Intermediate Panchayats | District Panchayats |
|----|--|---|---|
| 1 | Land improvement, implementation of land | Agriculture, including agricultural extension | Roads culvert Bridges Ferries, waterways & other means of communication |
| 2 | Minor irrigation, water management and watershed development | Land improvement, implementation of land | Market & Fairs |
| 3 | Roads, culvert, bridges, ferries, waterways and other means of communication | Minor irrigation, water management and watershed development | |
| 4 | Social Forestry | Small Scale Industries food processing industry | |
| 5 | Rural Housing | Rural Housing | |
| 6 | Drinking Water | Drinking Water | |
| 7 | Rural electrification, including distribution of electricity | Roads culvert Bridges Ferries, waterways and other means of communication | |
| 8 | Adult and nonformal education | Rural Electrification | |
| 9 | Libraries | Education including primary and secondary schools | |
| 10 | Cultural Activities | Technical training and vocational training | |

| SI | Village Panchayats | Intermediate Panchayats | District Panchayats |
|----|---|---|---------------------|
| 11 | Market & Fairs | Adult and non formal education | |
| 12 | Health and Sanitation, including hospitals, primary health centers and dispensaries | Market and fairs | |
| 13 | Maintenance of community assets | Health and sanitation including hospitals, primary health centers and dispensaries | |
| 14 | | Welfare of the weaker sections, and in particular of the Scheduled caste and tribes | |
| 15 | | Maintenance of community assets | |

In respect of the remaining matters, certain powers, largely of planning, supervision and promotion have been given to the Panchayats, through executive orders issued in furtherance of Section 257 read along with Schedule IV of the Act. Details are listed in the Table below:

| SI | Village Panchayats | Intermediate Panchayats | District Panchayats |
|----|--|--|--|
| 1 | Agriculture, including agricultural extension | Animal Husbandry dairy and poultry | Agriculture, including agricultural extension |
| 2 | Animal Husbandry dairy and poultry | Fisheries | Land improvement, implementation of land |
| 3 | Fisheries | Social Forestry | Minor irrigation, water management and watershed development |
| 4 | Minor Forest Produce | Minor Forest Produce | Animal Husbandry dairy and poultry |
| 5 | Small Scale Industries food processing industry | Khadi, village and cottage industry | Fisheries |
| 6 | Khadi, village and cottage industry | Fuel and Fodder | Social Forestry |
| 7 | Fuel and Fodder | Non Conventional Energy Resources | Minor Forest Produce |
| 8 | Family Welfare | Poverty Alleviation Programme | Small Scale Industries food processing industry |
| 9 | Non Conventional Energy Resources | Libraries | Khadi, village and cottage industry |
| 10 | Poverty Alleviation Programme | Cultural Activities | Rural Housing |
| 11 | Education including primary & secondary schools | Family Welfare | Drinking Water |
| 12 | Technical training and vocation education | Women and Child Development | Fuel and Fodder |
| 13 | Women and Child Development | Social Welfare, including hospitals, primary health centers and dispensaries | Rural Electrification |
| 14 | Social Welfare, including hospitals, primary health centers and dispensaries | Public Distribution System | Non Conventional Energy Resources |
| 15 | Welfare of the weaker sections, and in particular of the SC & the ST. | | Poverty Alleviation Programme |
| 16 | Public distribution System | | Education including primary & secondary schools |
| 17 | | | Adult and nonformal education |

| Sl | Village Panchayats | Intermediate Panchayats | District Panchayats |
|----|--------------------|-------------------------|---|
| 18 | | | Technical training and vocational education |
| 19 | | | Libraries |
| 20 | | | Cultural Activities |
| 21 | | | Family Welfare |
| 22 | | | Health and Sanitation, including hospitals, primary health centers and dispensaries |
| 23 | | | Women and Child Development |
| 24 | | | Social Welfare of the including welfare of the handicapped and mentally retarded |
| 25 | | | Welfare of the weaker sections, and in particular, of the SC and ST |
| 26 | | | Public distribution System |
| 27 | | | Maintenance of community assets |

Comments on the pattern of functional devolution through the Tamil Nadu Panchayati Raj legislation and executive orders:

(a) Apart from Section 257, the rest of the Panchayati Raj law is quite precise in its enunciation of the powers given to the Panchayats. The provisions are most detailed in respect of Village Panchayats. The powers of the Panchayats are laid out elaborately and cover mostly civic functions. An important feature of the Tamil Nadu Panchayati Raj Act is that Section 110 and 111 of the Act gives power to the Village Panchayat in respect of roads, culverts, bridges, waterways and other means of communication, rural electrification, health & sanitation, water management, market and fairs.

(b) There is a similar detailed approach to the assignment of functions and powers to the Panchayat Council under the Act. In fact, the Panchayat Council has a wider range of functions as compared with the Village Panchayats.

(c) The powers given in respect of Village Panchayats and Panchayat Council are common under Sections 133, 125(1), 127(2-a,b,c), 128(1,2), 130(c,d), 131(1-c,d,f), 155(1,2,3,4,5) and 188. These pertain to roads, markets and public health matters. In the case of roads and markets, the law provides for a clear assignment of certain of these to Village Panchayats and to Panchayat Unions. Therefore, in respect of these assets, there is a clear framework for asset transfer and Activity Mapping in respect of these assets, as between village Panchayats and Union Councils.

(d) District Panchayat has only been given advisory functions under Section 163,164,165 and 166. In respect of very few matters listed in the Eleventh Schedule, namely, Markets & Fairs, Roads, culvert, bridges, ferries, waterways and other means of communications. The act is one of the weakest in the country when it comes to giving powers and responsibilities to the District Panchayats. Under Section 163, the DP can advise the government on the functioning of Union Councils and Village Panchayats. Though one can generously say that the law gives powers and responsibilities to the District Panchayats in respect of roads and markets, even here, the powers are merely to tender advice on classification. Section 164 merely states out the general powers of the District Panchayat, namely, (a) undertake such measure as it deems necessary, (b) collect such data as it deems necessary, (c) publish statistics or other information relating to various aspects of the regulation or development of the activities of Panchayat union councils and Village Panchayat in the District Panchayat, (d) require any Panchayat union council or Village Panchayat to furnish such information as may be required by it in relation to the measures undertaken by that Panchayat union council or Village Panchayat for the regulation or development of its activities and other matters as may be prescribed. The Activity Mapping undertaken for District Panchayats has not improved the situation in any way. It merely gives powers to plan, supervise and promote, but not to implement. ***In fact the only concrete power of implementation given to the Zilla Parishad is under 'Cultural Activities' – the power to establish district galleries and music schools!***

In conclusion, while it might be said that the Tamil Nadu legislation is a detailed one, certain provisions in it reveal a disquietingly conditional approach to Panchayati Raj. While there seems to be intent on the face of it, to comply with the Panchayati Raj constitutional amendment, at the same time there is an anxiety against making such devolution unequivocal. Section 257 is a manifestation of this dichotomy in approach. Apart from this section, the rest of the legislation is crisp and clear in respect of the functions given to Village Panchayats. However, the law makes it very clear that the District Panchayats have very little to do except advise. Overall, legislative functions on devolution mainly pertain to civic functions and a few public health functions, but give very little scope for Panchayats to do anything else. While it might be concluded that the law has been further enlarged through the enactment of executive orders taking devolution

forward, these orders, since they largely give only planning, supervision and promotional functions (particularly to the District Panchayats) and leave out implementation from the scope of Panchayats (particularly District Panchayats) it needs to be considered whether Tamil Nadu's claim that it has devolved all 29 matters holds any merit.

Annexure 2.10: Analysis of Activity Mapping in Bihar

Government of Bihar has undertaken reasonably good work by issuing executive orders (2001) regarding the devolution of functions, funds and functionaries. A compendium on department wise devolution of functions, funds and functionaries was released in October 2001 by Rural Development Department, Government of Bihar. According to the compendium, out of the 29 matters listed in the Eleventh Schedule, 27 executive orders have been issued in respect of GP, 24 Executive orders have been issued in respect of PS and 23 Executive orders have been issued in respect of ZP. Details of the nature of the activities devolved upon the Panchayats are given in Tables below:

Gram Panchayat

| S N | Matters in 11 th Schedule | Executive Orders | Functions | | | | Fund s | Functio naries |
|--------|---|---|--------------|--------------------|-----------------|---------------|-----------|-------------------|
| | | | Plann ing | Impleme ntation | Super vision | Promot ion | | |
| 1 | Agriculture including agriculture extension | Letter4/file/meeting-12/2001/3301 (Secretary)/ agriculture, dated 25-9-2001 | √ | | √ | √ | √ | √ |
| 2 | Land improvement, implementation of land reforms, lands consolidation and soil conservation | Letter 8/land deve-panchayat-22/2001-632 | √ | √ | √ | √ | | √ |
| 3 | Minor irrigation water management and watershed development | B-1-6/96/14-2 (30.10.1996) B-1-5/93/14-2 (2.5.1998) | √ | √ | √ | √ | √ | √ |
| 4 | Animal Husbandry, dairying and poultry | 189-F-2/96/35/93 (12.12.1996) | | | | √ | | |
| | | 5M(1)304/2001/PP/5697 | | √ | | | | √ |
| 5 | Fisheries | 5M(1)304/2001/PP/5697, Dated 25-9-2001 | | √ | | | | √ |
| 6 | Social Forestry & Farm Forestry | MS/10/2001-3087, Dated 26-9-2001 | | √ | √ | √ | | √ |
| 7 | Minor Forest Produce | MS/10/2001-3087, Dated 26-9-2001 | √ | √ | | | | √ |
| 8 | Small scale industries including food processing industries | Letter No. 3529, Dated 24-9-2001 | | √ | | √ | √ | |
| 9 | Khadi, village and cottage industries | Letter No. 3529, Dated 24-9-2001 | | √ | | | √ | |
| 10 | Rural Housing | Letter 8/land deve-panchayat-22/2001-632 | √ | √ | | | | |
| 11 | Drinking water | 6/V1-102/2001-1169, Dated 24-9-2001 | √ | √ | | √ | √ | √ |

| | | | | | | | | |
|----|--|---|---|---|---|---|---|---|
| 12 | Fuel and fodder | MS/10/2001-3087, Dated 26-9-2001 | √ | | | √ | | |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | Letter 8/land deve-panchayat-22/2001-632 | √ | √ | | | | |
| 14 | Rural electrification including distribution of electricity | Letter No. 3073, Dated 25-9-2001. | | | | √ | | √ |
| 15 | Non conventional energy sources | Letter No. 3073, Dated 25-9-2001. | √ | | | √ | | |
| 16 | Poverty alleviation programme | Gra. V3-1/2001/7197, Dated 30-7-2001 | √ | √ | √ | √ | | |
| 17 | Education including primary and secondary schools | No.8/B3-431/95/1662, Dated 24-9-2001 | √ | √ | √ | √ | | √ |
| 18 | Technical training and vocational Education | | | | | | | |
| 19 | Adult and Non formal education | Letter No.-13/S1-1/2001/2383, Dated 26-9-2001 | | | √ | √ | | |
| 20 | Libraries | Letter11/V54/2001/986 /S, Dated 25-9-2001 | √ | √ | √ | √ | | |
| 21 | Cultural activities | No.19/B2-11/200/669, Dated 25-9-2001 | | | √ | √ | | |
| 22 | Markets and Fairs | | | | | | | |
| 23 | Health and sanitation including hospitals, primary health centers and dispensaries | No.45(18), dated 26-9-2001 | √ | | √ | √ | √ | √ |
| 24 | Family welfare | No.45(18), dated 26-9-2001 | √ | | √ | √ | | √ |
| 25 | Women and child development | No.19/B2-11/200/669, Dated 25-9-2001 | | | | √ | | |
| | | Letter No.9/ICDS-12/2001, dated 25-9-2001 | √ | | | √ | | √ |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | Letter No.9/ICDS-12/2001, dated 25-9-2001 | √ | √ | | √ | | |
| 27 | Welfare of the weaker sections and in particular of the Scand ST | Letter No 1/AJ-101/2001/3721, Dated 24-9-2001 | √ | | √ | | √ | √ |
| | | Letter No 5/SCA-46/2001/3722 | √ | | | | | |
| 28 | Public Distribution System | No.P-6/77/2001/4124, Dated 26-9-2001 | | √ | √ | | | |
| 29 | Maintenance of Community Assets | Letter 8/land deve-panchayat-22/2001-632 | | | √ | | | |

Panchayat Samit

| SI N | Matters in 11 th Schedule | Executive Orders | Functions | | | | Fund s | Functionaries |
|------|---|--|-----------|-----------------|--------------|------------|--------|---------------|
| | | | Plann ing | Impleme ntation | Super vision | Promot ion | | |
| 1 | Agriculture including agriculture extension | Letter-4/file/meeting-12/2001/3301 (Secretary)/ agriculture, dated 25-9-2001 | | | √ | √ | √ | √ |
| 2 | Land improvement, implementation of land reforms, lands consolidation and soil conservation | Letter 8/land deve-panchayat-22/2001-632 | √ | √ | √ | √ | | |
| 3 | Minor irrigation, water management and watershed development | Letter 8/land deve-panchayat-22/2001-632 | √ | √ | √ | √ | | √ |
| 4 | Animal Husbandry, dairying and poultry | 5M(1)304/2001/PP/5697, Dated 25-9-2001 | | √ | √ | √ | | √ |
| 5 | Fisheries | | | | | | | |
| 6 | Social Forestry & Farm Forestry | MS/10/2001-3087, Dated 26-9-2001 | √ | √ | √ | √ | | √ |
| 7 | Minor Forest Produce | MS/10/2001-3087, Dated 26-9-2001 | √ | | | | √ | √ |
| 8 | Small scale industries including food processing industries | Letter No. 3529, Dated 24-9-2001 | | | | √ | √ | √ |
| 9 | Khadi, village and cottage industries | Letter No. 3529, Dated 24-9-2001 | | | √ | √ | √ | √ |
| 10 | Rural Housing | | | | | | | |
| 11 | Drinking water | 6/V1-102/2001-1169, Dated 24-9-2001 | | | √ | √ | √ | √ |
| 12 | Fuel and fodder | MS/10/2001-3087, Dated 26-9-2001 | √ | | | √ | | |
| 13 | Roads, culverts, bridges, ferries, waterways & other means of communication | | | | | | | |
| 14 | Rural electrification including distribution of electricity | Letter No. 3073, Dated 25-9-2001. | √ | | | √ | | √ |
| 15 | Non conventional energy sources | Letter No. 3073, Dated 25-9-2001. | √ | | | √ | | √ |
| 16 | Poverty alleviation programme | Gra. V3-1/2001/7197, Dated 30-7-2001 | √ | √ | √ | √ | | |
| 17 | Education including primary and secondary schools | Letter11/V-54/2001/986/S, Dated 25-9-2001 | | | | √ | | |
| | | No.8/B3-431/95/1662, Dated 24-9-2001 | √ | √ | √ | √ | | √ |
| 18 | Technical training and vocational Education | | | | | | | |

| | | | | | | | | |
|----|--|---|---|---|---|---|---|---|
| 19 | Adult and Non formal education | Letter No.-13/S1-1/2001/2383, Dated 26-9-2001 | | | √ | √ | | |
| 20 | Libraries | Letter 11/V-54/2001/986/S, Dated 25-9-2001 | √ | √ | √ | √ | | √ |
| 21 | Cultural activities | No.19/B2-11/200/669, Dated 25-9-2001 | | | √ | √ | | |
| 22 | Markets and Fairs | No.45(18), dated 26-9-2001 | | | √ | √ | | |
| 23 | Health and sanitation including hospitals, primary health centers and dispensaries | No.45(18), dated 26-9-2001 | | | √ | √ | √ | √ |
| 24 | Family welfare | No.45(18), dated 26-9-2001 | √ | | √ | √ | | √ |
| 25 | Women and child development | No.19/B2-11/200/669, Dated 25-9-2001 | | | | √ | | |
| | | No.9/ICDS-12/2001, dated 25-9-2001 | √ | √ | | √ | | |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | Letter No 1/AJ-101/2001/3721, Dated 24-9-2001 | | | | √ | √ | √ |
| 27 | Welfare of the weaker sections and in particular of the SC and the ST | Letter No 1/AJ-101/2001/3721, Dated 24-9-2001 | √ | | | √ | √ | √ |
| | | Letter No 5/SCA-46/2001/3722 | √ | | √ | √ | | |
| 28 | Public Distribution System | No.P-6/77/2001/4124, Dated 26-9-2001 | | √ | | √ | | √ |
| 29 | Maintenance of Community Assets | | | | | | | |

Zila Parishad

| SI N | Matters in 11 th Schedule | Executive Orders | Functions | | | | Fund s | Functionaries |
|------|--|--|-----------|-----------------|--------------|------------|--------|---------------|
| | | | Plann ing | Impleme ntation | Super vision | Promot ion | | |
| 1 | Agriculture including agriculture extension | Letter-4/file/meeting-12/2001/3301 (Secretary)/ agriculture, dated 25-9-2001 | √ | | √ | √ | √ | √ |
| 2 | Land improvement implementation of land reforms, lands consolidation and soil conservation | | | | | | | |
| 3 | Minor irrigation, water management and watershed development | Letter 8/land deve-panchayat-22/2001-632 | √ | √ | √ | √ | √ | √ |
| 4 | Animal Husbandry, dairying and poultry | 5M(1)304/2001/PP/5697, Dated 25-9-2001 | | √ | | √ | | √ |

| | | | | | | | | |
|----|---|---|---|---|---|---|---|---|
| 5 | Fisheries | 5M(1)304/2001/PP/569 7, Dated 25-9-2001 | | √ | | √ | | √ |
| 6 | Social Forestry & Farm Forestry | MS/10/2001-3087, Dated 26-9-2001 | √ | √ | | √ | | √ |
| 7 | Minor Forest Produce | MS/10/2001-3087, Dated 26-9-2001 | √ | √ | | | | √ |
| 8 | Small scale industries including food processing industries | Letter No. 3529, Dated 24-9-2001 | √ | √ | | √ | √ | √ |
| 9 | Khadi, village and cottage industries | Letter No. 3529, Dated 24-9-2001 | | | √ | √ | √ | √ |
| 10 | Rural Housing | | | | | | | |
| 11 | Drinking water | 6/V1-102/2001-1169, Dated 24-9-2001 | | √ | √ | √ | √ | √ |
| 12 | Fuel and fodder | MS/10/2001-3087, Dated 26-9-2001 | √ | √ | | √ | | |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | | | | | | | |
| 14 | Rural electrification including distribution of electricity | Letter No. 3073, Dated 25-9-2001. | √ | | | √ | | √ |
| 15 | Non conventional energy sources | Letter No. 3073, Dated 25-9-2001. | √ | | | √ | | √ |
| 16 | Poverty alleviation programme | Gra. V3-1/2001/7197, Dated 30-7-2001 | √ | √ | √ | √ | | |
| 17 | Education including primary and secondary schools | Letter11/V- 54/2001/986/S, Dated 25-9-2001 | √ | √ | √ | √ | | |
| | | No.8/B3-431/95/1662, Dated 24-9-2001 | √ | √ | √ | √ | | √ |
| 18 | Technical training and vocational Education | | | | | | | |
| 19 | Adult and Non formal education | Letter No.-13/S1- 1/2001/2383, Dated 26- 9-2001 | | | √ | √ | | |
| 20 | Libraries | Letter11/V- 54/2001/986/S, Dated 25-9-2001 | √ | √ | √ | √ | | √ |
| 21 | Cultural activities | No.19/B2-11/200/669, Dated 25-9-2001 | √ | | | √ | | |
| 22 | Markets and Fairs | | | | | | | |
| 23 | Health and sanitation including hospitals, primary health centers and dispensaries | No.45(18), dated 26-9- 2001 | | | √ | √ | | √ |
| 24 | Family welfare | No.45(18), dated 26-9- 2001 | | | √ | √ | | √ |
| 25 | Women and child development | No.19/B2-11/200/669, Dated 25-9-2001 | | | | √ | | |
| | | No.9/ICDS-12/2001, dated 25-9-2001 | | | √ | √ | | √ |

| | | | | | | | | |
|----|---|---|--|---|---|---|--|---|
| 26 | Social welfare including welfare of the handicapped and mentally retarded | Letter No 1/AJ-101/2001/3721, Dated 24-9-2001 | | | √ | √ | | √ |
| 27 | Welfare of the weaker sections and in particular of the SC and the ST | Letter No 1/AJ-101/2001/3721, Dated 24-9-2001 | | | √ | √ | | √ |
| 28 | Public Distribution System | No.P-6/77/2001/4124, Dated 26-9-2001 | | √ | √ | | | √ |
| 29 | Maintenance of Community Assets | | | | | | | |

Salient features of the range of activities devolved through Executive Orders:

The extent of devolution of functions to the Panchayats through the executive orders that together comprise the Activity Mapping undertaken, is given in the Table below:

(in terms of number of matters listed in 11th Schedule)

| Nature of Devolution | Functional devolution in one way or other | Planning function devolved | Implementation Function devolved | Supervision function devolved | Promotion Function devolved | Fund devolved | Functionary devolved |
|----------------------|---|----------------------------|----------------------------------|-------------------------------|-----------------------------|---------------|----------------------|
| GP | 27 | 17 | 15 | 14 | 20 | 7 | 14 |
| PS | 24 | 13 | 9 | 16 | 23 | 8 | 17 |
| ZP | 23 | 12 | 12 | 15 | 22 | 5 | 19 |

The matters that are not devolved to the Panchayats by the Executive Orders at the respective levels are listed in the Table below:

| Gram Panchayat | Panchayat Samiti | Zilla Panchayat |
|--|--|--|
| Technical training and vocational education. | Technical training and vocational education. | Technical training and vocational education. |
| Markets and Fairs. | | Markets and Fairs. |
| | Fisheries | |
| | Rural Housing | Rural Housing |
| | Roads, culverts, bridges, ferries, waterways & other means of communication. | Roads, culverts, bridges, ferries, waterways and other means of communication. |
| | Maintenance of community assets | Maintenance of community assets |
| | | Land improvement, implementation of land reforms, land consolidation and soil conservation |

The above analysis shows that Executive orders have been issued in respect of 28 matters, except Technical training and vocational education. It also shows that the devolution through the Act has been complemented by Executive Orders, which comprises the Activity Mapping that is in force. The State has been informing that it is undertaking a process of revising the Activity Mapping. However, no further information on whether this process has been completed has so far been received.

Annexure 2.11: Analysis of Activity Mapping in Himachal Pradesh:

The State has reported that (dated 31.7.1996) it has undertaken devolution of functions and responsibilities pertaining to 26 matters listed in Eleventh Schedule of the Constitution. These activities relate to 15 departments, namely, Agriculture, Animal Husbandry, Ayurveda, Education, Food & Supplies, Forest, Health and Family Welfare, Horticulture, Industries, Irrigation & Public Health, Public Works, Revenue, Rural Development and Social & Women Welfare. The main features of the Activity Mapping undertaken are as follows:

- (a) Activity Mapping does not cover the devolution of funds and functionaries. The State has informed that transfer of funds and functionaries would be done after the finalization of a fresh Activity Mapping exercise.
- (b) The activities devolved through Activity Mapping mainly pertain to planning, implementation, supervision and promotion. An analysis of all three tiers of Panchayat indicates the following range of activities devolved to Panchayats:

Gram Panchayat:

| Sl No. | Matters in 11 th Schedule | Functions | | | | Fund s | Functio naries |
|--------|---|-------------|-----------------|--------------|------------|--------|----------------|
| | | Plannin g | Impleme ntation | Super vision | Promo tion | | |
| 1 | Agriculture including agriculture extension | √ | √ | √ | √ | | |
| 2 | Land improvement, implementation of land reforms, lands consolidation and soil conservation | | √ | √ | √ | | |
| 3 | Minor irrigation, water management and watershed development | √ | | √ | √ | | |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | √ | | |
| 5 | Fisheries | √ | √ | √ | √ | | |
| 6 | Social Forestry & Farm Forestry | √ | √ | √ | √ | | |
| 7 | Minor Forest Produce | | | √ | | | |
| 8 | Small scale industries including food processing industries | √ | | √ | √ | | |
| 9 | Khadi, village and cottage industries | √ | | √ | √ | | |
| 10 | Rural Housing | √ | | | | | |
| 11 | Drinking water | √ | √ | √ | | | |
| 12 | Fuel & Fodder | Not covered | | | | | |
| 13 | Roads, culverts, bridges, ferries, waterways & other means of communication | √ | √ | √ | | | |
| 14 | Rural electrification including distribution of electricity | Not Covered | | | | | |

| | | | | | | | |
|----|---|-------------|---|---|---|--|--|
| 15 | Non Conventional energy resources | √ | | | | | |
| 16 | Poverty alleviation programmes | √ | √ | √ | √ | | |
| 17 | Education including primary and secondary schools | √ | √ | √ | √ | | |
| 18 | Technical training and vocational education | | √ | | | | |
| 19 | Adult and non-formal education | Not Covered | | | | | |
| 20 | Libraries | Not Covered | | | | | |
| 21 | Cultural activities | Not Covered | | | | | |
| 22 | Markets and fairs | | √ | √ | | | |
| 23 | Health and sanitation including hospitals primary health centres and dispensaries | | √ | √ | √ | | |
| 24 | Family welfare | | √ | | √ | | |
| 25 | Women and child development | √ | | | √ | | |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | √ | | | √ | | |
| 27 | Welfare of the weaker sections and in particular of the scheduled castes and scheduled tribes | √ | √ | | √ | | |
| 28 | Public distribution system | √ | √ | √ | √ | | |
| 29 | Maintenance of community assets | | √ | √ | √ | | |

Panchayat Samiti:

| SI No. | Matters in 11 th Schedule | Functions | | | | Fund s | Functionari es |
|--------|---|-------------|-----------------|--------------|------------|--------|----------------|
| | | Planning | Implement ation | Supervis ion | Promotio n | | |
| 1 | Agriculture including agriculture extension | √ | | √ | √ | | |
| 2 | Land improvement, implementation of land reforms, lands consolidation and soil conservation | | √ | √ | √ | | |
| 3 | Minor irrigation, water management and watershed development | √ | | √ | | | |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | √ | | |
| 5 | Fisheries | √ | √ | | √ | | |
| 6 | Social Forestry & Farm Forestry | √ | √ | √ | | | |
| 7 | Minor Forest Produce | | | √ | | | |
| 8 | Small scale industries including food processing industries | √ | | √ | √ | | |
| 9 | Khadi, village and cottage industries | √ | | √ | √ | | |
| 10 | Rural Housing | | | √ | | | |
| 11 | Drinking water | √ | | √ | | | |
| 12 | Fuel & Fodder | Not covered | | | | | |

| | | | | | | | |
|----|---|-------------|---|---|---|--|--|
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | √ | √ | √ | | | |
| 14 | Rural electrification including distribution of electricity | Not Covered | | | | | |
| 15 | Non Conventional energy resources | | √ | √ | | | |
| 16 | Poverty alleviation programmes | | √ | √ | | | |
| 17 | Education including primary and secondary schools | √ | √ | √ | | | |
| 18 | Technical training and vocational education | Not Covered | | | | | |
| 19 | Adult and non-formal education | Not Covered | | | | | |
| 20 | Libraries | Not Covered | | | | | |
| 21 | Cultural activities | Not Covered | | | | | |
| 22 | Markets and fairs | | √ | √ | | | |
| 23 | Health and sanitation including hospitals primary health centres and dispensaries | | √ | √ | √ | | |
| 24 | Family welfare | | √ | | | | |
| 25 | Women and child development | | √ | √ | √ | | |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | √ | | | √ | | |
| 27 | Welfare of the weaker sections and in particular of SCs & STs | √ | √ | √ | √ | | |
| 28 | Public distribution system | √ | | √ | √ | | |
| 29 | Maintenance of community assets | | √ | √ | | | |

Zila Parishad:

| SI No. | Matters in 11 th Schedule | Functions | | | | Funds | Functionaries |
|--------|---|-----------|----------------|-------------|-----------|-------|---------------|
| | | Planning | Implementation | Supervision | Promotion | | |
| 1 | Agriculture including agriculture extension | √ | | √ | √ | | |
| 2 | Land improvement, implementation of land reforms, lands consolidation and soil conservation | | √ | √ | √ | | |
| 3 | Minor irrigation, water management and watershed development | √ | | √ | √ | | |
| 4 | Animal Husbandry, dairying and poultry | √ | √ | √ | | | |
| 5 | Fisheries | | √ | √ | √ | | |
| 6 | Social Forestry & Farm Forestry | √ | | √ | √ | | |
| 7 | Minor Forest Produce | | | | √ | | |

| | | | | | | | |
|----|--|---------------------|---|---|---|--|--|
| 8 | Small scale industries including food processing industries | √ | | √ | √ | | |
| 9 | Khadi, village and cottage industries | √ | | √ | √ | | |
| 10 | Rural Housing | Not Covered | | | | | |
| 11 | Drinking water | √ | | √ | | | |
| 12 | Fuel & Fodder | | √ | | | | |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | √ | √ | √ | | | |
| 14 | Rural electrification including distribution of electricity | Not Covered | | | | | |
| 15 | Non Conventional energy resources | √ | | √ | | | |
| 16 | Poverty alleviation programmes | | √ | √ | √ | | |
| 17 | Education including primary and secondary schools | | | √ | √ | | |
| 18 | Technical training and vocational education | Not Covered | | | | | |
| 19 | Adult and non-formal education | Not Covered | | | | | |
| 20 | Libraries | Not Covered | | | | | |
| 21 | Cultural activities | No Details provided | | | | | |
| 22 | Markets and fairs | Not Covered | | | | | |
| 23 | Health and sanitation including hospitals primary health centre & dispensaries | | √ | √ | √ | | |
| 24 | Family welfare | √ | | | | | |
| 25 | Women and child development | | | √ | | | |
| 26 | Social welfare including welfare of the handicapped and mentally retarded | √ | √ | √ | √ | | |
| 27 | Welfare of the weaker sections and in particular of the SCs & STs | √ | √ | √ | √ | | |
| 28 | Public distribution system | | | √ | √ | | |
| 29 | Maintenance of community assets | | | | √ | | |

The above analysis indicates that of 29 matters listed in the 11th Schedule, functions have been devolved through Activity Mapping for 26 matters. There is some variance between the matters devolved under the law and the Activity Mapping undertaken, as follows:

In the case of the following 6 items, Activity Mapping has been undertaken even though the matter has not been devolved to Panchayats under the Act:

- (a) Minor Irrigation,
- (b) Water management and Watershed development
- (c) Minor Forest produce
- (d) Non conventional energy sources
- (e) Technical Training and Vocational Education
- (f) Public Distribution System

In respect of the following 2 items, even though the matter has been devolved under the Act, Activity Mapping has not been undertaken:

- (a) Rural electrification
- (b) Adult and non-formal education

In respect of Libraries, neither is the matter covered under the Act nor has Activity Mapping been undertaken.

The Activity Mapping of Himachal Pradesh needs to be revisited, in the light of contemporary experience. While the State has undertaken to revisit its Activity Mapping, matters are proceeding very slowly. The State will also need to re-work its approach to devolution of funds and functionaries in the process of finalizing its Activity Mapping. The state also should start undertaking budgetary analysis of the line items in the budget that are to be transferred to the Panchayats in consonance with the provisions of the State Legislation and the Activity Mapping undertaken.

Annexure 2.12: Analysis of Activity Mapping in Rajasthan:

According to information furnished by the State Government reports that it has undertaken Activity Mapping of the above detailed legislative assignment of functions through executive orders as detailed below:

| Sl. No. | Subject | Executive Order |
|---------|--|--|
| 1. | Agriculture, Including Agricultural Extension | C.S. Order F.4 (66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.14 (27)Agr-I/96 Part- III Dated 30.6.2003 |
| 2. | Land Improvement, implementation of land reforms | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.14 (27)Agr-I/96 Part- III Dated 30.6.2003 |
| 3. | Minor irrigation, water management and watershed development | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.5 (8)Irri/2002 Dated 30.6.2003 |
| 4. | Animal Husbandry dairy and poultry | Deptt. Order F.7(1)AH/2002 Dated 7.4.2001 |
| 5. | Fisheries | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.7 (21) AH/ 2001 dated 27.6.2003 |
| 6. | Social Forestry and Farm Forestry | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.15 (35) Forest /97 dated 17.7.2003 & F. 7 (39) Forest /9 dated 20.6.2000 (Reg. S. No. 5 of GP) |
| 7. | Minor Forest Produce | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.15 (35) Forest /97 dated 17.7.2003 |
| 8. | Small Scale industries, including food processing inds | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F. 21 (6) Industries/1/2003 dated 5.7.2003 |
| 9. | Khadi ,Village and cottage Industry | Deptt. Order dated 7.2.2001 |
| 10. | Rural Housing | Since 1974 (indicated in the fact sheet) |
| 11. | Drinking water | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order PHED/Engg/Secty/2K/56 dated 5.6.2000 & F.1(7)PHED/AA/Moni/PR2002-03/ 455 dated 26.6.2003 |
| 12. | Fuel and fodder | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.15(35) Forest/97 dated 17.7.2003 |
| 13. | Roads ,culvert ,bridges, ferries, waterways and other means of communication | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.88/P&M/-II/VR/03/D-1895 dated 26.6.2003 F.88/P&M/-II/VR/03/D-1894 dated 26.6.2003 F.88/P&M/-II/VR/03/D-1896 dated 26.6.2003 (Kept in Abeyance, as reported in the fact sheet.) |
| 14. | Rural electrification, including distribution of electricity | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.(20) Energy/2001 dated 26.6.2003 |
| 15. | Non Conventional Sources | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.(20) Energy/2001 dated 26.6.2003 |
| 16. | Poverty Alleviation Programme | Already with PRIs |
| 17. | Primary Education | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F. 2(5) Education-1/trg2003 dated 30.6.2003 |
| 18. | Technical training and vocational education | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.1 (18) Technical Edu/2002 dated 28.6.2003 |
| 19. | Adult and Non formal Education | Not operational |
| 20. | Libraries | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order |

| | | |
|-----|---|--|
| | | F.139/Legal/PR/Library/2003/1261 dated 27.6.2003 |
| 21. | Cultural Activities | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F. 14 (1) Tourism/2003 dated 5.7.2003 |
| 22. | Markets and Fairs | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.14(7)Ka-2/2003 dated 12.7.2003 |
| 23. | Health and sanitation, including hospitals, primary health centers and dispensaries | Deptt. Order F.16 (08) M&H/ dated 1.5.2000 |
| 24. | Family Welfare | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.2(107)SCP/SWD/99/1-8 and 17-24 dated 3.1.2000 |
| 25. | Women and Child Development | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.11(3)33/W&C/2000/76297 dated 30.6.2003 |
| 26. | Social Welfare, including welfare of the handicapped and mentally retarded | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.1/Estt./SWD/03/47128 dated 28.6.2003 |
| 27. | Welfare of the weaker sections, in particular ,of the SCs & STs | C.S. Order F.4(66) PR/PC/2002/565 dated 19-6-03 & Deptt. Order F.1/Estt./SWD/03/47128 dated 28.6.2003 |
| 28. | Maintenance of Community assets | Already with PRIs. |

The features of the executive order through which Activity Mapping is supposed to have been undertaken are as follows:

- (a) Executive Orders for Activity Mapping touches all matters except Adult and non-formal education. In respect of Rural Housing, Poverty alleviation and Maintenance of community assets, it is reported that these activities are already vested in the Panchayats.
- (b) It may be noted that the State Government has also kept the executive order on Activity Mapping in respect of Roads, culverts, bridges, ferries, waterways and other means of communication in abeyance. This is an example of the State using its powers to diminish the devolution of functions to Panchayats through executive orders.

An analysis of the Activity Mapping executive orders indicates the following range of activities devolved to Panchayats:

| Sl. No. | Subject | Planning & Implementation | Funds & Functionaries transferred | Promotion / Development | Assistance | Supervision/ Maintenance |
|---------|---|---------------------------|-----------------------------------|-------------------------|------------|--------------------------|
| 1 | Agriculture including Agricultural extension | √ | √ | | | √ |
| 2 | Land improvement, implementation of land reforms, land consolidation and soil conservation. | √ | √ | | | |
| 3 | Minor irrigation, water management and watershed development | √ | √ | | | |

| | | | | | | |
|----|---|---|---|---|--|-----------------------------|
| 4 | Animal husbandry, dairying and poultry | √ | √ | | | √ |
| 5 | Fisheries | √ | √ | | | |
| 6 | Social forestry and farm forestry | √ | √ | √ | | |
| 7 | Minor forest produce | √ | √ | √ | | |
| 8 | Small scale industries | √ | | | | |
| 9 | Khadi, Village and cottage industries | | | | | |
| 10 | Rural Housing | | | | | |
| 11 | Drinking water | √ | √ | | | |
| 12 | Fuel and fodder | √ | √ | √ | | √ |
| 13 | Roads, culverts, bridges, ferries, waterways and other means of communication | | √ | | | √ |
| 14 | Rural electrification | √ (select villages for electrification as per number decided at state level) | | | | |
| 15 | Non conventional energy | √ | | | | |
| 16 | Poverty alleviation | | | | | |
| 17 | Primary education | √ | √ | | | √ |
| 18 | Technical training and vocational education | √ | | | | √ |
| 19 | Adult non formal education | | | | | |
| 20 | Libraries | | | | | √ (Given in broad terms) |
| 21 | Cultural Activities | √ | | √ | | |
| 22 | Markets and fairs | √ | √ | | | √ |
| 23 | Health and sanitation, including hospitals, primary health centres & dispensaries | | | | | √ |
| 24 | Family welfare | | | | | √ |
| 25 | Women and Child Development | √ | √ | | | √ |
| 26 | Social Welfare, including welfare of the handicapped and mentally retarded | √ | | | | |
| 27 | Welfare of the weaker sections and in particular, of the SCs and STs. | √ | | | | |
| 28 | Public distribution system | √ | √ | | | √ |
| 29 | Maintenance of community assets | √ | √ | | | √ |

The above table would show that the scope of the functional devolution contained in the Activity Mapping executive orders is quite detailed. Most of these powers have been given to the ZPs and Panchayat Samitis. In respect of a few items, such as Libraries, family welfare etc, it may be noted that the functions given to GPs, PSs and ZPs are stated out in very broad terms and are open ended. No clear cut demarcation of activities assigned to Panchayats has been specified.

Therefore, on the face of it, the Activity Mapping contained in the circulars issued in 2003 is relatively much better as compared to other States. This would mean that the focus in Rajasthan ought to be much more on ensuring whether financial assignments have followed the functional assignments contained in these executive orders. There is however, one matter of concern. It has been reported by NGOs and Panchayat representatives from Rajasthan that that several of the Activity Mapping orders issued by the Government above have been withdrawn in 2004. For instance, it is reported that the government has withdrawn the powers devolved to Panchayats in respect of education. However, these matters have not yet been reported by the Government through the fact sheet except in the case of Roads and culverts, where it is reported that the executive orders on Activity Mapping have been kept in abeyance.

The next steps would be as follows:

- (a) To ascertain the latest position in respect of the clearance by Rajasthan of the new Activity Mapping that has been suggested by a Cabinet sub-Committee in the State.
- (b) Pending the above, to follow up to find out greater details of how these activities that were assigned in 2003 are being implemented today by the Panchayats,
- (c) To expedite the budgetary analysis so as to provide us greater details on fiscal devolution.

Based on the above analysis, it can be suggested that Govt. of Rajasthan must go beyond giving Panchayats nominal powers and actually engage them in the management of functions entrusted to them and exercise full responsibility for the entrusted activities. Moreover, the state should start undertaking budgetary analysis of the line items in the budget that are to be transferred to the Panchayats in consonance with the provisions of the State Legislation and the Activity Mapping undertaken.

Annexure 2.13: Analysis of Activity Mapping in West Bengal:

The West Bengal Government issued an Official Memorandum No. 1415/P/2M-6/99 dated 24th May, 1999 signed by the Chief Secretary in which all 29 subjects were devolved to GP, PS and ZP level. However, it does not seem as if specific executive orders were issued by each department following this order.

West Bengal issued its first Activity Mapping order in November 2005. The salient features of this exercise are as follows:

- (a) This exercise covers 15 “items”. However, these items are not the same as the terms used in the Eleventh Schedule and probably refer to the departments that handle these matters.
- (b) An analysis of the content of the Activity Mapping reveals that the activities concerning the following 18 matters listed in the 11th Schedule have been touched upon in some way or the other, through it:
 - a. Agriculture, including agricultural extension.
 - b. Animal husbandry, dairying and poultry.
 - c. Khadi, village and cottage industries
 - d. Small scale industries, including food processing industries.
 - e. Health and sanitation, including hospitals. Primary health centres and dispensaries
 - f. Family Welfare
 - g. Social forestry and farm forestry.
 - h. Women and Child Development
 - i. Social Welfare, including welfare of the handicapped and mentally retarded
 - j. Fisheries.
 - k. Public distribution system
 - l. Adult and non-formal education.
 - m. Libraries
 - n. Cultural activities
 - o. Education, including primary and secondary schools
 - p. Drinking water
 - q. Minor irrigation, water management and watershed development.

- r. Land improvement, implementation of land reforms, land consolidation and soil conservation.
- (c) The activity mapping at first sight, leaves out the following 11 matters contained in the Eleventh Schedule:
 - a. Minor forest produce
 - b. Rural housing.
 - c. Fuel and fodder
 - d. Roads, culverts, bridges, ferries, waterways and other means of communication.
 - e. Rural electrification, including distribution of electricity.
 - f. Non-conventional energy sources.
 - g. Poverty alleviation programme
 - h. Technical training and vocational education.
 - i. Markets and Fairs
 - j. Welfare of the weaker sections, and in particular of the Scheduled Castes and the Scheduled Tribes
 - k. Maintenance of community assets

Some of these omissions are interesting. For instance, while social forestry is covered under Activity Mapping, minor forest produce is not. Similarly, Activity Mapping does not explicitly cover the maintenance of community assets as a separate item, but one can safely conclude that this aspect has been adequately covered in the Activity Mapping undertaken for 15 items.

The pattern of Activity Mapping is interesting. The Activity Mapping matrix does not contain vertical columns for each level of Panchayat, but lists out the activities as “responsibilities of the Standing Committees of the three-tier PRIs. Therefore, the Activity Mapping is more in terms of the delegation of departmental functions directly to the Standing Committees of the Panchayats, This is surely a unique approach. While this is understandable in the context of the Gram Panchayats being larger units in West Bengal and that the Standing Committee system is powerful in the State, this pattern of Activity Mapping does not make the inter-se relationship between the three levels of Panchayats clear, particularly as the same activities are devolved to

the Standing Committees concerned at each level of Panchayat. Several features of Activity Mapping of West Bengal are as follows:

- The content of the Activity Mapping indicates a strong hierarchical relationship between the three levels of Panchayat.
- Most activities given to the Panchayats are substantive, such as beneficiary selection, implementation, policy framing etc. There is a related extent of reporting and monitoring responsibilities given. However, the level of detail is good enough to promote clarity. There seems to be a conscious avoidance of giving Panchayats merely promotional or advertising roles.
- While the Activity Mapping does not cover the devolution of functionaries, a very good feature of the Activity Mapping is that a 'link officer' has been identified for each Standing Committee. This is a good practice that we can suggest for other States also, although it pales in comparison with the more meticulous approach adopted by Assam and Sikkim.
- An excellent feature of the Activity Mapping is that in respect of all departments covered, planning and budgeting responsibilities are universally devolved to the Standing Committee concerned.

In conclusion, it might be stated that West Bengal's approach to Activity Mapping has been unique because of its emphasis on Activity Mapping of Standing Committees. Some features, such as the naming of link officers for each Standing Committee are worthy of emulation. West Bengal therefore is an interesting case study of a State that has shown a consistent commitment to strong Panchayats, moved in the direction of gradually strengthening devolution through both the law and executive orders, but is unable to match this devolution to Panchayats with adequate funds as it is has been operating large fiscal deficits and shows low tax performance.

The next steps would be to undertake similar exercises for other departments and cover the remaining matters in the Eleventh Schedule and the concentrate on fiscal decentralization to match the functional devolution undertaken through the Act and the Activity Mapping.

ANNEXURES TO CHAPTER III

Annexure 3.1

Table A3.1: Assigned Taxes to Gram Panchayats

| | | ArP | Ass | Bih | Chh | Goa | Guj | Har | HP | J&K | Jha | Kar |
|----|---|-----|-----|-----|------|-----|-----|-----|----|-----|-----|-----|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 1 | Property tax on land and/or buildings (House tax) | √ | √ | √ | √(O) | √ | √ | √ | √ | | √ | √ |
| 2 | Taxes on Profession, Trades and callings | | √ | √ | √(O) | √ | | | √ | √ | √ | |
| 3 | Toll on persons, vehicles & animals | √ | | | | √ | | | | | | |
| 4 | Tax on sale of firewood, tatch conservance and slaughterhouse | | √ | | | | | | | | | |
| 5 | Tax on Private haat and private fisheries | | √ | | | | | | | | | |
| 6 | Tax on Shops, pharmacies, workshops etc. | | √ | | | | | | | | | |
| 7 | Tax on cultivable land lying fallow for more than 2 years | | √ | | | | | | | | | |
| 8 | Cess or fee on registration of cattle sold | | √ | | | | | | | | | |
| 9 | Cess or fee on license for starting tea stall, hotels and restaurants | | √ | | | | | | | | | |
| 10 | Tax/Cess on cycles, carts, boats, rickshaw, vehicle drawn by animals | | √ | | | | | | | | | |
| 11 | Tax on entertainment other than cinematograph shows | | | | | √ | | | | | | √ |
| 12 | Tax on advertisement and hoardings | | | | | √ | | | | | | √ |
| 13 | Lighting tax/rate | | | | √(O) | √ | √ | | | | | |
| 14 | Drainage Tax | | | | | √ | √ | | | | | |
| 15 | Octroi (other than on petroleum products) | | | | | √ | | | | | | |
| 16 | Garbage disposal tax | | | | | √ | | | | | | |
| 17 | Pilgrim tax | | | | | | √ | | | √ | | |
| 18 | Octroi on animals, goods | | | | | | √ | | | | | |
| 19 | Tax on fairs, festivals and other entertainment | | | | | | √ | | | | | |
| 20 | Tax on vehicles, boats, animals | | | | | | √ | | | √ | | |
| 21 | Toll on animals and vehicles | | | | √ | | √ | | | | | |

| | | ArP | Ass | Bih | Chh | Goa | Guj | Har | HP | J&K | Jha | Kar |
|----|--|-----|-----|-----|------|-----|-----|-----|----|-----|-----|-----|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| | | | | | | | | | | | | |
| 22 | Tax on dogs kept | | | | | | √ | | | | | |
| 23 | General/special sanitary cess | | | | | | √ | | | | | |
| 24 | Tax on works of public utility (i.e. on adult male members of sabha area for construction of public work of general utility) | | | | √ | | | √ | √ | | | |
| 25 | Tax on cinemas & theatre | | | | | | | | | √ | | |
| 26 | Tax on gharats, rice husking mills, brick kiln, oil mills | | | | | | | | | √ | | |
| 27 | Tax on hawkers, pheriwalas | | | | | | | | | √ | | |
| 28 | Water tax | | | | √ | | | | | | √ | |
| 29 | Conservancy tax | | | | √(O) | | | | | | √ | |
| 30 | Tax on vehicles other than motor vehicles | | | | √ | | | | | | | √ |
| 31 | Entertainment tax/duty | | | | | | | | | | | |
| 32 | Service tax for sanitation, water supply, scavenging, street lighting & drainage | | | | | | | | | | | |
| 33 | Land conversion cess | | | | | | | | | | | |
| 34 | Additional Stamp duty | | | | | | | | | | | |
| 35 | Duty on Transfer of Property | | | | | | | | | | | |
| 36 | Tax on agricultural land for specific purpose | | | | | | | | | | | |
| 37 | Toll on persons, animals, Vehicles on toll bar established by GP and or on roads (other than kutch), bridges under GP | | | | | | | | | | | |
| 38 | Toll on ferry established or run by GP | | | | | | | | | | | |
| 39 | tax on person exposing goods for sale in markets, hats, or melas | | | | | | | | | | | |
| 40 | Tax on commercial crops | | | | | | | | | | | |

Table A3.1: Assigned Taxes to Gram Panchayats [Contd. ...]

| | | Ker | MP | Mah | Ori | Pun | Raj | Sik | TN | Tri | UP | Utt | WB |
|----|--|-----|------|-----|-----|-----|-----|-----|----|-----|------|-----|----|
| | | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 1 | Property tax on land and/or buildings (House tax) | √ | √(O) | √ | | √ | √ | √ | √ | √ | √(O) | √ | √ |
| 2 | Taxes on Profession, Trades and callings | √ | √(O) | √ | | √ | | | | | | | |
| 3 | Toll on persons, vehicles & animals | | | | | | | | | | | | |
| 4 | Tax on sale of firewood, tatch conservance and slaughterhouse | | | | | | | | | | | | |
| 5 | Tax on Private haat and private fisheries | | | | | | | √ | | | | | |
| 6 | Tax on Shops, pharmacies, workshops etc. | | | | | | | | | | | | |
| 7 | Tax on cultivable land lying fallow for more than 2 years | | | | | | | | | | | | |
| 8 | Cess or fee on registration of cattle sold | | | | | | | | | | | | |
| 9 | Cess or fee on license for starting tea stall, hotels and restaurants | | | | | | | | | | | | |
| 10 | Tax/Cess on cycles, carts, boats, rickshaw, vehicles drawn by animals | | | √ | | | | | | | | | |
| 11 | Tax on entertainment other than cinematograph shows | | | | | | | | | | | | |
| 12 | Tax on advertisement and hoardings | √ | | | | | | | | | | | |
| 13 | Lighting tax/rate | | √(O) | | | | | | | | √ | √ | |
| 14 | Drainage Tax | | | | √ | | | | | | | | |
| 15 | Octroi (other than on petroleum products) | | | | | | | | | | | | |
| 16 | Garbage disposal tax | | | | | | | | | | | | |
| 17 | Pilgrim tax | | | √ | | | √ | | | | | | |
| 18 | Octroi on animals, goods | | | | | | | | | | | | |
| 19 | Tax on fairs, festivals and other entertainment | | | √ | | | | √ | | | | | |
| 20 | Tax on vehicles, boats, animals | | | | | | | | | | √ | √ | |
| 21 | Toll on animals and vehicles | | √ | | | | | | | | | | |
| 22 | Tax on dogs kept | | | | | | | | | | | | |
| 23 | General/special sanitary cess | | | √ | | | | | | | √ | √ | |
| 24 | Tax on works of public utility (i.e. on adult male members of sabha area for construction of public work of general utility) | | √ | | √ | | √ | √ | | | | | |

| | | Ker | MP | Mah | Ori | Pun | Raj | Sik | TN | Tri | UP | Utt | WB |
|----|---|-----|------|-----|-----|-----|-----|-----|----|-----|----|-----|----|
| | | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 25 | Tax on cinemas & theatre | | | | | | | | | | | | |
| 26 | Tax on gharats, rice husking mills, brick kiln, oil mills | | | | | | | | | | | | |
| 27 | Tax on hawkers, pheriwalas | | | | | | | | | | | | |
| 28 | Water tax/rate | | √ | √ | | | | | | | | | |
| 29 | Conservancy tax | | √(O) | | √ | | | √ | | | √ | √ | |
| 30 | Tax on vehicles other than motor vehicles | | √ | | √ | | √ | | √ | | | | |
| 31 | Entertainment tax/duty | √ | | | | | | | | √ | √ | √ | √ |
| 32 | Service tax for sanitation, water supply, scavenging, street lighting & drainage | √ | | | | | | | | | | | |
| 33 | Land conversion cess | √ | | | | | | | | | | | |
| 34 | Additional Stamp duty | | | | | √ | | | | | | | √ |
| 35 | Duty on Transfer of Property | | | | | | | | √ | √ | | | √ |
| 36 | Tax on agricultural land for specific purpose | | | | | | | | √ | | | | |
| 37 | Toll on persons, animals, Vehicles on toll bar established by GP and or on roads (other than kutchra), bridges under GP | | | | | | | | | √ | | | √ |
| 38 | Toll on ferry established or run by GP | | | | | | | | | √ | | | √ |
| 39 | tax on person exposing goods for sale in markets, hats, or melas | | | | | | | | | | √ | √ | |
| 40 | Tax on commercial crops | | | | | | √ | | | | | | |

Source: Relevant State Panchayati Raj Acts

Note: 1) 'O' refers to obligatory tax and rest of the taxes are as optional

2) House tax includes property tax on lands and/or buildings

3) Panchayati Raj Acts of 5 states were not available. These are Andhra Pradesh, Manipur, Mizoram, Meghalaya, and Nagaland

Table A3.2: Assigned Non-Taxes to Gram Panchayats

| | | ArP | Ass | Bih | Chh | Goa | Guj | Har | HP | J&K | Jha | Kar |
|----|---|-----|-----|-----|-----|-----|-----|-----|----|-----|-----|-----|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| | | | | | | | | | | | | |
| 1 | Fee for providing sanitary arrangement in places of worship, fairs & melas | √ | √ | √ | | | | √ | √ | | √ | |
| 2 | Water rate for supply of water for drinking, irrigation etc. | √ | √ | √ | | √ | √ | √ | √ | | | √ |
| 3 | Lighting rate/fees | √ | √ | √ | | | | √ | √ | | √ | |
| 4 | Conservancy rate/fees | √ | √ | √ | | | | | | | | |
| 5 | Fees on license on running trade | √ | | | | | | | | | | |
| 6 | Fee on registration of vehicles (those not registered under any other law) | | | √ | | | | | | | √ | |
| 7 | Pilgrimage fee | | | | | √ | | | | | | √ |
| 8 | Market fee | | | | √ | √ | √ | | | | | |
| 9 | Fee on registration of cattle/animals sold | | √ | | √ | √ | | √ | √ | | | √ |
| 10 | Fees on buses and taxis, auto stand, car stand | | | | | √ | | | | | | √ |
| 11 | Fees on grazing cattle on grazing lands | | | | | √ | √ | | | √ | | √ |
| 12 | Fee on sale of goods in fairs, markets, festivals | | | | | √ | | √ | √ | √ | | √ |
| 13 | Fee on cart stand, tonga stand | | | | | | √ | | | | | |
| 14 | Fee for temporary erection or putting a projection on public street or land | | | | | | √ | | | | | |
| 15 | Fee for the use of slaughter house, encamping grounds | | | | | | | | | √ | | |
| 16 | Fee for temporary occupation of village sites, roads & other public places | | | | | | | | | √ | | |
| 17 | Fee on tongas | | | | | | | | | √ | | |
| 18 | Adda fee | | | | | | | | | √ | | |
| 19 | Fee on cattle pounds | | | | | | | | | √ | | |
| 20 | Fee for application of creation or re-creation of buildings | | | | | | | | | √ | | |
| 21 | Service charges for toilet facilities, parking facilities etc | | | | | | | | | | | |
| 22 | Fee for Dharamshalas, camping ground | | | | | | | | | | | |
| 23 | Fee for drainage | | | | | | | | | | | |
| 24 | fees on plaints, petitions & other processes in suits and cases instituted before the Nyaya Panchayat | | | | | | | | | | | |
| 25 | fees on registration for running trade, wholesale or retail | | | | | | | | | | | |
| 26 | Fees on license on dogs, birds & other domestic pet | | | | | | | | | | | |
| 27 | Drainage rate | | | | | | | | | | | |
| 28 | Fees for use of burning ghat | | | | | | | | | | | |
| 29 | fees on registration for tube-wells fitted with motor-driven pump sets | | | | | | | | | | | |

Table A3.2: Assigned Non-Taxes to Gram Panchayats [Contd. ..]

| | | Ker | MP | Mah | Ori | Pun | Raj | Sik | TN | Tri | UP | Utt | WB |
|----|---|-----|----|-----|-----|-----|-----|-----|----|-----|----|-----|----|
| | | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 1 | Fee for providing sanitary arrangement in places of worship, fairs & melas | | | | | √ | | | | √ | | | √ |
| 2 | Water rate/fee for supply of water for drinking, irrigation etc. | | | √ | √ | √ | √ | √ | | √ | √ | √ | √ |
| 3 | Lighting rate/fees | | | | | √ | | | | √ | | | √ |
| 4 | Conservancy rate/fees | | | | | √ | | √ | | √ | | | √ |
| 5 | Fees on license on running trade | | | | | | | | | √ | | | |
| 6 | Fee on registration of vehicles (those not registered under any other law) | | | | | √ | | | | √ | | | √ |
| 7 | Pilgrimage fee | | | | | | | | | | | | |
| 8 | Market fee; fee on market and weekly bazaars | | √ | √ | √ | | √ | | √ | | | | |
| 9 | Fee on registration of cattle/animals sold | | √ | √ | | | | √ | | | √ | | |
| 10 | Fees on buses and taxis, auto stand | | | | | | | | | | | | |
| 11 | Fees on grazing cattle on grazing lands | | | √ | | | | √ | | | | | √ |
| 12 | Fee on sale of goods in fairs, markets, festivals | | | | | | | √ | | | | | √ |
| 13 | Fee on cart stand, tonga stand, car stands | | | √ | | | | | | | | | |
| 14 | Fee for temporary erection or putting a projection on public street or land | | | √ | | | | √ | | | | | √ |
| 15 | Fee for the use of slaughter house, encamping grounds | | | | | | | | | | √ | √ | |
| 16 | Fee for temporary occupation of village sites, roads & other public places | | | | | | | | √ | | | | |
| 17 | Fee on tongas | | | | | | | | | | | | |
| 18 | Adda fee | | | | | | | | | | | | |
| 19 | Fee on cattle pounds | | | | | | | | | | | | |
| 20 | Fee for application of creation or re-creation of buildings | | | | | | | | | | | | |
| 21 | Service charges for toilet facilities, parking facilities etc | √ | | | | | | | | | | | |
| 22 | Fee for Dharamshalas, camping ground | | | | | | | √ | | | | | |
| 23 | Fee for drainage | | | | | | | √ | | | | | |
| 24 | fees on plaints, petitions & other processes in suits and cases instituted before the Nyaya Panchayat | | | | | | | | | | | | √ |
| 25 | fees on registration for running trade, wholesale or retail | | | | | | | | | | | | √ |
| 26 | Fees on license on dogs, birds & other domestic pet | | | | | | | | | | | | √ |
| 27 | Drainage rate | | | | | | | | | | | | √ |
| 28 | Fees for use of burning ghat | | | | | | | | | | | | √ |
| 29 | fees on registration for tube-wells fitted with motor-driven pump sets | | | | | | | | | | | | √ |

Source: Relevant State Panchayati Raj Acts

Note: Panchayati Raj Acts of 5 states were not available. These are Andhra Pradesh, Manipur, Mizoram, Meghalaya, and Nagaland

Table A3.3: Taxes and Non-Taxes Assigned to Block Panchayats

| | | ArP | Ass | Bih | Chh | Goa | Guj | Har | HP | J&K | Jha | Kar |
|----------|--|-----|-----|-----|-------|-----|-----|-----|----|-----|-----|-----|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| A | Assigned Taxes | | | | | | ** | | | | | |
| 1 | Toll on persons, animals, Vehicles on toll bar established by GP & or on roads (other than kutchra), bridges under GP | | √ | | | | | | | | | |
| 2 | Toll on ferry established or run by GP | | √ | √ | | | | | | | √ | |
| 3 | Surcharge on land revenue | | √ | | | | | | | | | |
| 4 | Cess on water rate | | √ | | | | | | | | | |
| 5 | Tax on supplying Water and electricity | | √ | | | | | | | | | |
| 6 | Tax on Profession, trades and callings | | √ | | | | | | | | | |
| 7 | Water Tax | | | | | | | | | | √ | |
| 8 | Tax on Theatrical performance | | | | √ (O) | | | | | | | |
| 9 | Tax on use of agricultural land | | | | | | | | | | | |
| 10 | Tax on fairs | | | | | | | | | | | |
| B | Assigned Non-Taxes | | | | | | ** | | | | | |
| 1 | Fee on cinema halls, brick kilns, saw mills, timber depots, private fisheries, vegetable gardens for commercial purpose etc. | | √ | | | | | | | | | |
| 2 | Fee on regitration of vehicles (those not registered under any other law) | | | √ | | | | | | | √ | |
| 3 | Fee for providing sanitary arrangements in places of worship, pilgrimage, fairs and melas | | | √ | | | | | | | √ | |
| 4 | Fee for license for a haat or market | | | √ | | | | | | | √ | |
| 5 | Water rate for supply of water for drinking, irrigation etc. | | | √ | | | | | | | | |
| 6 | Lighting rate/fees | | | √ | | | | | | | √ | |
| 7 | Fee on public hospitals, dispensaries , schools, sarais, markets, rest houses & other public institutions | | | | | | | √ | | | | |
| 8 | Fee on supply, storage and preservation of water for drinking, bathing etc | | | | | | | √ | | | | |
| 9 | Fee for preservation and reclamation of soil and drainage and reclamation of swamps | | | | | | | √ | | | | |
| 10 | Fees fairs, agricultural shows and industrial exhibitions | | | | | | | √ | | | | |
| 11 | Fee for any other license | | | | | | | | | | | |

Table A3.3: Taxes and Non-Taxes Assigned to Block Panchayats [Contd. ..]

| | | Ker | MP | Mah | Ori | Pun | Raj | Sik | TN | Tri | UP | Utt | WB |
|----------|--|-----|------|-----|-----|-----|-----|-----|----|-----|----|-----|----|
| | | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| A | Assigned Taxes | | | | | | | | | | | | |
| 1 | Toll on persons, animals, Vehicles on toll bar established by GP & or on roads (other than kutchra), bridges under GP | | | | | √ | | | | √ | | | |
| 2 | Toll on ferry established or run by GP | | | | | √ | | | | √ | | | |
| 3 | Surcharge on land revenue | | | | | | | | | | | | |
| 4 | Cess on water rate | | | | | | | | | | | | |
| 5 | Tax on supplying Water and electricity | | | | | | | | | | | | |
| 6 | Tax on Profession, trades and callings | | | | | | √ | | | | | | |
| 7 | Water Tax | | | | | | | | | | | | |
| 8 | Tax on Theatrical performance | | √(O) | | | | | | | | | | |
| 9 | Tax on use of agricultural land | | | | | | √ | | | | | | |
| 10 | Tax on fairs | | | | | | √ | | | | | | |
| B | Assigned Non-Taxes | | | | | | | | | | | | |
| 1 | Fee on cinema halls, brick kilns, saw mills, timber depots, private fisheries, vegetable gardens for commercial purpose etc. | | | | | | | | | | | | |
| 2 | Fee on registration of vehicles (those not registered under any other law) | | | | | √ | | | | √ | | | |
| 3 | Fee for providing sanitary arrangements in places of worship, pilgrimage, fairs and melas | | | | | √ | | | | √ | | | |
| 4 | Fee for license for a haat or market | | | | | √ | | | | √ | | | |
| 5 | Water rate for supply of water for drinking, irrigation etc. | | | | | √ | | | | √ | | | |
| 6 | Lighting rate/fees | | | | | √ | | | | √ | | | |
| 7 | Fee on public hospitals, dispensaries , schools, sarais, markets, rest houses & other public institutions | | | | | | | | | | | | |
| 8 | Fee on supply, storage and preservation of water for drinking, bathing etc | | | | | | | | | | | | |
| 9 | Fee for preservation and reclamation of soil and drainage and reclamation of swamps | | | | | | | | | | | | |
| 10 | Fees fairs, agricultural shows and industrial exhibitions | | | | | | | | | | | | |
| 11 | Fee for any other license | | | | | √ | | | | | | | |

Source: Relevant State Panchayati Raj Acts

Note: 1) 'O' refers to obligatory tax and rest of the taxes are as optional.

2) Panchayati Raj Acts of 5 states were not available. These are Andhra Pradesh, Manipur, Mizoram, Meghalaya, and Nagaland

Table A3.4: Taxes and Non-Taxes Assigned to District Panchayats

| | | ArP | Ass | Bih | Chh | Goa | Guj | Har | HP | J&K | Jha | Kar |
|----------|---|-----|-----|-----|-----|-----|-----|-----|----|-----|-----|-----|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| A | Assigned Taxes | | | | | | ** | && | | | | |
| 1 | Toll on persons, animals, Vehicles on toll bar established by GP & or on roads (other than kutchra), bridges under GP | | | | | | | | | | | |
| 2 | Toll on ferry established or run by GP | | √ | √ | | | | | | | √ | |
| 3 | Water Tax | | | | | | | | | | √ | |
| 4 | Tax on fairs, melas and other entertainments | | | | | | | | | | | |
| 5 | Sanitation tax | | | | | | | | | | | |
| 6 | Pilgrim Tax | | | | | | | | | | | |
| 7 | Special tax on lands and buildings | | | | | | | | | | | |
| 8 | Tax on land benefited by irrigation or developmental works | | | | | | | | | | | |
| B | Assigned Non-Taxes | | | | | | ** | | | | | |
| 1 | Fees on registration of boats | | √ | | | | | | | | √ | |
| 2 | Fees on registration of Vehicles | | | √ | | | | | | | √ | |
| 3 | Fee for providing sanitary arrangements in places of worship, pilgrimage, fairs and melas | | √ | √ | | | | | | | √ | |
| 4 | Fees on license for mela or fairs | | √ | √ | | | | | | | √ | |
| 5 | Lighting rate/fees | | √ | √ | | | | | | | √ | |
| 6 | Water rate | | √ | √ | | | | | | | | |
| 7 | Fee on public hospitals, dispensaries , schools, sarais, markets, rest houses & other public institutions | | | | | | | √ | | | | |
| 8 | Fee on supply, storage and preservation of water for drinking, bathing etc | | | | | | | √ | | | | |
| 9 | Fee for preservation & reclamation of soil & drainage & reclamation of swamp | | | | | | | √ | | | | |
| 10 | Fees fairs, agricultural shows and industrial exhibitions | | | | | | | √ | | | | |
| 11 | Fee for temporary erection or putting a projection on public street or land | | | | | | | | | | | |
| 12 | Conservancy fee | | | | | | | | | | | |
| 13 | Fee on the registration of animals sold in | | | | | | | | | | | |
| 14 | Market fee on persons exposing goods for sale in any market | | | | | | | | | | | |
| 15 | Fee for use of dharamsalas, rest houses, slaughter house & encamping ground | | | | | | | | | | | |
| 16 | Fee for drainage | | | | | | | | | | | |
| 17 | License fee on brokers, commission agent, weighmen or measures practicing their callings | | | | | | | | | | | |

Table A3.4: Taxes and Non-Taxes Assigned to District Panchayats [Contd. ..]

| | | Ker | MP | Mah | Ori | Pun | Raj | Sik | TN | Tri | UP | Utt | WB |
|----------|---|-----|----|-----|-----|-----|-----|-----|----|-----|----|-----|----|
| | | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| A | Assigned Taxes | | | | | | | | | | | | |
| 1 | Toll on persons, animals, Vehicles on toll bar established by GP & or on roads (other than kutchra), bridges under GP | | | | | | | | | √ | | | |
| 2 | Toll on ferry established or run by GP | | | | | | | | | √ | | | |
| 3 | Water Tax | | | √ | | | | | | | | | |
| 4 | Tax on fairs, melas and other entertainments | | | | | | | √ | | | | | |
| 5 | Sanitation tax | | | | | | | √ | | | | | |
| 6 | Pilgrim Tax | | | √ | | | | | | | | | |
| 7 | Special tax on lands and buildings | | | √ | | | | | | | | | |
| 8 | Tax on land benefited by irrigation or developmental works | | | √ | | | | | | | | | |
| B | Assigned Non-Taxes | | | | | | | | | | | | |
| 1 | Fees on registration of boats | | | | | | | | | √ | | | |
| 2 | Fees on registration of Vehicles | | | | | | | | | √ | | | |
| 3 | Fee for providing sanitary arrangements in places of worship, pilgrimage, fairs and melas | | | | | | | | | √ | | | |
| 4 | Fees on license for mela or fairs | | | | | | √ | | | √ | | | |
| 5 | Lighting rate/fees | | | | | | | | | √ | | | |
| 6 | Water rate | | | | | | √ | | | √ | | | |
| 7 | Fee on public hospitals, dispensaries , schools, sarais, markets, rest houses & other public institutions | | | | | | | | | | | | |
| 8 | Fee on supply, storage and preservation of water for drinking, bathing etc | | | | | | | | | | | | |
| 9 | Fee for preservation & reclamation of soil & drainage & reclamation of swamp | | | | | | | | | | | | |
| 10 | Fees fairs, agricultural shows and industrial exhibitions | | | | | | | | | | | | |
| 11 | Fee for temporary erection or putting a projection on public street or land | | | | | | | √ | | | | | |
| 12 | Conservancy fee | | | | | | | √ | | | | | |
| 13 | Fee on the registration of animals sold | | | √ | | | | √ | | | | | |
| 14 | Market fee on persons exposing goods for sale in any market | | | √ | | | | √ | | | | | |
| 15 | Fee for use of dharamsalas, rest houses, slaughter house & encamping ground | | | | | | | √ | | | | | |
| 16 | Fee for drainage | | | | | | | √ | | | | | |
| 17 | License fee on brokers, commission agent, weighmen or measures practicing their callings | | | √ | | | | | | | | | |

Source: Relevant State Panchayati Raj Acts

Note: Panchayati Raj Acts of 5 states were not available. These are Andhra Pradesh, Manipur, Mizoram, Meghalaya, and Nagaland

Annexure 3.2

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No.N-11011/8/2010 -P&J

Dated the 2nd March, 2010

Dear

This is in continuation of this letter No.T-11013/2/2009-Trg dated 7th January, 2010 vide which you were requested to extend all possible help to National Institute of Public Finance & Policy (NIPFP) for the study on Fiscal Decentralization in India (Financial Domain of Panchayats) assigned to NIPFP, New Delhi by the Ministry of Panchayati Raj (MoPR).

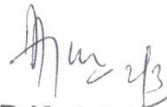
2. As you are aware, by virtue of the 73rd Amendment of the Constitution, Panchayats are the mandated 3rd-Tier of governance and as such they are responsible for planning and implementation of devolved function.

3. For the purpose of the study mentioned above, NIPFP has requested for data in the enclosed format. You are requested to furnish the same at the earliest.


With regards,

Encl: As above.

Yours sincerely,


(D.K. Jain)

The Secretaries in-charge of Panchayati Raj, Department of all States / UTs
except Meghalaya, Mizoram, Nagaland and Delhi


Issued
03/03

Proforma

Details of Own Revenues of the Panchayats

Name of the State / Union Territory:

| | | Property Tax | Drinking Water user charges | Professional Tax | Streetlight user charges | Others | Total |
|---------|------------|--------------|-----------------------------|------------------|--------------------------|--------|-------|
| 2004-05 | Demand | | | | | | |
| | Collection | | | | | | |
| 2005-06 | Demand | | | | | | |
| | Collection | | | | | | |
| 2006-07 | Demand | | | | | | |
| | Collection | | | | | | |
| 2007-08 | Demand | | | | | | |
| | Collection | | | | | | |
| 2008-09 | Demand | | | | | | |
| | Collection | | | | | | |

ANNEXURES TO CHAPTER IV

Annexure 4.1

Local Bodies: Summary of Recommendations made by FC-XIII

The Finance Commissions are required to make recommendations on the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of recommendations made by the Finance Commission of the State. The recommendations of FC-XIII relating to local bodies can be broadly classified under the following heads:

1. Augmenting own revenues of panchayats:

- State Governments should incentivize revenue collection by local bodies: FC-XIII is of the view that there is no substitute for local bodies raising their own tax and non-tax revenues and for State Governments augmenting their tax assignment and transfers to them. Local bodies must be encouraged to fully exploit those taxation powers which have been assigned to them by their respective State Governments. They should be in a position, not only to fully exploit sources like property tax and profession tax, but also to recover at least maintenance costs for services like water supply, solid waste management and sewerage. Local bodies should be incentivised for such efforts. Own revenue collections can be incentivised through a number of ways like mandating some or all local taxes as obligatory at non-zero rates of levy; by deducting deemed own revenue collection from transfer entitlements of local bodies, or through a system of matching grants etc.
- The All local bodies should be fully enabled to levy property tax (including tax for all types of residential and commercial properties) and any hindrances in this regard must be removed.
- State Governments must put in place a state level Property Tax Board, which will assist all municipalities and municipal corporations in the state to put in place an independent and transparent procedure for assessing property tax.
- In order to strengthen the local bodies FC-XIII recommended that both the Central and State Governments should issue executive instructions that all their respective departments pay appropriate service charges to local bodies: FC-XIII recommended that all government

properties of the Centre as well as the states should be subject to levy of user charges which should be regulated by suitable legislations. This was recommended by FC-XI in its report.

2. Strengthening the accounting and auditing system of local bodies:

- The Commission observed that the data on financial and operational performance of all local bodies continues to be of poor quality despite substantial progress by local bodies in a few states on this account. As per the present system any assistance given by the State Governments to PRIs is booked as a lump sum under the minor heads 196, 197 & 198 which appear both in the budget documents as well as in the finance accounts of the State Governments. However, neither of these two documents depict the details relating to the expenditure incurred by the PRIs by detailed heads and object heads. Further, it is not possible to determine the corresponding expenditure incurred by the PRIs as they do not maintain similar accounts that could capture these details. Accurate data on the financial performance of local bodies can at best be obtained from accounts of the local bodies themselves, apart from the budget documents of the State Governments and the respective finance accounts. This requires that all State Governments make distinct budget provisions for local bodies, the expenditures relating to which are reported in the finance accounts. A number of states do maintain distinct budgetary provisions for amounts transferred by them to each tier of PRIs and each category of ULBs. They provide 'object head-wise' details in the budget documents. Object heads like salary, wages and office expenses are captured under the relevant detailed heads.

The Commission recommended that a supplement to the budget documents be prepared by the State Governments showing details of plan- and non-plan-wise classification of transfers separately for all categories of ULBs and all tiers of PRIs, from major head to object head, which have been depicted in the main budget under the minor heads 191, 192 and 193; and 196, 197 and 198 respectively. This supplement could also incorporate details of funds transferred directly to the local bodies outside the State Government's budget. The supplement should aim to provide details of spatial distribution of transfers at least up to district level. Similarly the finance accounts should also reflect such a distinction and a separate statement needs to be included in the finance accounts showing the detailed plan-

and non-plan-wise classification of transfers separately for all categories of ULBs and all tiers of PRIs, from major head to object head, which have been depicted in the finance accounts under the minor heads 191, 192 and 193; and 196, 197 and 198 respectively. FC-XIII recommended that these changes be brought into effect from 31 March 2012.

- State Governments should appropriately strengthen their local fund audit departments through capacity building as well as personnel augmentation: FC-XIII recommended that in view of the substantial increase in the volume of transfers to local bodies all State Governments should strengthen their audit framework. It is of the view that while the C&AG will provide technical guidance and supervision, the major portion of the work will have to be undertaken by the local fund audit department. Annual Technical Inspection Report of G&AG as well as the Annual Report of the Director of Local Fund Audit must be placed before the state legislature. Thus they recommend that State Governments should strengthen their local fund audit departments both in terms of capacity building as well as augmentation of personnel.
- FC-XIII recommended that State Governments must put in place a system to electronically transfer local body grants provided by this Commission to the respective local bodies within five days of their receipt from the Central Government. Wherever this is not possible due to lack of easily accessible banking infrastructure, the State Governments must put in place alternative channels of transmission such that funds are transferred within ten days of their receipt.

3. State Finance Commissions:

Major issues relating to the functioning of Finance Commissions include

- Synchronicity with Central Finance Commissions: FC-XIII recommended like the previous two FCs that the SFCs be appointed on time and the period covered by the SFCs is synchronous with the period covered by the National Finance Commission.
- FC-XIII recommended that Article 243-I of the Constitution should be amended to include the phrase ‘or earlier’ after the words ‘every fifth year’: As the timing of the National Finance Commission’s constitution as well as the period for which it makes recommendations is known the State Governments should be empowered to constitute and

direct their respective SFCs to give their report well before the National Finance Commission finalises its recommendation. Therefore, they endorsed the recommendation of the SARC that Article 243-I (1) of the Constitution should be amended to include the phrase ‘or earlier’ after the words ‘every fifth year’.

- **Quality of SFC Reports:** The quality of SFC reports continues to be patchy. Though FC-XII had recommended that SFCs collect data in the formats suggested by it, this advice has not been uniformly followed. Further, the recommendations of the SFCs do not follow a uniform pattern, thus detracting from their usability. In order to address this problem FC-XIII had constituted a task force to prepare a template for SFC reports. It recommends that SFCs could consider adopting the template suggested at by the task force as the basis for their reports.
- **State Governments should ensure that the recommendations of SFCs are implemented without delay and that the Action Taken Report is promptly placed before the legislature:** The experience of SFCs has not been found to be successful for a number of reasons. SFCs themselves are hampered by lack of data, limited capacity and poor ownership by State Governments. There is little incentive for them to produce a comprehensive report. Further, or because of these reasons, states are not overly keen either to accept their recommendations or to place the ATR before the state legislature in a timely manner. This situation provides a further disincentive for SFCs to produce good quality reports. There is, thus, a need for State Governments to ensure that the recommendations of SFCs are implemented without delay and that the ATR is placed promptly before the legislature.
- **Qualification of Members of SFCs:** Important issues – legal, economic, financial and administrative, as well as those relating to decentralization, need to be examined and SFC members should be well equipped to meet these challenges. It is desirable that all states legislate requisite qualifications of SFC members (consistent with Article 243I (2) of the Constitution) as the working of SFCs is also hampered by the lack of such criteria.

4. Sharing of state revenues with local bodies

- Given the increasing income of State Governments from royalties, FC-XIII recommended that the states should share a portion of this income with those local bodies in whose jurisdiction such income arises.

5. Improving Service Delivery

- State Governments must gradually put in place standards for delivery of all essential services provided by local bodies: Lack of resources often results in local bodies diluting the quality of services provided by them. State Governments must gradually put in place standards for delivery of all essential services provided by local bodies. To begin with State Governments must notify or cause all the municipal corporations and municipalities to notify by the end of a fiscal year (31 March) the service standards for four service sectors-water supply, sewerage, storm water drainage, and solid waste management proposed to be achieved by them by the end of the succeeding fiscal year.
- A portion of the grants provided by us to urban local bodies may be used to revamp the fire services within their jurisdiction:. All municipal corporations with a population of more than 1 million (2001 census) must put in place a fire hazard response and mitigation plan for their respective jurisdictions. Publication of these plans in the respective State Government gazettes will demonstrate compliance with this condition.

6. Other Recommendations

- FC-XIII recommended setting up of bodies similar to the SFC in states which are not covered by Part IX of the Constitution: This is based on the recommendations of the Expert Committee on 'Planning for the Sixth Schedule Areas' set up by the Ministry of Panchayati Raj to look into this matter.
- The State Government must put in place a system of independent local body ombudsmen: FC-XIII recommended that states put in place a system of independent local body ombudsman to look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials, and recommend suitable action. According to FC-XIII such a system should be made applicable to all elected functionaries and officials in all municipal corporations, municipalities and zilla parishads at least.