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**RURAL DECENTRALISATION AND PARTICIPATORY  
PLANNING FOR POVERTY REDUCTION**

**RAJASTHAN STATE REPORT**

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# RURAL DECENTRALISATION AND PARTICIPATORY PLANNING FOR POVERTY REDUCTION

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## *Abbreviations*

ATR	:	Action Taken Report
B	:	Backward
BE	:	Budget Estimates
BPL	:	Below Poverty Line
C	:	Comparator
C&AG	:	Comptroller and Auditor General
CAA	:	Constitutional Amendment Act
CFC	:	Central Finance Commission
CPIAL	:	Consumer Price Index for Agricultural Labourers
CPIIW	:	Consumer Price Index for Industrial Workers
CRSP	:	Central Rural Sanitation Programme
CSS	:	Centrally Sponsored Schemes
DDP	:	Desert Development Programme
DPAP	:	Drought Prone Areas Programme
EFC	:	Eleventh Finance Commission
FY	:	Financial Year
GOI	:	Government of India
GP	:	Gram Panchayat
GS	:	Gram Sabha
HCR	:	Head Count Ratio
HDI	:	Human Development Index
IAY	:	Indira Awaas Yojana
IWDP	:	Integrated Wastelands Development Programme
JP	:	Janpad Panchayat
MLA	:	Member of Legislative Assembly
MP	:	Madhya Pradesh
MPLADS	:	Member of Parliament Local Area Development Scheme
NAS	:	National Account Statistics
NFFWP	:	National Food for Work Programme
NIPFP	:	National Institute of Public Finance and Policy
NIRD	:	National Institute of Rural Development
NREGS	:	National Rural Employment Guarantee Scheme
NSSO	:	National Sample Survey Organisation
PCA	:	Principal Component Analysis
PCY	:	Per capita Income
PRI	:	Panchayati Raj Institutions
PUCL	:	People's Union for Civil Liberties
RSVY	:	Rastriya Sam Vikas Yojana
SC	:	Scheduled Caste
SFC	:	State Finance Commission
SGRY	:	Sampoorna Grameen Rozgar Yojana
SGSY	:	Swarnjayanti Gram Swarozgar Yojana
SRSWR	:	Simple Random Sampling with Replacement
ST	:	Scheduled Tribe

TFC : Twelfth Finance Commission  
TOR : Terms of Reference  
ULBs : Urban Local Bodies  
UNDP : United Nations Development Programme  
ZP : Zilla Panchayat



## PREFACE

Under the terms of UNDP project No. IND/03/020 titled “Rural Decentralization and Participatory Planning for Poverty Reduction”, executed through the Planning Commission over the period 1 March, 2004 to 31 December, 2007, a study was assigned to NIPFP in January 2006. Under the terms of reference, enclosed as annex 1 in the overall report. NIPFP undertakes to present one overall report and four state reports covering the states Chhattisgarh, Madhya Pradesh, Orissa and Rajasthan.

The inception report was presented before the members of the Steering Committee on 17 April 2006. The minutes of that meeting confirmed the list of deliverables due.

The study team was led by Professor Indira Rajaraman. The members of the team were: Dr. C. Bhujanga Rao, Dr. Manish Gupta, Dr. O.P. Bohra and Dr. Pratap Ranjan Jena.

The team worked as a whole on the entire project. Individual responsibility was assigned as follows:

Overall Report of Four States	Prof. Indira Rajaraman
Chhattisgarh	Dr. Manish Gupta
Madhya Pradesh	Dr. C. Bhujanga Rao
Orissa	Dr. Pratap Ranjan Jena
Rajasthan	Dr. O.P. Bohra

A presentation of findings at UNDP premises was held on 11 December 2006, organised by Mr. Pradeep Sharma, Assistant Resident Representative of the UNDP.

Subsequently the findings for each state were presented formally in the state capitals of these four states on the dates indicated below, by a two-member team in each case. Senior state government officials from the relevant departments attended these presentations.

Bhubaneswar	10 April 2007
Jaipur	18 May 2007
Raipur	25 May 2007
Bhopal	29 May 2007

Suggestions made by officials and non-governmental organisations attending have been incorporated in the final report.

The appendix to this preface lists those in Rajasthan who helped with discussions, suggestions, and the fieldwork. They are warmly thanked.

The members of the Governing Body of the National Institute of Public Finance and Policy are in no way responsible for the opinions expressed in these reports.

December 2007  
New Delhi

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## Appendix

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# **RURAL DECENTRALISATION AND PARTICIPATORY PLANNING FOR POVERTY REDUCTION**

## **FINAL REPORT: RAJASTHAN**

### **1. INTRODUCTORY**

#### **1.1 OBJECTIVES AND METHODOLOGY**

This study is part of a larger United Nations Development Programme (UNDP) project<sup>1</sup> carried out under the auspices of the Planning Commission, Government of India. The UNDP project is operational in character, with a largely capacity building focus, and pilot participatory approaches at the village level. It is expected to converge with other UNDP supported programmes for capacity building of elected women functionaries and the District Governance programme. This National Institute of Public Finance and Policy (NIPFP) study has a research rather than operational orientation.

While the UNDP project covers 9 backward districts in the states of Chhattisgarh, Madhya Pradesh, Orissa and Rajasthan, this NIPFP study is confined to the three backward districts (Banswara, Dungarpur and Jhalawar) receiving RSVY (Backward Area Development Fund with effect from 2006-07) support in the state of Rajasthan.

However, the NIPFP study was extended to other areas of the state with lower deprivation characteristics so as to yield a more varied set of findings with respect to panchayat functioning. Two districts, viz., Jhunjhunun and Jodhpur were added on the basis of principal component analysis (PCA), with the objective of including less deprived districts. Since the selection of district was, on a non-random basis, the results from the sample survey cannot statistically hold for the state as a whole. However, the results from the cluster of backward districts could be juxtaposed against those from the cluster of comparator districts, to provide a range for each variable of interest.

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<sup>1</sup> No. IND/03/020.

Annex 1 of the overall report lists the terms of reference (TOR) between UNDP and the National Institute of Public Finance and Policy, for convenience it has been reproduced here. Five project objectives enunciated are:

- i. To quantify the present state of expenditure assignment in Rajasthan, so as to define the boundaries of functional responsibilities assigned to Panchayati Raj Institutions (PRIs), and assess this against the functional devolution visualised in the constitutional amendments.
- ii. To assess the present state of implementation of State Finance Commission recommendations.
- iii. To assess the present state of revenue assignment.
- iv. To assess the present composition of revenue receipts by source (Centre/state/own) and thereby the present state of intergovernmental transfers.
- v. To assess the utilisation of receipts by PRIs, and thereby the state of fiscal monitoring in Rajasthan.

The following sources define the methodological approach:

- a. Budgets of the respective states for financial year (FY) 2006-07 budget estimates (BE) to quantify the functional devolution in place.
- b. The Central Budget, also for FY 2006-07 (BE), will be used to quantify the share of Central flows to the rural sector actually going directly to panchayats.
- c. Data from field survey covering 179 sample gram panchayats, 20 panchayat samitis, and 5 zilla parishads in Rajasthan. An initial set of three backward districts were pre-selected by UNDP. An additional set of districts were required by the terms of the project, with lower deprivation characteristics, so as to yield a more varied set of findings with respect to panchayat functioning. Two such districts were accordingly selected from a ranking of districts in Rajasthan using principal component analysis. Within the selected districts, the sample panchayats were selected in accordance with standard sampling procedures. Details on the sample selection procedure are in chapter 2 of this report.
- d. State Finance Commission (SFC) Reports together with Action Taken Reports (ATR), and functional devolution circulars issued by the respective states.

The field survey itself has two components:

1. There is a questionnaire on the panchayat as an institution, where the targeted respondent was either a panchayat elected official, or the panchayat secretary. Three questionnaires, one for each of the three tiers in the panchayat structure,

are appended to the overall report as annexes 3, 4, and 5 for the gram panchayat (GP), janpad or block panchayat (JP) or panchayat samiti (PS), and zilla panchayat/zilla parishad (ZP) respectively. This questionnaire ascertains the composition of the elected body, institutional aspects of their functioning such as frequency of meetings and interaction with gram sabhas, the quantum and seasonal timing of fund flows received from the Central and state schemes, performance of agency functions with respect to these schemes from data on fund utilisation, awareness of the extent of their fiscal domain, own revenues actually raised, and finally, willingness to raise further revenues through the contingent valuation method. The focus in terms of detail of information collected as well as sample size is at gram panchayat level, where executive authority is vested, but there is a smaller sample covering panchayats at the middle and district tiers.

2. There is a questionnaire on the main village of every sample GP, which is Part II of the GP questionnaire (annex 3 of the overall report). The information includes information on the degree of ethnofractionalisation, number of households below the poverty line, number of *kutcha* and *pucca* structures, type/s of water sources and distance/s to them, distance to fuel wood source, sanitation and solid waste disposal status, water conservation practices, street lighting, distance to primary and secondary education facilities, and details on the functioning of these facilities, distance to primary health centre and the functioning of these, and law and order.

Table 1.1 summarises the structure of this report also indicating the TOR objective, and the methodology used.

**Table 1.1: Summary of Contents**

<b>Overall report</b>	<b>Four state reports</b>	<b>Objectives</b>	<b>Methodology</b>
Chapter 1	Chapter 1	Introductory	
Chapter 2		TOR (i)	a
	Chapter 2	Sample selection procedure for field survey	
	Chapter 3	TOR (i), (ii), (iii)	d
Chapter 3	Chapter 4	TOR (iii)	c,d
Chapter 4	Chapter 5	TOR (iv)	b,c
Chapter 5	Chapter 6	TOR (v)	c
Chapter 6	Chapter 7	Concluding	

The two basic sources of intergovernmental fund flow to panchayats are the state government, and the Centre. Although the constitutional amendments were enacted at the Centre, it is at the level of the state where authority for expenditure assignment and devolution of functions to panchayats is fundamentally vested. No devolution of functions is expected from the Centre to states. A list of 29 functions is listed in a schedule attached to the constitutional amendment defining the universe of state functions for which devolution to PRIs are suggested. These are listed in chapter 2. table 2.1 of the overall report.

Chapter 2 of this report for Rajasthan provides details on the principal component analysis through which the comparator set of two districts were selected, along with the sampling design used for the field survey. Tests for consistency of this generated ranking with respect to two other rankings, one by per capita income (PCY), and the other by the Human Development Index (HDI) show that the PCA ranking is statistically different from those other rankings. The chapter also has a section on the mode of identification of Below Poverty Line (BPL) households in Rajasthan.

Chapter 3 sets out the present status of implementation of the recommendations of State Finance Commissions, the setting up of which at five-yearly intervals is among the mandated requirements of the constitutional amendments.

Chapter 4 collates such information as is available from secondary sources on own-revenues collected by PRIs for the period 1991-2003. The chapter also presents a comparative picture of sources of revenue for PRIs for the year 2002-03 from the report of the Twelfth Finance Commission (TFC), as a basis of comparison for data from the field survey for the year 2005-06.

Chapter 5 covers fund flows to PRIs from the Centre, which have two components. One component consists of flows to state governments. This includes flows mandated by the Twelfth Finance Commission for the period 2005-10, and by the Eleventh and Tenth Finance Commissions, for the preceding quinquennia. These get incorporated within the consolidated fund of the states, the share of which going directly to panchayats already stands identified in chapter 2 of the overall report. The second component of the Central flows to rural areas bypasses state government and is in two categories. One sub-component goes directly to the PRIs. The second sub-component bypasses PRIs and is spent through other implementing agencies specific to Central schemes. The sources used for this chapter will be the Budget of the Centre for the fiscal year 2006-07, supplemented by field survey data from the recipient end, which will pertain to the fiscal year 2005-06.

Chapter 6 will assess the utilisation of receipts by PRIs, and thereby the state of fiscal monitoring in Rajasthan.

Chapter 7 concludes the report.

The next sub-section of this introductory chapter provides a brief overview of the status of PRI legislation in the state of Rajasthan.

## 1.2 FORMAL STATUS OF DECENTRALISATION TO PRIs IN RAJASTHAN

This section of the chapter discusses the formal status of decentralisation in the state of Rajasthan.

Rajasthan has amended its Panchayati Raj Act in 1994 to conform to the seventy-third constitutional amendment. Prior to the 73<sup>rd</sup> constitutional amendment, the PRIs in Rajasthan were governed by the Rajasthan Panchayati Raj Act, 1953, which was first amended in 1959, and then in 1994.

The number of panchayats at the village, block, and district levels are shown in table 1.2, and the electoral history in table 1.3.

**Table 1.2: Panchayati Raj Institutions at the Three Tiers**

Gram panchayats	Intermediate panchayats	District panchayats	Total
9189 (39)	237 (7)	32	9458

**Source:** Ministry of Panchayati Raj, Government of India, 2004.  
<http://panchayat.nic.in>

**Note:** The figures are with reference to 1 April, 2004. Those in parentheses indicate the number of GPs per intermediate panchayat, and the number of intermediate panchayats per ZP.

**Table 1.3: Elections to Panchayati Raj Institutions**

First	Second	Third
1995	January 2000	January 2005

**Source:** *Ibid.*

The number of elected representatives at the village level were 12. At the block level, there were 22 elected representatives, and at the district level these numbered 32. One-third of all seats are reserved for women.



A State Finance Commission at quinquennial intervals is among the mandated requirements. Rajasthan has constituted its third SFC.<sup>2</sup> The principal task addressed by SFCs pertains to settling the share of PRIs in the state revenues.

In Rajasthan, the first SFC recommended 1.68 percent of net state own tax revenue to the PRIs, whereas the second SFC recommended 1.72 percent of net own tax revenue (excluding entertainment tax), and 1 percent royalty on minerals across all three tiers. The state has implemented the major recommendations of the first and second SFCs. An interim devolution of 1.70 percent of net state tax revenues for 2005-07 recommended by the third SFC has also been considered by the state government.

The first and second SFC reports of Rajasthan have not made substantive recommendations in respect of expanding the fiscal domain of PRIs. Taxation rights are principally vested at GP level, with possibly superimposed cesses going to the PS or ZP. The principal own tax is on *pucca* houses, with possible add-ons such as the lighting or drainage tax. There is also an assortment of non-tax revenue sources, where these are often of far greater significance than tax revenues. Details about the SFCs recommendations are discussed in chapter 3.

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<sup>2</sup> The Third SFC of Rajasthan has submitted its Interim Report on February 17, 2006, covering two years (2005-06 and 2006-07) of recommendations for the devolution.

## **2. SAMPLE SELECTION FOR THE FIELD SURVEY**

In this chapter, details pertaining to the Principal Component Analysis used for the selection of two comparator districts along with the sampling design used for the field survey in Rajasthan are elaborated.

### **2.1 THE FINAL SAMPLING UNIT**

The main focus of the study is on Panchayati Raj Institutions (PRIs), which following the 73<sup>rd</sup> Constitutional Amendment in 1993 are expected to carry the burden of effective delivery of anti-poverty programmes in the rural areas of the country, where a large majority of poor reside. In order to examine the functioning of the decentralised government in the rural areas and the effectiveness of its service delivery, the focus of the study is mainly on the gram panchayats where the executive authority is vested. It is, therefore, the panchayat, and not the household which forms final sampling unit of this study. By excluding/ignoring the households' perception on the functioning of local governments some important information from the beneficiaries' point of view is undoubtedly lost, but due to limited time and finances, the study has limited itself only to the survey of panchayats as an institution which forms the final sampling unit of the study. Within the three tiers of panchayats, the major focus is on the functioning of the lowest tier, the gram panchayat. In addition to the gram panchayat, there is a smaller sample covering the panchayats at the middle (janpad panchayat/panchayat samiti) and district (zilla panchayat/parishad) tiers.

The instrument of survey is a questionnaire on the panchayat as an institution. Three questionnaires, one for each of the three tiers in the panchayat structure i.e., for the gram panchayat (GP), panchayat samiti (PS), and zilla parishad (ZP) are prepared. These questionnaires ascertain the composition of the elected body, institutional aspects of their functioning such as the quantum and seasonal timing of fund flows received from the Central and state schemes, performance of agency functions with respect to these

schemes from data on fund utilisation, awareness of the extent of their fiscal domain, and own-revenues actually raised.

As the focus in terms of detail of information collected as well as sample size is on the gram panchayat level, a more detailed questionnaire is prepared for the GPs. The GP questionnaire has two components. Part I of the GP questionnaire deals with the institutional aspects of the functioning of the GP, such as, frequency of meetings, interaction and participation in the *gram sabhas*, the quantum and seasonal timing of fund flows received from the Centre and the state under various schemes, performance of agency functions with respect to these schemes from the data on fund utilisation, awareness of the extent of their fiscal domain, and own-revenues actually raised. This section also collects information on the willingness of the panchayats to address local needs by raising resources from the people. Part II of the GP questionnaire is focused on the main village of every sample GP. The main village refers to the village where the GP office is located. In this section of the questionnaire, the information sought includes information on the number of households below the poverty line, number of *kutcha* and *pucca* structures, type/s of water sources and distances to them, sanitation and solid waste disposal status, water conservation practices, street lighting, distance to primary and secondary education facilities, and details on the functioning of these facilities, distance to nearest health facility, functioning of these, and law and order situation in the village. The GP, PS and ZP questionnaires are seen in annexes 3, 4, and 5 of the overall report respectively.

## **2.2 SELECTION OF DISTRICTS**

The selection of districts forms an important component of the present study. In Rajasthan, the project is confined to the districts of Banswara, Dungarpur, and Jhalawar. These are the poorest districts in the state receiving RSVY support. The set (of 3 districts) was subsequently extended to include two districts from other areas of the state with lower deprivation characteristics, so as to reach a more varied set of findings with respect to panchayat functioning. This new set is termed as the comparator districts in the report.

It is important to note here that since the selection of districts in the state was, by the very terms of the project, done on a non-random basis, the results from the sample survey cannot statistically hold for the state as a whole. However, the results from the cluster of backward districts could be juxtaposed against those from the cluster of comparator districts, to provide a range for each variable of interest.

**Table 2.1: List of Indicators Used for District Selection**

<b>Name of the indicator</b>	<b>Unit of measurement</b>	<b>Name of the indicator</b>	<b>Unit of measurement</b>
Per capita income	Rupees	Density of population	Person per sq km
Infant mortality rate	Per thousand live births	Crude birth rate	Births per thousand population per annum
Rural female sex ratio (0-6 yrs)	Females per 1000 males	SC & ST population as percent to total population	Percent
Households having electricity, water and toilet facilities	Percent	Households without electricity, water and toilet facilities	Percent
Rural work force participation rate	Percent	Female work participation rate	Percent
Agricultural labour	Percent	Rural literacy	Percent
Enrolment ratio in the age group 5-14 yrs	Percent	Rural households below the poverty line	Percent

The selection of the additional districts was based on a number of indicators. Table 2.1 gives a list of the indicators used. As the number of indicators involved is large and diverse, it would be useful to represent them in some kind of an index. For this, the method of principal component analysis is used (annex 1 briefly sets out the technique).<sup>1</sup> Having derived the principal components the next step involves constructing an index (a weighted index) from them using the proportion of total variations absorbed or accounted for, by these principal components as weights. The index thus derived is a composite of all the indicators, and is clearly a better measure to rank the districts or evaluate their performances on a comparative basis. The districts are then ranked on the basis of this newly constructed index (the complete ranking of the districts in Rajasthan is shown in annex 2). The selection of the comparator districts based on ranking by principal component analysis yields a benchmark set with lower deprivation characteristics

<sup>1</sup> Using SPSS ver. 11.0.0 software.

although, their location with respect to the backward districts set by per capita income alone, or HDI alone, may not necessarily mark them as less deprived.

The district wise ranking thus obtained is now compared with the ranking based on per capita income to see if there exists any relation between the two. A separate exercise is also carried out to compare PCA based district ranking with those obtained using the HDI. The Spearman's rank correlation coefficient ( $\rho$ ) tests for the null hypothesis  $H_0: (\rho = 0)$  i.e., there is no relation between the two rankings against the alternative hypothesis  $H_1: (\rho > 0)$  or  $H_1: (\rho < 0)$  i.e., there is a positive (or negative) relation between the two rankings. The results are tabulated in table 2.2. From table 2.2, one can infer for Rajasthan, the null hypothesis of no correlation between our ranking and the rankings on the basis of per capita income and human development index cannot be rejected.<sup>2</sup>

**Table 2.2: Test for Ranks**

	Rajasthan	
	PCA Vs PCY rank	PCA Vs HDI rank
Rank Correlation Coefficient	-0.3079	0.4047
t-value (estimated)	-1.7727	2.4240
t-value (observed) ( $\alpha = 0.01$ )	-2.457	2.457
Degrees of freedom	30	30
<b>Outcome</b>	Null Hyp not rejected	Null Hyp not rejected

Source: Authors' calculation

On the basis of principal component analysis the districts of Jhunjhunun and Jodhpur were added to the existing list of pre-assigned backward districts in Rajasthan. Therefore, the selected districts are Banswara, Dungarpur, Jhalawar, Jhunjhunun and Jodhpur. Table 2.3 shows the entire set of selected districts in the state.

<sup>2</sup> For the other three states of Chhattisgarh, Madhya Pradesh, and Orissa also the null hypothesis of no correlation between our ranking and the rankings on the basis of per capita income and human development

**Table 2.3: Selected Districts in Rajasthan**

<b>Total districts</b>	<b>Sample districts</b>		<b>PCA ranks</b>
	<b>Backward</b>	<b>Comparator</b>	
32	Jhalawar		26
	Banswara		31
	Dungarpur		32
		Jhunjhunun	2
		Jodhpur	12

**Source:** Authors' calculation

**Notes:** The backward districts are the initial pre-assigned districts while the comparator districts are the districts which were later added on using PCA rankings.

### 2.3 SAMPLE SELECTION WITHIN SELECTED DISTRICTS

From the selected districts the lower tiers namely, the block panchayats (i.e., panchayat samitis) and gram panchayats had to be identified. The sample target was 50 percent of the blocks in each of the selected districts. A total of 78 blocks were selected in the four states of Madhya Pradesh, Chhattisgarh, Rajasthan and Orissa. For the purpose of selection of gram panchayats, on an average 10 gram panchayats per block were selected. The total number of GPs in the selected blocks thus worked out to 6301 (see annex 6 of the overall report). Thus a total of 780 GPs are selected from 6301 GPs. This yields a sample selection percentage to 12.38 for the GPs.

In Rajasthan, there exist a total of 36 blocks in the targeted districts, of which 19 are in the three backward districts, while the remaining 17 are in the comparator districts. Table 2.4 provides information on the number of blocks in the selected districts of the state. The sample target was to be no more than 50 percent of the blocks in each of the selected districts. Therefore, out of the total of 36 blocks in the state, 20 were selected, 11 from the backward districts and 9 from the comparator districts. In Rajasthan the proportion of blocks to be selected from the total worked out to be 0.556. The number of sample blocks in each of the selected districts in Rajasthan is given in table 2.4.

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index, cannot be rejected, with a single exception. Those interested could refer to the relevant section of the respective state reports.

Once the number of blocks in each of the districts were picked, they were placed within the district circular system in an ascending order by identifying the number of gram panchayats in each block. Annex 3 gives the names of the selected blocks in the five selected districts in Rajasthan.

**Table 2.4: Selection of Blocks (i.e., Panchayat Samitis)**

State	Total blocks in selected districts			Selected blocks			Percent (7)/(4)
	Backward	Comparator	All	Backward	Comparator	All	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Rajasthan</b>	<b>19</b>	<b>17</b>	<b>36</b>	<b>11</b>	<b>9</b>	<b>20</b>	<b>55.56</b>
Jhalawar (B)	6	-	6	3	-	3	50.00
Banswara (B)	8	-	8	5	-	5	62.50
Dungarpur (B)	5	-	5	3	-	3	60.00
Jhunjhunun (C)	-	8	8	-	4	4	50.00
Jodhpur (C)	-	9	9	-	5	5	55.56

Source: *Ibid.*

Note: B = Backward districts.

C = Comparator districts.

Taking 12.38 percent of the total of GPs from the selected backward and comparator blocks in Rajasthan yielded the GP sample size of 179 in the state as shown in table 2.5. Thus, in Rajasthan the GP sample size is 179 of which 101 are from the backward blocks and 78 from comparator blocks.

**Table 2.5: Selection of Gram Panchayats in Rajasthan**

Total gram panchayats in selected districts			Sample gram panchayats			Percent (6)/(3)
Backward	Comparator	All	Backward	Comparator	All	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
814	627	1441	101	78	179	12.42

Source: *Ibid.*

The selection of blocks from the backward and comparator districts was followed by identification of GPs in each of these blocks. Taking the proportion of GPs to be selected to the total number of GPs in the selected blocks and with the application of this proportion to each block, the number of GPs to be selected in each of the selected block

was arrived at. Given the listing of GPs in each of the block, simple random sampling procedure with replacement (SRSWR) was effected. The names of the finally selected GPs from each of the selected blocks in the five selected districts of Rajasthan are seen in annex 3.

As the selection of the district was through a non-random procedure, the results from the survey cannot statistically hold for the state as a whole. However, the results from the cluster of backward districts will be juxtaposed against those from the cluster of comparator districts, to provide a range for each variable of interest.

## **2.4 DEFINING POVERTY**

The conceptual approach to measurement of poverty in India is based on the personal expenditure that enables an individual to meet a certain minimum consumption level. People who are unable to attain the specified level of expenditure are considered to be poor. While estimating the incidence of poverty, it is opt to first define a poverty line that separates poor from non-poor. The poverty line is quantified by keeping a monetary amount equivalent of the minimum required consumption levels as a benchmark. The population having per capita consumption expenditure levels below the level defined by the poverty line is counted as poor. Poverty line is applied to the NSSO household consumer expenditure distributions as available from various rounds to estimate the incidence of poverty. The poverty ratio, also known as head count ratio (HCR) is estimated separately for rural and urban areas by taking the ratio of people living below the poverty line and the total population.

The HCR estimated by the Planning Commission gives the number (and proportion) of poor in the country to facilitate in examining the issue of poverty reduction as a plan objective in an overall macroeconomic context and is being used for evaluating development programmes and allocation of funds for poverty alleviation programmes. To identify households living below the poverty line a 'Below Poverty Line' (BPL) census is carried out in rural areas by the Ministry of Rural Development. This is aimed at assisting



them in drawing specially designed anti-poverty programmes by providing productive assets, credit, skill improvements/training and employment.

The incidence of poverty in rural areas based on NSSO household consumer expenditure survey, and BPL census based on a comprehensive household survey are two independent approaches for poverty estimates vide different methodologies that yield dissimilar series of poverty data for rural areas.

#### **2.4.1 Poverty Estimates by the Planning Commission**

The methodology to estimate poverty in India has undergone several changes following the recommendations of various expert groups set up from time to time by the Indian Planning Commission. The first attempt in this direction was attempted by a working group set up in a seminar on 'Some Aspects of Poverty' in 1962 that estimated the poverty line at Rs. 20 and Rs. 25 per capita, per month, for rural and urban areas respectively at 1960-61 prices based on minimum normative food basket. Other independent studies to derive a poverty line during 1970s were also undertaken.<sup>3</sup> The Task Force (1979) set up by the Planning Commission used calorific norms recommended by the Nutritional Expert Group (1968) to estimate poverty line at Rs. 49.09 per capita per month for rural areas and Rs. 56.64 per capita per month for urban areas at 1973-74 prices. Subsequently, Planning Commission, using the Task Force methodology estimated the proportion and number of poor for rural and urban areas at national and state level based on the NSSO consumption expenditure survey after an interval of five years. The estimates for the years 1972-73, 1977-78, 1983-84 and 1987-88 are available.

The Planning Commission set up another expert group in 1989 to suggest an alternative estimation methodology. The expert group, however, retained the 1973-74 poverty line estimated by the Task Force-Rs. 49.09 (rural) and Rs. 56.64 (urban) at all

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<sup>3</sup> Dandekar and Rath (1971) estimated poverty line at Rs.15 and Rs.22.50 per capita per month in rural and urban areas respectively at 1960-61 prices taking an average calorie norm of 2250 calories per capita per day for both rural and urban areas.

India level anchored in the recommended per capita daily intake of 2400 calories and 2100 calories for rural and urban areas respectively as base year estimates. The base year state-specific poverty lines were derived using adjusted consumer price indices for 1973-74 corresponding to the all India poverty line to reflect the observed differences in the cost of living index. The state-specific poverty lines were then moved with the state-specific price indices obtained for the latter years. The expert group prepared poverty estimates for the years 1973-74, 1977-78, 1983, 1987-88, and 1993-94 using different rounds of NSSO consumer expenditure survey data. These estimates were released in March 1997 and replaced the earlier released series.

The differences in the methodology set out by the expert group from the 1979 task force are:

- Discontinuation of the practice of adjustment of NSSO data on aggregate private consumer expenditure, practiced earlier to make it compatible with that of National Accounts Statistics (NAS) data.
- Use of state specific poverty line instead of one all-India poverty line.
- Use of state specific cost-of-living indices for updating poverty line for rural and urban areas separately. The expert group used consumer price index for agricultural labourers (CPIAL) for rural households and the consumer price index for industrial workers (CPIIW) for urban households.

The Planning Commission, subsequently, estimated the incidence of poverty for the year 1999-00 using the methodology of the expert group. The 1999-00 poverty estimates are based on the 55 round quinquennial sample survey on household consumer expenditure by the NSSO. The national poverty lines in terms of per capita per month were estimated as Rs. 327.58 and Rs. 454.11 respectively for rural and urban areas in 1999-00.

The rural poverty ratio and rural poverty line for the four states for the year 2004-05 are given in table 2.6 along with the rural poverty ratio of 1999-00, based for both years on the mixed recall period (MRP; see notes to table). There was a sharp decline

from 1999-00 to 2004-05 in Madhya Pradesh and Chhattisgarh. Rajasthan on the other hand had a marginal increase from 13.7 percent to 14.3 percent in 2004-05. The relative ranking of the states for 2004-05 remains the same for both recall periods.

**Table 2.6: Rural Poverty Ratio and Rural Poverty Line**

	<b>HCR (%) MRP (1999-00)</b>	<b>HCR (%) MRP (2004-05)</b>	<b>HCR (%) URP (2004-05)</b>	<b>Rural poverty line (Rs. per capita/month) (2004-05)</b>
Madhya Pradesh	37.06	29.8	36.9	327.78
Chhattisgarh*		31.2	40.8	322.41
Rajasthan	13.74	14.3	18.7	374.57
Orissa	48.01	39.8	46.8	325.79
<b>All India</b>	<b>27.09</b>	<b>21.8</b>	<b>28.3</b>	<b>356.30</b>

**Source:** Government of India, 2007. Estimates based on the 61<sup>st</sup> round of the NSS.

**Notes:** \* Chhattisgarh until 1999-2000 was a part of Madhya Pradesh. Poverty estimates therefore in 1999-2000 for Madhya Pradesh also hold good for Chhattisgarh.

**HCR:** Head count ratio.

**MRP** stands for poverty estimates using a mixed recall period, varying by type of consumable, used exclusively in the 1999-00 survey, and alongside an alternative uniform recall period (URP) for all consumables in the 2004-05 survey. The URP estimates for 2004-05 are comparable only with those from the 1993-94 (and prior) surveys, which used only the URP. Annex 4 provides details on poverty estimates from previous surveys.

#### **2.4.2 Identification of BPL Households**

The Ministry of Rural Development has been conducting BPL surveys at regular intervals of five years typically at the beginning of the five year plan periods. The BPL surveys were carried out in 1992, 1997 and the latest survey relates to the year 2002. However, owing to Supreme Court's intervention in response to a writ petition, there is some delay in the finalisation of the 2002 BPL list. The 1997 BPL survey results are still being used for various poverty alleviation programmes.

In response to a writ petition by People's Union for Civil Liberties (PUCL) the Supreme Court in 2003 ruled out the removal of any person from the existing BPL list till the Court came up for another hearing. The objective of the PUCL petition was to effectively implement Central and centrally sponsored schemes to prevent starvation deaths and malnutrition in the calamity affected rural areas and other backward areas and

not deprive the existing BPL families from being placed on the new list so that they continue to avail benefits from various government schemes. In accordance with the Court's ruling, the Government of India advised the state governments not to finalise the BPL list till the next hearing of the apex court. The BPL list would include or exclude families on the basis of guidelines and criteria fixed for the census by the government. On further advice from the Solicitor General, the Ministry of Rural Development has asked the state governments to finalise the BPL list based on 2002 census along with a new list providing details of families who were in the erstwhile BPL list of 1997 but are getting excluded in the new census.

The first BPL survey was executed in 1992 in which a simple schedule was to collect data on household income and on the basis of all-India poverty line, households living below this poverty line were identified. The survey resulted in a rather uncomfortable high estimate of rural poverty of 52.59 percent at the national level, and in some states it yielded estimates that crossed 60 to 70 percent. The Ministry of Rural Development set up an expert group to recommend modified methodology for the next BPL survey.

The 1997 BPL survey moved on to a two-stage methodology. The survey schedule comprised two parts, Part-A of the schedule was designed to exclude the visibly non-poor on the basis of information on households possessing selected assets and consumer durables. After excluding the visibly non-poor, Part B of the schedule was employed for all other households to identify those living below the poverty line. Part B of the schedule collected information on household expenditures (previous 30 days), sex, educational status, social group affiliation, housing, and skill training to identify BPL households. Households having per capita consumption expenditure less than the poverty line (Planning Commission) are called as BPL households. This survey also resulted in a high rural poverty incidence of 41.05 percent, as against the Planning Commission HCR estimates of 26.10 percent in 1999-00.

The 1997 BPL survey raised major criticisms: (a) very rigid exclusion criterion (such as possession of a single ceiling fan to leave the household out of the BPL list); (b) use of poverty indices of the nearest state in the absence of state poverty line; and (c) adoption of uniform criteria that disregarded regional variations.

To improve the methodology of BPL census for the Tenth Plan, the Ministry of Rural Development constituted an Expert Group in 2001 comprising administrators, academicians, planners, and representatives from Assam, Kerala, Orissa, Rajasthan, and Uttar Pradesh. The expert group after making deliberations with other state governments/UT administrations as well as the stakeholder central ministries made several recommendations to improve the design and content of the BPL Census. Unlike the two previous surveys where income and expenditure approaches were the criteria, a 'score based ranking' of households indicating their quality of life was adopted for the 2002 survey. Both social and economic indicators were included in the process of ranking.

The BPL survey schedule of 2002 had 13 indicators including those on landholding, housing, food security, water supply and sanitation, literacy and migration (annex 5). These indicators were assigned with relevant scores on a scale of 0-4 for each household and aggregated to give the relative position of the particular household in the village. The state was given the liberty to determine the cut-off score for identifying poor households that could be uniform, or vary across districts, blocks and villages within the state. However, the states were directed to limit the number of persons living below poverty line to 10 percent higher than the Planning Commission estimates of 1999-00.

Given the differences in the methodologies adopted under the NSSO survey based poverty estimates, and the BPL survey, the results would not match and the directive to limit the BPL survey results in alignment with the Planning Commission estimates raises doubts. The efforts to generate incidence of poverty with multiple dimensions through a large number of indicators, would result in measuring the same theme in different ways (Hirway, 2003). It was also pointed out that the actual operationalisation of the BPL

survey 2002 would be difficult to execute at the village level due to village level power politics, and major subjectivity would creep into the information set. “The complexities of aggregating multiple facets of deprivation” through scoring of large number of indicators into a single index may throw up improper results (Sundaram, 2003).

From the above scrutiny of poverty estimation in India, some specific conclusions can be drawn. The latest available poverty estimates by the Planning Commission relates to the year 2004-05 that used 61 round NSSO consumer expenditure survey. The estimates indicate a reduction in the incidence of rural poverty from 27.1 percent in 1999-2000 to 21.8 percent in 2004-05.

The Ministry of Rural Development has still been using a ten year old census on BPL (1997 census) population as the basis for assisting the rural poor under various poverty alleviation programmes. Pending the final verdict from the Supreme Court, the finalisation of latest 2002 BPL list using a modified methodology remains to be implemented.

The difference between the two approaches of estimating rural poverty has been quite large, attributed to adoption of two different methodologies. The BPL household surveys in 1992 and 1997 have reported higher rural poverty as compared to the Planning Commission figures. A fresh list of BPL households surveyed without any subjectivity would improve the actual implementation of poverty alleviation programmes targeting only the deserving poor.

### **2.4.3 BPL Survey in Rajasthan**

The details about the BPL survey in Rajasthan are presented in table 2.7.

**Table 2.7: Rajasthan: District wise Percentage of BPL Households in Total Rural Households, 1997**

S. No.	Districts	% age of BPL households	S. No.	Districts	% age of BPL households
1	<b>Banswara</b>	<b>72.98</b>	18	Barmer	28.71
2	<b>Dungarpur</b>	<b>71.33</b>	19	Churu	28.62
3	Udaipur	58.02	20	Ajmer	26.50
4	Chittor	49.14	21	Jaisalmer	26.11
5	Karoli	40.81	22	Pali	24.01
6	Jalore	37.50	23	Dausa	23.38
7	Sawai Madhopur	37.47	24	Alwar	22.00
8	Bikaner	36.84	25	Hanumangarh	21.88
9	Bundi	36.02	26	Ganganagar	21.26
10	Rajsamand	35.76	27	Bharatpur	18.40
11	Dholpur	34.86	28	Nagaur	16.53
12	Bhilwara	34.72	29	Jaipur	15.53
13	<b>Jhalawar</b>	<b>33.21</b>	30	<b>Jodhpur</b>	<b>13.60</b>
14	Tonk	32.93	31	Sikar	11.43
15	Baran	32.59	32	<b>Jhunjhunun</b>	<b>10.57</b>
16	Kota	32.11		<b>Rajasthan</b>	<b>30.99</b>
17	Sirohi	31.02			

**Source:** Department of Panchayati Raj, Government of Rajasthan.

The incidence of poverty in terms of HCR according to the 1999-00 Planning Commission estimates is 15.28 percent for the state, the rural poverty being less at 13.74 percent. The derived poverty index for the state is 0.585 and the state has a relative ranking of 8 among 25 states.

As per the BPL survey carried out in 1997-98, 31.1 percent of the total rural household in the state fall below the poverty line. District wise incidence of rural poverty in terms of percentage of BPL households is given in table 2.7. Incidence of rural poverty is highest in the districts of Banswara and Dungarpur, while Jhunjhunun and Sikar have the lowest percentage of rural poor households in the state. The rural poverty in Rajasthan as evident in 1997 BPL survey seems much higher than the poverty estimates given by the Planning Commission in 1999-00. However, it is difficult to compare these statistics as the methodologies adopted in both the surveys are different.

### 3. STATUS OF SFC RECOMMENDATIONS

#### 3.1 SHARE OF STATE REVENUE AND OTHER GRANTS

##### 3.1.1 Tax Sharing

Under the provision of article 243I and 243Y of the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments, it is mandatory for each state to constitute a State Finance Commission (SFC) within one year from the introduction of the PR Act and then at the expiry of every fifth year. Accordingly, the state of Rajasthan has completed the mandate of first two rounds of SFCs (along with Action Taken Report). The state has also constituted the third SFC, which has given its interim recommendations for the years 2005-06 and 2006-07.<sup>1</sup> The devolution of resources as recommended by the first and second SFC and the interim recommendations of the third SFC are discussed in detail in the section below.

As per the constitutional provision, the vertical fiscal imbalances between the centre and the states are corrected by way of transfer of resources from the Centre to states through the instrument of Central Finance Commission (CFC). Similarly, at the state level, the constitutional provision (article 243I (a)(i) of 73<sup>rd</sup> Constitutional Amendment) provides for the distribution of the “net proceeds of the taxes, duties, tolls and fees” between the states and the panchayats.<sup>2</sup> In other words, there is provision to share the revenue from both, taxes and non-taxes.<sup>3</sup> The first SFC of Rajasthan recommended sharing of net own-tax proceeds. On the other hand the second SFC recommended divisible pool comprising of net own-tax revenue (excluding entertainment tax) and 1 percent royalty on minerals.<sup>4</sup> The first SFC has recommended a share of 1.68 percent to PRIs, whereas 1.72 percent share from net own-tax revenue was recommended

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<sup>1</sup> The third SFC was constituted on September 15, 2005. It has submitted an interim report recommending the devolution of resources for two years of 2005-06 and 2006-07.

<sup>2</sup> Article 243I (a) (i) of 73<sup>rd</sup> Constitutional Amendment indicates the principles of distribution of proceeds between state and PRIs.

<sup>3</sup> The Tenth Finance Commission in its report discussed about the concept of “Global Sharing” of all sharable union taxes between centre and the states. The EFC recommended a share of 29.5 percent of the gross revenue from all the shareable taxes put together. The Twelfth Finance Commission recommended 30.5 percent of net proceeds of all shareable union taxes

<sup>4</sup> The recommendation regarding the devolution of 1 percent royalty to the local bodies has not accepted by the state government.



by the second SFC. The third SFC in its interim report recommended devolution of 1.70 percent<sup>5</sup> of net state tax revenues to the PRIs during the first two years (2005-06 and 2006-07) of its award period.

As indicated in the table, it would be observed that there is heterogeneity with respect to the divisible pool, to be shared between the state and the panchayats. Keeping in view the heterogeneity in the divisible pool of the first and second SFC of the state, little improvement could be cited with regard to devolution of resources over the period. Similarly, the third SFC has given its interim recommendation for two years (2005-06 and 2006-07) only, therefore, no assessment with respect to devolution on improvements can be made. In addition to tax devolution, there were additional resources recommended by the SFCs. The only possible option is to assess the amounts actually transferred to panchayats as a result of SFC recommendations. The details of devolution recommended by the first and second SFC and the interim recommendations of third SFC are presented in table 3.1.

**Table 3.1: State Finance Commissions' Devolution (Divisible Pool) to PRIs**

SFC	Rajasthan
<b>First SFC</b>	
Award Period	(1995-2000)
Divisible pool	Net own tax proceeds
PRIs share (%) per annum	1.68
<b>Second SFC</b>	
Award period	(2000-05)
Divisible pool	Net own tax revenue (excluding entertainment tax) and 1% royalty on mineral
PRIs share (%) per annum	1.72
<b>Third SFC (Interim Report)</b>	
Award Period	(2005-10) Interim Report for (2005-07)
Divisible pool	Net state tax revenues
PRIs share (%) per annum	1.70

**Sources:** 1. Report of the First State Finance Commission:1995-2000, Government of Rajasthan, December 1995.  
 2. Report of the Second State Finance Commission:2000-2005, Government of Rajasthan, December 2001.  
 3. Third State Finance Commission: Interim Report, Government of Rajasthan, February 2006.

<sup>5</sup> The third SFC has recommended 2.25 percent of net state tax revenues for the devolution to local bodies. The PRIs' share works out to 1.70 percent, based on the projected population ratios of 75.7:24.3 for distribution of funds between PRIs and ULBs.

### 3.1.2 Distribution Criteria

The criteria used for *inter-se* distribution amongst gram panchayats by the first SFC can be grouped into equity and neutral indicators, backwardness, poverty indicators, and indicators of revenue effort. The 40 percent weightage was assigned to the neutral criteria, while 60 percent was assigned to equity criteria (incidence of poverty of the district), reflecting that the equity aspect is more significant. The major distribution criteria adopted by the first and second SFC of Rajasthan is presented in table 3.2.

**Table 3.2: Criteria for Inter-District Distribution**

State Criteria	Rajasthan			
	First SFC		Second SFC and the third SFC (interim)*	
	Weightage	%	Weightage	%
<b>1. Neutral Criteria</b>	40		90	
a. Population		40		80
b. Area				10
<b>2. Equity Criteria</b>	Incidence of poverty of the district 60%		Incidence of poverty 5%	
a. Poverty		Incidence of poverty of the district 50%		Incidence of poverty represented by number of families living below poverty line 5%
b. Rural SC & ST population.		10 on population in non-DDP/non-DPAP/non-TAD blocks		
c. No. of Ag. labourers				
d. Inverse of average gross value of output of agriculture per hectare				
<b>3. Indicators of Backwardness</b>			5	
a. No. of workers in registered factories (per lakh of population)				
b. Per capita consumption of power				
c. Literacy rate				5 level of literacy
<b>Distribution among GPs</b>				
a. Population				
b. Area				

Source: *Ibid.*

Note: \* The third SFC, in its interim report, has adopted the same weights and parameters for distribution of funds among the PRIs as per the second SFC.

### 3.1.3 Devolution of Grants

The second SFC recommended that at the end of the award period, undisbursed balances including interest, if any, from the incentive amount may be distributed amongst the GPs on population basis. The SFC further mentioned that the incentive amount equal to the revenue raised from the previously untapped sources of tax and non-tax should also be given to GPs. The second SFC of Rajasthan also recommended devolution of additional resources to PRIs (see, annex 6, for details).

The third SFC, in its interim report, recommended that the entire amount for the two years of 2005-06 and 2006-07 may be transferred as untied grants. This may be used for maintenance of various services performed by the PRIs. It has further specified that this fund may also be used to supplement the funds recommended by the Twelfth Finance Commission.

The transfer of additional resource recommended by the first and second SFC is given in table 3.3.

**Table 3.3: Other Recommended Grants by First and Second SFC of Rajasthan and Action Taken**

Other grants and resources	Recommendation	Action taken report
<b>First SFC</b>	Nil	NA
<b>Second SFC</b>		
Distribution of undisbursed incentive grants	At the end of the award period, undisbursed balances including interest, if any, from the incentive amount may be distributed to GPs on population basis.	Decisions would be taken after discussions with the concerned department
Incentives	Incentive amount equal to the revenue raised from untapped sources of tax and non-tax to be given to GPs. Payment of incentive amount to be made to GPs by ZPs out of incentive amount of Rs.12.57 crore which is to be transferred to their PDs account out of 0.05% share in net taxes	

Source: *Ibid.*

### 3.2 OWN REVENUE

The first and second SFC of Rajasthan has not made any specific recommendation with respect to raising of own revenue. However, the first SFC did mention about some other taxes such as, a nominal tax on *havelis* and big *pucca* houses; a nominal 10 percent tax on land rent; land revenue on *barani* land to ZPs, to be shared by PRIs in the ratio, 60 percent to GPs 25 percent to PSs and 15 percent to ZPs. And the ZPs should levy a surcharge of 1 percent on the sale of land in rural areas and ½ percent surcharge on market fee.

### 3.3 DATA, AUDITING AND MONITORING

Under the constitutional provision, the vertical fiscal imbalance between the centre and the states is corrected through the transfer of resources from centre to states. This is done through the instrument of Central Finance Commission (CFC). The TOR<sup>6</sup> of the Eleventh Finance Commission (EFC) required the EFC to make recommendations with respect to the measures needed for the augmentation of the Consolidated Fund of the States to supplement the resources of the panchayats. Accordingly, the EFC recommended devolution of resources for the maintenance of core civic services, to the panchayats through the states. Table 3.4 indicates the allocation and release of grants as per the EFC recommendations and a matching contribution to be made by the state (as per the EFC guidelines each state has to give matching contribution).

As can be observed from the table, the PRIs in the state of Rajasthan have shown utilisation of about 90 percent of the total release, which is higher than the average utilisation of 81 percent for all states, but marginally lower than the average of 91 percent for the four states under consideration.

The annual release of grants indicates that the panchayats in Rajasthan have not observed any pattern of utilisation of grants. And also, since the release was based on the

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<sup>6</sup> Paragraph 3(c) and 3(d) of the President's Order required EFC to make recommendations on the measures needed to augment the Consolidated Fund of the States to supplement the resources of the panchayats.

utilisation of the previous instalment, there was no logical pattern for annual release of grants. For instance, during the year 2003-04, absolutely no amount was released for the PRIs in Rajasthan. On the other hand, in 2004-05, the highest amount was released for PRIs in Rajasthan. The graphical presentation of the pattern of release of grants is shown in chart 3.1.

**Table 3.4: Release of Grants as per EFC Recommendation and its Utilisation**

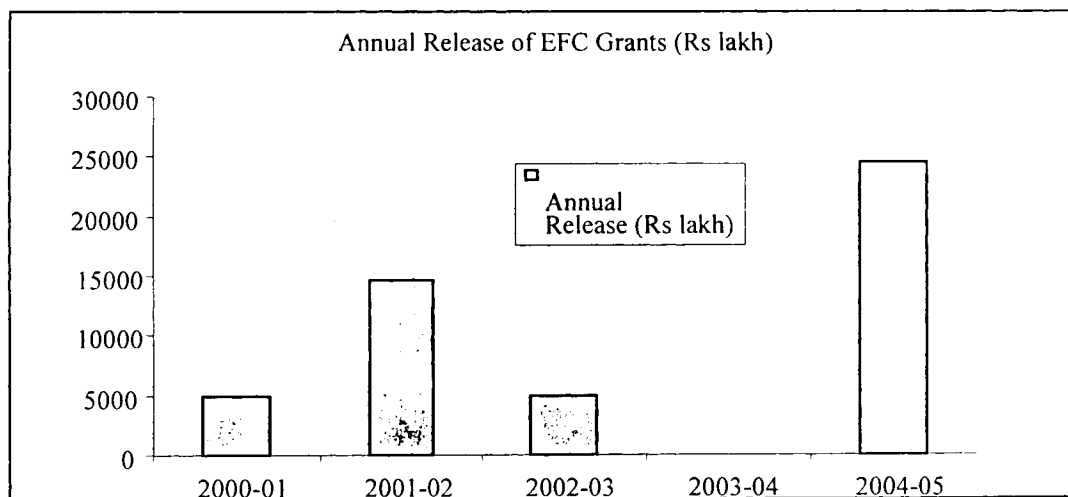
(Rs lakh)

PRIs - Desired utilisation from state govt.			PRIs - As reported by state govt.					Percent utilised (col. 8 as % of col.5)
Allocation (2000-05)	Annual Allocation	Grant released so far	Desired matching contribution 25% of grants released	Total (grants+ contributions)	Matching contribution by State / PRIs	Released to PRI's by State	Utilisation of funds by PRIs	
49094.80	9818.96	49094.80	12273.70	61368.50	11943.92	59719.58	55231.66	90.00

Source: Finance Commission Division, Ministry of Finance, Government of India, 2006.

Note: Rajasthan reported that Rs. 2575.21 lakh be provided by Local Bodies as matching contribution to PRIs.

**Chart 3.1: Pattern of Release of EFC Grants**



The EFC also expressed its concern over the poor state of maintenance of accounts and their audit at the panchayat level. It observed that at the GP and/or PS level, there is no exclusive staff for the maintenance of accounts. Towards this end, the EFC earmarked some amount (Rs 4000 per panchayat per annum) for the annual maintenance of accounts and audit.

Another problem faced by the EFC was the non-availability of data in general, and on finances of local bodies in particular. The complete absence of a database pertaining to the local level made the task of EFC more tedious, specially, while assessing the requirement of resources for the panchayats. In order to develop a proper databases of the PRIs, the Commission recommended a total sum of Rs 200 crore for all the states. Details regarding grants for the provision of maintenance of accounts and the creation of a database for the state of Rajasthan is presented in table 3.5.

**Table 3.5 Provision and Utilisation of Grants for Maintenance of Accounts and Creation of Data Base**

(Rs. lakh)

Creation of database		Maintenance of accounts & auditing				C&AG test audit is permissible
Allocation	Utilisation	Annual	Utilisation			
2000-05	Reported	% utilisation	Allocation by EFC	Reported	% utilisation	
754.08	754.08	100.00	376.84	1884.20	500.00	yes

Source: *Ibid.*

Note: More than 100 percent utilisation shown is due to inclusion of state contribution.

As observed from the table, the utilisation of grants with respect to creation of a database was 100 percent. On the other hand, the utilisation of grants provided for maintenance of accounts and their auditing was 500 percent (including state contribution). The test auditing of the panchayat accounts by C&AG is permissible under the law. With respect to the database, during the field survey, it was observed that the maintenance of a database at the GP level was not up to the mark. Also there was no indication of computerisation of the database. However, the panchayat accounts were found audited.

### 3.4 FUNCTIONAL DEVOLUTION

Details pertaining to the functional devolution as per the rules and notification of the state government are seen in annex 7.

## **4. OWN REVENUES AND STATE FLOWS**

The assessment of own revenues and state transfers to the PRIs based on secondary data and field survey of 2005-06 is discussed in the following sections of this chapter.

### **4.1 OWN REVENUES OF THE PRIs AND STATE TRANSFERS - 2002-03**

Due to lack of comprehensive national database on panchayat finances, reports of National Finance Commissions serve as the only authentic source of information. The Eleventh Finance Commission (EFC) had reported data on revenue receipts of the PRIs collected from the respective state governments for the period 1990-91 to 1997-98, which was further extended by the Twelfth Finance Commission (TFC) up to 2002-03.

The Panchayati Raj Institutions (PRIs) are marked by their poor internal revenue effort and high dependence on grants-in-aid and assigned revenues, and other specific grants from both Central and state governments.<sup>1</sup> The per capita own revenues of the PRIs during 1990-91 and 2002-03 drawn from the TFC report given in this section and the survey results for 2005-06 in selected districts of the state reported later reveal a very low level of own-revenue collection. To enable the PRIs to function as effective institutions of self-government higher internal revenue mobilisation is necessary in addition to improving their autonomy in the decision making process and their ability to plan and implement various schemes under functions assigned to them.

The own tax and non-tax revenues of the PRIs in Rajasthan from 1990-91 to 2002-03 as reported by the Eleventh and Twelfth Finance Commissions are given in table 4.1. From the table, it is observed that the share of internal revenues consisting of own tax and own non-tax revenues in total revenues has fallen from 3.22 percent in 1990-91 to 2.08 percent in 2002-03. During the period 1999-00 and 2002-03, there was virtually no change in tax and non-taxes in terms of their relative shares in own revenues.

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<sup>1</sup>Memorandum to the TFC by the Ministry of Rural Development puts the internal revenue mobilisation by the PRI at 4.17 percent of their total revenues (TFC, 2004). NIRD (2003) estimated the annual average

Own non-tax revenues were a predominant source of own revenue of the PRIs accounting for about 87 percent of the total internal revenue in 2002-03.

**Table 4.1: Own Revenue of PRIs in Rajasthan**

(Rs. crore)

Year	Own tax revenue	Own non-tax revenue	Total own revenue	Share of tax revenue in own revenue (%)	Total revenue	Share of own revenue in total revenue (%)
1990-91			24.28		754.50	3.22
1991-92			23.33		668.10	3.49
1992-93			20.84		703.50	2.96
1993-94			23.60		847.09	2.79
1994-95			25.54		1084.74	2.35
1995-96			26.36		1289.74	2.04
1996-97			32.04		1448.08	2.21
1997-98			30.75		1520.21	2.02
1998-99	3.04	28.77	31.81	9.56	1521.14	2.09
1999-00	4.70	31.92	36.62	12.83	1678.97	2.18
2000-01	4.75	32.15	36.89	12.88	1637.15	2.25
2001-02	4.79	32.35	37.14	12.90	1806.81	2.06
2002-03	4.84	32.84	37.68	12.85	1811.63	2.08

**Source:** Reports of the Eleventh and Twelfth Finance Commissions.

**Notes:** 1. The break-up of data into tax and non-tax was not available for the years 1991-92 to 1997-98.

2. Total revenue consists of total internal revenue, grants-in-aid and devolution and assignment from the state government.

The per capita own revenues of the PRIs in Rajasthan for the period 1990-91 to 2002-03 are seen in table 4.2. While the per capita total revenue of the PRIs in the state increased from Rs. 224.53 in 1990-91 to Rs.402.78 in 2002-03, the corresponding increase in total internal revenues of the PRIs in Rajasthan rose from Rs. 7.23 to Rs. 8.38 during that period. The per capita own tax and non-tax revenues during 1999-00 and 2002-03 have remained at around Re.1 and Rs. 7 respectively.

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internal revenue receipts of the PRIs for the period 1992-93 to 1997-98 at 6.34 percent of their total receipts excluding central grants.



**Table 4.2: Per capita Own Revenues of PRIs in Rajasthan**

(Rs.)

Year	Own tax revenue	Own non-tax revenue	Total internal revenue	Total revenue
1990-91			7.23	224.53
1991-92			6.78	194.06
1992-93			5.91	199.44
1993-94			6.53	234.40
1994-95			6.90	292.97
1995-96			6.95	339.98
1996-97			8.24	372.58
1997-98			7.72	381.76
1998-99	0.75	7.05	7.80	372.84
1999-00	1.12	7.64	8.76	401.67
2000-01	1.11	7.49	8.60	381.62
2001-02	1.09	7.37	8.46	411.57
2002-03	1.08	7.30	8.38	402.78

**Note:** Mid-year projected rural population were used to derive the per capita figures.

An important component of the revenue receipts of the PRIs is revenue transfers from the state government. The revenue transfers from the state to the PRIs take the form of assigned revenues and grants-in-aid. The assigned revenues primarily comprise assignment of a specific or a predetermined proportion of the principal state tax or the proceeds of a surcharge or cess levied by the state government on its principal tax for the exclusive use of the PRIs. Some states transfer a fixed percentage of their net/gross tax to PRIs as assigned revenue. The assigned revenues are allocated to one or more tiers of panchayats. The SFCs recommend a percentage of state taxes to be shared within the PRIs and the criteria for *inter se* distribution among various tiers of PRIs. Acceptance of SFC recommendations, however, is the prerogative of state governments. The grants-in-aid broadly cover establishment costs, honorariums of the elected members, some construction and maintenance of panchayat establishments, compensation grants in respect of taxes/non-taxes withdrawn from PRIs, incentive grants, and grants for specific schemes.

The composition of revenue receipts of PRIs in Rajasthan in the year 2002-03, for which the latest data is available, is given in table 4.3. While revenues generated by the PRIs from internal sources comprising of own-tax and own non-tax revenues was Rs.37.68 crore, they received Rs.1773.95 crore as assigned revenues and grants from the state government in 2002-03. The total revenue receipts of the PRIs in the state from

both internal and assigned sources amounted to Rs.1811.63 crore for the year 2002-03. The corresponding per capita revenue receipts of the PRIs works out to Rs.402.76 of which Rs.8.38 was mobilised internally while Rs.394.39 was received through state transfers.

**Table 4.3 Composition of Total Revenue of PRIs in 2002-03**

	<b>Total (Rs. Crore)</b>	<b>Per capita (Rs.)</b>
<b>A</b>		
<b>Total internal revenue (i + ii)</b>	<b>37.68</b>	<b>8.38</b>
i Own tax revenue	4.84	1.08
ii Own non-tax revenue	32.84	7.30
<b>B</b>		
<b>State transfers (i + ii + iii)</b>	<b>1773.95</b>	<b>394.39</b>
i Assignment + devolution	93.87	20.87
ii Grants-in-aid	1052.66	234.03
iii Others	627.42	139.49
<b>Total</b>	<b>1811.63</b>	<b>402.76</b>

**Source:** Report of the Twelfth Finance Commission, Government of India.  
Annual Report of Ministry of Rural Development, Government of India.

## 4.2 OWN REVENUE IN BACKWARD AND COMPARATOR DISTRICTS: SURVEY RESULTS - 2005-06

Analysis of the relevant statutes governing the PRIs in Rajasthan (Rajasthan Panchayati Raj Act 1994) indicates the broad features of the various revenue sources assigned to them. In the three-tier structure, the GPs have been endowed with more revenue raising - tax and non-tax powers, while the intermediate and the district tiers by and large have very limited revenue raising powers assigned to them. The tax and non-tax powers assigned to the three tiers of the PRIs in Rajasthan are seen in table 4.4. The GPs are assigned with taxes like the building tax, vehicle tax, octroi, pilgrim tax, and tax on commercial properties, while the panchayat samities have the power to raise revenues from taxes on rent for use of agricultural land, fairs, and primary education cess. The ZPs have even further limited sources of revenues like taxes on fairs/melas, water rate, if water is provided by the ZP and a surcharge on stamp duty. In addition to taxes, the GPs are also assigned some non-tax powers.

**Table 4.4 Tax and Non-tax Powers of the PRIs**

	<b>Taxes</b>	<b>Non-taxes</b>
Gram panchayat	<b>Section 65 of the Act</b>	<b>Section 67 of the Act</b>
	1. Building tax	1. License fees or permission fees for making any temporary use of public land.
	2. Octroi on animals or goods brought within the panchayat circle	<b>Section 68 of the Act</b>
	3. Vehicle tax	2. Application fees
	4. Pilgrim tax	3. Fees for certificate for residence, caste, income etc.
	5. Tax for arranging the supply of drinking water	4. Fees for certificate of successor for mutation
	6. Tax on commercial crops	5. Fees for no objection for electricity or piped water supply
	7. Any other tax sanctioned by the state Government	6. Fees on application for purchase of <i>abadi</i> land
	<b>Section 66 of the Act</b>	7. Fees on expenses for preparation of site plan and site inspection
	Special tax on adult male members for the construction of any public work of general utility for the inhabitants of the area	8. Fees on ration card including application form and printing
	9. Fees of registration of birth and death after 30 days	
	10. Fees for permission for building construction	
	11. Fees on addition/alteration in site plan already approved	
	12. Fees for regularisation of unauthorised construction	
	13. Fees on petrol/diesel pump	
	14. Fees on hotel, <i>dhaba</i> , automobile repair shops	
	15. Fees on any other business unit	
Panchayat samiti	<b>Section 68 of the Act</b>	
	1. Tax on the rent payable for the use or occupation of agricultural land	
	2. Tax on trades, callings, professions and industries	
	3. Primary education cess	
Zilla parishad	<b>Section 68 of the Act</b>	
	1. Fees for license for fair or mela	
	2. Water rate, where supply of water for drinking, irrigation or any other purpose made by ZP	
	3. Surcharge: <ul style="list-style-type: none"> <li>a. Upto 5% on stamp duty on sale of property in rural areas</li> <li>b. Upto 0.5 % on the market fees</li> </ul>	

**Source:** Rajasthan Panchayati Raj Act 1994.

**Notes:** 1. The panchayats require permission from the state government to levy vehicle tax and octroi at more than half percent. For other taxes, no permission is required. The commercial crops identified for the purpose of taxation by panchayats are chillies, cotton, mustard, sugarcane, zeera and groundnut.  
 2. Octroi has been abolished in the state and grant-in-aid in lieu of octroi is being given by the state government to the panchayats based on the income from octroi in the year preceding its abolition with a trend increase every year.

The PRIs have limited autonomy in choosing the types of taxes as the assignment of taxing powers are enshrined in the Panchayat Act. The taxes assigned to the PRIs in Rajasthan are optional and not obligatory. The tax rate and its base are decided by the state government, either in the relevant statute, or by an executive order. The panchayats

require permission from the state government to levy vehicle tax and octroi at more than half a percent, and the commercial crops for the purpose of taxation of panchayats are also specified. Earlier the panchayats were assigned the power to levy octroi, the tax has been abolished since and the state government gives grant-in-aid in lieu of it. The second State Finance Commission recommended that the Government of Rajasthan should examine the feasibility of converting into levy certain taxes and fees obligatory for the PRIs by amending the Panchayati Raj Act.

In addition to 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, wastelands and communal lands, orchards, tanks, markets and fairs. Income from these properties forms part of the non-tax revenue of panchayats, although where these are still owned and controlled by the line departments of the state governments, the non-tax revenue accrues 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 survey results in the state show better non-tax performance in the form of various user charges, fees and fines, and income from vested properties. The number and type of own taxes collected by the GPs in the pre-assigned backward districts and the comparator districts in table 4.5 show that in backward districts, 81.19 percent of GPs do not levy any taxes. In the selected comparator districts, the percentage is even higher at 94.87. That leaves very few GPs collecting some tax. Only 5 percent of the GPs in the comparator district and 19 percent in backward districts exploit only one source of tax revenue.

The survey results reveal that at the middle tier, all the panchayat samitis (PSs) in the comparator districts and around 60 percent in the backward districts collect some taxes. The taxes levied by the PSs in the surveyed districts in the state are the panchayat samiti tax, vikas tax and education cess. The survey results suggest that the ZPs in Rajasthan do not collect any taxes.

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

	House tax	Water tax	Other misc.	Total no. of GPs	Percent
<b>Comparator districts</b>					
0 source	0	0	0	74	94.87
1 source	0	1	3	4	5.13
<b>Total</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>78</b>	
	(0)	(1.28)	(3.85)		
<b>Backward districts</b>					
0 source	0	0	0	82	81.19
1 source	1	1	17	19	18.81
<b>Total</b>	<b>1</b>	<b>1</b>	<b>17</b>	<b>101</b>	
	(0.99)	(0.99)	(16.83)		

Source: Authors' calculation.

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

2. Percentages in the bottom row do not add up to 100.

Table 4.6 provides information on the number and type of non-tax revenue sources of the GPs in Rajasthan. From the table it is observed that around 36 percent of GPs in both the districts clusters in the state do not collect any non-tax revenues. Around 60 percent of the GP in the comparator and 59 percent in the backward districts exploit only 1 or 2 own non-tax sources. Among the various non-tax sources, the important ones are property rental and lease income, and interest receipts. Around 18 percent of the GPs in the comparator districts and 28 percent in the backward district can access property rental and lease income, while 15 percent of the GPs in the comparator and 14 percent in backward districts 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. Other sources of own non-tax revenue of the GPs include fees on issuing various certificates and for use of shops and buildings in markets and fairs, user fees on services provided by the GPs, and fines.

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

	Property rental & lease income	Interest receipts	Royalty from minor minerals	Income from forest products	Others	Total no. of GPs by source	Percent
<b>Comparator districts</b>							
0 source	0	0	0	0	0	28	35.90
1 source	7	2	0	0	21	30	38.46
2 source	8	10	0	0	16	17	21.79
3 source	3	3	0	0	3	3	3.85
<b>Total</b>	<b>18</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>78</b>	
	(23.08)	(19.23)	(0.00)	(0.00)	(51.28)		
<b>Backward districts</b>							
0 source	0	0	0	0	0	36	35.64
1 source	8	1	0	0	29	38	37.62
2 source	15	9	0	1	19	22	21.78
3 source	5	4	1	0	5	5	4.95
<b>Total</b>	<b>28</b>	<b>14</b>	<b>1</b>	<b>1</b>	<b>53</b>	<b>101</b>	
	(27.72)	(13.86)	(0.99)	(0.99)	(52.48)		

Source: *Ibid.*

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

**Table 4.7: Matrix of PSs by Number and Type of Own Non-Tax Revenues**

	Property rental & lease income	Interest receipts	License fee	Others	Total	Percent
<b>Comparator districts</b>						
1 source	0	0	0	2	2	22.22
2 source	3	1	0	4	4	44.44
3 source	3	3	0	3	3	33.33
4 source	0	0	0	0	0	0.00
<b>Total</b>	<b>6</b>	<b>4</b>	<b>0</b>	<b>9</b>	<b>9</b>	
	(66.67)	(44.44)	(0.00)	(100.00)		
<b>Backward districts</b>						
1 source	2	0	0	0	2	18.18
2 source	4	0	0	4	4	36.36
3 source	4	4	0	4	4	36.36
4 source	1	1	1	1	1	9.09
<b>Total</b>	<b>11</b>	<b>5</b>	<b>1</b>	<b>9</b>	<b>11</b>	
	(100.00)	(45.45)	(9.09)	(81.82)		

Source: *Ibid.*

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

For the PSs and ZPs in the surveyed districts in Rajasthan, property rental and lease income and interest receipts on the bank deposits are the major sources of non-tax revenue as is evident from tables 4.7 and 4.8 respectively. The 'other' category shown in

the tables consists of various non-tax revenue sources such as bone tender, and fees for issuing certificates.

**Table 4.8: Matrix of ZPs by Number and Type of Own Non-Tax Revenues**

	Property rental & lease income	Interest receipts	Others	Total	Percent
<b>Comparator districts</b>					
1 source	0	0	1	1	50.00
2 source	1	0	1	1	50.00
3 source	0	0	0	0	0.00
<b>Total</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>2</b>	
	(50.00)	(0.00)	(100.00)		
<b>Backward districts</b>					
1 source	0	0	0	0	0.00
2 source	1	1	2	2	66.67
3 source	1	1	1	1	33.33
<b>Total</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>	
	(66.67)	(66.67)	(100.00)		

Source: *Ibid.*

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

The preceding tables 4.7 and 4.8 show the number of PRIs collecting own revenues by type of source. Table 4.9 shows the shares in own-revenue collected by GPs. by source and by district. The composition of own revenues vary across districts in the state, but the following patterns emerge.

**Table 4.9: Composition of Own Revenue Sources of GPs by District**

	Comparator districts		Backward districts			(percent)
	Jhunjhunun	Jodhpur	Banswara	Dungarpur	Jhalawar	
Taxes	0.00	11.63	0.63	19.67	23.43	
Fees & fines	12.69	46.82	38.08	8.23	20.40	
Rent	16.43	32.36	41.42	60.68	4.55	
Lease & auction	5.99	0.88	3.18	2.52	5.22	
Interest	10.15	1.35	6.48	0.72	0.20	
Other sources	54.74	6.96	10.22	8.18	46.20	
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	

Source: *Ibid.*

Non-tax revenues are a dominant source of own revenues of GPs across the districts. Among the various non-tax sources, the important ones are fees and fines, rent from panchayat properties and income from lease and auctions of ponds, markets, and

orchards. In addition to these sources, interest receipts are yet another source of non-tax revenues of the GPs in the state.

**Table 4.10: Composition of Own Revenue Sources of PSs by District**

	(percent)				
	Comparator districts		Backward districts		
	Jhunjhunun	Jodhpur	Banswara	Dungarpur	Jhalawar
Taxes	21.03	38.00	15.43	9.94	11.19
Fees and fines	0.00	0.00	0.45	0.00	0.00
Rent	20.87	2.76	11.88	3.44	34.47
Lease & auction	17.62	9.14	12.57	18.37	7.16
Interest	16.90	0.08	6.79	0.00	19.39
Other sources	23.58	50.02	52.88	68.25	27.79
Total	100.00	100.00	100.00	100.00	100.00

Source: *Ibid.*

The composition of own revenue sources of the middle tier i.e. the panchayat samitis by district is given in table 4.10. The PSs in Rajasthan levy some of the assigned taxes such as panchayat samiti tax (tax on fairs), vikas tax and education cess. The education cess collected by the PSs is, in fact, levied on the state tax and is not based on the tax effort of PSs. The share of own taxes in own revenues is higher in comparator districts than in the backward districts. Among the non-tax sources of PSs, the important ones are interest receipts, income from lease and auction, and rent.

**Table 4.11: Composition of Own Revenue Sources of ZPs by District**

	(percent)				
	Comparator districts		Backward districts		
	Jhunjhunun	Jodhpur	Banswara	Dungarpur	Jhalawar
Taxes	0.00	0.00	0.00	0.00	0.00
Fees & fines	0.04	0.37			
Rent	20.62			14.35	6.06
Lease & auction	75.32			83.84	
Interest			79.15		15.19
Other sources	4.02	99.63	20.85	1.81	78.75
Total	100.00	100.00	100.00	100.00	100.00

Source: *Ibid.*

The composition of own revenue sources of ZPs illustrated in table 4.11 reveal that ZPs in Rajasthan do not raise any tax revenue, though they are assigned with some tax powers. Thus, the own revenues of ZPs mainly comprise of income from non-tax sources. Among the non-tax sources interest receipts, income from lease and auction, and



rent from panchayat properties are important revenue sources in both the backward and comparator districts.

**Table 4.12: Mean Per Capita Own Revenues Receipts of the GPs**

	Comparator districts			Backward districts			
	Jhunjhunun	Jodhpur	Average	Banswara	Dungarpur	Jhalawar	Average
Own tax	0.00	0.24	0.14	0.01	0.38	0.62	0.29
Own non-tax	2.87	2.36	2.57	1.73	1.44	1.88	1.69
Own revenue	2.87	2.59	2.71	1.75	1.83	2.49	1.98

Source: *Ibid.*

Per capita own revenues raised by the GPs in surveyed districts of Rajasthan for the year 2005-06 are presented in table 4.12. From the table it is evident that the mean per capita own tax revenues in both the backward and the comparator districts in the state are not significant. However, on an average, it is marginally higher in backward districts. As regards own non-tax revenue, the mean per capita own non-tax revenue is higher in the comparator districts vis-à-vis the backward districts. From the table it is evident that the share of mean per capita own non-tax revenue in mean per capita own-revenue is higher than that of mean per capita own tax revenue in all the surveyed districts.

The per capita own-revenue raised at the three tiers averaged over comparator and backward districts are given in table 4.13.

**Table 4.13: Mean Per Capita Own Revenues Receipts of all the Tiers**

	Comparator districts			Backward districts		
	GP	PS	ZP	GP	PS	ZP
Own tax	0.14	1.14	0.00	0.29	0.38	0.00
Own non-tax	2.57	2.11	0.16	1.69	2.33	0.44
Own revenue	2.71	3.25	0.16	1.98	2.71	0.44

Source: *Ibid.*

A comparison across the three tiers of panchayats from table 4.13 reveals that the PSs in Rajasthan collect more per capita taxes as compared to the GPs, in part because of the education cess on a state levy. These figures represent only the districts sampled, and do not yield state-level averages. However, the range roughly encompasses the per capita figures for 2002-03 from the Twelfth Finance Commission Report for Rajasthan. The

share of own tax and non-taxes in total own revenues across the three tiers given in table 4.14 shows that the share of tax revenues is higher for PSs than that of the GPs (except backward GPs).

**Table 4.14: Own Tax and Non-tax Percent to Total Own Revenues**

	Comparator districts			Backward districts		
	GP	PS	ZP	GP	PS	ZP
Own tax	8.44	35.45	0.00	13.57	13.33	0.00
Own non-tax	91.56	64.55	100.00	86.43	86.67	100.00

Source: *Ibid.*

Comparing the share of own-revenues -- both tax and non-tax in total receipts consisting of CSS funds, Central Finance Commission funds, state scheme funds and funds from the State Finance Commissions of the GPs in both the comparator and backward districts as shown in table 4.15, it is observed that, it is higher in the comparator districts vis-à-vis than in the backward districts. At the PS levels also, the share of own revenue in total receipts is higher in comparator districts. However, for ZPs the share is close to zero.

**Table 4.15: Share of Own Revenues of the PRIs in Total Funds Received**

Comparator districts		Backward districts			
GP	PS	ZP	GP	PS	ZP
2.77	2.77	0.06	0.63	0.48	0.08

(percent)

Source: *Ibid.*

### 4.3 STATE TRANSFERS IN BACKWARD AND COMPARATOR DISTRICTS: SURVEY RESULTS - 2005-06

There are certain taxes which are levied and collected by the state governments but their net proceeds are passed on to the PRIs. These are the assigned taxes. The decision as to which taxes, duties, and tolls should be assigned to the local bodies lies with the state legislature, although the SFCs can recommend transfer of any tax from the state list to local bodies.

The PRIs in Rajasthan receive a share of 2.25 percent of own net tax revenue of the state excluding the entertainment tax as assigned revenues. Out of this total amount, 0.05 percent is given as incentives for raising revenues. The PRIs also receive 1 percent of net receipts from royalty on minerals. This scheme of sharing state revenues with PRIs was recommended by the second State Finance Commission which remained valid up to 2005. The assigned revenues are distributed among the three tiers of PRIs, namely gram panchayats, panchayat samitis and zilla parishads in the ratio of 85 percent, 12 percent and 3 percent respectively. Details of *inter se* distribution of the assigned revenue in respective tiers are seen in chapter 3.

The GPs and PSs receive establishment grants, maintenance grants, incentive grants, general purpose grants, and development grants. In addition, newly created GP get a start-up grant for establishing basic infrastructure. The establishment grant covers expenses relating to staff salaries and other honorariums. Maintenance grants are spent on maintaining rural roads and school buildings. Incentive grants are cash awards for the best performing PRIs in terms of functional efficiency that is expected to promote healthy competition to excel in delivery of services. General purpose grants to PRIs are given to fulfill their basic obligation of providing various services like basic sanitation during festivals and street lighting. Under this grant a portion is earmarked as untied grants that can be spent by the PRIs as per their approved plans. The development grants are basically Central Finance Commission grants and some addition by the state government. These amounts are earmarked for spending on developmental schemes as specified by the Central Finance Commission and the schemes framed by the state government. The district level ZPs receive only two types of grants, namely maintenance and general purpose grants from state government.

A field survey of selected GPs in Rajasthan revealed that in the year 2005-06, around 19 percent of the GPs in the comparator district and 27 percent in the backward districts in the state did not receive any state schemes funds (see table 4.16). The percentage of GPs receiving at least one state scheme is higher in backward districts at 49 percent as compared to 29 percent in comparator districts. However, the percentage of GPs receiving more than one scheme is higher in comparator at 51 percent as compared to 25 percent in backward districts. Among the important state schemes received are pension schemes, MLA funds, Nal Jal Yojana, Balika Samiridhi, and Mid Day Meal. The

other miscellaneous category in the table includes schemes like *akaal rahat* (drought relief), maternity benefits, tribal area development scheme, poverty alleviation schemes, poshahar and schemes for the welfare of SC/STs etc.

**Table 4.16: Matrix of GPs by Number and Type of State Schemes**

	Pension scheme	Nal jal yojana	MLA funds	Mid day meal	Balika samridhi yojana	Guru golwalkar yojana	Other misc.	Total no. of GPs	Percent
<b>Comparator districts</b>									
0 source	0	0	0	0	0	0	0	15	19.23
1 source	2	2	8	3	0	0	8	23	29.49
2 source	1	6	15	2	6	0	16	23	29.49
3 source	1	9	13	2	4	1	12	14	17.95
4 source	0	2	2	1	3	1	3	3	3.85
<b>Total</b>	<b>4</b>	<b>19</b>	<b>38</b>	<b>8</b>	<b>13</b>	<b>2</b>	<b>39</b>	<b>78</b>	
	5.13	24.36	48.72	10.26	16.67	2.56	50.00		
<b>Backward districts</b>									
0 source	0	0	0	0	0	0	0	27	26.73
1 source	1	1	20	0	6	1	20	49	48.51
2 source	0	1	13	0	7	1	16	19	18.81
3 source	0	0	5	0	4	1	5	5	4.95
4 source	0	1	1	0	0	1	1	1	0.99
<b>Total</b>	<b>1</b>	<b>3</b>	<b>39</b>	<b>0</b>	<b>17</b>	<b>4</b>	<b>42</b>	<b>101</b>	
	0.99	2.97	38.61	0.00	16.83	3.96	41.58		

Source: *Ibid.*

At the middle tier a larger percentage of PSs in backward district, 36 percent as against 22 percent in comparator district receive funds under at least one state scheme (see table 4.17). Around 22 percent of JPs in comparator districts receive 2 state schemes and the percentage for backward districts is less at 18 percent. The cumulative percentage of PSs receiving more than 2 state schemes, however, is higher in comparator districts at 56 percent as against 45 percent in backward districts. In case of ZPs, 67 percent of the ZPs in the backward districts receive 1 state scheme, while in the comparator districts the ZPs receive 2 to 3 schemes. The important state schemes at PS and ZP level are the pension scheme, Balika Samridhi Yojana, Samgara Swachhata Abhiyan, and Guru Golwalkar Yojana. Other miscellaneous category in the table includes schemes like drought relief, social and family welfare funds, tribal area development scheme, maternity benefits, poshahar, mid day meal, and schemes for the welfare of SC/STs etc.

**Table 4.17: Matrix of PSs by Number and Type of State Schemes**

	Pension scheme	Balika samridhi yojana	Rastriya posharar yojana	Samgata swachhata abhiyan	Guru golwalkar yojana	Other misc.	Total no of PSs	Percent
<b>Comparator districts</b>								
1 source	0	1	0	0	0	1	2	22.22
2 source	0	1	0	1	0	2	2	22.22
3 source	0	2	0	1	3	3	3	33.33
4 source	0	2	0	1	2	3	2	22.22
<b>Total</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>3</b>	<b>5</b>	<b>9</b>	<b>9</b>	
	(0.00)	(66.67)	(0.00)	(33.33)	(55.56)	(100.00)		
<b>Backward districts</b>								
1 source	0	1	0	0	0	3	4	36.36
2 source	0	1	0	0	1	2	2	18.18
3 source	1	4	1	0	1	5	4	36.36
4 source	0	1	0	1	1	1	1	9.09
<b>Total</b>	<b>1</b>	<b>7</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>11</b>	<b>11</b>	
	(9.09)	(63.64)	(9.09)	(9.09)	(27.27)	(100.00)		

Source: *Ibid.*

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

**Table 4.18: Matrix of ZPs by Number and Type of State Schemes**

	Balika samridhi yojana	Rastriya poshahar yojana	Guru golwalkar yojana	Other misc.	Total no. of ZPs	Percent
<b>Comparator districts</b>						
1 source	0	0	0	0	0	0.00
2 source	1	1	0	0	1	50.00
3 source	1	1	1	0	1	50.00
4 source	0	0	0	0	0	0.00
<b>Total</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>2</b>	
	(22.22)	(22.22)	(11.11)	(0.00)		
<b>Backward districts</b>						
1 source	0	0	2	0	2	66.67
2 source	0	0	0	0	0	0.00
3 source	0	0	0	0	0	0.00
4 source	1	1	1	1	1	33.33
<b>Total</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>3</b>	
	(9.09)	(9.09)	(27.27)	(9.09)		

Source: *Ibid.*

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

**Table 4.19: Mean Per Capita State Scheme and Revenue Transfers to GPs**

(Rs.)

	Comparator Districts			Backward Districts			
	Jhunjhunun	Jodhpur	Average	Banswara	Dungarpur	Jhalawar	Average
State schemes	26.14	40.49	34.61	40.86	118.91	27.79	59.64
Devolution & Grants	15.37	19.31	17.69	11.96	27.51	23.93	19.74
State funds	41.52	59.80	52.30	52.82	146.41	51.71	79.39

**Source: *Ibid.***

The mean per capita state transfers that include transfers under different state schemes and devolutions and grants to the GPs is given in table 4.19. The per capita state scheme transfers in 2005-06 are on an average higher for GPs in the backward district in comparison to those in comparator districts. The per capita devolutions and grants that include assigned taxes, transfers based on SFC recommendations, and other grants vary in the range of Rs.11.96 in Banswara to Rs.27.51 in Dungarpur. On an average the per capita state transfers are higher in the backward districts as compared to the comparator districts.

**Table 4.20: Mean Per Capita State Scheme and Revenue Transfers of All Tiers**

(Rs.)

	Comparator districts			Backward districts		
	GP	PS	ZP	GP	PS	ZP
State scheme	34.61	6.45	44.89	59.64	128.16	26.92
Devolution & Grants	17.69	19.39	14.12	19.74	39.78	1.41
State funds	52.30	25.84	59.01	79.39	167.94	28.33

**Source: *Ibid.***

The mean per capita state transfers across the three tiers averaged over the comparator and backward districts clusters given in table 4.20 reveal that per capita state transfers are higher in the ZPs followed by GPs and PSs in the comparator districts. In the case of backward districts, PSs receive more state transfers followed by GPs and ZPs. The share of state transfers in the total funds received by the three tiers as illustrated in table 4.21 reveal that the share is higher for GPs as compared to the other two tiers in comparator districts and in backward districts, the share is higher for PSs.

**Table 4.21: Share of State Schemes and Assigned Revenues to Total Funds Received by the PRIs**

(percent)					
Comparator districts			Backward districts		
GP	PS	ZP	GP	PS	ZP
34.53	21.56	24.64	17.54	30.01	5.05

Source: *Ibid.*

#### 4.4 CONCLUSIONS

1. Revenue raising powers by the state PRI statutes are assigned mainly to GPs, to a limited extent to PSs and ZPs in Rajasthan. The taxes assigned are all optional.
2. The tax rights are not fully exploited by the GPs and the percentage of GPs not exploiting their tax rights is much higher in comparator districts. The designation of all taxes as optional in the state appears to have had an adverse impact on the tax effort.
3. Non-tax revenues are the dominant source of own revenues of GPs across the districts. Prominent non-tax revenues sources are property rental and lease income and interest receipts. The interest receipts depend upon the unspent funds under different development schemes remaining with the banks and are not based on any revenue effort. The mean per capita own non-tax revenue on an average is higher in the comparator districts *vis-à-vis* the backward districts.
4. At all tiers of PRI structure in both categories of districts, taxes are less significant than non-tax revenues in total own revenue, both in terms of number levying and in terms of contribution to revenue.
5. Per capita tax collection is higher at PS level as compared to the GPs and ZPs. These figures represent only the districts sampled, and do not yield state-level averages. However, the range roughly encompasses the per capita figures for 2002-03 from the Twelfth Finance Commission Report for Rajasthan.

6. The share of own revenues in total funds received is higher in comparator districts vis-à-vis backward districts. Among the three tiers of panchayats the share is higher for the GPs.

7. At the PS level the dominant source of own revenue is non-tax sources. The important ones are interest receipts and income from lease and auction, and property rental. The interest receipts depend upon the amount of unspent funds under different schemes remaining with the banks and are not based on the revenue efforts of the PSs. The ZPs do not exploit their tax rights. Their own revenues comprise of income from various non-tax sources like interest receipts, income from lease and auction, and rent from panchayat properties.

8. The mean per capita state transfers which includes transfers under state schemes and devolution and grants is higher for GPs in backward districts as compared to those in the comparator districts.

9. A comparison of mean per capita state transfers across the three tiers reveal that per capita state transfers are higher in the ZPs followed by GPs and PSs in the comparator districts. In the case of backward districts, PSs receive more state transfers followed by GPs and ZPs.

10. The share of state transfers in total funds received is higher for GPs in the comparator districts as compared to the middle and district tiers of panchayats, however, in the backward districts in the state the share is higher for the PSs.



## **5. ASSESSMENT OF INTERGOVERNMENTAL TRANSFERS FROM THE CENTRE**

The flow of funds from the centre to PRIs in the form of Centrally Sponsored Schemes and those mandated by the Twelfth Finance Commission are elaborated in this chapter.

### **5.1 CENTRAL FLOWS TO PRIS 2006-07 (ALL STATES)**

For the year 2006-07, there are nearly 165 schemes for the rural areas, of which 41 bypass the state budget, and 124 are routed through the state budgets. The total flow of funds from the centre to rural areas (including the TFC grants) amounts to Rs. 63236 crore. Of the 41 schemes that bypass the state budget, 10 schemes are passed on directly to the PRIs and the remaining 31 schemes go to destinations other than PRIs. Nine out of the ten schemes going directly to PRIs, account for the major share of the funds flow to PRIs by the budget provision in 2006-07. These schemes are named, Sampoorna Grameen Rozgar Yojana (SGRY), National Food for Work Programme (NFFWP), Swarnjayanti Gram Swarozgar Yojana (SGSY), Indira Awaas Yojana (IAY), National Rural Employment Guarantee Scheme (NREGS), Integrated Wastelands Development Programme (IWDP), Drought Prone Areas Programme (DPAP), Desert Development Programme (DDP) and Central Rural Sanitation Programme (CRSP).

The 41 schemes carrying Rs. 36516 crore that bypass the state budget in 2006-07 are classified into two categories namely, (i) those schemes that flow directly to the PRIs; and (ii) those that flow to other agencies, missions, corporations and district authorities categorised as "Others" (for details, see annexes 8 and 9 of the overall report of the four states). Table 5.1 gives the details of the ten schemes of Rs. 21408 crore directly forwarded to the PRIs in 2005-06 and 2006-07. The remaining 31 schemes of Rs. 15108 crore go to destinations other than PRIs.

**Table 5.1: Centrally Sponsored Schemes Reaching the PRIs: 2006-07**

(Rs. crore)

Scheme	Bypassing State Budgets		
	2005-06	2005-06	2006-07
	BE	RE	BE
Sampoorna Grameen Rozgar Yojana (SGRY)	4000.00	8500.00	3000.00
National Food for Work Programme (NFFWP)	6000.00	4095.00	0.00
Swarnjayanti Gram Swarozgar Yojana (SGSY)	960.00	1000.00	1200.00
Indira Awaas Yojana (IAY)	2775.00	2750.00	2920.00
National Rural Employment Guarantee Scheme (NREGS)#			11300.00
Integrated Wastelands Development Programme (IWDP)	445.00	453.00	452.90
Drought Prone Areas Programme (DPAP)	353.00	353.00	360.00
Desert Development Programme (DDP)	268.00	268.00	270.00
Central Rural Sanitation Programme (CRSP)	630.00	630.00	720.00
Member of Parliament Local Development Scheme (MPLADS)*	1185.00	1185.00	1185.00
<b>Central Fund Flows Assigned to PRIs</b>	<b>16616.00</b>	<b>19234.00</b>	<b>21407.90</b>

Sources: 1. Expenditure Budget: 2006-07, Vol. 1&2, Ministry of Finance, 2006, Government of India.

2. Detailed Demand for Grants: 2006-07, Various Ministries, Government of India.

3. Garg, State Sector Plan Grants by Centre, (mimeo), 2006.

Notes: # It is assumed that the entire funds under NREGS go to PRIs.

\* MPLADS is not a designated CSS, but is similar because it is a Central provision for constituency development expenditure by Members of Parliament. It is assumed that 75 percent of the funds under MPLADS go to the rural areas and the PRIs as they are the preferred implementing agencies.

## 5.2 MAJOR CENTRAL SCHEME FLOWS TO PRIs: RAJASTHAN

The Centrally Sponsored Schemes (CSSs) fund discussed in the earlier section capture the total amount transferred to all the states. There is no formula vide which each state's share out of the total can be derived. However, for the eight CSSs of the Ministry of Rural Development, a state-wise break up is possible.<sup>1</sup>

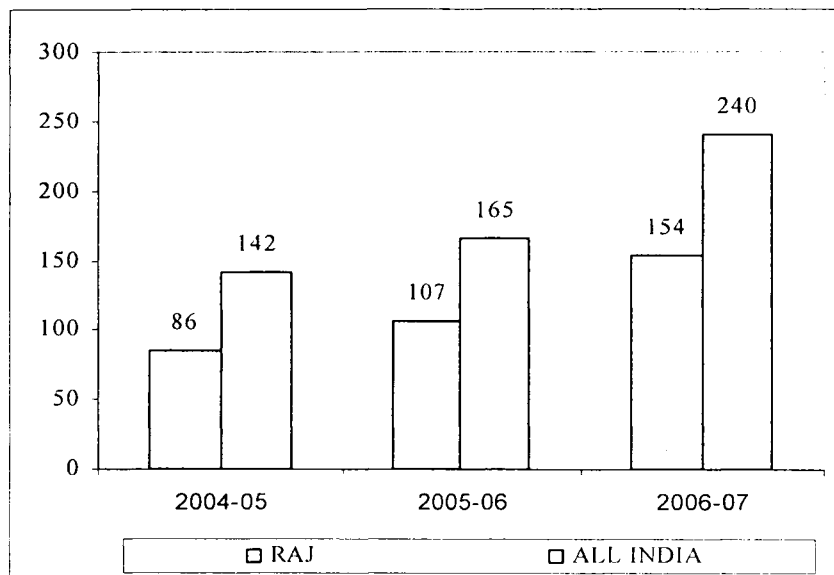
Scheme-wise details of these eight CSSs (only central transfers) for Rajasthan for the years 2004-05 and 2005-06 are seen in annex 8. In 2005-06, these schemes accounted for 3 percent of the total flow to PRIs (all India), and less than one percent of the total

<sup>1</sup> The remaining two of the ten schemes placed in the category of direct reach to the PRIs, are MPLADS (Member of Parliament Local Area Development Scheme), however, do not find smooth sailing because the ultimate recipients could well be urban or non-PRI rural, and the Central Rural Sanitation Programme for which state-specific figures were not available.

CSSs flow.<sup>2</sup> The share of Rajasthan in the all India (eight schemes) is 3.9 percent (see table 5.2).

The per capita receipts from these eight CSSs for the past two years 2004-05 to 2005-06 and budget estimates of 2006-07<sup>3</sup> are shown in chart 5.1. The budget estimates for 2006-07 are derived by using respective state shares of Central releases of these eight CSSs from the aggregate of 2005-06 estimates.<sup>4</sup> In 2005-06 and 2006-07, the per capita provision of the eight centrally sponsored schemes in Rajasthan is lower than the all India per capita figure.

**Chart 5.1: Per Capita Flows under Eight CSS**

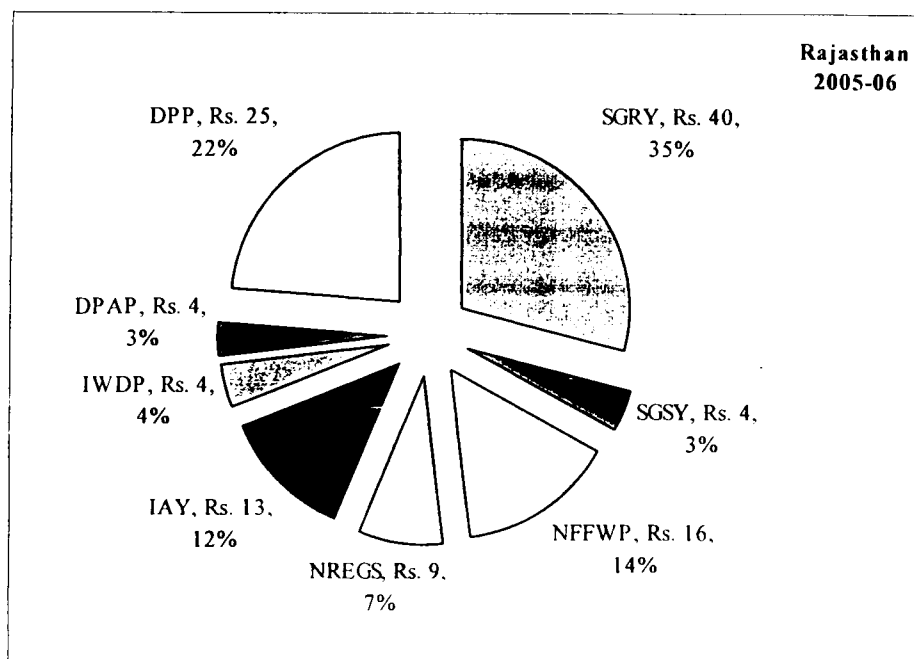


<sup>2</sup> The total amount of funds released for these eight schemes in Rajasthan in 2005-06 is Rs. 516.23 crore. This works out to 2.9 percent of the total PRIs expenditure of Rs. 19234.10 crore (ten schemes) and 0.97 percent of the total CSS expenditure of Rs. 53404.19 crore.

<sup>3</sup> Mid year projected rural population were used to fiscal year data (e.g. for 2005-06, population of 2005).

<sup>4</sup> Budgetary allocations are not provided by destination for an ongoing fiscal year. These figures so derived could overestimate the actual releases as schemes like NREGS are demand driven and the fund flow would depend upon utilisation by the state government.

**Chart 5.2: Per Capita Flows of Eight Centrally Sponsored Schemes in 2005-06**



The details of the individual schemes (only central transfers) are available for the year 2005-06 (see annex 8). The per capita receipts for these eight schemes and their percentages are highlighted in chart 5.2. Four schemes *viz.*, SGRY, DPP, NFFWP and IAY account for 83 percent of the total CSS expenditure in Rajasthan.

The per capita budget estimates for eight CSS and MPLADS in Rajasthan for the year 2006-07 are given in table 5.2. The state specific budget estimates are derived by multiplying respective state shares in total central releases for the year 2005-06 (all India) with total budget estimates of 8 CSS for 2006-07. The fund flows to MPLADS are estimated by taking the number of MPs (both Lok Sabha and Rajya Sabha) of the respective states and assuming that 75 percent of the allocations are directed to PRIs. The budgeted per capita fund flows so obtained for Rajasthan is lower at Rs. 164.21 as compared to an all India per capita estimate of Rs. 254.59.

**Table 5.2: Per Capita Budget Estimates for 2006-07 (Eight CSS and MPLADS)**

	Central releases (2005-06)		2006-07(BE)			Per capita (Rs.)
	8 CSS (Rs. crore)	Share (%)	8 CSS	MPLADS (Rs. Crore)	Total (9 schemes)	
Rajasthan	516.23	3.91	761.99	52.50	814.49	164.21
<b>All India</b>	<b>13212.74</b>	<b>100.00</b>	<b>19502.90</b>	<b>1185.00</b>	<b>20687.90</b>	<b>254.59</b>

Source: Annual Report: 2005-06, Ministry of Rural Development, and Expenditure Budget: 2006-07, Ministry of Finance, Government of India.

Notes: The state-wise budget estimates for 2006-07 are derived by multiplying the respective state shares in total central releases for the year 2005-06 with total budget estimates of 8 CSSs for 2006-07. The MPLADS figures are estimated by taking the number of MPs (both Lok Sabha and Rajya Sabha) in the respective states and assuming that 75 percent of the allocations are directed to PRIs

### 5.3 ANALYSIS OF SURVEY RESULTS: RAJASTHAN

The results of the field survey are analysed in this section for the three tiers, first for zilla panchayats (ZP), followed by panchayat samitis (PS), and finally gram panchayats (GP).

Table 5.3 shows the distribution of the 5 sample ZPs, 20 PSs and 179 GPs by number and type of the central schemes received by Rajasthan (for details see annex 9).

**Table 5.3: Major Centrally Sponsored Schemes in Operation in the PRIs: Rajasthan**

Schemes	ZP		PS		GP	
	Comparator	Backward	Comparator	Backward	Comparator	Backward
No. of districts	2	3	9	11	78	101
DPAP		1		3		
IAY	2	3	3	5	73	97
MP Funds					17	12
NFFWP		2		8	7	72
NREGS						12
Pension scheme					3	2
RSVY		3		10		62
SGRY	2	3	7	11	78	101
SGSY	1	3	4	6	11	

Source: Authors' calculation.

The survey results show that the ZPs and PSs are the principal recipients of RSVY funds, and this programme is reflected in nearly all the backward districts. Similarly, DPAP funds flow only to ZP and PS in the backward districts. The SGRY (rural employment) on the other hand flows to all three tiers, universally, in both the clusters. Other programmes with a near-universal presence at all three tiers, although more in backward districts than in the comparator set, are the NFFWP (food for work) and the IAY (rural housing). The MP funds and pension scheme is received only in GPs. The NREGS is found only in a small number of GPs because it was initiated in February 2006, almost at the end of the 2005-06 reference year. The SGSY funds do not flow to the backward areas of the GPs. In general across all three tiers of the PRI structure, all programmes have a higher incidence of operation in backward districts than in the comparator set.

Tables 5.4 shows the per capita distribution of funds by district for centrally sponsored schemes and Central Finance Commission funds separately, for ZPs, PSs and GPs respectively. There is a marked difference in per capita funds received between the comparator and backward districts. On an average in ZPs, Banswara, Dungapur, and Jhalawar districts receive fourfold higher per capita incomes as compared to Jhunjhunun and Jodhpur. In the case of PSs it is nearly fivefold while for the GPs it is about four fold. There is clear evidence of CSS funds being distributed within the state in inverse proportion to economic status, in terms of both quantum of funds received and number of programmes operating.

The distribution formula between districts for the Central FC fund flow for ZPs and PSs exhibit no systematic pattern between the two sets of districts. The highest and the lowest per capita flow are in the same backward district of Jhalawar. The former is in PS with a per capita receipt of Rs. 75 while the latter is in ZP with a receipt of Rs. 2.91. At the GP level the per capita fund flows within the state is roughly uniform. For the state as a whole, the Central FC flows exhibit no systematic pattern between the two sets of districts.

**Table 5.4: Mean Funds Received by PRIs Per Capita by District in Rajasthan**

PRIs	Comparator districts		Average	Backward districts			Average
	Jhunjhunun	Jodhpur		Banswara	Dungarpur	Jhalawar	
<b>No. of ZPs</b>	<b>1</b>	<b>1</b>		<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Centrally Sponsored Scheme	62.80	154.25	108.52	327.35	838.80	202.70	456.28
Central Finance Commission	6.16	5.72	5.94	1.47	6.81	2.91	3.73
<b>Total</b>	<b>68.96</b>	<b>159.97</b>	<b>114.46</b>	<b>328.82</b>	<b>845.61</b>	<b>205.61</b>	<b>460.01</b>
<b>No. of PSs</b>	<b>4</b>	<b>5</b>		<b>5</b>	<b>3</b>	<b>3</b>	
Centrally Sponsored Scheme	33.51	48.97	42.10	381.91	554.08	77.74	345.91
Central Finance Commission	29.66	47.77	39.72	36.42	45.11	75.02	49.32
<b>Total</b>	<b>63.17</b>	<b>96.74</b>	<b>81.82</b>	<b>418.33</b>	<b>599.19</b>	<b>152.76</b>	<b>395.23</b>
<b>No. of GPs</b>	<b>32</b>	<b>46</b>		<b>44</b>	<b>29</b>	<b>28</b>	
Centrally Sponsored Scheme	62.17	72.89	68.49	257.78	590.70	134.85	319.29
Central Finance Commission	22.04	25.93	24.33	37.35	43.04	44.53	40.97
<b>Total</b>	<b>84.22</b>	<b>98.82</b>	<b>92.83</b>	<b>295.12</b>	<b>633.74</b>	<b>179.38</b>	<b>360.26</b>

**Source:** *Ibid.*

Table 5.5 shows the district wise share of CSSs in the total funds received by Rajasthan for the year 2005-06. After the merger of the contributory shares of Centre and state, the CSSs are the dominant source of funding at PRI level.<sup>5</sup> This is consistent with the larger contribution of state funds than of Central funds as observed from the budget data.

<sup>5</sup> No information was collected on the quantum of funds required from various schemes from the respondents.

**Table 5.5: Share of Centrally Sponsored Schemes in Total Funds Received by Rajasthan**

PRIs	Comparator districts			Backward districts			
	Jhunjhunun	Jodhpur	Total	Banswara	Dungarpur	Jhalawar	Total
ZP	37.33	50.26	46.33	85.66	93.33	66.50	86.32
PS	35.28	35.29	35.29	74.64	50.88	35.75	58.19
GP	46.53	44.75	45.38	72.09	75.47	57.50	70.69

Source: *Ibid.*

The share of CSS in total funds is higher in backward districts as compared to the comparator set at all three tiers. Among backward districts, the percentage contribution of CSSs to total funds varies within the range 58-86 percent, while in the comparator districts it is in the range of 35-46 percent.

Since SGRY is the most important scheme among the GPs, the frequency distribution of GPs by percent of SGRY to total funds received is shown in table 5.6. In Rajasthan 97 to 99 percent GPs fall in the range of 40 to 60 percent share of SGRY.

**Table 5.6: Frequency Distribution of GPs by Percent of SGRY to Total Funds Received: Rajasthan**

Percent	Economic status of GP		Cumulative percentage	
	Comparator	Backward	Comparator	Backward
00 ... <= 20	35	76	44.87	75.25
20 ... <= 40	35	22	89.74	97.03
40 ... <= 60	6	2	97.44	99.01
60 ... <= 80	2	1	100.00	100.00
<b>Total</b>	<b>78</b>	<b>101</b>		

Source: *Ibid.*

## 5.4 CONCLUSIONS

1. In 2006-07, 165 identified schemes are set apart for the rural areas, of which 41 bypass the state budget, and 124 are routed through the state budgets. The total flow of funds from the centre to rural areas (including the TFC grants) amounted to Rs. 63236 crore. Of the 41 schemes that bypass the state budget, 10 schemes go directly to the PRIs and the remaining 31 schemes go to destinations other than PRIs. Nine of the ten



schemes going directly to PRIs, accounting for the major share of the funds flow to PRIs by the budget provision in 2006-07.

2. The per capita budget estimate of Rs. 154 for Rajasthan in 2006-07 is lower than the all India per capita figure of Rs. 240.

3. The survey results show that the ZP and PS are the principal recipients of RSVY funds, and this programme is operational in almost all the backward districts. Similarly, DPAP funds flow only to ZPs and PSs in the backward districts. The SGRY (rural employment) on the other hand flows to all three tiers, universally in both the clusters. Other programmes with a near-universal presence at all three tiers, although more in backward districts than in the comparator set, are the NFFWP (food for work) and the IAY (rural housing). The MP funds and pension scheme is received only in GPs. The NREGS is found only in a small number of GPs because it was initiated in February 2006, almost at the end of the 2005-06 reference year. The SGSY funds do not flow to the backward areas of GPs. In general across all three tiers of the PRI structure, all programmes have a higher incidence of operation in backward districts than in the comparator set.

4. The results of the field survey show that CSS funds are distributed within the state in inverse proportion to economic status, in terms of both quantum of funds received and incidence of operation at all three tiers.

5. As for the Central FC fund flow, the distribution formula between ZPs and PSs exhibit no systematic pattern between the two sets of districts. The highest and the lowest per capita flow are in the same backward district of Jhalawar. In GPs, the per capita fund flows within the state is roughly uniform. For the state as a whole, the Central FC flows exhibit no systematic pattern between the two sets of districts.

6. The frequency distribution of GPs by percent of SGRY to total funds received shows that 97 to 99 percent GPs fall in the range of 40 to 60 percent share of SGRY.

## 6. FISCAL MONITORING

This chapter assesses the utilisation of funds received by the PRIs across all tiers. and the status of fiscal monitoring at all the levels of GP, PS, and ZP.

### 6.1 AUDITING OF FUNDS AT THE THREE TIERS

As per the 73<sup>rd</sup> Constitutional amendment, each State Legislature is slated to make provision with respect to the audit of the panchayats accounts in their respective state. The state of Rajasthan<sup>1</sup> has also incorporated such provisions in its Conformity Act (State Panchayati Raj Act, 1994).

In Rajasthan, the Director, Local Fund Audit is assigned to carry out the audit of panchayats accounts and the C&AG may carry out a test audit of such accounts. From the state Act, it is clear that the organization entrusted with the audit function will be under the control of the state government. At the Centre, the Comptroller and Auditor General, as per their Act, 1971, has the power to audit all expenditure from the Consolidated Fund of India and of each state,<sup>2</sup> through the state officers under the Accountant General.

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<sup>1</sup> Section 75(d) of the Rajasthan Panchayati Raj Act, 1994 provides that all accounts kept and maintained by the Panchayati Raj Institution shall be audited, as soon as may be after the end of a financial year by the Director, Local Fund Audit for the State, wherein the provisions of the Rajasthan Local Fund Audit Act, 1954 (Rajasthan Act 28 of 1954) shall apply. It also provides that the Comptroller and Auditor General of India may carry out a test audit of such accounts.

<sup>2</sup> Section 13 of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971) states that it shall be the duty of the C&AG to audit all expenditure from the Consolidated Fund of India and of each state. Therefore, to the extent the local bodies are performing agency functions on behalf of the Central or state governments, the duty of C&AG would include the audit of expenditure incurred by the local bodies too. As per Section 14 (1), where any body or authority receives grant or loan from the Consolidated Fund of India or of any state amounting to not less than rupees twenty-five lakh, and if the amount of such grant or loan is not less than seventy-five percent of the total expenditure of that body or authority, the C&AG shall, subject to the provision of any law for the time being in force, applicable to such body or authority, audit all receipts and expenditure of that body or authority and report on the receipts and expenditure so audited by him. Further, since Section 14(2) waives the limit of 'seventy-five percent', if the amount exceeds rupees one crore, most of the panchayats at district level will invariably fall in the purview of audit by C&AG. Section 15 states that when any grant or loan is given for a specific purpose from the Consolidated Fund of India or of any state to any body or authority, the C&AG shall scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfilments of the conditions subject to which such grants were given.

With respect to the audit of panchayats accounts, the Eleventh Finance Commission (EFC), in its report,<sup>3</sup> has recommended that the responsibility of exercising control and supervision over the maintenance of panchayats accounts and their audit should be entrusted to the C&AG who may get it done through C&AG's own staff or by engaging an outside agency. The Director of Local Fund Audit, or any other agency assigned the task of auditing of panchayats accounts is to work under the technical and administrative supervision of the C&AG. For the maintenance of accounts and the auditing, the EFC has recommended on an average an amount of Rs 4000/- per panchayat per annum. The details of allocation recommended by EFC and its utilisation are shown in table 6.1. The utilisation in case of Rajasthan far exceeds 100 percent, because of the states' contributions which are also included under this head.

**Table 6.1: Provision and Utilisation of Grants for Maintenance of Accounts and Auditing**

(Rs. lakh)		
Annual allocation by EFC	Utilisation reported	Percent utilisation
376.84	1884.20	500.00

**Source:** Finance Commission Division, 2006, Ministry of Finance, Government of India.

The survey results about the status of process of audit across all the three tiers of ZPs, PSs and GPs and for both the clusters, comparator and backward, are presented in table 6.2.

As discussed in the table, the process of audit of accounts at the PS level is about the same as that at ZP level, except comparator PSs, where the process of audit was superior amongst all the tiers. At the level of GP, the process of audit is much delayed in comparison to the other two tiers. However, between the two clusters, backward cluster GP has shown better performance in comparison to the comparator set. On the other hand, the comparator set of ZP and PS has shown better performance than the backward set. The delay at the GP level is more worrisome because at these levels major schemes like, SGRY and NREGS are targeted and executed. Across all tiers, auditing is somewhat

<sup>3</sup> The Twelfth Finance Commission has not given any particular recommendation in this regard.

more delayed in backward districts with a single exception of a backward GP where the opposite is true. It is further observed that in comparison to the other selected states, Rajasthan has showed the best performance across all three tiers (see overall report).

**Table 6.2: Frequency Distribution of ZP, PS and GP by Year Accounts Last Audited**

Year	Cumulative Percentage					
	ZP		PS		GP	
	Comparator	Backward	Comparator	Backward	Comparator	Backward
2006-07	0.00	0.00	88.89	63.64	24.36	23.76
2005-06	50.00	33.33	100.00	81.82	69.23	85.15
2004-05	50.00	66.67		90.91	83.33	98.02
2003-04	100.00	100.00		100.00	84.62	98.02
2002-03					87.18	98.02
2001-02					87.18	98.02
2000-01					87.18	98.02
NR/NA					100.00	100.00

**Source:** Authors' calculations.

**Notes:** NR/NA: Not received/not available.

## 6.2 UTILISATION OF CENTRAL FUNDS: BACKWARD AND COMPARATOR DISTRICTS

Details regarding the percent utilisation of major centrally sponsored scheme (CSS) funds at the upper two levels of ZP and PS are presented in table 6.3.

**Table 6.3: Frequency Distribution of ZPs and PSs by Percent Utilisation of Major CSS Funds Received During the Year**

Percentage	Cumulative percentage			
	ZP		PS	
	Comparator	Backward	Comparator	Backward
NA	0.00	0.00	13.04	7.32
100 +	71.43	28.57	39.13	26.83
80 ... <=100	100.00	50.00	82.61	78.05
60 ... <= 80		71.43	95.65	92.68
40 ... <= 60		78.57	100.00	97.56
20 ... <= 40		100.00		100.00
00 ... <= 20				
00				

**Source:** *Ibid.*

**Notes:** NA : Not received/utilized.

00 : Funds received but not utilized.

Major CSS in Rajasthan are SGRY, NFFWP, IAY and SGSY.

The field survey results suggest that in aggregate, in a comparison between the two tiers, the utilisation rates reported higher at ZP level than the PS level. At the ZP level between the two clusters, the utilisation in the comparator districts was observed to be distinctively higher than in backward districts. At the PS level, the utilisation rates are reported about the same in both sets of districts. However, the comparator set showed slightly higher utilisation than the backward set. Non-receipts of funds reported at the middle level was to the extent of 7-13 percent in the backward and comparator districts respectively.

### 6.2.1 Utilisation of SGRY Funds with Gram Panchayat/State Government Appointed Record Keeper

Amongst the major CSS, the SGRY is one of the important schemes implemented at GP level. The details regarding the utilisation of SGRY funds separately by type of record keeper (GP/state appointed) is discussed in table 6.4. Across both the clusters, about 75-88 percent GPs reported 80 percent and more utilisation of SGRY fund received during the year. However, comparatively backward GPs have shown higher utilisation than the comparator set.

**Table 6.4: Matrix of GPs by type of Record Keeper and Percent Utilisation of SGRY Funds Received During the Year**

Percentage	Cumulative percentage of GP					
	Comparator			Backward		
	Appointed by					
	GP	State govt.	Total	GP	State govt.	Total
100 +	50.00	37.14	38.46	50.00	45.45	45.54
80 ... <=100	87.50	74.29	75.64	100.00	75.76	76.24
60 ... <= 80	100.00	90.00	91.03		89.90	90.10
40 ... <= 60		92.86	93.59		98.99	99.01
20 ... <= 40		98.57	98.72		100.00	100.00
00 ... <= 20		98.57	98.72			
00		100.00	100.00			
<b>Total</b>	<b>10.26</b>	<b>89.74</b>	<b>100.00</b>	<b>1.98</b>	<b>98.02</b>	<b>100.00</b>

Source: *Ibid.*

Notes: 00: Funds received but not utilized.

Total: Type of record keeper.

In Rajasthan, in aggregate, the record keepers are almost entirely state-appointed. Comparing between the two clusters, about 90 percent record-keepers are state-appointed in comparator districts, whereas in backward districts they are still higher, i.e. 98 percent. The GP appointed record keepers are more in comparator set than in the backward cluster.

In aggregate, between the two clusters, no difference in utilisation rates is reported. About 75 percent of GPs in both the clusters showed 80 percent or more utilisation. The utilization pattern determined by the type of record keeper, in both clusters, suggested that the GP appointed record keeper class for GPs showed higher utilisation than the state appointed set.

In conclusion, in aggregate, across both classes of districts, the utilisation is generally higher in backward districts than in the comparator set. There appears a marked difference in the rates of utilisation between the GPs with state appointed record keepers and GP-appointed record keepers. The utilisation in GP appointed record keepers is distinctively higher than state appointed record keepers.

### **6.2.2 Nature of Utilisation of SGRY Funds by Gender of Sarpanch**

The survey results as tabulated in table 6.5 throw light on the details regarding the nature of utilisation of SGRY funds by gender of sarpanch. As discussed in the table, roads and culverts are a dominant choice, followed by building construction, and construction and maintenance of water works. However, there is not much difference in this choice between the two clusters of districts for the first two activities. The choice for construction and maintenance of water works is indicated more in comparator districts than the backward set of districts. In aggregate, the male group preferred utilization on roads and culverts, and construction/maintenance of buildings. The female heads seen in the comparator cluster seemed to prefer construction and maintenance of water works.

**Table 6.5: Matrix of GPs by Total Constituents of Nature of Utilisation of SGRY Funds by Gender of Sarpanch**

Percent constituent	Economic status of GP								
	Gender of sarpanch								
	Comparator			Backward			Aggregate		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
Roads and culverts	45.96	41.09	43.49	49.27	52.03	44.49	47.83	48.34	44.11
Construction/ maintenance of buildings	21.26	32.28	26.85	25.03	26.17	25.73	23.39	28.23	26.15
Construction/ maintenance of water works	29.86	21.39	25.57	14.90	15.53	15.29	21.42	17.51	19.19
Plantation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Administrative	0.68	0.79	0.73	0.33	1.43	1.00	0.48	1.21	0.90
Others	2.24	4.46	3.36	10.47	4.84	7.03	6.88	4.71	5.64
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: *Ibid.*

The gender wise preference for work done through SGRY funds thus obtained for both the district clusters in Rajasthan is now statistically tested for statistical significance. The test is done for the null hypothesis  $H_0: (\rho_1 = \rho_2)$  i.e., there is no gender difference in preferences for the type of work done against the alternative hypothesis  $H_0: (\rho_1 \neq \rho_2)$  i.e., there exist gender differences in preferences. Here  $\rho_1$  is the proportion of total funds utilised by female-headed GP for a particular type of work and  $\rho_2$  represents the funds utilised by the male-headed GP for the same type of work. The type of work considered are: (a) construction and maintenance of roads and culverts; (b) construction and maintenance of buildings; and (c) construction and maintenance of water works in the GP. The results are presented in table 6.6. From the table it can be observed that the null hypothesis of no gender difference in preferences cannot be rejected in both the district clusters in Rajasthan.

**Table 6.6: Test for Differences in Preferences Between Female and Male Sarpanch (Head) in Utilization of SGRY Funds**

Type of SGRY works	Comparator districts	Backward districts
Construction & maintenance of roads & culverts	0.4287	-0.2685
Construction & maintenance of buildings	-1.1051	-0.1268
Construction & maintenance of water works	0.8431	-0.0868

Source: Authors' calculations based on data in table 6.5.

### 6.2.3 Utilisation of Central Finance Commission Funds

The utilisation of Central Finance Commission fund received during the year at GP level is shown in table 6.7. Between the two classes of GPs, the comparator cluster showed higher utilisation than the backward set. More than 64 percent of comparator GPs fall in 80 percent or more utilisation, whereas only 50 percent backward GPs fall in this range. The data show non-receipt of FC funds to the extent of 6.41 percent of comparator district GPs and 2.97 percent of backward districts GPs. However, as chapter 4 (overall report) shows, FC funds are mostly targeted at the upper two tiers.

**Table 6.7: Frequency Distribution of GPs by Percent Utilisation of Central FC Funds Received During the Year**

Percentage	Cumulative percentage	
	Comparator	Backward
NR/NA	6.41	2.97
100 and above	20.51	13.86
80 ... <=100	64.10	50.50
60 ... <= 80	73.08	68.32
40 ... <= 60	79.49	79.21
20 ... <= 40	89.74	86.14
00 ... <= 20	91.03	91.09
00	100.00	100.00

Source: *Ibid.*

Notes: NR/NA: Not received/not available.

00: Funds received but not utilized.



## 6.3 UTILISATION OF STATE FUNDS: BACKWARD AND COMPARATOR DISTRICTS

### 6.3.1 Utilisation of State Scheme Funds

The state schemes apply to funds entirely originating in state-level schemes, which as shown in chapter 4 (overall report), are not a major source of fund flow to PRIs.

The utilisations of state scheme funds across all the tiers of PRIs are presented in table 6.8. As discussed in the table, utilisation of state scheme funds is in general higher at ZP level than PS level and lowest at GP level. Between the two clusters of districts, it is for the most part better in backward districts in ZP and comparator districts in PS. At GP level the backward cluster showed higher utilisation than the comparator set of districts.

**Table 6.8: Frequency Distribution of ZPs by Percent Utilisation of State Scheme Funds Received During the Year**

Percentage	Cumulative Percentage					
	ZP		PS		GP	
	Comparator	Backward	Comparator	Backward	Comparator	Backward
NR/NA	0.00	0.00	0.00	0.00	19.23	26.73
100 and above	50.00	0.00	22.22	18.18	26.92	35.64
80 ...<=100	50.00	0.00	66.67	27.27	73.08	79.21
60 ...<= 80	50.00	100.00	66.67	63.64	78.21	81.19
40 ...<= 60	50.00		88.89	72.73	83.33	83.17
20 ...<= 40	50.00		100.00	81.82	83.33	86.14
00 ...<= 20	100.00			100.00	85.90	87.13
00					100.00	100.00

**Source:** *Ibid.*

**Notes:** See notes to table 6.7.

## 6.4 UTILISATION OF NREGS FUNDS IN 2006-07

### 6.4.1 NREGS in Selected Districts of Rajasthan

**Coverage:** The number of NREGS districts selected in the state of Rajasthan is listed in table 6.9. There are 6 NREGS districts selected in Rajasthan. Of these, three NREGS districts of Banswara, Dungarpur, and Jhalawar are covered in this study.

**Table 6.9: Coverage of NREGS Districts in Rajasthan**

S. No.	District	S. No.	District
1	<b>Banswara</b>	4	Karauli
2	<b>Dungarpur</b>	5	Sirohi
3	<b>Jhalawar</b>	6	Udaipur

**Source:** Ministry of Rural Development, Government of India, 2006.

**Notes:** Highlighted districts in the states are covered in this study.

### 6.4.2 Progress of Utilisation

**Utilisation:** Details regarding the issue of job cards, employment demanded and provided, fund released, and the expenditure incurred on the works undertaken is presented in table 6.10. The percent expenditure incurred on these works from the total release is indicated in the last column of table 6.10. The utilization of fund in Rajasthan is below four states' average, but marginally above all states' average.

**Table 6.10: Progress of NREGS: Funds Released and Expenditure on Works Undertaken (as on 21.8.06)**

(Rs. lakh)

State	No of districts	Total rural households	Job cards	Employment demanded	Employment provided	No. of works
1	2	3	4	5	6	7
<b>More than 5 percent of total exp.</b>						
Rajasthan	6	1461606	1423013	853061	846263	13809
<b>Total (4 states)</b>	<b>54</b>	<b>10647831</b>	<b>9197020</b>	<b>3644990</b>	<b>3377377</b>	<b>119949</b>
<b>Total (27 states)</b>	<b>200</b>	<b>57541426</b>	<b>24230592</b>	<b>9558234</b>	<b>8824994</b>	<b>242438</b>

State	Funds released	Exp.	Release per dist.	Exp. per dist.	Exp. (col. 9) as % of total exp.	Rank-based on % exp.	Exp as % of release per dist.
1	8	9	10	11	12	13	14
<b>More than 5 percent of total exp.</b>							
Rajasthan	64100	22266	10683	3711	16.40	2	34.7
<b>Total (4 states)</b>	<b>222322</b>	<b>92259</b>	<b>4117</b>	<b>1709</b>	<b>67.9</b>		<b>41.5</b>
<b>Total (27 states)</b>	<b>438642</b>	<b>135799</b>	<b>1990</b>	<b>679</b>	<b>100</b>		
<b>Average</b>	<b>397936</b>	<b>135799</b>					<b>34.1</b>

Source: *Ibid.*

Notes: NREGS does not extend to Goa. Funds released pertain to April-August 2006-07. Only 23 states report figures for expenditure.

The pattern of funds released and the expenditure incurred on the works undertaken in Rajasthan are shown in chart 6.1.

**Chart 6.1: Utilisation Pattern of Fund Released and Expenditure Incurred Under NREGS in Rajasthan**

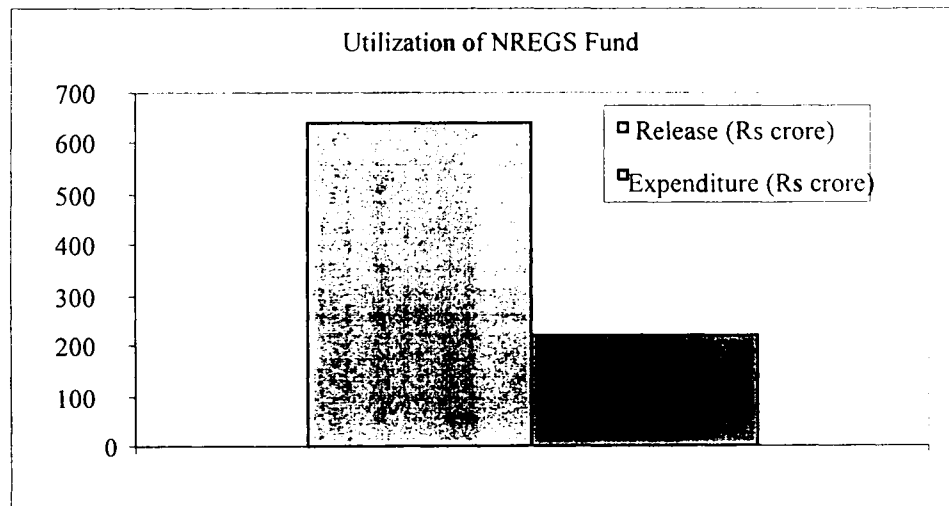
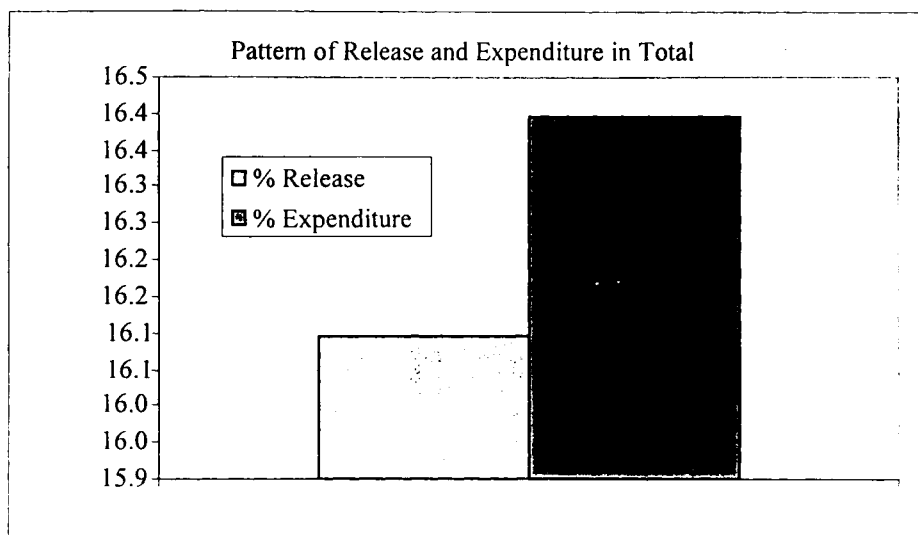


Chart 6.2 indicates the percent share of Rajasthan in the total release and expenditure of NREGS funds.

**Chart 6.2: Percent Share of Fund Released and Expenditure Incurred Under NREGS in Rajasthan**



National level data on state-wise utilisation of NREGS fund shows a four-state average of 41.5 percent over April-August 2006, as against an average across all reporting states of 34.1 percent. In the total expenditure incurred on NREGS, 68 percent was claimed by these four states. Rajasthan is the second highest state that claimed 16 percent of the total expenditure

## 6.5 CONCLUSIONS

1. As per the Rajasthan PRI Act, the primary responsibilities of auditing of panchayats accounts are assigned to Director Local Fund Audit, an independent audit organization under the control of the state government. The independent auditor, who may further authorize a Chartered Accountant, carries the statutory responsibility, although simultaneous test audits are permissible, under the overriding powers of the C&AG.

2. With respect to the process of auditing of panchayats accounts, the survey results indicate that comparatively auditing is most delayed at GP level than ZP and PS level. Most of the major schemes such as SGRY and NREGS are largely targeted and implemented at the GP level, therefore, delayed audit at GP level is a matter of serious concern. Across all tiers, auditing is somewhat more delayed in backward districts than the comparator set, except GPs in backward districts.

3. Regarding the utilisation rates of CSS funds in the upper two tiers i.e. ZP and PS levels, utilisation rates are distinctively higher at ZP than PS level. Further, comparator cluster across both the tiers showed higher utilisation.

4. In aggregate between the two clusters of GPs, the utilisation rates of SGRY funds received during the year is about the same in both backward as well as comparator set of districts. Utilisation at 80 percent or more is reported by 75-88 percent of GPs in Rajasthan.

5. In aggregate, almost all the record-keepers are state-appointed. The survey results reveal that in the comparator cluster about 90 percent are state appointed record-keepers whereas in backward districts they are about 98 percent.

6. The nature of utilisation of SGRY funds by gender of sarpanch (head) as discussed shows that roads and culverts are the dominant choice. The null hypothesis of no gender difference in preferences cannot be rejected in both the districts clusters in Rajasthan.

7. Utilisation of the Central Finance Commission flow at GP level is higher in comparator cluster than backward set. The data shows non-receipt of FC funds to the extent of 6.41 percent in comparator district GPs and 2.97 percent in backward set of GPs. However, as chapter 4 (overall report) showed, FC funds are mostly targeted at the upper two tiers.

8. As per the survey results, the state schemes apply to funds entirely originating in state-level schemes, which as shown in chapter 4 (overall report), are not a major source of fund flow to PRIs. Utilisation of state scheme funds is in general higher at ZP level than PS level and the lowest at GP level. Between the two clusters of districts, it is for the most part better in backward districts in ZP and comparator districts in PS. At GP level the backward cluster showed higher utilisation than the comparator set of districts.

9. In the total expenditure incurred on NREGS, 68 percent was claimed by the selected four states. Amongst them, Rajasthan is the second highest state having claimed 16 percent of the total expenditure.

## 7. CONCLUSIONS

### 7.1 FORMAL STATUS OF RURAL DECENTRALISATION

The state government of Rajasthan has amended its Panchayati Raj Act in conformity with the 73<sup>rd</sup> Constitutional Amendment. The total number of Panchayati Raj Institutions (PRIs) comprises of 9189 Gram Panchayats (GPs), 237 Panchayat Samitis (PSs) and 32 Zilla Panchayats (ZPs).

One important mandate of the Act is to hold election every five years across all the tiers of PRIs. Accordingly, three rounds of elections were held in 1995, 2000, and 2005 for all three tiers.

The constitution of a State Finance Commission (SFC) at quinquennial intervals is also a mandatory requirement. The state has completed its first two rounds of SFCs. The third SFC has submitted an interim report, the final report is awaited. The first SFC recommended 1.68 percent of net state own tax revenue to the PRIs whereas the second SFC recommended 1.72 percent of net own tax revenue (excluding entertainment tax), and one percent royalty on minerals across all the three tiers. The state has implemented the major recommendations of the first and second SFCs. An interim devolution of 1.70 percent of net state tax revenues for 2005-07 recommended by the third SFC has also been considered by the state government.

The first and second SFCs of Rajasthan have not made substantive recommendations in respect of expanding the fiscal domain of PRIs. The taxation rights are principally vested at GP level, with possibly superimposed cesses going to the PS or ZP.

The state has also initiated measures towards transferring of functional responsibilities as enlisted in Eleventh Schedule along with funds and the functionaries.

With respect to decentralised planning, the state has constituted District Planning Committees (DPCs) in all the districts.

## 7.2 SUMMARY OF FLOWS OF FUNDS TO PRIS FROM CENTRE AND STATE AND OWN REVENUES

The survey results with respect to fund flow from the Centre, state, and own revenues during 2005-06 is summarised in table 7.1. The table discusses the summary of mean per capita flows of fund from these sources across all the tiers and in both the clusters (comparator and backward) of PRIs. The fund flow from the Centre includes major Centrally Sponsored Schemes (CSSs) and transfers from the Twelfth Finance Commission. The state government transfers mainly consist of revenue received under various state schemes and the grants recommended by SFC. The own revenues of panchayats at all the tiers is mobilised through various taxes and non-tax sources.

**Table 7.1: Per Capita Fund Flows to PRIs from Centre, State and Own Revenues**

	(Rs.)					
	Comparator districts			Backward districts		
	GP	PS	ZP	GP	PS	ZP
Central transfers	92.83 (61.66)	81.82 (71.67)	114.46 (65.86)	360.26 (81.21)	395.23 (69.51)	460.01 (94.03)
State transfers	52.3 (34.74)	25.84 (22.63)	59.01 (33.95)	79.39 (17.90)	167.94 (29.54)	28.33 (5.79)
Own revenues	2.71 (1.80)	3.25 (2.85)	0.16 (0.09)	1.98 (0.45)	2.71 (0.48)	0.44 (0.09)
Own tax	0.14	1.14	0	0.29	0.38	0
Own non-tax	2.57	2.11	0.16	1.69	2.33	0.44
<b>Total</b>	<b>150.55</b>	<b>114.16</b>	<b>173.79</b>	<b>443.61</b>	<b>568.59</b>	<b>489.22</b>

**Source:** Authors' calculation

**Notes:** Figures in parentheses denote percentage to total fund.

The central transfers are the dominant source of revenue and vary in the range of 62-94 percent of total funds across all the tiers of PRIs. This is followed by state transfers contributing as low as 6 percent to highest of 35 percent across all the tiers in both the clusters. The own-revenues mobilised by the PRIs are abysmally low with a share of less than 1 to 3 percent in total fund flows. Between clusters, generally, central transfers are



more in the backward cluster than the comparator set, with the exception of the middle tier where the reverse is true. On the other hand, the state transfers are mostly higher in comparator districts than the backward set across all the tiers of panchayats. However, in the case of PS, backward clusters received higher transfers than the comparator set. In the case of own-revenues, GP and PS in the comparator districts mobilised more revenue through tax and non-tax measures than the backward cluster panchayats. The district level panchayats in both clusters have same share of own-revenue in the total fund.

### **7.3 FUND FLOWS FROM CENTRE**

As observed from 2006-07 budget documents, out of a total 165 schemes identified for rural areas, 41 bypass the state budget and 124 are routed through the state budgets. The total flow of funds from the centre to rural areas (including the TFC grants) amounted to Rs.63,236 crore. Of the 41 schemes that bypass the state budget, 10 schemes go directly to the PRIs and the remaining 31 schemes go to destinations other than PRIs. Nine out of ten schemes going directly to PRIs account for the major share of the funds flow to PRIs. In Rajasthan, the per capita transfer of Rs. 154 for 2006-07 (BE) is lower than the all-India per capita figure of Rs. 240 for the eight CSSs alone. The per capita budget estimates for eight CSS and Member of Parliament Local Area Development Scheme (MPLADS) in Rajasthan for the year 2006-07 is lower at Rs. 164.21 as compared to an all India per capita estimate of Rs. 254.59.

The total receipts figure for PRIs from all sources for the fiscal year 2005-06, as collected through field survey does not yield state-level estimates. As already stated in chapter 2 of the report, the limitations imposed by the design of the UNDP study meant that the field survey results could only be presented in the form of separate findings for the set of pre-selected backward districts in the states, juxtaposed against those for a comparator set, purposively chosen through principal component analysis so as to represent areas with higher developmental indicators.

The field survey collects scheme specific data after merger of the contributory share of the Centre and states while the budget estimates for eight CSS and MPLADS include only Centre's share. The per capita estimates from the two sources, i.e. central flows for both the district clusters shown in table 7.1 and the per capita budget estimates of eight CSS and MPLADS cannot be compared for the state of Rajasthan taken as a whole.

The survey results suggest that the ZP and PS are the principal recipients of RSVY funds in general and all backward districts in particular whereas DPAP funds flow only to ZP and PS in the backward districts. The SGRY (rural employment) on the other hand flows to all three tiers, universally in both the clusters. The fund flows from the other programmes such as NFFWP (food for work) and IAY (rural housing) have a near-universal presence at all three tiers, although more in backward districts than in the comparator set.

The field survey shows that for the year 2005-06 across all three tiers, the share of CSS in the total funds received by PRIs in Rajasthan is higher in backward districts than the comparator set. Among backward districts, the percentage contribution of CSS to total funds varies within the 58-86 percent range while among comparator cluster, it varies in the range of 35-46 percent.

In Rajasthan the per capita Central Finance Commission flows is highest at PS level followed by GP and ZP. Between the two clusters the backward districts have more CFC fund flows than the comparator set with exception of comparator ZP where marginally reverse is true.

#### **7.4 FUND FLOWS FROM STATE GOVERNMENT**

The state government fund flows to PRIs mainly consist of revenue received under various state schemes, devolution and the grants, such as establishment grants,

incentive grants, and the scheme specific grants recommended by State Finance Commission.

The mean per capita state transfers based on survey results reveal that across all the tiers, GPs and PSs of the backward cluster received more fund flows than the comparator set with a single exception of a ZP where the comparator cluster ZP received higher fund transfers. Between the clusters, the per capita fund flows for backward districts varies in the range of Rs 28-168, while in comparator set it varies between Rs 26-59.

The share of state transfers in total funds is higher for GPs in the comparator districts as compared to the middle and district tiers of panchayats, and in the backward districts the share is higher for the PSs.

The mean per capita state transfers which includes transfers under state schemes and devolution and grants is higher for GPs in backward districts as compared to those in the comparator districts.

The mean per capita state transfers across the three tiers averaged over the comparator and backward districts clusters are higher in the ZPs followed by GPs and PSs in the comparator districts. In the case of backward districts, PSs receive more state transfers followed by GPs and ZPs.

## **7.5 OWN REVENUES**

In Rajasthan, as per the state statutes, only GPs are assigned with revenue raising powers, extendable to a limited extent to the other tiers of PSs and ZPs. However, at the higher tiers, these taxes are optional.

A large number of GPs do not exploit their taxation powers. Since these taxes are optional, most of the GPs do not impose them. About 81 percent of backward cluster GPs

and nearly 95 percent comparator GPs do not exercise their taxation powers. The survey records reveal that house tax and water tax along with some other miscellaneous taxes are collected by GPs in Rajasthan. In the state of Rajasthan, the tax performance at GP level in terms of both exploitation of tax sources and share in own revenue is higher in the comparator cluster than in the backward set.

Therefore, non-tax revenue is the dominant source for PRIs. The contribution of non-tax revenue in total own revenue at GP is about 92 percent in the comparator cluster and 86 percent in backward set. Amongst the non-tax levies, property rentals, lease income, and interest receipts are the major sources of revenue for the PRIs. The mean per capita own non-tax revenue on an average is higher in the comparator districts *vis-à-vis* the backward districts with the single exception of backward districts where it is marginally reversed.

For the state of Rajasthan the per capita own tax revenues figures for 2002-03 from the TFC report is Rs 1.08 whereas the figures as reported by the survey of the sampled districts fall in the range of Rs 0.14 to Rs 1.14. However, the per capita non-tax revenue figures from the TFC reports, which is at Rs.7.30 is higher than the survey figures which fall in the range of Rs. 0.16 to Rs. 2.57.

At the PS level the dominant sources of own revenue are non-tax sources such as interest receipts and income from lease and auction, and property rental. ZPs do not exploit their tax rights. Their own-revenues include income from various non-tax sources like interest receipts, income from lease and auction, and rent from panchayat properties. The last source of interest receipts depends upon the amount of unspent funds under different schemes remaining with the banks and is not based on any revenue effort by the PRIs. Interest income from low utilisation of CSS funds at the upper two tiers is a matter of concern. This is a result of non-lapsability of these funds and carries an implicit incentive for not spending. Introducing the lapsability clause would act as an incentive to encourage higher utilisation of the CSS funds meant for developmental activities and poverty alleviation.

## 7.6 MONITORING AND UTILISATION

As per the Rajasthan PRI Act the primary responsibilities of auditing of panchayats accounts are assigned to the Director of the Local Fund Audit (LFA), an independent audit organization under the control of the state government. Simultaneous test audits are also permissible under the overriding powers of the C&AG. However, the LFA audit is not affected by the test audits conducted by the office of the C &AG in the state.

With respect to the process of auditing of panchayats accounts, the survey results suggest that auditing is more delayed at GP level than at ZP and PS level. At the GP level where most of the major schemes such as SGRY and NREGS are largely targeted and implemented, delayed audit is a matter of serious concern. In Rajasthan, across all tiers, auditing is somewhat more delayed in backward clusters than the comparator set with the marginal exception of backward set of GPs.

The utilisation rates of CSS funds are higher at ZP level than at PS level. Between the two clusters, the comparator set across both the tiers shows higher utilisation.

At GP level, the utilisation rates of CSS fund is restricted to SGRY scheme only. Between the two clusters of GPs, the utilisation rates are about the same.

In Rajasthan, in aggregate, almost all the record-keepers are state-appointed. The survey results reveal that in the comparator cluster about 90 percent are state appointed record-keepers whereas in backward districts they are about 98 percent.

The field survey results pertaining to the nature of utilisation of SGRY fund show that in Rajasthan, roads and culverts are the dominant choice, followed by building construction, and construction and maintenance of water works. The tests for gender-wise

preferences of works done through SGRY funds reveal that the null hypothesis of no gender difference in preferences cannot be rejected in both the districts clusters.

The utilisation of NREGS funds released up to August, 2006 in Rajasthan show marginally higher utilisation of 34.7 percent against all reported states' average of 34.1 percent.

The survey results reveal that the utilisation of the CFC flow at GP level is higher in comparator cluster than the backward set. The non-receipt of CFC fund varies in the range of 2.97 percent for backward cluster against the higher figure of 6.41 percent for the comparator set of GP.

Utilisation of state scheme funds across all the tiers of PRIs in Rajasthan is in general higher at ZP level, than at PS level, and the lowest at GP level. Between the two clusters, it is for the most part better in backward districts at ZP level and comparator cluster in the PS. At GP level, backward cluster show higher utilisation than the comparator set.

## *ANNEXES*

### Principal Components Analysis (PCA)

The aim of the method of Principal Components is the construction out of a set of variables,  $X_j$ 's ( $j = 1, 2, \dots, k$ ) of new variables ( $P_i$ ) called the *principal components*, which are linear combination of the  $X$ 's.

$$\begin{aligned} P_1 &= a_{11}X_1 + a_{12}X_2 + \dots + a_{1k}X_k \\ P_2 &= a_{21}X_1 + a_{22}X_2 + \dots + a_{2k}X_k \\ &\cdot \quad \cdot \quad \cdot \quad \cdot \quad \cdot \\ &\cdot \quad \cdot \quad \cdot \quad \cdot \quad \cdot \\ P_k &= a_{k1}X_1 + a_{k2}X_2 + \dots + a_{kk}X_k \end{aligned}$$

The  $a$ 's, called the *loadings*, are chosen so that the constructed principal components satisfy the following two conditions:

- i. the principal components are uncorrelated (i.e., orthogonal), and
- ii. the first principal component  $P_1$  absorbs and accounts for the maximum possible proportion of the total variation in the set of all  $X$ 's, the second principal component absorbs the maximum of the remaining variation in the  $X$ 's (after allowing for the variation accounted for by the first principal component), and so on.

The first step is to get the estimates of the loadings (i.e., the  $a$ 's) which will help transform the  $X$ 's into orthogonal artificial variables called the principal components (for details relating to the estimation of the  $a$ 's and testing of its significance refer to Koutsoyiannis, 1977). Having estimated the  $a$ 's we must finally decide upon some rule of decision, some criterion, on the basis of which to decide how many of the principal components to retain in the analysis.

The maximum number of principal components is equal to the number of  $X$ 's. However, only a small number of  $P$ 's is usually retained in the analysis. There are various criteria which have been suggested while deciding how many principal components to retain in any particular study. The most common are the *Kaiser's criterion*, *Cattell's 'Scree test'*, and the *Bartlett's criterion*. We have, in our analysis, used the *Kaiser's criterion* which suggests that only those principal components having latent root<sup>1</sup> greater than one are considered essential and should be retained for the analysis.

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<sup>1</sup> Also known as the Eigen value. The Eigen vector of a transformation is a vector whose direction is unchanged by that transformation. The factor by which the magnitude is scaled is called the Eigen value (or latent root) of the vector.



## Ranking of Districts in Rajasthan

District	Ranking			District	Ranking		
	PCA	PCY	HDI		PCA	PCY	HDI
Ajmer	23	14	10	Jaipur	8	9	4
Alwar	18	7	5	Jaisalmer	3	26	24
<b>Banswara</b>	<b>31</b>	<b>25</b>	<b>30</b>	Jalor	16	24	29
Baran	28	3	11	<b>Jhalawar</b>	<b>26</b>	<b>17</b>	<b>26</b>
Barmer	6	31	31	<b>Jhunjhun</b>	<b>2</b>	<b>27</b>	<b>7</b>
Bharatpur	13	23	15	<b>Jodhpur</b>	<b>12</b>	<b>22</b>	<b>13</b>
Bhilwara	25	15	25	Karauli	9	18	8
Bikaner	5	13	6	Kota	21	4	3
Bundi	19	6	16	Nagaur	11	20	17
Chittaurgarh	30	5	21	Pali	24	12	19
Churu	4	29	18	Rajsamand	22	8	22
Dausa	17	16	12	Sawai Madhopur	15	19	9
Dhaulpur	14	28	28	Sikar	1	30	14
<b>Dungarpur</b>	<b>32</b>	<b>32</b>	<b>32</b>	Sirohi	29	11	23
Ganganagar	10	1	1	Tonk	27	10	20
Hanumangarh	7	2	2	Udaipur	20	21	27

Notes: PCA: Principal component analysis.

PCY: Per capita income.

HDI : Human development index.

## Selected ZPs, PSs and GPs in Rajasthan

ZP	PS	GP	
1	2	3	
Banswara (B)	1. Anandpuri	1. Bareth	4. Kanela
		2. Barliya	5. Mena Padhar
		3. Chhaja	6. Patiya Galiya
	2. Sajjangarh	1. Beelri	4. Magarda-Damra-Sath
		2. Itala	5. Mahuri
		3. Khoonta Jeeva	6. Rohaniya Laxman Singh
	3. Bagidora	1. Bodigama	6. Rakho
		2. Gangar Talai	7. Rohaniya
		3. Munna Doongar	8. Saliya
		4. Nagawara	9. Tandinani
		5. Nal	
	4. Ghatol	1. Bansri Khera	7. Kanthao
		2. Bassi-Ada	8. Motagaon
		3. Bhuwasa	9. Padal Chhoti
		4. Bichhawara	10. Roojiya
		5. Borpi Khanta	11. Baraun
		6. Charda	
	5. Garhi	1. Aror	7. Jharas
		2. Arthoona	8. Khera
		3. Asora	9. Odwara
		4. Bheempur	10. Tamatiya Rathor
5. Bheemsor		11. Jolana	
6. Itauwa		12. Bori	
Dungarpur (B)	1. Dungarpur	1. Doja	5. Khempur
		2. Faloj	6. Khera Kachwasa
		3. Garamoraiya	7. Mahdwawith Chak I & II
		4. Kanhari Chak-A	8. Ragela
	2. Bichhiwara	1. Amjhara	6. Karawara
		2. Chundawara with Chak	7. Mewara
		3. Galandar	8. Palpadar
		4. Gamri Dewal	9. Rampur
		5. Genji	10. Vagdari
	3. Aspur	1. Galiyana	7. Parda Intiwar
		2. Gol	8. Pindawal
		3. Katisor	9. Ramgarh
		4. Khudarda	10. Reenchha
		5. Mal	11. Amartiya
		6. Pal Nithauwa	

ZP	PS		GP
1	2		3
Jhalawar (B)	1. Dag	1. Dobra	6. Luhariya
		2. Guradiya Jhala	7. Mandirpur
		3. Guradiya Kalan	8. Peeplya Khurd
		4. Kachhnara	9. Sunari
		5. Karawan	
	2. Bakani	1. Agariya	6. Gopal Pura
		2. Barbar	7. Kohri Jhar
		3. Bhalta	8. Reenchhwa
		4. Borband	9. Reejon
		5. Gehoon Kheri	
	3. Jhalrapatan	1. Alawa	6. Gurha
		2. Ank Kheri	7. Lawasal
		3. Barodia	8. Mogra
		4. Bhaisani	9. Rundlao
		5. Bhitwari	10. Sooliya
Jhunjhunun (C)	1. Chirawa	1. Chandana	5. Khudana
		2. Dhatarwala	6. Kishorpura
		3. Gothra Nooniya	7. Kithana
		4. Gowla	
	2. Nawalgarh	1. Barwasi	5. Jhajhar
		2. Basawa	6. Kari
		3. Bugala	7. Kolsiya
		4. Jejusar	8. Togra Kalan
	3. Surajgarh	1. Agwana Khurd	5. Morwa
		2. Beri	6. Sehi Kalan
		3. Doodwa	7. Sujdola
		4. Lotiya	8. Swami Schi
	4. Khetri	1. Dada Fatehpura	6. Nangli Saledi Singh
		2. Dalelpura	7. Nanoowali Baori
		3. Doodhwa Nangliya	8. Rajota
		4. Kharkhara	9. Rasoolpur
		5. Mdhogarh	

ZP	PS	GP	
1	2	3	
Jodhpur (C)	1. Bap	1. Bap	5. Nooreki Burj
		2. Boogdi	6. Raneri
		3. Jodhani @ Tepoo	7. Rohina
		4. Kelansar	
	2. Balesar	1. Agolai	5. Dugar
		2. Barnau	6. Ketoo Kalan
		3. Bhaloo Anopgarh	7. Ketoo Manda
		4. Dera	
	3. Phalodi	1. Chadi	5. Lohawat Jatahwas
		2. Dhadho	6. Moriya
		3. Ishru	7. Pariyal
		4. Kheechan	8. Sanwreej
	4. Luni	1. Bhacharna	6. Loonawas Khara
		2. Boranara	7. Pal
		3. Dhundhara	8. Phitkasni
		4. Khejarli Kalan	9. Sarechan
		5. Loonawas Kalan	
	5. Osian	1. Barla Basni	9. Netra
		2. Bhimsagar	10. Newra
		3. Birai	11. Bhainsar Kotwali
4. Chaupasani Charnan		12. Jakhan	
5. Kelawa Kalan		13. Charai	
6. Maloonga		14. Panchla Khurd	
7. Mathaniya		15. Jur	
8. Nandiya Khurd			

**Notes:** ZP = Zilla Panchayat, PS = Panchayat Samiti, and GP = Gram Panchayat  
C = Comparator B = Backward

## Rural Poverty Head Count Ratio

States	1973-74	1993-94	(Percent)		
			1999-00 (MRP)	2004-05 (MRP)	2004-05 (URP)
Madhya Pradesh	62.66	40.64	37.06	29.8	36.9
Chhattisgarh				31.2	40.8
Rajasthan	44.76	26.46	13.74	14.3	18.7
Orissa	67.28	49.72	48.01	39.8	46.8
<b>All India</b>	<b>56.44</b>	<b>37.27</b>	<b>27.09</b>	<b>21.8</b>	<b>28.3</b>

Source: Economic Survey, 2002, Ministry of Finance, Government of India; latest poverty figures from Government of India, 2007.

## Indicators and Scoring Scheme Used in 2002 BPL Census

S. No.	Characteristic	Scores				
		0	1	2	3	4
1	Size Group of Operational holding of land	Nil	Less than 1 ha of un-irrigated land (or less than 0.5 ha of irrigated land)	1 ha - 2 ha of un-irrigated land (or 0.5 - 1 ha of irrigated land)	2 ha - 5 ha of un-irrigated land (1.0-2.5 ha of irrigated land)	2.5 ha of irrigated land
2	Type of house	Houseless	Kutcha	Semi-pucca	Pucca	Urban type
3	Average availability of normal wear clothing (per person in prices)	Less than 2	2 or more, but less than 4	4 or more, but less than 6	6 or more, but less than 10	10 or more
4	Food security	Less than 1 square meal per day for major part of the year	Normally, 1 square meal per day, but less than 1 square meal occasionally	1 square meal per day throughout the year	2 square meal per day, with occasional shortage	Enough food throughout the year
5	Sanitation	Open defecation	Group latrine with irregular water supply	Group latrine with regular water supply	Clean group latrine with regular water supply and regular sweeper	Private latrine
6	Ownership of consumer durables: Do you own? -TV, electric fan, kitchen appliances like pressure cooker, radio etc.	Nil	Any one	Two items only	Any three or all items	All items and/or ownership of any one of the following: - Computer, Telephone, Refrigerator, colour TV, electric kitchen appliances, expensive furniture, LMV/LCV, tractor, mechanized two wheeler/three wheeler, power tiller, combined thresher/harvester (4 wheeled mechanized vehicle)
7	Literacy status of the highest literate adult	illiterate	Upto primary class (Class V)	Completed secondary	Graduate/Professional Diploma	Post Graduate/Professional Graduate
8	Status of household labour force	Bonded labour	Female and child labour	Only adult females and no child labour	Adult males only	Others
9	Means of livelihood	Casual labour	Subsistence cultivation	Artisan	Salary	Others
10	Status of children (5-14 years) [any child]	Not going to school and working@	Going to school and working @			Going to school and not working @

11	Type of indebtedness	For daily consumption purposes from informal sources	For production purpose from informal sources	For other purpose from informal sources	Borrowing only from institutional Agencies	No indebtedness and possess assets
12	Reason for migration from household	Casual work	Seasonal employment	Other forms of livelihood	Non-migrant	Other purposes
13	Preference of Assistance	Wage employment/TPDS (Targeted Public Distribution System)	Self Employment	Training and Skill Upgradation	Housing	Loan/Subsidy more than Rs one lakh or no assistance needed

**Source:** Ministry of Rural Development, Government of India.

**Note:** The total score of a household will vary between 0 and 52.

@ Indicates non-formal education.

### SFC Recommendations and Action Taken Report

Areas	Issues	Recommendation	Action taken report
<b>First State Finance Commission</b>			
1. Assignment of new taxes	PRIs own revenue	Nominal tax on <i>havelis</i> and big <i>pucca</i> houses.	Accepted
		A nominal 10% tax on land rent	Already possible under RPR Act, Sec 68(1).
		Land revenue on <i>barani</i> land to ZPs, to be shared by PRIs in the ratio 60% GPs 25% PSs and 15% ZPs.	Relates to revenue department.
		ZPs should levy a surcharge of 1% on the sale of land in rural areas and ½% surcharge on market fee.	Under Section 6 G ©(1) ZPs may levy charge upto 5% on stamp duty on sale of property in rural areas
2. Budgetary classification	Budgetary classification	There is a need to have a separate classification for service/maintenance activities to clearly determine the flow of funds to these sectors.	Action has been taken for classification of expenditure on rural primary education as social service activity etc. by making adequate provision in RPR Rule, 1996.
3. Functional devolution	Transfer of functions, fund and functionaries.	Any function transferred to PRIs by the government should be accompanied by transfer of budget and staff with the same norms to accommodate future needs.	Budget has been transferred not the supervisory staff
4. Other recommendations	Panchayat cadre	Strengthening of cadre	Rules are under consideration of State Govt. VLW/Secretary posted in each gram panchayat
	Training of functionaries	Finance, accounts and budgeting, technical staff in soil conservation water management, civil constructions	Partly implemented by strengthening training centres
	Central fund	Flexibility in central fund	Action to be taken by Rural Development.
<b>Second State Finance Commission</b>			
<i>The decisions on the following recommendations would be taken after having detailed discussions with the concerned department</i>			
1. Resource mobilization	Own revenue	The PRIs should increase their own income by levy of taxes and fees as provided under the Rajasthan Panchayat Raj Act/ Rules.	
	Recovery of taxes/ fees	Certain taxes and fees must be made obligatory by amendment of the PR Act/ Rules.	
	Procedure for recovery	Surcharge on stamp duty and <i>mandi</i> tax should be levied and credited to PD account of ZP as provided under the PR Act/Rules.	
	Distribution of undisbursed	At the end of award period undisbursed balances including	



	incentive grants	interest if any from the incentive amount may be distributed to GPs on population basis.	
	Incentives	Incentive amount equal to the revenue raised from untapped sources of tax-non tax to be given to GPs. Payment of incentive amount to be made to GPs by ZPs out of incentive amount of Rs.12.57 crores which is to be transferred to their PDs account out of 0.05% share in net taxes	
2. Financial devolution	Utilization of grants.	The utilization of Finance Commission grants should be made in the manner and for the purposes for which they are released.	
3. CFC (EFC) Grants	Distribution to GPs	The EFC grants meant for civic services to be distributed to GPs and ULBs based on the same criteria as recommended for distribution of SFC amounts of share in taxes	
4. Functional devolution	Transfer of functions, fund and functionaries	All the activities listed in the eleventh schedule of the constitution should be transferred to the PRIs along with budget, staff and logistic support.	
	Division of functional responsibilities between Centre, State and PRIs (provision for district list)	For this purpose a third list of District Governments may be inserted in the Constitution.	
	Staff of GPs (Gram Secretary)	Every GP should be provided with a secretary.	
	Gram Sevak	The Gram Sevak should handle cash and maintain records of GPs. The <i>Sarpanch</i> should be kept free from these duties.	
5. Accounts and Audit	Maintenance of accounts	The Maintenance of accounts and audit of PRIs may be ensured as recommended by EFC	
6. Others	Merger of DRDA & ZP	The District Rural Development Agencies should be merged with the ZPs.	It has been merged
	Training	Necessary arrangements for training of newly elected representatives of Panchayati Raj Institutions should be made	
	Monitoring	The recommendations of SFC should be monitored by the Finance Department	
	Data Bank	The State Government should ensure collection and compilation of financial data of PRIs ULBs on a regular basis.	

<b>Interim recommendations of the Third Finance Commission</b>			
1. Devolution of Resources	Tax Devolution	Rs 157.57 cr and Rs 180.04 cr. (which is 75.70 % of the 2.25 % of net state tax revenues to the PRIs) for 2005-06 and 2006-07. Of this share of GPs, PSs and ZPs, would be 85%, 12% and 3% respectively.	Awaited
	Criteria and weights for Inter-se distribution amongst PRIs	Same as recommended by second SFC. The distribution among the ZPs, PSs and GPs would be based on population.	Awaited
	Utilization of fund	The entire amount for 2005-06 and 2006-07 would be transferred as untied grants for maintenance of various services and for supplementing the funds recommended by Twelfth Finance Commission. No asset (community halls, chabutaras etc.) would be created from this fund.	Awaited

Source: Ministry of Finance, Government of Rajasthan, Jaipur.

**Functional Devolution in Rajasthan Following 2003 Circular**

<b>Departments and subjects transferred</b>	<b>Responsibility of panchayats</b>	<b>Functionaries</b>	<b>Funds</b>
<b>Primary Education</b>	Entire responsibility transferred ZP and PS	Functionaries at the respective levels including teachers transferred	Funds transferred, salary of officials from state treasury/PD accounts of PRI. Rest of the budget on the basis of approval of ZP
<b>Agriculture (Gr. – 1)</b>	Schemes like distribution of insecticides and pesticides (ZP, PS), cotton development, maize development programmes (ZP), oil seeds production (ZP)	Officials related to various schemes are transferred to ZP and PS. Administrative control remains with department	Partly transferred both department and ZP control the funds
<b>Agriculture (Gr. – 2)</b>	Village market to GP		
<b>Irrigation</b>	Small irrigation projects, ponds/check dams (PS and GP).	Assistant engineer to ZP Junior engineer to PS	maintenance and repairing budget
<b>Animal Husbandry</b>	Leasing power of fish ponds to ZP, PS and GP.	Officials of district fisheries development transferred to ZP	Salary of officials from state treasury/PD accounts of PRI Rest of the budget on the basis of approval of ZP
<b>Public Health and Engineering</b>	Maintenance and replacement of hand pumps, management of water tanks and piped water schemes to PS.	Assistant engineer and his staff to ZP Junior engineer to PS	
<b>Women and Child Development</b>	Selection of anganbadi workers by GP through Gram Sabha and control and operation of anganbadi by GP.	Anganbadi Programme Supervisor and officer for Child Development Programme to PS	
<b>Social Welfare</b>	All district level programmes ZP	District officials	
<b>Industry</b>	Beneficiaries selection of PMRY by ZP. Small scale industry proposals will be discussed by PS.		
<b>Energy</b>	Electricity bills and other notices distribution by GP ZP to select villages for rural electrification		
<b>Food, Civil Supply and Consumer affairs</b>	Distribution of fair price shops by a committee where heads PS and GP	237 Inspectors of the departments to PS	Salary to be transferred to PS

	will be members along with nominated member	
<b>PWD</b>	Construction and maintenance of all govt. building at SDO headquarters and below to PS. Work and maintenance related to village roads and CD works to PS. Supervision of PWD work in rural areas by PRIs.	
<b>Technical Education</b>	Supervision of industrial training institutes to PRIs	
<b>Forest</b>	Social forestry and farm forestry in non-forest areas to PRIs	Assistant forest conservator to ZP Forest officials to PS

<b>Fund Flows to PRIs through Eight Centrally Sponsored Schemes (Rs. Crore)</b>		
	<b>Rajasthan</b>	<b>All India</b>
<i>Sampoorna Grameen Rozgar Yojana (SGRY)</i>		
2004-05	145.65 (0.13)	4490.77 (0.14)
2005-06	151.04 (0.12)	4391.24 (0.11)
<i>Swarnjayanti Gram Swarozgar Yojana (SGSY)#</i>		
2004-05	29.42 (0.03)	898.73 (0.03)
2005-06	19.03 (0.02)	710.12 (0.02)
<i>National Food For Work Programme (NFFWP)</i>		
2004-05	35.33 (0.03)	2019.45 (0.06)
2005-06	78.67 (0.06)	2158.28 (0.06)
<i>National Rural Employment Guarantee Scheme (NREGS)*</i>		
2004-05	0.00 (0.00)	1.00 (0.00)
2005-06	41.42 (0.03)	2292.57 (0.06)
<i>Indira Awaas Yojana (IAY)</i>		
2004-05	49.72 (0.05)	2878.25 (0.09)
2005-06	64.94 (0.05)	2737.64 (0.07)
<i>Integrated Waste Land Development Programme (IWDP)</i>		
2004-05	21.21 (0.02)	334.42 (0.01)
2005-06	21.32 (0.02)	381.40 (0.01)
<i>Drought Prone Areas Programme (DPAP)</i>		
2004-05	15.74 (0.01)	300.18 (0.01)
2005-06	17.12 (0.01)	310.93 (0.01)
<i>Desert Development Programme (DPP)</i>		
2004-05	107.25 (0.10)	215.19 (0.01)
2005-06	122.69 (0.10)	230.55 (0.01)
<b>Total</b>		
2004-05	404.31 (0.37)	11136.99 (0.36)
2005-06	516.23 (0.42)	13212.74 (0.34)

**Source:** Annual Report, various years, Ministry of Rural Development, Government of India.  
GSDP as released by CSO on 21.07.2006

**Notes:** # SGSY- 2005-06 central releases are as on 5.01.2006.

\* Funds released for preparation of NREGA from 2<sup>nd</sup> February to March 2006. The total amount released for all the states was Rs. 2292.57 crore. Figures in parenthesis refer to percent to GSDP.

**Frequency Distribution of ZPs, PSs and GPs in Rajasthan by Number and Type of Central Schemes Received**

No. of Schemes	Comparator													Cumulative %age
	Central schemes													
	ARWSP	CRSP	DPAP	IAY	NFFWP	NREGA	MP Funds	Pension scheme	PMGSY	RSVY	SGRY	SGSY	Others	
<b>ZPs</b>														
3				1						1	0	1	1	50.00
4				1						1	1	1	1	100.00
<b>Total</b>				<b>2</b>						<b>2</b>	<b>1</b>	<b>2</b>	<b>2</b>	
<b>JPs</b>														
1				0						0	0	2	2	22.22
2				0						2	0	2	2	44.44
3				1						3	2	3	3	77.78
4				2						2	2	2	2	100.00
<b>Total</b>				<b>3</b>						<b>7</b>	<b>4</b>	<b>9</b>	<b>9</b>	
<b>GPs</b>														
1				0	0		0	0		2		0	2	2.56
2				40	0		2	1		43		0	43	57.69
3				31	6		14	2		31		9	31	97.44
4				2	1		1	0		2		2	2	100.00
<b>Total</b>				<b>73</b>	<b>7</b>		<b>17</b>	<b>3</b>		<b>78</b>		<b>11</b>	<b>78</b>	

**Frequency Distribution of ZPs, PSs and GPs in Rajasthan by Number and Type of Central Schemes Received**

No. of Schemes	Backward														Cumulative %age
	Central schemes														
	ARWSP	CRSP	DPAP	IAY	NFFWP	NREGA	MP Funds	Pension scheme	PMGSY	RSVY	SGRY	SGSY	Others	Total	
<b>ZPs</b>															
5			0	1	0					1	1	1	1	1	33.33
6			0	1	1					1	1	1	1	1	66.67
7			1	1	1					1	1	1	1	1	100.00
<b>Total</b>			<b>1</b>	<b>3</b>	<b>2</b>					<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	
<b>JPs</b>															
3			1	0	0					0	1	0	1	1	9.09
4			0	1	1					2	2	0	2	2	27.27
5			0	2	6					6	6	4	6	6	81.82
6			1	1	0					1	1	1	1	1	90.91
7			1	1	1					1	1	1	1	1	100.00
<b>Total</b>			<b>3</b>	<b>5</b>	<b>8</b>					<b>10</b>	<b>11</b>	<b>6</b>	<b>11</b>	<b>11</b>	
<b>GPs</b>															
1				0	0	0	0	0		0	1		0	1	0.99
2				3	1	0	0	0		0	4		0	4	4.95
3				31	22	2	0	0		9	33		2	33	37.62
4				51	41	5	6	1		41	51		8	51	88.12
5				11	7	5	5	0		11	11		5	11	99.01
6				1	1	0	1	1		1	1		0	1	100.00
<b>Total</b>				<b>97</b>	<b>72</b>	<b>12</b>	<b>12</b>	<b>2</b>		<b>62</b>	<b>101</b>		<b>15</b>	<b>101</b>	