

Rural Fiscal Decentralisation in Karnataka State

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A major shortcoming in Indian fiscal literature is the lack of attention to the fiscal issues at local levels, particularly in rural areas. Much of the literature on fiscal decentralisation is focussed on fiscal arrangements between the centre and the states. Very little is known about public finances of Panchayat Raj institutions and fiscal relationship between state and local governments. The few studies that look at these issues are descriptive and impressionistic and are not based on reliable data. Thus, our understanding on the sub-state rural fiscal decentralisation is based on prescriptive and impressionistic literature.

This study is an attempt to undertake a comprehensive analysis of sub-state rural fiscal decentralisation and Panchayat finances in Karnataka. The analytic of the study is the principles or normative implementation rules of fiscal decentralisation expounded in the literature. It does not take fiscal decentralisation as good or bad *a priori*, but explores ways and means to enhance its efficacy by identifying policies and institutions and implementation mechanisms. It bases the analysis on the data and information specifically collected by us from 636 Gram Panchayats in four districts.

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List of Abbreviations

ARWS	Augmented Rural Water Supply Scheme
BCM	Backward Classes and Minorities
CEO	Chief Executive Officer
CP	Central Plan Scheme
CSS	Centrally Sponsored Scheme
CV	Coefficient of Variation
DDP	District Development Program
DPAP	Drought Prone Area program.
DPC	District Planning Committee
DRDA	District Rural Development Agency
EAS	Employment Assurance Scheme
EFC	Eleventh Finance Commission.
GDDP	Gross District Domestic Product
GP	Gram Panchayat
GSDP	Gross State Domestic Product
IAY	Indira Awas Yojana
IWDP	Integrated Waste Lands Development Programme
ISM&H	Indian System of medicine and Health
JGSY	Jawahar Gram Samruddi Yojane
JRY	Jawahar Rozgar Yojana
KPTCL	Karnataka Power Transmission Corporation Ltd
MLA	Member of Legislative Assembly
MNP	Minimum Needs Program
NABARD	National Bank for Agriculture and Rural Development.
OBB	Operation black board
PHC	Public Health Centre.
PMGY:	Prime Minister Grameena Yojana
RGHCL	Rajiv Gandhi Housing Corporation Ltd
SC	Schedulted Castes
SCP	Special Componenet Plan
SFC	State Finance Commission
SGRY	Sampoorna Grameena Rozgar Yojana
SGSY	Swarna Jayayanti Grama Swarozgar Yojana
ST	Scheduled Tribes
TFC	Tenth Finance Commission
TP	- Taluk Panchayat
RDPR	- Rural development and Panchayat Raj
ZP	- Zilla Panchayat

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Chapter I

Rural Fiscal Decentralisation in Karnataka State History and Institutions

I.1 Introduction

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

In keeping with this global trend, in India too there has been a trend towards greater devolution of powers to urban and rural local governments particularly since the 1990s. Of course, attempts to decentralise the administrative system and establish self governing institutions has a much longer history in India and there have been sporadic attempts at devolving powers and rights to rural and urban local governments, particularly after independence. However, the impetus gained momentum with the statutory recognition of local bodies as institutions of rural and urban self-government after the 73rd and 74th Constitutional amendments in 1992. Although this was not done as a component of structural reform, the attempt at decentralisation coincided with other market-oriented reform efforts.

The worldwide trend towards decentralisation has been accompanied by animated discussions about its gains and losses. Many analysts find inherent merit in decentralisation; often it is considered to be a constituent of human well being and therefore, an end in itself. In many countries, policy makers see decentralisation a panacea for many ills afflicting the society. It is perceived as an important means to enable efficient allocation of resources, improve governance, accelerate economic growth, reduce poverty, achieve greater gender equity and empower weaker sections of society. In contrast, arguments against decentralisation have focused on the weakening the capacity of the central governments to

undertake macroeconomic stabilization, efficiency loss due to poor administrative capacity of local governments to undertake the functions assigned to them and potential for increased corruption (Prud'homme, 1995 Tanzi, 1996, 2001). The empirical studies are yet to settle the issue of the impact of decentralisation on efficiency, growth and governance.

The efficacy of a decentralised system in improving governance, achieving empowerment and enhancing efficiency in service delivery, and impacting on growth and poverty depends on the nature of the institutions and more particularly the power structure in local areas. In the literature, the economic argument for decentralisation is rooted in the premise that it will enhance efficiency. Decentralisation enables wider choice and ensures better matching of public service – tax bundles with the preferences of people. The choice can be exercised either by 'exit' (Tiebout, 1956) or by 'voice' (Oates, 1999) mechanisms. However, the welfare enhancing argument for decentralisation is rooted in the 'common good' doctrine in which social welfare is maximised by an organicist state or a benevolent dictator. If on the other hand, 'self interest' doctrine is applied, in a monolithic structure in which different agents of the government are motivated by self interest, the oligopolistic power structure can result in bureaucratic, political elite or interest group capture (Breton, 1995, Bardhan, 2003, Bardhan and Mookherjee, 1990). In order for decentralisation to enhance efficiency and improve welfare, it is important to have a composite state that satisfies preconditions of intergovernmental competition (Breton, 1995).

It is very well recognized that decentralisation is a complex and a multifaceted phenomenon. The typology of decentralisation includes deconcentration, delegation and devolution (Parker, 1995). In deconcentration, the decision making power is with higher level government and the lower level governments are merely employed by the higher level government to implement its policies and programs. In delegation, the decision making power is delegated to the lower level governments by the higher level government in respect of specified functions. It is only in devolution that decision making power is shared between higher and lower level governments.

The concept of decentralisation has administrative, political and fiscal dimensions. The three dimensions are interdependent and the effectiveness of decentralisation requires calibration of the three dimensions together. Although it is possible to deal with each of the dimensions independently, reforms in one aspect of decentralisation can not be carried out beyond a point unless there are accommodating changes in others. Without political

decentralisation, participatory decision making is not possible. Administrative decentralisation is necessary to implement political decisions. Fiscal decentralisation is not meaningful if there is not an enabling environment for the citizen participation and empowerment to exercise “choice” and “exit”. This is also an important precondition for fiscal decentralisation, as efficiency in delivery of public services depends on administrative efficiency and accountability.

I.2 Objectives of the Study

While the subject of decentralisation itself has attracted a lot of attention in recent times even in India, it is difficult to find any systematic analytical studies on fiscal decentralisation¹. Much of the recent literature on the subject in India is confined to political, administrative and sociological aspects of decentralisation. The few studies on fiscal decentralisation that exist do not go beyond analyzing the division of fiscal powers between central and state governments. Analytical studies on sub-state rural fiscal decentralisation are difficult to find. Again, studies on sub-state fiscal decentralisation are descriptive and do not deal with the critical questions of assignments, overlapping fiscal systems and consequences thereof, determinants of revenues and expenditures and design and impact of the transfer systems. A few of the studies with an analytical frame deal with some specific aspects of fiscal decentralisation, or are grounded in unreliable data or data selected from a handful of unrepresentative sample panchayats². This is partly due to the fact that fiscal decentralisation below the state level is not very significant and more importantly, there is hardly any information available on the extent to fiscal decentralisation. The present study, thus, attempts to fill this vacuum. This is the first comprehensive analytical study on the rural fiscal decentralisation on any state in India.

In this study, an attempt is made to analyze fiscal decentralisation in Karnataka from the perspective of the principles or implementation rules of fiscal decentralisation and some best practices³. While recognizing the interdependence with political and administrative aspects, the study attempts to focus on fiscal decentralisation with a view to identifying

¹ For some recent studies on decentralisation, see Aziz et. Al (2002), World Bank (2000), Meenakshisundaram, (1994)

² Some recent studies on fiscal decentralisation are Rao and Singh (2000), Rajaraman (2001), World Bank (2000).

³ This is true of not only developing countries but also developed countries. The clear example of this can be seen in the two recent studies dealing with fiscal decentralisation in a number of countries. See, Bird and Vaillancourt (1997), Ahmed (1996) and Ahmad and Tanzi (2002).

policy and institutional changes required to improve efficiency in service delivery. The study does not presume decentralisation to be inherently “good” or “bad”. It merely takes decentralisation as a given fact, attempts to identify the problems and constraints and works out possible areas of reform in both its design and implementation aspects. Thus, the study attempts to identify the strengths and shortcomings of the prevailing system of rural fiscal decentralisation in Karnataka and recommend policy and institutional changes as well as implementation issues required to ensure more efficient and responsive delivery of public services.

The goal of this study is to make a comprehensive analytical study of fiscal decentralisation in Karnataka. Besides examining the policies and institutions and their changes over time, the study undertakes a quantitative analysis of the determinants of revenues and expenditures of GPs in Karnataka. The analysis helps to understand the actual pattern of revenues and expenditures in the state, to identify means to enhance revenue productivity and expenditure efficiency, and alternatives to improving the design and implementation of the transfer system.

The specific objectives of this fiscal decentralisation study are:

- (i) To examine the system of expenditure assignments in the three tiers of rural local governments (Panchayats) in Karnataka. This includes:
 - overlap in the functions and schemes assigned to district, taluk and village Panchayats;
 - hierarchy, flexibility and autonomy in undertaking the functions assigned to the three levels;
 - coordination of fiscal decentralisation with administrative and political decentralisation;
 - functional assignment and delivery of services. This includes analysis of expenditures incurred by the three tiers of rural local governments and their relationship with broad indicators of services provided.
- (ii) Analysis of assignment of revenues to the three tiers of rural local governments. This includes:

- adequacy of revenue assignments in relation to the functions assigned;
 - autonomy of the local governments in the determination of tax base and rates;
 - performances of rural local governments in mobilizing revenues from the sources assigned to them.
- (iii) Analysis of the design and implementation of intergovernmental transfer systems. This includes:
- design of general purpose and specific purpose transfers to the three tiers of local government from the state government;
 - analysis of the specific purpose transfers from the central government for central sector and centrally sponsored schemes.
 - Impact of general and specific purpose transfers on local expenditures.

Analysis of fiscal assignments and the transfer system helps to identify reform areas in fiscal decentralisation. Reform in fiscal decentralisation has a strong complementarity with reforms in administrative and political aspects of decentralisation. Ensuring efficiency and equity in service and delivery, delivering the services to the targeted groups involves detailed examination of both design and implementation of decentralizing policies and institutions. The present study attempts to fill the research gap in this area.

There are two important motivations for the detailed analysis of fiscal decentralisation in Karnataka. First, historically, Karnataka is one of the States that has pioneered the decentralisation experiment. In many ways, Karnataka's experiment since 1983 was a forerunner to the decentralisation reforms initiated in the country in 1992 and in fact, influenced the national thinking on empowering rural local governments to empower people. Second, Karnataka has taken a proactive stance in regard to decentralisation in recent years and the present analysis strongly complements this initiative. The Report of the Working Group on Decentralisation brought out recently by the Department of Rural Development and Panchayat Raj (Government of Karnataka, 2002), makes a thorough analysis of administrative and political aspects of decentralisation with a view to identifying the shortcomings in the prevailing system and recommends reforms in several areas. The present study makes a detailed examination of the fiscal arrangements and advances complementary

recommendations. While the focus of the study is on fiscal decentralisation, the study also addresses related issues in administrative and political decentralisation necessary to advance reforms in fiscal decentralisation. From the point of view of the World Bank, the emphasis will be on efficient delivery of services. It is important to identify reform issues in administrative, political and fiscal aspects of decentralisation so that they are carried out to fulfill the overarching goals of the Bank's lending program namely ensuring opportunities, empowerment and security to the poor and vulnerable sections of population.

I. 3 Evolution of Fiscal Decentralisation in Karnataka

Karnataka has had a long tradition of deconcentration. The establishment of "local fund" in 1862 in each of the districts to construct roads and other works was one of the early initiatives in decentralisation. The first attempt to evolve a three tier structure at district, taluk and village levels dates back to 1902. Further impetus to decentralisation was given in 1918, when following the response to the Montague-Chelmsford Committee's recommendation, the then government of Mysore enacted the Mysore Local Boards and Village Panchayat Act. The salient feature of the Act was the significant increase in the elected members in Panchayats, and for the first time, they were included in the decision making process. Elected members could become vice-presidents of taluk and district boards.

The decentralisation initiative during the post-independent phase started with the report of the local Boards Enquiry Committee in 1954. The committee recommended the three tier structure at district, taluk and village levels. After the reorganization of the State in 1956 when Kannada speaking areas of erstwhile Madras Presidency were included in the Mysore State (renamed as Karnataka in November 1973), standardization of varying patterns of local governments in different regions of the State required the enactment of a new Act. At the national level, the Report of the Study Team on Community Development Projects and National Extension Service (India, 1957), provided a new initiative for decentralised planning and development. Thus, the enactment of Mysore Village Panchayats and Local Board Act, 1959 expanded the role of decentralised levels of government in development activities. It continued the three-tier structure with village Panchayats and Taluk Development Boards assigned executive functions and District Development Councils having an advisory role.

The most important initiative towards decentralisation, however, was taken with the enactment of Karnataka Zilla Parishads, TP Samithis, Mandal Panchayats and Nyaya

Panchayats Act, 1983. The Act was implemented from 1987 and it evolved a two tier structure of decentralisation. While the Zilla Parishads (district level) and Mandal (conglomeration of villages with 8000-10000 persons) Panchayats had the executive authority, the intermediary tier of TP samitis merely had a coordinating role. The 1983 Act enacted by the Karnataka government was a landmark legislation in many respects, and provided a model of decentralisation envisaged in the country subsequent to the 73rd constitutional amendment.

In terms of political decentralisation, the Zilla Parishad members were to be directly elected, 25 per cent of the seats were reserved for women and the reservation for the scheduled caste and tribes was in proportion to their population. Members of Parliament and State Legislature were co-opted to Zilla Parishads, they had the voting rights, but could not hold office in Zilla Parishads. The Adhyakshas (Chairman) and Upadhyakshas (Vice-Chairman) were elected from among elected Members and had had the salary and status of Minister of State and Deputy Minister respectively. Mandal Panchayats were the level closest to the people and each mandal consisted of a group of villages with population of 8000-10000. In the case of mandal panchayats too, 25 per cent of the seats were reserved for women and 18% for scheduled castes and tribes. When the Members of socially backward classes were not elected, the Zilla Parishad had to nominate two persons representing these groups. The elected representatives elected the Pradhan (President) and Upapradhan (Vice President). The Taluk Panchayat was merely a co-ordinating body for Mandal Panchayats without of any executive powers and was constituted by the Members of Parliament and State Legislature, and all the Pradhans from the Mandal Panchayats.

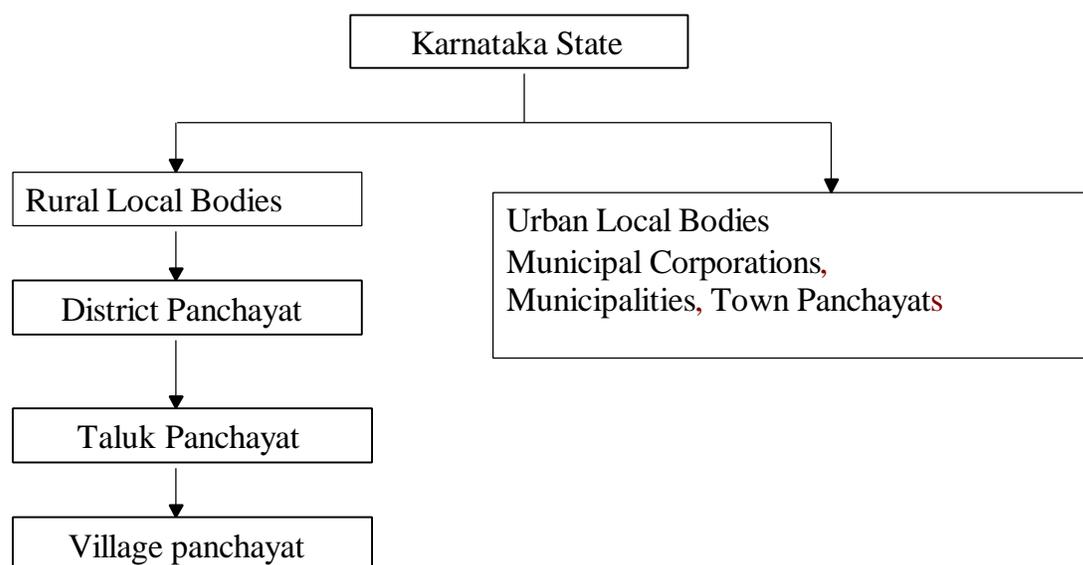
The chief of administration in the ZP was designated as the Chief Secretary who was responsible to the executive head, the Adhyaksha. The Chief secretary was senior in rank to the Deputy Commissioner of the district. He was assisted by Deputy Secretaries for Development and Administration, a Chief Accounts Officer and a Chief Planning Officer. In addition, as the state government transferred a number of activities to Zilla Parishads along with the budget and the staff to implement the activities. The transferred staff was under the administrative control of the Chief Secretary. At the Mandal Panchayat level, the administrative functions were carried out by the Secretary. The Block Development Officer was the administrative head of the TP Samithi.

I.4 Constitutional Amendment and Structure of Decentralisation in Karnataka

The 73rd Constitutional amendment in 1992 brought in the standardized system of decentralisation in Karnataka. The Karnataka Panchayat Raj Act, 1993 provides for the three tier structure of rural local governments at Zilla (district), Taluk and Gram (village) levels. There are 27 Zilla Panchayats (ZPs), 175 Taluk Panchayats (TPs) and 5659 Gram Panchayats (GPs) in Karnataka. All three levels are vested with executive authority unlike the 1983 Act in which TP was merely a co-coordinating agency. The first tier of decentralised government, the GP, was structured to include a group of villages covering five to seven thousand persons; This is smaller than the Mandal Panchayats, which according to the 1983 Act, were to include about ten thousand persons). The structure of rural decentralisation in Karnataka is depicted in Figure 1.

In the prevailing system, all the three tiers of local self governments have executive authority, and are expected to be independent of one another. In actual practice, however, the administrative regulations, supervision and reporting requirements, and capacity differences have resulted in hierarchical structure (Government of Karnataka, 2002). In effect, TPs have a supervisory role over GPs and ZPs supervise both Gram and TPs.

Figure I
Decentralization in Karnataka



The administrative head of the ZP is designated as Chief Executive Officer (CEO), an officer of the State government equivalent in rank to the Deputy Commissioner of the district. The Executive Officer is the administrative head of the Taluk is also a group A officer of the State government. The Secretary of the GP looks after the administration in GP. The state government appoints him and his salary, transfer and promotion is also met by the State government. In all the three levels, the administrative head is responsible to the elected executive; they have administrative accountability to their respective departments of the State governments as well.

Another important feature of local self government is the institution of ‘Gram Sabha’ (village assembly). With the amendment to the Constitution (73rd), insertion of Article 243 – A has made Gram Sabha an integral part of the decentralisation process. GP is required to convene a meeting of the Gram Sabha at least once in six months. The functions of the Gram Sabha include (i) mobilising voluntary labour and voluntary contributions in cash and kind for community works; (ii) identification of beneficiaries for implementing the anti-poverty and village development schemes; (iii) assisting the implementation of village development schemes. In addition, the Gram Sabha makes suggestions and recommendations in regard to the annual accounts of the Panchayat, its administrative report of the previous financial year, the audit report and comments thereon, report on the development program for the preceding year, current year’s development programs, promotion of unity and harmony among all sections of society in the village program on adult education and any other matter prescribed.

I. 5 The Assignment System

I.5.1 Assignment of revenues

In the prescribed system of revenue assignments, Urban local bodies and only GPs in Rural Local bodies have taxing powers. Section 199 of the Karnataka Panchayat Act, 1993 empowers only the GPs to levy taxes on specified bases subject to the maximum rate specified. The most important among the handles is the tax on land and buildings not subject to agricultural assessment within the limits of the Panchayat area. On buildings, the maximum rate specified is 10 per cent of the annual letting value.⁴ On lands not subject to

⁴ Annual letting value is defined as the annual rent for which any building or land, exclusive of furniture or machinery contained or situated therein or thereon, might reasonably be expected to be let from year to year.

agricultural assessment the maximum tax rate stipulated is one rupee per one hundred square metres per annum.

In addition, GPs have the power to levy tax on entertainment other than cinematograph shows, tax on vehicles other than motor vehicles, tax on advertisements and hoarding, fee on registration of cattle brought for sale in any market, pilgrim fees, fee on buses and auto-taxis and auto-stands and fee on grazing cattle on grazing lands. Although the Act empowers the GPs, most these taxes are not levied because administrative cost may be more than the revenue productivity.

The major non-tax revenue source is the water rate charged for the water supplied for drinking and other purposes. In some of the GPs closer to the major cities and towns, rents from shops and establishments constructed and let out by the Panchayats also generate significant revenues. In addition, the GPs have many other minor and one time non-tax revenues such as auction of forest produce (tamarind, mango, cashew nuts etc.), royalty on sand, stones and other materials (though it is called as royalty, it is basically tax on vehicles carrying these material in their roads) and interest earned on deposits.

Taluk and District Panchayats do not have any taxation powers. Both District and TPs depend upon transfers from the Central and State governments for carrying out their expenditure functions. However, TPs, particularly nearer important towns get some revenues from renting shops and other establishments owned by them.

I.6 Intergovernmental transfers

The description of fiscal decentralisation in Karnataka is not complete without referring to the institution of Finance Commissions. Under clause 267 of the Karnataka Panchayats Act, the State government is required to constitute the State Finance Commission (SFC) once in every five years to review the financial position of the ZPs, TPs and GPs and make recommendations on the principles of sharing the proceeds from State taxes between the State government and the Panchayats, the assignment of revenues to Panchayats, and grants to be paid to them from the consolidated fund of the State government. In addition, the Commission is required to recommend measures to improve the financial position of the Panchayats and address any other matter referred to it in the interest of sound finance. Thus, SFC is supposed to recommend the transfers to all the three tiers of Panchayats based on the Commission's assessment of the requirement of Panchayats.

The first State Finance Commission made the recommendation to devolve 36 per cent of the State's own revenues (excluding loans and central transfers) to rural and urban local bodies. The share of rural local bodies was recommended at 30.6 per cent of the State's own revenues. The shares of GPs, TPs and ZPs were placed at 25%, 35% and 40% respectively. The Commission recommended the distribution of the funds among the various Panchayat units on the basis of three indicators with equal weights attached namely (i) population, (ii) area (iii), social and economic indicators of backwardness as indicated by illiteracy rate, road length per sq. km area and number of persons per hospital bed.

However, the State government did not implement the recommendation of the Finance commission. Instead, it decided to give annual lump sum (equal amount) grants to each Gram, Taluk and ZPs. Thus, from 1994, each GP was given a lump sum grant (Talanudana) of Rs. One lakh which was later increased to Rs. 2 lakh in 1999-2000. Later, from April 2001, an additional Rs. 1.5 lakh was committed to each GP as a developmental grant. Thus, altogether, the state government proposed to give about Rs. 3.5 lakh as a general purpose transfer though, during the course of the year, due to resource constraints, it has not been able to devolve the entire sum. In 1999-2000, the lump sum grant to GPs was reduced from Rs. 2 lakhs to Rs. 1.48 lakhs and the development grant was reduced from Rs. 1.5 lakhs to Rs. 1.11 lakhs. Similarly, until 2001-02, each TP is given a lump sum grant of Rs. 7.8 lakh and rs. 4 lakhs as development grant and the amount given to each ZP under the two categories amounted to Rs. 13.87 lakhs and Rs. 8 lakhs respectively.

However, at the end of the year 2000-01, the state government decided to cut the general purpose grants in the wake of fiscal pressure. As against Rs. 2 lakhs basic grant, each GP was given Rs. 1.66 lakh and the development grant was reduced from the originally proposed Rs. 1.5 lakh to Rs. 1.11 lakh. In the case of TPs, the basic grant was abolished and only development grant amounting to Rs. 2.97 lakhs to each Panchayat was given. Similarly, for the ZPs too, the lump sum grant was abolished and the development grant was reduced to Rs. 5.96 lakh. However, in the recent budget speech for 2003-04, the Chief Minister has announced that each GP henceforth will be given a lump sum grant of Rs. 5 lakhs per year.

The State government also gets transfers from the Central government on the recommendation of the central finance commission for strengthening the local bodies. Subsequent to the 73rd amendment to the Constitution, the Central Finance Commission

appointed by the President of India under Article 280 of the Constitution requires it to recommend, inter alia, "...measures to augment the consolidated fund of the State to supplement the resources of Panchayats in the States based on the recommendation of the SFC." In doing this, the Commission is required to consider the recommendations made by the SFC and if these are not available (either because State has not appointed the SFC or the latter has not submitted the report) the Commission will have to make its own assessment about the ways and means to augment the consolidated fund of the State to supplement the resources of Panchayats. The 10th and 11th Finance Commissions made the recommendations to this effect. Thus, the recommendation to augment the consolidated fund of the State by the 11th Finance Commission entitles Karnataka to receive Rs. 78.72 Crore for the period 2000-05 from the Central government. This is provided as grant to the Panchayats by the State government.

I. 6.1 Transfers to GPs

The State government gives a lump sum grant to the GPs to meet general expenditures including spending on electricity charges, water charges sanitation and other welfare schemes. The grants are passed through the ZP to the GPs. The ZPs deduct the electricity charges payable by the GPs to the Karnataka Power Transmission Corporation Ltd (KPTCL). From 1994 to 1998, each GP received Rs. 1 lakh out of which the electricity charges were deducted by the ZPs and the balance amount was transferred. From April 1999, the lump sum grant was increased to Rs. 2 lakhs and from April 2001, an additional Rs. 1.5 lakh was given as development grant to each GP. It must also be mentioned that often, even the entitled grants were not given to GPs. Although in principle, until 2001-02, each GP was supposed to receive Rs. 3.5 lakh, in actual practice, due to resource constraints, the State government gave much less than this amount. As mentioned above, it is proposed to increase the lump sum grant from the State government to each GP to Rs. 5 lakhs from the financial year, 2003-04.

The second source of grants to GPs is the grants given to the State on the recommendation of the Central Finance Commission. The grants are given to the State government and the latter passes it on to the GPs based on their population. According to the recommendation of the Tenth Finance Commission, GPs are expected to contribute 50 per cent of the grant received as a matching amount (now reduced to 25 per cent by the 11th Finance Commission). However, this does not result in any additional resource mobilisation

effort as the GPs merely divert existing revenues to make up the “matching contribution.” The amount of the grant received by each GP is not very significant. The money receivable by each GP during the period 2000-05 on the recommendation of 11th Finance Commission works to Rs. 1.27 lakhs or about Rs. Rs. 25,000 each year. The fund received under this head has to be spent on development.

In addition to these, GPs also receive specific purpose transfers. The most important specific purpose transfer is for the centrally sponsored scheme on poverty alleviation namely, *Sampoorna Gram Swarozgar Yojana* or SGRY (Comprehensive Village Employment Scheme). The two separate centrally sponsored programs initiated earlier - the *Jawahar Rozgar Yojana* (JRY) / *Jawhar Gram Samridhi Yojana* (JGSY), and Employment Assurance Scheme (EAS) were consolidated into SGRY. This is a shared cost program in which central government contributes 87.5 per cent of the cost and the State government contributes 12.5 per cent. The central government’s contribution is made in cash to the tune of 37.5 per cent and the remaining 50 per cent contribution is by way of food grains.

Another important specific purpose grant is for the maintenance of water supply schemes in the villages. These grants are specifically meant for maintenance of piped water supply and mini water supply. Although the grant is supposed to be used for maintenance, in some GPs with low revenues, salary of “water men” is also met from this grant.

I. 6.2 Transfer to taluk and district panchayats

As already mentioned, TPs have few independent sources of revenue and depend mainly on transfers from above to finance their functions. Only in those Taluk’s that are close to major cities and towns do some TPs get revenue from rents earned from the shops and establishments let out by them.

An important source of revenue for the TP is the assignment of additional stamp duty levied by the State government. Under section 205 of the Act, the government levies an additional stamp duty not to exceed three per cent on all instruments of sale, gift, mortgage, exchange or lease in perpetuity on all immovable properties situated within the TP limits and the proceeds are passed on to the TPs in proportion to their population. Since the TP cannot determine the tax rate or the tax base, this shared tax is properly classified as an intergovernmental transfer.

The remaining revenues of the TPs accrue from the establishment grant and specific purpose grants given to them from the State and Central governments. As already mentioned, until 2002-02, the TPs were entitled to receive a lump sum grant of Rs. 7.38 lakhs and a development grant of Rs. 4 lakhs every year. The major item of transfer, however, is the fund transferred for implementing various schemes. For various schemes transferred by the State under the district sector, the resources as well as the staff are transferred to both Taluk and ZPs under both plan and non-plan heads.

The plan allocation to different districts is done on the basis of a formula in which population and backwardness are given equal weights. To compute backwardness, 10 different indicators are taken into account with different weights assigned. The formula for distributing plan transfers under the district plan to different district Panchayats is detailed in Annexure I.1. The lump sum allocation made to ZPs is distributed between ZP schemes and TP schemes on the basis of the plans prepared by them and approved by the Finance and Planning Committee of the ZP. On the whole, the plans prepared are incremental in nature and much of the expenditure is committed - either on salaries or on continuing schemes. The issues of flexibility, autonomy and productivity of expenditures incurred on various schemes will be discussed in the next chapter. In principle, the distribution of resources to TPs should be done on the basis of a formula determined by the State Finance Commission. In fact, the State Finance Commission fixes the share between ZPs, TPs and GPs⁵ and the inter-se allocation among different units within each tier of panchayat. However, in practice no such formula is followed for distribution and devolution is made essentially to meet expenditures on salaries and other committed liabilities. This has led to negotiated distribution and eventually, in many districts, the distribution is based on the bargaining power of the TP rather than the needs of the Taluks.

Thus, financial resources to both TPs and ZPs consist of (i) general purpose (lump sum and development) grants amounting to Rs. 11.38 lakhs received from the State government in the case of each TP and Rs. 21.87 lakhs received in the case of each ZP; (ii) any transfer recommended by the central finance commission; (iii) proceeds from additional stamp duty devolved by the State government in the case of TPs; (iv) transfers for the

⁵ According to the recommendation of the First State Finance commission, ZPs, TPs and GPs were to receive 40%, 35% and 25% of the funds allocated to the rural local bodies. The rural local bodies were to be given 85% of the total fund transfers from the State and the urban local bodies were to receive 15%.

implementation of various plan and non-plan schemes under the district sector; (v) transfers from the central government to finance central sector and centrally sponsored schemes.

I.7 Planning and Budgeting System

The 1993 Act provides for the setting up of the District Planning Committee (DPC) to draw up the plan for the district as a whole including the areas covered by urban local bodies. The DPC is supposed to consist of MPs and MLAs in the district, President of ZP, mayor/President of Municipal corporation/municipal council, and 80% of the total members of DPC to be elected from among the members of ZP. The meetings of the DPC are to be presided over by the President of ZP and the CEO of the ZP is the secretary. However, DPC has been constituted only in 1999-00 and in future, the planning process will have to be done under the guidance and approval of the DPC. So far much of the planning has been done in an informal manner. Because the decentralisation has involved transferring of the schemes and the employees implementing them, from the state government to lower levels, planning at lower levels has essentially involved disbursement of salaries and continuing to spend on the initiated schemes. To the extent that local governments can indeed initiate schemes, the emphasis has been to start works involving awarding of contracts. As the tenure of Presidents and Vice presidents of ZP is only 20 months, there is a tendency to award more contracts than is permitted by the resources, resulting in perpetual under financing, and both times and cost over runs.

The modalities of planning at decentralised levels were established in 1987 when the functions and schemes were transferred to the Panchayats. Decentralisation by transferring a plethora of schemes with detailed break ups and specifications was the least painful way of decentralizing decisions. Safeguarding the interest of the bureaucracy required transferring them to Panchayats by virtually continuing them as State government employees. The salary payment remained a State government responsibility, security of tenure and promotion prospects depended on State policy and therefore, accountability continued to be with the State government. To ensure that there is no dilution in their powers after decentralisation, the schemes broken up into minutest scope were transferred to the ZPs so that the turf traversed by them is not diluted in any manner. Continuation of all prevailing schemes also ensured that status quo is maintained as far as different beneficiary groups are concerned. The political opposition to such a scheme of decentralisation was also minimal. Arguably, the only casualty in this process however, was decentralisation itself.

Thus, the decentralised planning in Karnataka is designed on the edifice of the plethora of schemes and personnel transferred in 1986. Thus, the expenditure allocations of the local governments are pre-determined by the transfer of schemes and any change to reflect their own priorities can only be marginal. The discretionary resources at their disposal are quite limited. Moreover, the process of first providing finances for continuing (spillover) schemes, limited the scope for discontinuing unproductive schemes.

I.7.1 The planning process

In principle, the process of planning and budgeting is expected to start at the GP level. The meeting of the Gram Sabha (village assembly) is convened at least twice a year in which the people in the village review the accounts and performance of the current year, consider development programs for the ensuing year and identify beneficiaries for poverty alleviation and other beneficiary programs. In the meeting held generally in April or May, Gram Sabhas are required to prepare the action plans relating the funds to be earmarked under Jawahar Gram Samruddhi Yojane (JGSY) Central Finance Commission grants. In reality however, participation in GS meetings is poor and the meetings do not capture the needs of the people adequately. Therefore, GPs themselves identify and prioritize the various works to be undertaken.

The resource envelope is drawn based on the resources that the Panchayat expects to generate and estimated transfers indicated by the State government. It is not entirely possible to work out the total transfers, particularly for the poverty alleviation schemes, because the estimate of transfers are not be available at the time of preparing the budgets. It must also be mentioned that the funds available with GPs can not meet even a fraction of the expenditure requirements' and planning at the village level is confined to allocating the available funds for spillover works. Therefore, generally, transfers are estimated based on previous year's receipts. The budget thus prepared is approved by the meeting and sent to TPs for scrutiny to ensure consistency with the rules and regulations and consolidation.

As regards GPs and TPs, in the month of August every year, the Finance department of the State government indicates the total grants to be given for district sector to the district plan division. This is allocated to 23 major heads by the ZPs after consulting the heads of line departments in the ZPs. The latter are asked to prepare plan proposals. The important informal guidelines followed in preparing the draft annual plan are: (i) on going programs

have to be fully provided for (iii) allocation should be made to all committed expenditures like salaries and pensions and (iii) in preparing the draft plan, proposals are prepared by generally assuming a 10% increase over previous year's sanctions. The heads of line departments make allocation to minor heads after consulting the officials at the Taluk level. The plan proposals submitted by different departments within the ZP are consolidated by the Finance Department and placed before the Finance and Planning Committee. In the committee, the elected members make suggestions for the inclusion of additional works depending upon the availability of funds. The draft annual plan is placed before the Governing body of ZP. After approval, the plan is submitted to the planning department of the State government. The Planning department discusses the plan with the Chief Executive Officer, Chief Planning Officer and Chief Accounts Officer of the ZP. After approval by the Planning Department the proposals are included in the "Link" document.

The next step is to prepare the action plan. Based on the proposals included in the Link document, ZPs and TPs prepare their action plan. ZP essentially scrutinizes the TP plan. It cannot change the action plans of TPs. If the action plan is not according to the prescribed rules, the plan is returned to the TPs with comments and the latter have to change the plan accordingly. After approval by the Finance and Planning Committee of the ZP, the action plan is implemented. Multilevel Monthly Review Meetings are held every month to review the performance (physical and financial). Releases, targets and achievements are discussed in the meeting.

The determination of non-plan budget by the ZP follows a simple procedure. As already mentioned, there are over 230 non-plan schemes with the panchayats. Most of these have continued from 1987 when the schemes were transferred to the ZPs. 75% of the non-plan expenditure is on salary. Each ZP is required to estimate the expenditure on salary based on the number of posts and salary structure. Maintenance expenditures are estimated on the basis of the norms pertaining to unit costs of various services. The estimates of non-plan expenditures thus prepared are put in Appendix B of ZP proposed plan, approved by the Governing Body of the ZP, submitted to the Planning department of the State government along with plan expenditure estimates.

In general, once approved, reallocation from one head to another is possible only to the tune of 10 per cent with permission from the state government. In practice, however, many ZPs and TPs are found to make changes during the course of implementing the budget.

I.7.2 Transfer of schemes and flow of funds

The prevailing structure of decentralisation in Karnataka owes mainly to the pattern of decentralisation followed in 1987. In order to have minimum dislocation, most of the schemes along with personnel were transferred to Panchayats, though the financial allocation required to implement the schemes was inadequate. Perennial shortage of funds prevented the Panchayats from taking initiatives to plan for public service provision according to the needs and preferences of the people and as continuing schemes had to be provided for, even prioritization of existing schemes became difficult. Thus, involvement of Panchayats in planning for provision of public services is marginal at best.

In addition to the large number of plan and non-plan schemes transferred by the State government to the Panchayats, a number of central sector and centrally sponsored schemes were created and as Panchayats were considered to be the right agency for implementing these programs, they too were transferred to them. There are altogether more than 210 such schemes and as many as 130 of these schemes are implemented at the ZP, TP levels either exclusively or concurrently with the State government. The major central program implemented at the GP level is SGSY.

Thus, the pattern of rural decentralisation in Karnataka is characterised by transfer of plethora of schemes, complicated flow of funds, divided loyalties by the employees and lack of transparency and accountability. The funds are transferred from the central government as well as state governments for various central schemes and district sector schemes. The employees transferred from various line departments to the Panchayats have to implement schemes for these different agencies. The entire process is illustrated in Figure 2.

Funds are transferred from Consolidated fund of India to the Consolidated fund of the State government through Finance Commission transfers and assistance for State Plan schemes and central sector and centrally sponsored schemes. State governments in turn transfer funds to the Panchayats for implementing the district sector schemes. Panchayats also receive the funds from the Consolidated Fund of India for implementing some central sector and centrally sponsored programs.

Thus, Panchayats receive funds from both the consolidated fund of the State as well as the consolidated fund of the central government for implementation of district sector and central schemes. The employees transferred to the local government from various line

departments of the State government implement these schemes. These employees of line departments transferred to Panchayats are also required to implement the state sector schemes implemented through the Deputy Commissioner of the district. They also implement various schemes of Hyderabad - Karnataka Development Board, Malnad Development Board and such other agencies. Thus, the sources of funds received from them are multiple, there is no co-ordination in planning various works and therefore, it is possible to show the same work against different agencies and draw funds for the same. In other words, multiplicity of agencies funding, lack of co-ordination and lack of transparency in implementation can result in misappropriation and inefficiency.

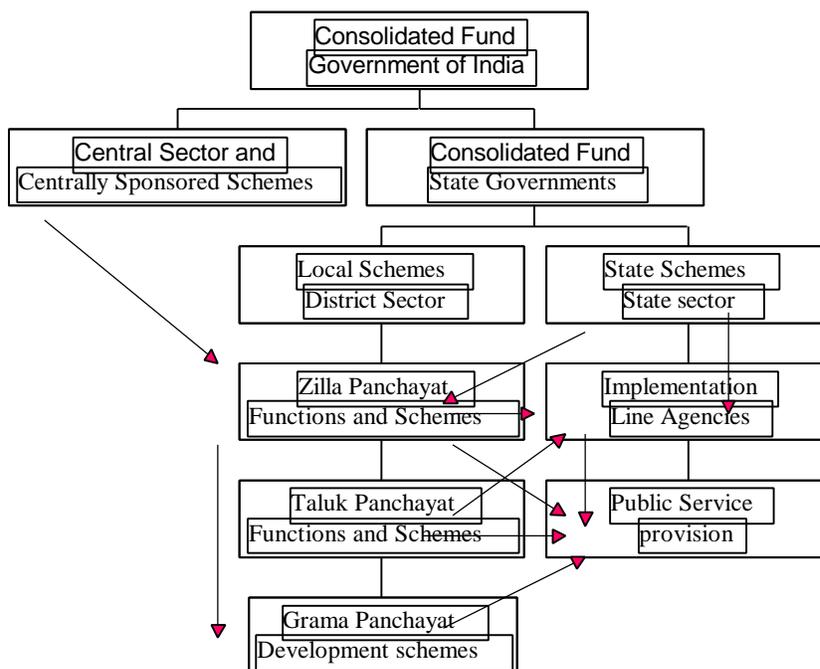
Surely, the pattern of decentralisation carried out in India does not come within the conventional definition of decentralisation, nor does it follow any of the important implementation rules. This is mere transfer of employees along with the schemes and funds to implement them. This implies that the local governments can not appoint personnel, can not prioritize their expenditure plans, can not even design the various schemes that are implemented. Employees receive salaries from the States, their promotion and transfers are decided at the state level, and elected representatives at local level have little powers to exercise control over them. At the same time, the state employees on transfer to local governments implement not only programs transferred to local governments, but also those executed by autonomous Boards and those financed directly by the state government. Thus, it is possible to manipulate the system and get the same project funded by two or more agencies and this can and perhaps does open avenues for misappropriation.

I.8 Plan of the Study

As mentioned earlier, the principal reason for the paucity of analytical studies on fiscal decentralisation is lack of fiscal data at the local level. Any serious study on fiscal decentralisation, therefore, has to start with compiling fiscal data at village, taluk and district panchayat levels. Unfortunately, no system has been instituted to systematically compile the fiscal information on panchayats. Even the first Finance Commission, which recommended transfers from the state to local governments, did not base its recommendations on any serious studies based on fiscal data and therefore, did not compile the information required for a systematic study. The individual studies dealing with fiscal issues either are not based on fiscal data or have taken the information on some selected panchayats.

In this study fiscal analysis of the three levels of panchayats are carried out on the basis of an original compilation of fiscal data. There are 5659 GPs, 175 TPs and 27 ZPs in the state. While we have taken information on all TPs and ZPs, at the level of GPs we have pursued the analysis based on the data collected from the sample of 636 GPs drawn from four districts – Bidar, Mandya, Bagalkot and Udupi districts. The sample districts include one from old Mysore (Mandya), one from Hyderabad – Karnataka region (Bidar), one from Bombay – Karnataka region (Bagalkot) and one from the coastal region (Udupi). Of the four, Udupi is the district with high per capita income, Mandya has about average per capita income and the remaining two are poor. Thus, the sample chosen is fairly representative. The data collection strategy and overall conceptual and methodological issues are discussed in Chapter II.

Figure 2
Flow of Funds to Local Governments in India



As enjoined in the 73rd amendment of the Constitution, Karnataka has transferred the functions, finances and bureaucracy in respect to all of the 29 subjects assigned to rural local governments. However, the State government concurrently with the local governments carries out the functions in regard to these subjects. It is important to note how the functions

have been transferred. The State has transferred 428 plan and 230 non-plan schemes, along with the functionaries implementing them, to the three levels of Panchayats. Of the total 658 district sector schemes, 291 are implemented at the ZP level, 129 at the TP level and 8 at the GP level. Altogether, in 1999-2000, the three tiers of Panchayats spent about Rs. 4828 Crore which was about to 20 per cent of the State budget. There is considerable overlap in the schemes implemented by the three tiers of Panchayats, the district sector schemes implemented by them, and the state sector schemes implemented by the State government. One of the major tasks of rationalisation of the assignment system is to undertake activity mapping between the State government and rural local governments on the one hand and between the three tiers of Panchayats on the other. Overlapping and duplication can exist in any scheme of concurrent functional assignment. Similarly, transfer of schemes along with personnel to implement these schemes has created a system of divided responsibilities and as the Panchayats cannot make appointments, transfers, promotions or retrenchments, it has raised serious questions of accountability and incentives. Equally important is the issue of degree of flexibility and autonomy to the Panchayats in designing and implementing the assigned functions. These issues of expenditure assignment and autonomy will be discussed in detail in chapter III.

An important issue in local finance is the assignment of revenues. Efficiency in service delivery depends on establishing the “Wicksellian link”⁶ - the link between revenue and expenditure decisions at the margin. The issues of autonomy and flexibility in revenue raising powers, adequacy of revenue powers in relation to the assigned functions, and the extent to which the local governments have indeed been able to exploit the sources assigned to them need to be examined closely. The study will identify the additional revenue handles that might be assigned to the GPs. It is also important to analyze the revenue capacity and efforts of the local governments and recommend policy changes to ensure greater incentives and efficacy in raising revenues. These issues will be examined in Chapter IV.

The analysis of own revenues is followed by the examination of the transfer system. Designing and implementing intergovernmental transfer systems is the most important element of fiscal decentralisation analysis. In the first instance, it is important to identify the shortcomings in the design and implementation of general purpose and specific purpose transfers. The empirical analysis of the determinants of transfers helps to quantify the

⁶ Breton (1995) places this as an important precondition for efficient intergovernmental competition.

impact of transfer system on own revenues and consequently, expenditures of Panchayats. The impact of transfers on revenue efforts of Panchayats and examination of the "fly paper effect"⁷ highlights several of the reform issues that are critical to a proper design of the transfer system. Based on the empirical analysis, Chapter V will address the issues of design and reform of intergovernmental transfer system in Karnataka.

The analysis of Panchayat expenditures will be presented in Chapters VI. The expenditures of all the three tiers of Panchayats are analyzed to examine inter-district variations in the level and composition of expenditures in various services. The focus of analysis, however will be the GP expenditures. The expenditures of GPs in the four districts representing the four regions of the state – Bagalkot (Bombay-Karnataka region), Bidar (Hyderabad – Karnataka region), Mandya (Old Mysore region) and Udupi (coastal region) will be analyzed in detail to examine the inter-Panchayat differences in the expenditures and service levels.

The final chapter will summarise the major findings of the study. It will also bring together important policy recommendations to impart greater effectiveness and efficiency to the decentralisation process in Karnataka.

⁷ "Flypaper effect" is the price effect of intergovernmental transfers. Although general purpose transfer is generally a veil for tax cuts and hence, should be equivalent in its effect on expenditures to per capita income increase, it is found to have much larger impact in augmenting the expenditures. This is called the "flypaper effect" as money sticks where it hits. For detailed analysis of the flypaper effect, see Courant, Gramlich and Rubinfeld (1979), Oates (1979). See also Oates (2001).

Annexure I.1
Formula for Allocating Financial Resources to District Sector Schemes

Sl. No.	INDICATORS	Weight age (Per Cent)
1	Population	50
2	Agriculture backwardness as measured by the value of Agricultural output per hectare	5
3	Backwardness in Irrigation as measured by the proportion of irrigated area to net area sown	5
4	Backwardness as measured by the value of Industrial Output	5
5	Backwardness in communication as measured Road and Railway mileage for 100 Sq. Km. Per lakh population	2.5
6	Backwardness in Financial infrastructure as measured by size of Population served by each Commercial and cooperative Bank	2.5
7	Backwardness in Medical and health facilities as measured by the number of hospitals per 1000 population/be population ratio	5
8	Backwardness in power supply a) As measured by the proportion of villages electrified (2.5) b) As measured by the per capita consumption of power (2.5)	5
9	Problems of Weaker Section: a) As measured by the Proportion of SCs/STs in population (2.5) b) As measured by the proportion of landless agricultural labour (2.5)	5
10	Local Tax effort	5
11	Special problems of Malnad and Drought prone areas a) As measured by the area under Forest (2.5) b) As measured by the rural population of drought prone area (2.5)	5
12	Incidence of unemployment as measured by the proportion of registrants as the employment exchange (with appropriate adjustment wherever necessary)	5

Source: Government of Karnataka (2001), First Report of the High Power Committee for Redressal of Regional Imbalances.

Chapter II

Conceptual Issues, Data and Methodology

II. 1 Introduction

The main reason for the limited number of analytic studies of rural local finance is the absence of reliable data on the revenues and expenditures of these local bodies. The state government in Karnataka does not have an information base on local finances, yet it devolves 30 per cent of its revenues for spending by rural local governments. In short, there is no information base on the pattern of spending to make a serious analysis of efficiency and equity in service delivery. Creation of an information system is a critical component of fiscal decentralization for a variety of reasons. First, mapping of functions to different governmental units on the basis of their comparative advantage can be done only when the relative strengths and weaknesses of various levels of governmental units in different areas of the State are known. Second, in order to evaluate efficiency and equity in public service delivery, it is important to have information on the volume and composition of expenditures incurred on individual functions and schemes by each governmental unit. Third, fiscal decentralization is most meaningful when the local governments have the power to raise revenues to match the spending decisions at the margin. Analysis of the revenue structure and its productivity is extremely important. Fourth, policies in regard to intergovernmental finance can be understood only when there is a detailed knowledge of the design and implementation of intergovernmental transfers. Fifth, revenues, expenditures and transfers depend upon various economic, demographic, social and political factors and it is necessary to compile the information on these variables. This is particularly important to estimate fiscal capacities and needs and to evaluate the equity and efficiency of the transfer system. Lastly, the state government must have a facility to monitor the progress of its intergovernmental fiscal system, develop early warning signals for local governments in trouble, and evaluate the impacts of alternative reforms that might be proposed.

II.2 Information Requirements in the Context of Objectives of the Study

Data requirements are best determined by the objective of analysis. As mentioned in the previous chapter, the principal objectives of this study are to evaluate the efficacy of the system of rural local government finance in Karnataka, and to consider alternatives for its

reform. The starting point for this work is a clear understanding of the assignment of expenditure responsibilities and revenue-raising patterns among the various tiers of government. The starting point of this analysis is the compilation of the information on the level and composition of spending, particularly spending on each of the schemes by ZPs, TPs and GPs and governmental units within each of them. It is equally important to understand the level and composition of revenue collections. Serious analysis of own revenues requires not only information on revenues collected by each governmental unit, but also data to describe the coverage of the tax base, rate structure and administrative efficiency.

There is hardly any information available to support the design of the transfer system to offset fiscal disparities among local governments and to ensure specified minimum standards in respect of 'meritorious' services. The rural local governments at all the three levels receive transfers mostly for specific purposes or "schemes." Obtaining information on the design and implementation aspects of these schemes is virtually impossible. The nature of the problem can well be understood when we consider that in 2001-02, there were 428 schemes in the plan side and 230 schemes on the non-plan side in the district sector alone. In addition, there are a number of State government programs, which, from the viewpoint of minimising transaction costs should be implemented by the local governments, and it is necessary to understand the details of these as well.

Neither the state government, nor the local governments have made a concentrated effort to maintain comparable fiscal data. In fact, the concepts of revenues, expenditures and transfers themselves are not clear to all parties. In some cases, revenue from property taxes, for example, includes water charges, and expenditure does not include payments for electricity deducted at source from the transfers. Similarly, in some cases transfers exclude that part of the transfers that are deducted at source. In fact, there are widely differing practices between ZPs and among different TPs within each district and among different GPs within each taluk and this creates serious conceptual and comparability problems. In order to get a consistent data set, it is necessary to compile the information from each of the local bodies using the uniform definitions. Such an information system should be designed at the state level.

In addition, there are difficulties in the way the data are presented and interpreted. When a substantial portion of transfers is disbursed towards the end of the financial year, the local governments are unable to spend the money. When this happens, the fiscal year

expenditures incurred by a local body are lower than the revenue receipts, and the local body will have a significant closing balance. Reading the balance of current revenues and current expenditures of the local government in this case, gives a false sense of the financial health of the local government. We continue to return to this issue throughout this report. To capture the entire fiscal year flow, it is necessary to begin the information with a statement of opening balance, show revenues from various sources received during the year, expenditures incurred on various functions during the year, and report the closing balance.

The seriousness of the problem can be understood when we realise that at the GPs level alone there are 5659 governmental units and the capacity to maintain a consistent information base for them is very limited. In fact, they do not have conceptual clarity in regard to various sources of revenue, expenditure and transfers. At present they merely maintain the data in the way in which they understand best. Yet, the only way to build a fiscal information base for Karnataka is to begin at the local level and build the data set from that point in a comparable way. The first step is to understand how the data are presently gathered, and to begin putting this into a common format. This might be done by using a common questionnaire for each local government. Once this is done, it is necessary to go over the questionnaire with each local in a systematic manner so that not only comparable information is compiled, but also their capacity to maintain the data in the form useful for future data collection is developed. Capacity development to maintain the information system right from the GP level is a critical element in the success of fiscal decentralization.

II.3 Sources of Data for Fiscal Analysis at Local Level

The collection of reliable data at the local government level, however, presents a formidable challenge. Unfortunately, there is no mechanism to compile information on the panchayat finances at district, taluk and village levels. At the district and Taluk levels, the link document prepared by the Rural Development and Panchayat Raj (RDPR) department of the state government provides budget estimate for scheme-wise allocations. However, these are only budget estimates, and no attempt is made to compile the actual transfers. Nor is there any mechanism to compile information on revenue collections from the sources assigned to the Panchayats. .

We have mainly relied on the data collected from the “Link document” for the analysis of allocations to various schemes at district, taluk and GP levels. These are proposed

transfers at the beginning of the year (budget estimates) made by the State government for implementation of various district sector under plan and non-plan schemes. They differ substantially from the actual transfers at the end of the year. The only way to get the data on actual transfers is to collect the information from the recipients. Unfortunately, book keeping at the local level is not satisfactory, and even the ZPs do not have complete information on the devolution to TPs and GPs. The problem in regard to measuring expenditures by GPs is horrendous, and there is no standard format in which the data are kept. The situation is not much better for the districts and the talugs. We have been able to collect information on the revenues and expenditure to ZPs and TPs only for one year, 2000-01. For earlier years, the information for TPs was not available separately because, no separate account was kept for them. Data problems are similar with respect to own source revenues, for all three levels of rural local government.

The difficulties in collecting information are most formidable at the GP level, for several reasons. First, book keeping is extremely poor and no uniform standards are followed in maintaining accounts. For example, in some cases, the electricity dues are explicitly entered as an expenditure item whereas in others, this expenditure is deducted from revenues. Similarly, water charges are included in the property tax in some GPs whereas in others, this is shown separately. The confusion is compounded by the fact that the transfers from the district are not regular and transparent. Considering that the volume of information required for the analysis of data is large and that these have to be collected at the GP level itself, it is not surprising that there is virtually no analytical study and quantitative available on fiscal decentralisation for any of the States. Some of the studies tried to use the data collected by the State Finance Commissions (Rajaraman and Vashista, 2000, Jha, 2002). But these Commissions themselves did not adopt any scientific approach to collecting the data. In Karnataka, , the fit state Finance Commission did not compile the information and we have reasons to believe that the data assembled by the Second State Finance Commission are not authentic⁸. It was therefore, found necessary for purpose of this study to compile the information from GPs⁹. Given the magnitude of the work involved, it became necessary to

⁸ The data for the Second State Finance Commission collected through the questionnaire canvassed to ZPs were send down to the TPs and GPs. These were tabulated at the Institute for Social and Economic Change. On close examination, several inconsistencies in the data were noticed.

⁹ There are 27 district panchayats (ZPs), 175 taluk panchayats (TPs) and 5659 gram panchayats (GPs) in Karnataka. Compiling information on revenues and expenditures as well as demographic and economic variables in all the panchayats is a herculean task and although this is being attempted, it would take considerable time before the data would be available for analysis.

limit the data compilation to a few selected districts. In selecting the districts, care was taken to ensure that all diverse regions of the state are represented.

II.4 Choice of Sample Panchayats for Study

For undertaking this study, we had to start with the collection of comparable data on finances of ZPs, TPs and GPs. In addition, we had to assemble data on economic and demographic variables at the GP level. We have, compiled information from the four districts of Bagalkot, Bidar, Mandya and Udupi for the purpose of our analysis.

The choice of the four districts has been guided by the consideration that the sample should be broadly representative not only in terms of economic and demographic characteristics, but also in terms of historical evolution and institutions. Keeping this in view we have chosen one district each in old Mysore (Mandya), Bombay- Karnataka (Bagalkot), Hyderabad-Karnataka (Bidar) and coastal Karnataka (Udupi) regions. There is also variation in terms of economic and human development: Udupi is a high achievement district, Bagalkot and Mandya's achievements are about the average, and Bidar is one of the low performing districts. In terms of the sample size, the four districts together have 21 TPs and 708 GPs and the sample TPs and GPs constitute over 12 per cent of total TPs and 12.5 per cent of GPs in the State. The population in these districts constitute 11.4 per cent of total the population. Thus, the districts chosen for analysis can be considered broadly representative. The salient features of the three districts chosen for analysis are presented in Table II.1.

Table II.1
Characteristics of Sample Districts

District	Per Capita DDP (Rs)	Human Development Index	Population	No of TPs	No. Of GPs
Bagalokot	15547	0.60	16.21	6	163
Bidar	11728	0.57	15.01	5	170
Mandya	14993	0.61	17.62	7	229
Udupi	18874	0.75	11.09	3	146
Total	16206	-	59.93	21	708
State	18238	0.63	527.34	175	5659

Note: * Refers to HDI of Bijapur district as Bagalkot formed a part of erstwhile Bijapur.
 • Refers to HDI of Dakshina Kannada district as Udupi formed a part of erstwhile Dakshin Kannada district.

The primary task in this study of the finances of GPs involves compilation of comparable data from the individual GPs. As mentioned earlier, there are 708 GPs in the four districts chosen for analysis. Given the low level of capacity at GP level, it was felt that sending out a standardized questionnaire may not yield correct information. We decided to closely follow the classification scheme actually adopted by the GPs for the collection of data.

We have, in the first instance prepared the questionnaire for gathering information from the GPs by carefully looking at the ways the account books are kept. After pre-testing the questionnaire, these were sent to the Chief Executive Officers (CEOs) of the District Panchayats. On specified date and time, the GP secretaries were requested to come to the Taluk/district headquarters with the books of accounts. The ISEC researchers, accompanied by officials from RDPR, helped the GP secretaries in filling in the questionnaire to compile information in respect of each of the 708 GPs.

The information thus collected was checked for consistency and, wherever necessary, clarifications/corrections were sought from the GP secretaries. This has not only enabled information base for these GPs but also helped in capacity development at the GP level in maintaining and transmitting data for creating the information system for the future¹⁰.

II.5 Some Methodological Issues

The study deals with both quantitative and qualitative aspects of fiscal decentralisation in Karnataka. Much of the analysis of the schemes implemented by the panchayats analysed in the next chapter is qualitative. This is because the objective of the analysis is to analyse overlapping in the functions to eventually clarify the roles of different tiers of panchayats and map the functions for them. The analysis also purports to examine the degree of autonomy and flexibility with a view to make recommendations on improving efficiency in public spending.

The analysis of revenues, transfers and expenditures, however is substantially quantitative. The study analyses the level and composition of revenues, transfers and

¹⁰ The exercise was repeated in all the 27 districts of the state to create an authentic GP database in a separate exercise. These will become available within the next few months. Hopefully, the exercise will be repeated to maintain an up to date database in the future.

expenditures and their differences among the GPs between the four districts as well as within each of the districts between different taluks. This is followed by the analysis of determinants of revenues, transfers and expenditures.

The analysis of determinants considers the fact that fiscal decentralisation is characterised by the identity:

$$R_{gp} + G_{gp} = E_{gp}$$

where R_{gp} , G_{gp} , and E_{gp} represent per capita revenues, transfers and expenditures of the GPs. Therefore, the attempt has been to identify the determinants of own revenues and transfers and to derive the broad inferences from this analysis on the expenditure side. A separate exercise on determinants of per capita expenditures of the GPs would be superfluous when the determinants of per capita revenues and transfers are separately considered. However, in respect of specified expenditure categories, a determinants exercise has been carried out to get insights into the factors affecting them.

Chapter III

Functional Assignments to Panchayats

III.1 Functional Assignment

This chapter analyses expenditure assignment to Panchayats. It examines the questions of overlapping in functional assignments between the state government and panchayats on the one hand and among the three tiers of panchayats on the other. We also attempt to map the expenditure functions of each of the three tiers of Panchayats based on their capacity, span of benefits and comparative advantage to avoid overlapping. This chapter analyzes the degree of autonomy to Panchayats in designing and implementing the expenditure functions assigned to them. Finally, an attempt is made to rationalise and consolidate the schemes assigned to panchayats towards providing greater flexibility and achieving greater impact of expenditures incurred by the three tiers of Panchayats.

The 73rd amendment to the Constitution has enjoined the transfer of functions in respect of 29 subjects to Panchayats. The language of the relevant Article in the Constitution (Article 243), however provides absolute discretion in the devolution of powers when it states, “ *Subject to the provisions of the Constitution, the Legislature of a State may, by law, endow the panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon panchayats at the appropriate level, subject to such conditions as may be specified from therein, with respect to –*

- (a) *the preparation of plans for economic development and social justice:*
- (b) *the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.”*

In the formal sense, Karnataka has transferred the functions in respect of all 29 subjects. However, these transferred functions are not exclusive to Panchayats; they are exercised concurrently with the State governments and the extent of devolution of powers, functions and finances is at the discretion of the State government. Thus the Karnataka Panchayat Act, 1993 under Section 58 lists 31 functional items to Gram panchayats in

Schedule 1, under section 145 lists 28 items to taluk panchayats in Schedule 2, and under Section 184, lists 29 items to ZPs panchayats in Section 3.

The three schedules, however, indicate the potential involvement of rural local governments in terms of broad sectors and do not give specific assignment of functions. In fact, the actual assignment to Panchayats goes back to the assignment system made in 1987 when the 1983 Act was implemented. Several schemes included in the plan were clubbed to constitute the “district sector” plans and transferred to the then Zilla parishads along with the employees and the funds to implement them. This change was given the euphemism of “decentralised planning”. After the new Act was passed in 1993, subsequent to the 73rd constitutional amendment, this system continued with only marginal changes. One important difference between the 1983 Act and 1993 Act is that in the former, TPs were only a co-ordinating tier and did not have executive powers, whereas in the latter TPs have executive powers. Because as the 1993 Act gave executive authority to TPs, the 1987 scheme of transfer was readjusted through notifications (16.7.1994 and 23.7. 1994) to divide the schemes between ZPs and TPs. The latest modification in the functional assignment was made to implement the recommendation of the “High Power Committee” in the notification made in 16.9.1998.

The transfer system, however, is based on segmented allocation conditionality. In the first instance, the transfer of funds is made on a lump sum basis. As detailed in the previous chapter, funds allocated to the district sector plans are distributed on the basis of a formula (Annexure I. 1). There is no other condition attached except that the funds should be spent on plan schemes. However, segmentation in allocation comes because of the informal guideline that funds should be allocated fully to all on-going schemes and all committed items. Given the fact that the State government initially designed these schemes, compartmentalised allocations rob the panchayats of flexibility and autonomy in establishing priorities. Thus, the Panchayats cannot allocate funds according to their own priorities, but they cannot discontinue any scheme they consider unproductive and wasteful.

Section 2 in this chapter analyses the relative roles of different local governments and the importance of the three tiers of Panchayats in implementing expenditures. The various schemes implemented by the panchayats are analysed in Section 3 to examine the existing degree questions of autonomy and efficiency in expenditure decentralisation. Expenditure “mapping” is undertaken in Section 4. Section 5 attempts to rationalise and

consolidate the schemes with a view to untie the funds and impart greater flexibility in expenditure allocation.

III. 2 Role of Local Governments in Expenditure Implementation

Detailed data relating to the expenditures incurred at local level are not available. The Report of the 11th Finance commission (India, 2000) has, however reported the data for the period 1990-91 to 1997-98 and according to these figures local governments in Karnataka accounted for about a third of total State government spending or about 6.5 per cent of GSDP in 1997-98 (Annexure III.1). The share of rural local governments (ZPs, TPs, and GPs) was about 30 per cent. This, however, does not seem plausible for, the analysis of allocations made to Panchayats in recent years shows that the share of rural local governments in State government expenditures is estimated at 21.8 per cent in 2001-02 and 18.5 per cent in 2002-03 (Table III. 1). The Central Finance Commission has reported the figures on the basis of the submission made by the state government. The state government does not have data on local bodies. Thus, the basis of the data supplied by the State to the Finance Commission which is in the report of the Central Finance Commission (India, 2000) is not clear. Even the First State Finance Commission that made detailed recommendations on the transfers to urban and rural local bodies did not compile information on their finances.

Absence of reliable information on the revenues and expenditures of local bodies is a striking weakness in the decentralised fiscal management in the State. While much has been written on the issue and several researchers have examined various aspects of decentralisation in Karnataka, there have been few attempts to compile reliable information to assess the volume of revenues and expenditures of the panchayats. Relative functional roles, in terms of revenues and expenditures of different tiers of panchayats, have not been empirically described by the government agencies or the researchers. According to the 11th Finance Commission, expenditures incurred by local bodies constitute about a fifth of State expenditures. Even if this is not an accurate estimate, there is no doubt that rural local governments play an important fiscal role. The absence of a mechanism to keep a proper information system raises serious questions of seriousness of policy on fiscal decentralisation besides, and raises questions of accountability in local spending. In order to design and implement any rational fiscal decentralisation policy, compilation of information on revenues and expenditures of local bodies is necessary. Indeed, it might be the most important task the state government has to undertake.

The share of rural local bodies in expenditure allocation as reported in the Link document¹¹ is analysed in Table III.1. This may be taken as an approximation of financial devolution by the State government to the local bodies. However, actual expenditures will differ from these estimates for two reasons. First, to the extent that the panchayats have revenue raising powers, they can augment revenues and to that extent actual expenditures would be higher. However, as mentioned in the previous chapter, ZPs and TPs do not have own revenues and in the case of GPs, revenues raised by them form a very small proportion - less than 20 per cent of their expenditures. Second, the Link document estimates represent outlays as indicated in the budget estimate in the beginning of the year. Actual transfers devolved to panchayats are significantly lower than these budgeted outlay and to that extent, expenditures will be lower. Unfortunately, actual expenditures incurred by the local bodies has not been compiled by the State government. Detailed analysis of allocation of outlay in Mandya district shows that revised estimates of expenditure was actually higher than the budgeted outlay by 11 per cent.

Table III.1 shows that the budget allocation to Panchayats is estimated at 21.8 per cent of States' expenditures or about 5 percent of GSDP in 2001-02. The estimate for 2002-03 is 18.5 per cent of the State's expenditures. Of this, the overwhelming proportion is incurred for non-plan purposes. Plan expenditure is estimated at 38 per cent in 2001-02 and lower at 27.4 percent in 2002-03. This indicates that overwhelming proportion of expenditures at Panchayat level is accounted for by spillover schemes from the previous plans and other salary and maintenance expenditures. Despite much talk about decentralising decisions, the developmental role of the rural local bodies as revealed by their expenditure allocations does not appear to be very significant.

The fiscal role of the lowest tier, the GP, is negligible. Almost 94 per cent of the outlay is incurred at ZP and TP levels. At the TP level alone, over 55 per cent of the total Panchayat outlay is allocated. Allocation to GPs constitutes just about 5 per cent of total rural local sector outlay and a little over 1 per cent of State outlay. Of course, the total expenditures made at the GP level should include spending from their own revenues raised. Revenue from own sources, however, finance only about 20 per cent of GP spending. Thus,

¹¹ Link document is the document prepared by the State government listing the various schemes. implemented by ZPs, TPs, and GPs. The allocation reported in the document refers to budget estimates.

spending at the grass roots level of government constitutes a small proportion of spending by panchayats.

Table III. 1
Estimated Allocation to Rural Local Bodies in Karnataka

	Percent of States' Plan Outlay		Percent of Total Rural Local Outlay		Percent of Total State Outlay	
	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
1. Plan Outlay						
i. Zilla Panchayat	11.01	8.56	15.0	12.9	3.28	2.40
ii. Taluk Panchayat	12.09	5.94	16.5	9.0	3.60	1.66
iii. Gram Panchayat	4.74	3.65	6.5	5.5	1.41	1.02
iv. Total Rural Local Bodies	27.84	18.14	38.0	27.4	8.29	5.08
2. Non-Plan Outlay						
i. Zilla Panchayat	-	-	23.2	25.3	5.05	4.69
ii. Taluk Panchayat	-	-	38.9	47.3	8.48	8.76
iii. Gram Panchayat	-	-	0.0	0.0	0.00	0.00
iv. Total Rural Local Bodies	-	-	62.0	72.6	13.53	13.45
3. Total Outlay						
i. Zilla Panchayat	-	-	38.2	38.2	8.33	7.09
ii. Taluk Panchayat	-	-	55.4	56.3	12.08	10.42
iii. Gram Panchayat	-	-	6.5	5.5	1.41	1.02
iv. Total Rural Local Bodies	-	-	100.0	100.0	21.82	18.53
4. Total State Plan Expenditure	100.00	100.00	-	-	-	-
5. Total State Expenditure	-	-	-	-	100.00	100.00

At ZP and TP level, non-plan outlay constitutes over two-thirds of total outlay and of this about 40-47 per cent spending is by TP alone. The major component of allocation in non-plan schemes is on primary and secondary education, particularly for meeting of salaries to school teachers at primary and secondary levels. The fact that the allocation is mainly scheme-based and a significant proportion is for meeting expenditures on salaries ensures very little leeway for the local bodies to exercise expenditure decisions.

Another interesting feature in the intergovernmental arrangement in Karnataka is that devolution to sub-state bodies is an easy component of expenditure compression. When budgets are tight, state transfers to local governments can be underfunded, or “postponed.” The medium term plan for fiscal adjustment – to phase out revenue deficits and reduce fiscal deficits to 3 per cent in the State by 2004-05, has led to the crowding out of a significant part

of the allocation to local bodies. The state government has tried to limit the expenditure growth in 2002-03 to 10 per cent, mainly by reducing local government expenditures, and particularly by compressing plan expenditure at the ZP and TP levels. The share of plan allocation by rural local governments in total state expenditures was reduced from 8.3 per cent in 2001-02 to 5.1 percent in 2002-03 and the share of plan allocation to rural local bodies in the State's annual plan outlay declined from 27.8 percent to 18.1 percent during the year. The compression in plan outlay accounted for virtually the entire compression in expenditure, as the share of non-plan expenditures remained virtually stable. Thus, the analysis shows that local plan allocation is the prime target for expenditure reduction when fiscal compression is contemplated and much of the reduction is achieved by reducing plan allocations to rural local bodies.

Table III. 2
Allocation to District Sector Plan Outlay in Karnataka.

Years	Percent of District Sector Plan Outlay to Total State Plan Outlay			Percent of District sector Plan Outlay to GSDP		
	State Plan	Central Sector and CSS	Total	State Plan	Central Sector and CSS	Total
1990-91	21.4	18.4	39.9			
1991-92	18.4	16.4	34.8			
1992-93	14.2	11.3	25.5			
1993-94	13.0	8.9	21.9	1.1	0.8	1.9
1994-95	12.9	10.4	23.3	1.1	0.9	2.0
1995-96	13.3	10.3	23.6	1.1	0.9	2.0
1996-97	13.8	10.2	24.0	1.1	0.8	2.0
1997-98	13.0	12.2	25.2	1.0	1.0	2.0
1998-99	11.2	11.0	22.2	0.8	0.8	1.6
1999-00	11.2	10.4	21.6	0.8	0.8	1.6
2000-01+	11.3	8.6	20.0	0.9	0.7	1.6
2001-02*	11.3	7.8	19.1	0.9	0.7	1.6
2002-03	7.9	10.2	18.1			

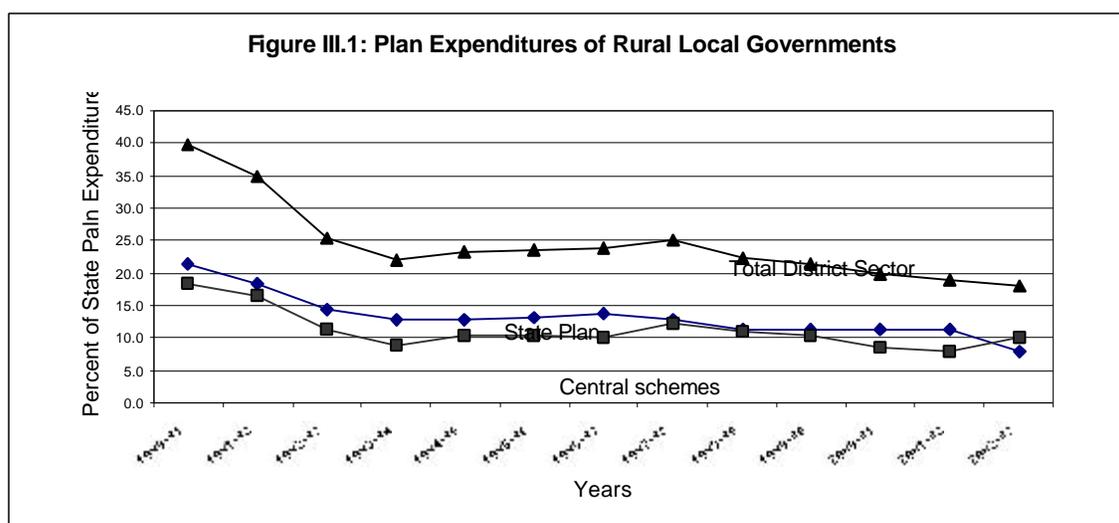
+ Quick estimates; * Anticipated estimates

There has been a steady decline in the district sector plan outlay implemented by the three tiers of Panchayats right from the 1990s. As a ratio of GSDP, the district sector plan outlay declined from about 2.5 per cent in 1990-91 to 1.6 per cent in 2001-02 (Table III. 2). More dramatic has been the decline in the district plan outlay as a ratio of total state expenditures. The share of district sector plan outlay in total State Plan outlay declined from about 40 per cent in 1990-91 to 18 percent in 2002-01. The decline is seen both in State plan outlay as well as allocations to Panchayats for Central sector and centrally sponsored schemes (Figure III.1). The state plan outlay in the sector declined from 21.4 per cent in

1990-91 to 8 per cent in 2002-03 and the share of allocation to central schemes in total State plan outlay declined from 18 per cent to 10 per cent during the period. Thus, there has been steady erosion in the assistance given to rural local governments for developmental spending during the last decade.

III.3 Analysis of Schemes

The analysis of various schemes devolved to the rural local bodies brings out a number of important issues. The report of the working group on decentralisation appointed



by the Government of Karnataka has analysed the plan and non-plan schemes in some detail (Karnataka, 2002). In this section, a more detailed analysis of these schemes is attempted.

As already mentioned, the hallmark of fiscal decentralisation in Karnataka is the transfer of large number of schemes along with the personnel and funds, both under plan and non-plan heads. In all the three tiers taken together, in 2001-02 there were 371 plan and 228 non-plan schemes. Of this GPs implemented only eight plan schemes, TPs implemented 118 plan and 46 non-plan schemes and ZPs implemented 253 plan and 182 non-plan schemes (Table III. 4A); . Nevertheless, in 2001-02, just six schemes under state plan schemes accounted for 69 per cent of the total state plan outlay of the TPs and the 13 schemes with more than Rs. 5 crore outlay constituted over 80 per cent of the TP's outlay on state plan schemes. (Annexure III. 2). If we take the aggregate plan schemes (both central and state schemes) implemented by TPs, it is seen that about 12 schemes with outlay Rs. 10 crore accounted for about 80 per cent of the plan schemes under TPs (Table III.3). Similarly in 2002-03, 7 schemes with more than Rs. 10 crore outlay accounted for 72 per cent of the plan outlay. On the other hand, 85 per cent of the schemes had a value less than Rs. 5

crore and they constituted just 11 per cent of the total outlay. The distribution of schemes in non-plan district sector outlay is similar. Only 4 schemes accounted for 84 per cent of outlay in both the years. These were mainly salary/grant disbursing schemes to primary and high schools, TPs were mainly used as disbursing agencies.

Table III. 3
Frequency Distribution of District sector Schemes in Karnataka

Class Intervals (Rs. Crore)	2001-02				2002-03			
	Frequency	Amount Rs. Crores	share of freq in total	Share in total amount	Frequency	Amount in Crores	Share of freq in total	Share in total amount
TP Plan								
upto 5.0	109	90.85	84.50	11.40	107	69.93	88.43	17.21
5.0-10.0	8	62.65	6.20	7.86	7	44.39	5.79	10.93
0 & above	12	643.13	9.30	80.73	7	291.95	5.79	71.86
Total	129	796.63	100.00	100.00	121	406.27	100.00	100.00
TP Non Plan								
upto 10.0	34	55.23	73.91	2.94	35	62.07	72.92	2.90
10.0-50.0	8	236.25	17.39	12.59	9	278.79	18.75	13.02
50 & above	4	1584.62	8.70	84.46	4	1799.79	8.33	84.08
Total	46	1876.10	100.00	100.00	48	2140.65	100.00	100.00
ZP Plan								
upto 5.0	261	169.95	89.69	23.42	253	131.83	90.36	22.52
5.0-10.0	13	104.55	4.47	14.41	11	83.04	3.93	14.18
10 & above	17	451.02	5.84	62.17	16	370.63	5.71	63.30
Total	291	725.52	100.00	100.00	280	585.50	100.00	100.00
ZP Non Plan								
upto 10.0	148	170.64	81.32	15.27	163	190.42	81.50	16.62
10.0-50.0	15	101.14	8.24	9.05	17	119.92	8.50	10.47
50 & above	19	846.07	10.44	75.69	20	835.50	10.00	72.92
Total	182	1117.85	100.00	100.00	200	1145.84	100.00	100.00

In the case of ZPs too, the story is similar. In 2002-03, there were 253 plan schemes and 182 non-plan implemented by them. Of these, just 9 schemes (or 3.7 percent) have more than Rs. 5 crore outlay each and these account for two-thirds of the plan outlay. Similarly, just three non-plan schemes accounted for virtually one-half of the non-plan outlay and just one scheme namely, providing grants to non-government schools accounted for more than 25 per cent of the total non-plan outlay of ZPs.

Thus, a significant proportion of the outlay is concentrated in a very few schemes at all the three tiers of panchayats. In GPs, for example, the Jawahar Grama Samruddi Yojana (JGSY) was the most important scheme in 2001-02 and this is followed by the schemes on the maintenance of water supply. However in 2002-03, JGSY was merged with EAS to

initiate Sampoorna Grameena Rojgar Yojana (SGRY). This, however, is (Table III.4) implemented by GPs, TPs, and ZPs in the ratio 50:30:20.

In TPs, in 2001-02, just three schemes - Operation Black board, Integrated Child development and Indira Awas Yojana (IAY) accounted for 87 per cent of the Central Schemes in TPs or about 39 per cent of TP total plan outlay. Operation Blackboard was completed in 2001-02. Thus, in 2002-03, the two earlier schemes and SGRY accounted for 85 percent of the central plan outlay in the TPs or 54 per cent of the TP plan outlay.

Among the State sector plan schemes implemented in TPs, pre-school children feeding programme was the most important scheme. On the non-plan side, disbursement of school teachers' salaries and providing grants to schools are the most important activities. Almost 80 per cent of the non-plan outlay in TPs is accounted for by these activities.

In the ZPs too, a handful of schemes account for a significant proportion of the outlay. On the plan side, important Central schemes include piped water supply, family welfare centres and PHCs, SGSY, SGRY, rural sub-centres for family welfare and DPAP . Together, in 2002-03, they account for almost 55 percent of the outlay on central schemes or about a third of the ZP plan outlay. The state plan schemes included in the district sector plan constitute only 20 per cent of the total district sector plan outlay. There are hardly any significant state plan schemes included in the plan schemes included in the district sector plan implemented by the ZPs. Schemes on piped water supply, honorarium paid to anganwadi workers and forestry project in eastern plains were the three schemes with more than Rs. 10 crore outlay. On the non-plan side, grants disbursed to the non-government secondary schools are the most important items, accounting for about a third of non-plan expenditure of the ZPs.

Table III. 4**Schemes Implemented by Gram Panchayats**

Name of the scheme	2001-02			2002-03		
	Outlay Rs. Lakhs	Percent of GP Plan Outlay	Percent of District Plan Outlay	Outlay Rs. Lakhs	Percent of GP Plan Outlay	Percent of District Plan Outlay
A. Central Schemes						
1. Maintenance of Piped Water Supply Schemes	1419.06	4.5	0.8	1721.32	6.9	1.4
2. Maintenance of Mini-Water Supply Scheme	1200.32	3.8	0.7	1307.24	5.2	1.1
3. JGSY/SGRY	8788.23	28.1	4.8	7213.2	28.9	5.8
4. Other Centrally Sponsored schemes	7.22	0.0	0.0			
Total A: Central Schemes	11414.83	36.6	6.2	10241.76	41.1	8.3
B. State Schemes						
1. Grants to Grama Panchayats	11318	36.3	6.2	8399.11	33.7	6.8
2. Development Grants to Grama Panchayat	8488.5	27.2	4.6	6299.3	25.3	5.1
B. State Schemes	19806.5	63.4	10.8	14698.41	58.9	11.8
Total GP Schemes	31221.33	100.0	17.0	24940.17	100.0	20.1
Total District Sector Outlay	183436.6		100.0	124120.5		100.0

Source: Link Document, Rural Development and Panchayat Raj Department, Government of Karnataka.

The existence of a plethora of schemes on the one hand and concentration of outlay in a few schemes on the other underline a number of issues pertaining to fiscal decentralisation in Karnataka. First, the decentralisation of expenditure functions that was initiated in 1986 has been done by taking the line of least resistance. As already pointed out, the State government personnel were transferred to local bodies along with the schemes so that they do not lose their position, power or prestige. While this is the painless way of achieving the transformation, this is also the least decentralizing. Second, the multiplicity of schemes represents politicisation of expenditure functions. This strategy appeases certain sections of population by spreading expenditure benefits thinly across several interest groups. Third, implementation of large number of schemes provides a justification for a large bureaucracy with salaries constituting a major element of expenditures.. Finally, all these factors have their impact on both allocative and technical efficiency in spending.

III.4 Overlapping Functions and Activity Mapping

The data in Annexure III.3 presents the details of all schemes with more than Rs. 9 crore outlay implemented by the panchayats at all the three levels. Together, these schemes accounted for 76.55 per cent of the total district sector plan outlay and thus, the analysis

covers a significant part of the district sector schemes implemented in the States by the three tiers of panchayats.

The table details the role of centre and States in initiating and funding the schemes and the role of each tier of panchayats in implementing them. The objective of the exercise is to understand the degree of interdependence involved in financing various schemes between Central, State and local governments on the one hand, and interdependence and overlapping involved in implementing the schemes between the three tiers of panchayats on the other. The central sector programs are entirely financed by the central government, centrally sponsored schemes are shared cost programs funded mainly by the centre and partially by the state government and the State government programs are funded entirely by the State.

Conceptually, 100 per cent financing by the central government should be done for programs that the central government considers meritorious and where benefits are considered national in scope. In these cases, state/local governments would be used merely as implementing agencies. On the other hand, shared cost programs should be initiated in cases where both central and state government consider the program meritorious and the state government funding should be restricted to schemes where the expenditure benefits accrue within the state. The latter would not be included in the list of programs assisted by the central government. The actual pattern of funding, however, does not seem to follow this pattern. Most of the water supply schemes, funded entirely by the central government, should be as important to the state government as it is to the centre. The lack of state government contribution to such important programs could lessen the sense of ownership in these programs by the state government. Interestingly, there is no requirement for financial contribution from any of the three tiers of panchayats. This basically implies that panchayats are primarily agencies to implement the schemes initiated by the central and state governments.

The second important observation is that there are multiple schemes to undertake similar functions . In 2001-02, there were as many as 8 central schemes and another 47 state schemes for the welfare of the scheduled castes and tribes alone. In addition, there are 22 schemes for the backward classes. This kind of overlapping is true of many sectors. In the medical and public health sector for example, there are 36 schemes and another 9 schemes in Indian systems of medicine. For drinking water supply and sanitation there are 3 central and 22 state schemes. There are 25 schemes in primary and secondary education.

The details of the number of schemes in various sectors implemented by the three tiers of panchayats, and outlay in respect of these schemes, are detailed in Annexure III. 4.

Thirdly, the great number of schemes causes multiplication of bureaucracy, duplication and segmentation of public service provision, a thin spread of resources within each of the sectors, less flexibility in resource allocation, and a focus on serving special interest groups rather than on efficient provision of public services. Multiplicity of schemes also can be a cause of misappropriation of funds. Any serious reform in fiscal decentralisation in Karnataka should therefore, attempt to consolidate these multiple schemes, untie the funds and enable the panchayats to provide public services more efficiently. Fourth, expenditure allocation is concentrated only in a few sectors. In 2002-02 for example, on rural development and rural employment programs alone accounted for 36 per cent of the outlay. The next important sector in terms of allocation was primary and secondary education (21%) followed by water supply (10%) and welfare of women and children and nutrition (9%). Thus, almost 70 per cent of outlay is distributed in just these four sectors. This reinforces the contention that the multiplicity of programs has been the result of political expediency and the consequence of the attempt to minimise changes in the bureaucratic power structure in the state. It also implies that there are many other sectors in which considerable scope for devolving powers to local governments exist.

III.5 Overlapping Functions and Finances

One of the most important issues in fiscal assignment to rural local governments relates to the division of functions and finances and the overlap in the functions between the three tiers of panchayats. Annexure III.3 details the roles of different levels of governments in regard to financing the 30 most important schemes implemented by rural local governments in 2002-03. It also details the nature of overlapping in these schemes implemented by the three tiers of Panchayats. Together, these account for over 76 per cent of plan outlay. These include both central schemes that are entirely funded by the centre and centrally sponsored schemes that are jointly financed by the center and the states. The assignment of schemes detailed in the Annexure brings out some important issues.

The first important issue is the extent to which there is separation among responsibility for design, financing and implementation of schemes. The central schemes are designed by the relevant central ministries and financed entirely by them, but implemented by

one or more tiers of panchayats. Centrally sponsored schemes on the other hand are shared cost programs between the centre and States, but are implemented by the panchayats. State schemes are financed by the States, but implementation is by the panchayats. Thus, panchayats do not make financial contribution to any schemes they implement. This is because, ZPs and TPs do not have own sources of revenue, and GPs have tax powers but raise little revenue. Moreover, the state government does not have incentive to finance shared cost programs implemented by panchayats and whenever there is financial difficulty, it often reduces its contribution. Often, the funds allocated to some centrally sponsored schemes are not availed because the state government fails to provide counterpart funding.

Second, there are schemes involving all the three tiers of panchayats in implementation and in respect of these, the relative shares of the three levels are fixed. This can create inflexibilities in implementation of the schemes. The case in point is the implementation of SGRY. In the scheme, allocation is made to ZPs, TPs and GPs in the ratio 20%, 30% and 50% respectively. It is not clear how these percentages are arrived at. Allocation to GPs is restricted to 50% of implementation and they can be provided with wage employment combined with food for work program within the confines of GP. However, if the numbers of poor are more than that can be accommodated with the allocated funds, and if there are not enough works that can be implemented within the geographical boundaries of a GP, such programs are supposed to be implemented by the higher tiers of panchayats. Thus, 30% funds are allocated to TPs and 20% funds are allocated to ZPs. This is certainly the case of overlapping functions. The third important issue is overlapping: the existence of multiple schemes for similar programs initiated both by central and state governments. This can create duplication. The important example of this is the case of Indira Awas Yojana. The state government's "Ashraya" and "Ambedkar" housing schemes are implemented by the Rajiv Gandhi Housing Corporation, whereas Indira Awas Yojana is implemented directly by rural local governments.¹² In this case, the GPs select the beneficiaries in "Gram Sabhas" and implement the programs. The funding comes from the central and the state government in the ratio 80:20. The ZPs collect the funds and transfer to TPs, which in turn pass it on to GPs for implementation. TPs draw cheques in the name of beneficiaries and send them to the

¹² There are serious problems in the implementation of the state sector schemes on housing. Although the potential beneficiaries are identified in gram sabhas, the housing committee chooses actual beneficiaries from the list in each MLA constituency. The MLA chairs the housing committee and the selection reflects his own preferences rather than the priorities of the gram sabha.

GPs. The ZPs provide technical assistance and also monitors the progress in implementing the schemes.

We have not detailed the extent of overlapping in all the schemes, but have mainly focussed on 30 most important plan schemes. A more detailed exercise should be undertaken only after an examination of the existing schemes to determine their desirability. As will be argued later in this chapter, it is necessary to consolidate some of the schemes by merging them with similar ones. Most of the other small schemes need to be consolidated and the assistance given to these schemes should be given as unconditional transfers so that the rural local governments have the necessary flexibility to design and implement the development programs. We have undertaken a separate exercise to identify the schemes that should be discontinued and those that should be consolidated into larger programs.

The issue of rationalising schemes is more important at the state level than at the district level. As many as 2536 plan schemes in the state sector are implemented either by the state government directly or through the local governments. Some of the schemes are implemented by the line agencies that also implement the district sector schemes for the ZPs and TPs. This provides a large grey area as the line agencies implementing the program can undertake one work and show it under both district sector and the state sector. This opens up scope for ambiguity and creates scope for misappropriation.

There are at least three reasons for rationalising the state sector plan schemes. First, from the viewpoint of minimising transaction costs, it may be appropriate to transfer many of the state sector schemes at local levels. Second, there is a lot of duplication and overlapping between district and state sector schemes and it is necessary that they should be consolidated and implemented by the panchayats. Third, clear delineation of schemes under district and state sectors helps to minimise the scope for misappropriation of funds by showing one work against both the state sector and the district sector.

We have listed the state sector schemes that may be transferred to the district sector under each of the major departments in Annexure III.5. It would not be possible to consolidate the central schemes unless the reforms are initiated by the central government to rationalise the schemes.

III.6 Fiscal Decentralisation, Local Autonomy and Efficiency in Service Delivery

An important hallmark of decentralisation is the autonomy for the local governments to determine the priorities, design the programs and schemes, and implement them. A critical element in ensuring fiscal autonomy is the empowerment of the local governments' command over the revenues to meet their expenditure requirements. The best way of revenue empowerment is to provide the local governments with revenues from local sources and from transfers that are adequate to match expenditure requirements. General purpose transfers provide nearly as much flexibility and autonomy in providing public services to recipient local governments as own revenues.¹³ In contrast, specific purpose transfers constrain the local governments to spend on the specified services.

Does rural fiscal decentralisation in Karnataka empower the local governments to provide public services according to the preferences of their residents? We have carried out the analysis of all schemes at the panchayat level to examine the degree of flexibility and autonomy to panchayats in implementing them. Annexure III.6 details the analysis of 30 largest expenditure schemes in terms of the flexibility and autonomy exercised by the panchayats. Table III.5 summarises the analysis separately for GPs, TPs and ZPs.

When functions and personnel were transferred to panchayats in the form of rigidly defined schemes, there was a stipulation that the schemes should be continued and salaries of the personnel should be a priority item within the schemes. This implies that the panchayats do not have the flexibility to abolish any scheme even if they realise that some schemes have outlived their purpose. It also implies that the panchayats can not prioritise the provision of public services according to their own preferences but are held hostage to the priorities and schemes imposed in the course of devolution.

The disaggregated analysis of outlay shows that there hardly any leeway for the panchayats in setting their allocation priorities. Of the total outlay, 58 per cent is earmarked for salaries, 11 per cent is simply transferred as grants in aid to institutions and 10 per cent is

¹³ Such transfers are considered to be a veil for tax cut. The empirical studies have shown that the responsiveness of expenditures to general purpose transfers is higher than that of per capita incomes. This is called the "flypaper" effect or "money sticks where it hits" and has been rationalised in terms of misperceptions on the part of consumers of public services in the literature. See Courant, Gramlich and Rubinfeld (1979) and Oates (1979).

Table III. 5
Scheme-wise Outlay in Different panchayats

Panchayats/Nature of	Salary	Grant in Aid	Transfers	Other	Others	Total
I. Expenditures on various Schemes by Different Panchayats (Rs. Lakhs)						
1. Grama Panchayats						
a. Central Schemes	0	0	7.22	2619.38		2626.60
b. State Schemes	0	0		8488.50	11318.00	28594.73
Total- Grama Panchayats	0	0	7.22	11107.88	11318.00	31221.33
2. Taluk Panchayats						
a. Central Sector	22694.97	0.00	12587.25	0.00	0.00	35282.22
b. State Schemes	26724.06	782.03	10015.85	6856.32	0.00	44378.26
Total – Plan	49419.03	782.03	22603.10	6856.32	0.00	79660.48
Non-Plan	160143.63	15940.06	9945.21	795.51	785.75	187610.16
Total- Taluk panchayats	209562.66	16722.09	32548.31	7651.83	785.75	267270.64
3. Zilla Panchayats						
a. Central Sector	9961.80	0.0	4989.02	22204.36	5.20	37160.38
b. State Schemes	7873.20	185.17	3788.39	23109.37	438.28	35394.42
Total – Plan	17835.00	185.17	8777.41	45313.73	443.48	72554.80
Non-Plan	53241.89	38415.12	5967.85	11451.33	2707.70	111783.89
Total – Zilla Panchayats	71076.89	38600.29	14745.26	56765.06	3151.18	184338.69
Total	280639.55	55322.38	47300.79	75524.77	15254.93	482830.66
II. Percent of Total Expenditure of the Scheme						
1. Grama Panchayats						
a. Central Schemes	0.00	0.00	0.27	99.73	0.00	100.00
b. State Schemes	0.00	0.00	0.00	29.69	39.58	100.00
Total- Grama Panchayats	0.00	0.00	0.02	35.58	36.25	100.00
2. Taluk Panchayats						
a. Central Sector	64.32	0.00	35.68	0.00	0.00	100.00
b. State Schemes	60.22	1.76	22.57	15.45	0.00	100.00
Total – Plan	62.04	0.98	28.37	8.61	0.00	100.00
Non-Plan	85.36	8.50	5.30	0.42	0.42	100.00
Total- Taluk panchayats	78.41	6.26	12.18	2.86	0.29	100.00
3. Zilla Panchayats						
a. Central Sector	26.81	0.00	13.43	59.75	0.01	100.00
b. State Schemes	22.24	0.52	10.70	65.29	1.24	100.00
Total – Plan	24.58	0.26	12.10	62.45	0.61	100.00
Non-Plan	47.63	34.37	5.34	10.24	2.42	100.00
Total – Zilla Panchayats	38.56	20.94	8.00	30.79	1.71	100.00
All Panchayats - Plan	44.18	0.64	20.62	34.27	0.29	100.00
All Panchayats – Non-plan	71.27	18.16	5.32	4.09	1.17	100.00
Total	58.12	11.46	9.80	15.64	3.16	100.00
III. Percent of Total Panchayat Expenditures						
Total- Grama Panchayats	0.0	0.0	0.0	14.7	74.2	6.5
Total- Taluk panchayats	74.7	30.2	68.8	10.1	5.2	55.4
Total – Zilla Panchayats	25.3	69.8	31.2	75.2	20.7	38.2
All Panchayats - Plan	24.0	1.7	66.3	69.1	2.9	31.5
All Panchayats – Non-plan	76.0	98.3	33.6	16.2	22.9	62.0
Total	100.0	100	100	100	100	100

Source: Rural Development and Panchayat Raj Department, Government of Karnataka.

required to be spent on transfer payments to persons. Thus, almost 80 per cent of the Panchayat outlay is for the disbursement of either salaries or for simply distribution of transfer payments to various individuals and institutions. Another 16 per cent is meant to be spent on the specified schemes. This leaves only 3 per cent to be spent according to the preferences of the

panchayats. Thus, of the total outlay, panchayats have absolute discretion over only 3 per cent. In respect of another 16 per cent of the outlay, they have limited autonomy as within the schemes the panchayats have some discretion as regards various input purchases (though they cannot change total allocation from the scheme). This absence of local government expenditure autonomy raises some several concerns about the nature of fiscal decentralisation in Karnataka.

Lack of autonomy in expenditure allocation is true of both plan and non-plan schemes. In respect of plan schemes, 44 per cent of the outlay is earmarked for salaries and another 21 per cent is meant for transfers to individuals, mainly for the anti-poverty (employment) programs. Panchayats have absolute discretion in allocating funds only in respect of three percent of total outlay, and in respect of 34 per cent of the outlay they have limited discretion to determine the composition of input purchases within the scheme. In the case of non-plan schemes, the salary component is 71 per cent and another 18 per cent is mandated as pass through to other institutions as grants in aid. Thus, in respect of 89 per cent of non-plan outlay, the panchayats are being used simply as disbursement agencies.

As already mentioned, panchayats have discretion in spending only about 3 per cent of the outlay. In respect of 15.6 per cent of the outlay, although they do not have absolute discretion in terms of allocating resources to different services according to their preferences, they can determine the method of implementing the public service provision and the mix of input purchases for providing the public service. To the extent they have the discretion, the panchayats have preferred to incur expenditures on contract intensive schemes and in case of schemes for which allocation has already been made, choose the contract route in providing public services (Karnataka, 2002).

Among the three tiers of panchayats, interestingly, the GPs have the maximum discretion. They have limited tax powers and thus, can influence total expenditures to some extent. Since the bulk of their transfers is received in the form of lump sum transfers, they have absolute discretion to allocate 36 per cent of their outlay and in respect of another 35 per cent, though scheme based, have limited discretion to determine the allocation within the schemes. However, GP outlay constituted only 6.5 per cent of the total outlay of rural local governments. The allocation to TPs was over 55 per cent of total outlay, but as already mentioned, 97 per cent of their outlay was earmarked for salaries, giving grants to institutions or transfer payment to individuals as mandated by either the central or State governments.

III.7 An Exercise in Improving Efficiency: Consolidation of Schemes

The foregoing discussion brings out some important issues of fiscal decentralisation impacting on efficiency in the provision of public services. Any reform at the local level should begin by consolidating the schemes into meaningful categories for the reasons explained earlier. However, this is possible only in the case of the schemes initiated by the state government. The rationalisation of the central schemes will have to be taken up by the central government. The state government can only try to impress upon the central government the need to undertake this task.

As regards the district sector plan schemes initiated by the state government, the state government should, in the first instance take all those schemes with more than Rs. 10 crore outlay. All the smaller schemes related to these large schemes should be consolidated with these schemes. All other schemes not included in the above should be consolidated within each of the departments so that there can be greater flexibility to prioritise spending decisions within the departments. Abolition of these small schemes will release the money spent on these schemes, which should be made available to the respective departments within the panchayats. This would help to reduce the number of schemes into more meaningful ones, and provide greater discretion and autonomy to the panchayats in providing public services

It is also important to rationalise the state sector plan schemes. Our analysis shows that there are a number of schemes which are within the implementation capacity realm of panchayats and therefore, there is no need for the state government to directly implement them. First, there are many schemes within the state sector that are implemented through the district panchayats or are implemented through the same line agencies that implement the schemes for the district panchayats. These could certainly be transferred to panchayats and should become a part of the consolidation exercise detailed above. The schemes thus transferred should either be consolidated within the large schemes (with more than Rs. 10 crores outlay) or the outlay on the schemes should be provided to the relevant department within the panchayats. The panchayats will determine the priorities for service provision within each of the departments and each department would have significant lump sum amount available for spending on the services.

We have undertaken an illustrative exercise in this study to rationalise the schemes. Annexure III.3 presents the major schemes having more than Rs. 10 crores outlay in 2002-03.

The remaining district sector schemes are either consolidated within these major schemes or the lump sum amount available by their abolition is shown against each of the major departments. The analysis shows that the money untied from such rationalization of district sector schemes amount to Rs. 1155.16 crore.

Annexure III.5 presents the details of state sector schemes that can be transferred to district panchayats. At the same time, it is important to ensure clarity in the role of line agencies. These agencies, which are supposed to implement the schemes for the district panchayats, should implement only their schemes and should not be required to implement the schemes of the state government. Similarly, various development boards should be closed down and the schemes implemented by them through these agencies should either be transferred to the district panchayats or to the state government based on their comparative advantage in implementing these schemes. The most important advantage of this will be that overlap in the roles of state sector and district sector will cease, and there will be clarity in the role of the implementing line agencies. The scope for misappropriation can be minimised. The amount of money released as a consequence of this, that will be available to the district panchayats, will be Rs. 5745.82 Crore instead of existing Rs. 4590.66 crores

Annexure III.1					
Local Government Expenditure in Karnataka					
	1990-91	1993-94	1995-96	1996-97	1997-98
Percent of State Expenditure					
Urban local bodies	3.74	3.25	3.14	3.41	3.65
Zilla and Taluk Panchayats	25.53	25.62	23.92	26.42	28.25
Gram Panchayat	2.57	1.85	1.98	2.02	1.99
Rural local bodies	28.10	27.47	25.91	28.43	30.24
All local bodies	31.84	30.72	29.05	31.84	33.89
State Expenditures Rs.	100.00	100.00	100.00	100.00	100.00
Percent of GSDP					
Urban local bodies	0.74	0.67	0.63	0.67	0.70
Zilla and Taluk Panchayats	5.07	5.25	4.78	5.22	5.44
Gram Panchayat	0.51	0.38	0.40	0.40	0.38
Rural local bodies	5.59	5.63	5.18	5.61	5.82
All local bodies	6.33	6.30	6.01	6.28	6.52
State expenditures Rs.	19.87	20.50	19.98	19.74	19.26

Source: Report of the Finance Commission, Ministry of Finance, Government of India.

Annexure III.2								
Frequency Distribution of Schemes in TPs and ZPs in Terms of Value of Schemes								
Class Intervals	2001-02				2002-03			
	Frequency	Amount in Crores	Share of freq in total	Share in total amount	Frequency	Amount in Crores	share of freq in total	Share in total amount
TP Central Plan (District sector) Rs in crores								
0.0-1.0	1	0.55	9.09	0.16	2	0.75	20.00	0.29
1.0-5.0	3	7.04	27.27	2.00	2	5.38	20.00	2.08
5.0-10.0	1	7.58	9.09	2.15	0	0.00	0.00	0.00
10.0-15.0	3	32.05	27.27	9.08	3	33.41	30.00	12.91
15& above	3	305.61	27.27	86.62	3	219.24	30.00	84.72
Total	11	352.83	100.00	100.00	10	258.78	100.00	100.00
TP State Plan (District sector) Rs in crores								
0-0.25	42	4.31	35.59	0.97	48	4.63	43.24	3.14
0.25-0.5	20	6.88	16.95	1.55	19	6.66	17.12	4.52
0.5-0.75	9	5.57	7.63	1.26	13	7.95	11.71	5.39
0.75-1.0	7	6.11	5.93	1.38	6	5.22	5.41	3.54
1.0-1.25	5	5.6	4.24	1.26	5	5.64	4.50	3.82
1.25-1.5	4	5.41	3.39	1.22	2	2.78	1.80	1.88
1.5-2.0	6	9.63	5.08	2.17	3	5.19	2.70	3.52
2.0-3.0	4	9.19	3.39	2.07	1	2.19	0.90	1.48
3.0-4.0	5	16.69	4.24	3.76	2	6.14	1.80	4.16
4.0-5.0	3	13.87	2.54	3.13	4	17.4	3.60	11.80
5.0-10.0	7	55.07	5.93	12.41	7	44.39	6.31	30.10
10&above	6	305.47	5.08	68.83	1	39.3	0.90	26.65
Total	118	443.80	100.00	100.00	111	147.49	100.00	100.00
TP State Non Plan (District sector) Rs in crores								
0.0-1.0	18	6.09	39.13	0.32	20	7.97	41.67	0.37
1.0-2.0	6	8.47	13.04	0.45	5	8.07	10.42	0.38
2.0-3.0	3	7.84	6.52	0.42	4	11.35	8.33	0.53
3.0-5.0	4	13.84	8.70	0.74	3	10.73	6.25	0.50
5.0-10.0	3	18.99	6.52	1.01	3	23.95	6.25	1.12
10.0-50.0	8	236.25	17.39	12.59	9	278.79	18.75	13.02
50&above	4	1584.62	8.70	84.46	4	1799.79	8.33	84.08
Total	46	1876.10	100.00	100.00	48	2140.65	100.00	100.00
ZP Central Plan (District sector) Rs in crores								
0.0-0.5	6	1.14	15.79	0.31	5	1.15	13.51	0.34
0.5-1.0	5	3.93	13.16	1.06	6	4.78	16.22	1.41
1.0-1.5	4	4.61	10.53	1.24	4	4.82	10.81	1.42
1.5-2.0	2	3.41	5.26	0.92	3	5.42	8.11	1.60
2.0-5.0	3	6.83	7.89	1.84	1	3.03	2.70	0.89
5.0-10.0	7	60.15	18.42	16.19	6	51.15	16.22	15.10
10.0-15.0	3	35.98	7.89	9.68	4	46.27	10.81	13.66
15.0-25.0	2	31.74	5.26	8.54	2	32.05	5.41	9.46
25 & above	6	223.81	15.79	60.23	6	190.17	16.22	56.12
Total	38	371.60	100.00	100.00	37	338.84	100.00	100.00
ZP State Plan (District sector) Rs in crores								
0-0.05	62	1.35	24.50	0.38	67	1.36	27.57	0.55
0.05-0.1	27	1.99	10.67	0.56	30	2.28	12.35	0.92
0.1-0.25	51	8.01	20.16	2.26	45	7.01	18.52	2.84
0.25-0.5	31	11	12.25	3.11	38	13.54	15.64	5.49
0.5-0.75	14	8.71	5.53	2.46	9	5.41	3.70	2.19
0.75-1.0	11	9.68	4.35	2.74	11	9.97	4.53	4.04

Annexure III.2								
Frequency Distribution of Schemes in TPs and ZPs in Terms of Value of Schemes								
Class Intervals	2001-02				2002-03			
	Frequency	Amount in Crores	Share of freq in total	Share in total amount	Frequency	Amount in Crores	share of freq in total	Share in total amount
1.0-1.5	12	15.52	4.74	4.39	15	19.27	6.17	7.81
1.5-2.0	8	13.44	3.16	3.80	6	10.38	2.47	4.21
2.0-3.0	10	23.2	3.95	6.56	6	14.93	2.47	6.05
3.0-4.0	10	34.55	3.95	9.76	4	14.24	1.65	5.77
4.0-5.0	5	22.58	1.98	6.38	3	14.24	1.23	5.77
5.0-10.0	6	44.4	2.37	12.55	5	31.89	2.06	12.93
10&above	6	159.49	2.37	45.06	4	102.14	1.65	41.41
Total	253	353.92	100	100	243	246.66	100	100
ZP State Non Plan (District sector) Rs in crores								
0-0.25	53	4.56	29.12	0.41	58	4.75	29.00	0.41
0.25-0.5	19	6.73	10.44	0.60	17	5.82	8.50	0.51
0.5-0.75	9	5.49	4.95	0.49	13	8.03	6.50	0.70
0.75-1.0	5	4.51	2.75	0.40	9	7.79	4.50	0.68
1.0-2.0	27	36.39	14.84	3.26	26	35.01	13.00	3.06
2.0-3.0	15	37.02	8.24	3.31	15	36.99	7.50	3.23
3.0-5.0	20	75.94	10.99	6.79	25	92.03	12.50	8.03
5.0-10.0	15	101.14	8.24	9.05	17	119.92	8.50	10.47
10.0-50.0	16	318.40	8.79	28.48	17	323.38	8.50	28.22
50&above	3	527.67	1.65	47.20	3	512.12	1.50	44.69
Total	182	1117.85	100.00	100.00	200	1145.84	100.00	100.00

Annexure III.3

Roles of Different Levels of Government and Different Tiers of Rural Local Bodies in Implementing Important Schemes

Name of the Scheme	Allocation 2002-03	Share in Total	Cum Sum	Centre	State	ZP	TP	GP	Remarks
mpurna ameena zgar jana (05-60- 1-0-52)	14426.40	11.62	11.62	37.5% cash contribution and 100% food grain contribution. Designing of the Guidelines.	12.5 % cash contribution. Cost of transportation of foodgrains from FCI godown to work-site is borne. Responsibility and accountability of the implementation of the programme.	Preparation of action plan and implementation for the 20% share of the fund. Releasing of the fund to TPs and GPs based on formula. Monitoring of the work.	Carrying out the 30% share of the work. Approving the plan prepared by GPs and monitoring of the work.	50% of the share goes to GPs. Preparation of the plan to be approved by gram sabha. Implementation of the work.	The works to be taken up would assist in drought proofing such as soil and moisture conservation and watershed development promoting of traditional resources, afforestation, construction of village infrastructure and link up primary school building dispensaries, veterinary hospitals, marketing infrastructure and Panchayat building.
S of egrated child development service (35-02- 2-0-55)	9114.39	7.34	18.97	100% funding is from centre		Involved in accessing child developmental scheme activity and make suggestion wherever required	Involved in appointment of Anganawadi workers. Payment of salaries to ICDS health officials and workers and honorarium to Anganawadi workers.		
lira Awas jana (16-03- 1-0-51)	8481.93	6.83	25.80	80% funding is from centre. Guidelines are designed at centre.	20% funding to be provided and releasing of the money to ZP.	Allocate the funds to taluks. Department under ZP provides technical support and monitor the	Allocation of funds to GPs. Releasing of checks to beneficiaries. Monitoring of the work.	Selection of beneficiaries in the gram sabha.	Beneficiaries of other schemes such as Ashrafi Ambedkar can also get benefit as the latter is administered by an independent agency (RGHCL).

Annexure III.3

Roles of Different Levels of Government and Different Tiers of Rural Local Bodies in Implementing Important Schemes

name of the Scheme	Allocation 2002-03	Share in Total	Cum Sum	Centre	State	ZP	TP	GP	Remarks
						progress.			
ants to ama rchayats (15-00-1-0-18)	8399.11	6.77	32.57		100% funding is from State.	Release the money to GPs after deducting KPTCL bill in installments. Consolidate the monthly accounts received from TPs and send it to State Govt.	Approves the plan prepared for developmental work. Consolidate the monthly accounts received from GPs and send it to ZP.	Implementation of the development works. Submit the monthly accounts to TP.	
velopment grants to ama rchayat (15-00-3-0-03)	6299.30	5.08	37.64		100% funding and designing of the guidelines.	Releases the grant to GPs.	Approves the plan prepared by GP.	Preparation of the plan and implementation of the plan as per the guidelines.	
ants to rchayat j titutions er EFC commend ons (2515-101-0-09)	5849.23	4.71	42.35	Release the money to State Government as per the recommendation of the finance commission.	Release the money to GPs(70% share), TPs(20% share), and ZPs(10% share) through Zilla panchayat.	Prepare the action plan and implement the work.	Prepare the action plan for their share of work. Implement the work. Approves the GP plan.	Prepare the action plan. Implement the work.	
ed Water pply rome RWS) (15-01-2-2-71)	4208.25	3.39	45.74	100% funding is from centre		Department under ZP calls for the tender and allots the work. It also provides technical support and			

Annexure III.3

Roles of Different Levels of Government and Different Tiers of Rural Local Bodies in Implementing Important Schemes

name of the Scheme	Allocation 2002-03	Share in Total	Cum Sum	Centre	State	ZP	TP	GP	Remarks
						monitores the work. ZP officials also Monitor the work.			
school children feeding programme (NP) (36-02-1-0-51)	3929.85	3.17	48.91		100% funding from state and formulates the guidelines.	ZP officials monitor disbursement of the nutritious food and provide guidelines if necessary.	TP Child development dept will implement the scheme through Anganawadis. TP officials monitor the scheme.		
Rural Family Welfare Centres at Cs 2211-101-0-02)	3430.76	2.76	51.67	100% funding is from centre	Appointment of lady doctor and related staff	Release of the fund to Family welfare department			
Grama Santhi Grama Swarozgar jana (01-01-1-0-07)	3157.51	2.54	54.22	75% of funding. Guidelines are provided by the centre	25% contribution is from the state. To provide leadership and guidance in the planning, Monitoring of the programme.	Monitoring and reviewing overall progress. Assessing training needs of Swarozgaris and making arrangements in appropriate institutions. Monitoring recovery position bankwise and taluk wise.	Selection of key activities. Selection of villages and number of swarozdaries. Review of incomes earned by swarozgaries and their progress in crossing poverty line.	Certifying the BPL list. Identification of Swarozgari families. Monitoring the performance of swarozdari and their repayment.	

Annexure III.3

Roles of Different Levels of Government and Different Tiers of Rural Local Bodies in Implementing Important Schemes

Name of the Scheme	Allocation 2002-03	Share in Total	Cum Sum	Centre	State	ZP	TP	GP	Remarks
Rural Sub-centres (opened under Family Welfare) (11-00-1-0-03)	2833.88	2.28	56.50	100% funding is from centre	Appointment of staff	Release of the fund to Family welfare department for payment of salaries and other benefits			
AP (1:50): (ought the area programme) (01-02-1-0-02)	2501.39	2.02	58.52	50% funding is from centre. Designing of the guidelines	50% contribution.	ZP acts as a facilitator and provider of finances and technical assistance			
Maintenance Piped Water Supply Schemes (15-01-2-2-75)	1721.32	1.39	59.90	100% funding is from centre			Consolidating GP reports and report to zp engineering cell.	Maintenance of the service and reporting to TP.	
Integrated development of Western at Region (10% centre) (51-01-1-0-00)	1673.67	1.35	61.25	100% funding and formulating the guidelines		Preparing the work plan and implementation of the work mainly by Agriculture and forest dept. Approval of the plan and monitoring and supervision by ZP office.	Monitoring of the work by Dept officer.		
Piped Water	1602.82	1.29	62.54		100% funding	ZP department			

Annexure III.3

Roles of Different Levels of Government and Different Tiers of Rural Local Bodies in Implementing Important Schemes

name of the Scheme	Allocation 2002-03	Share in Total	Cum Sum	Centre	State	ZP	TP	GP	Remarks
Supply scheme (15-01-2-1-01)					and formulating the guidelines.	identifies the villages prepares the work plan and implements the work.			
Mini Water supply scheme – rural (15-01-2-2-73)	1531.66	1.23	63.78	100% funding is from centre		ZP department identifies the villages prepares the work plan and implements and monitors the work.			
DA ministrati Charges (15-00-1-0-19)	1445.54	1.16	64.94	75% funding from centre	25% funding from state	Payment of the salaries and other benefits			
Payment of additional honorarium ganwadi workers (15-02-2-0-63)	1430.82	1.15	66.10		100% funding from state.	Release of money to women and child development department.			
Forestry & environment project for stern ins-OECF (15-06-01-2-2-11)	1330.89	1.07	67.17		100% funding and releasing of the fund.	Approving the plan prepared by forest dept and releasing the money.			

Annexure III.3

Roles of Different Levels of Government and Different Tiers of Rural Local Bodies in Implementing Important Schemes

name of the Scheme	Allocation 2002-03	Share in Total	Cum Sum	Centre	State	ZP	TP	GP	Remarks
Maintenance of Mini-irrigation schemes (15-01-2-2-76)	1307.24	1.05	68.22	100% funding is from centre			Consolidating GP reports and report to zp engineering cell.	Maintenance of the service and reporting to TP.	
mpsumants: special central assistance SCP (25-01-3-0-01)	1203.03	0.97	69.19	100% funding is from centre		Accessing the Assets owned by the beneficiaries and providing them suggestions wherever required.	Identifying the activities. Depending on the requirement earmarking the grant to different departments and approving their work plan. Supervising the work progress and giving suggestions wherever required.	Selection of beneficiaries in the gram sabha.	
rewells Hand pumps – rural (15-01-2-2-72)	1082.28	0.87	70.06	100% funding is from centre. Designing the guidelines	Designing the guidelines in the light of state resources.	Preparing the action plan, by prioritising the villages with lesser water availability. Implementing the work by ZP engineering cell. ZP officials should monitor atleast			

Annexure III.3

Roles of Different Levels of Government and Different Tiers of Rural Local Bodies in Implementing Important Schemes

name of the Scheme	Allocation 2002-03	Share in Total	Cum Sum	Centre	State	ZP	TP	GP	Remarks
						10% of the work.			
district family welfare bureau (11-00-1-0-02)	1076.65	0.87	70.93	100% funding is from centre.	Appointment of health officials and supporting staff.	Releasing the money to Family welfare dept for the payment of salaries and other benefits.			
Post-Matric Scholarship Scheme (25-01-7-0-78)	1071.00	0.86	71.79	100% funding is from centre.		Zilla dept officials visits the school and colleges and checks the receipt of the scholarship	Taluk social welfare department implements the programme and reports the progress to taluk and zilla social welfare dept. Taluk dept officials visits the school and colleges and checks the receipt of the scholarship.		
mpsum ants: social central assistance to dalit sub plan (2225-794-0-01)	1067.35	0.86	72.65	100% funding is from centre		Assessing the Assests owned by the beneficiaries and providing them suggestions wherever required.	Identifying the activities. Depending on the requirement earmarking the grant to different departments and approving their work plan.	Selection of beneficiaries in the gram sabha.	

Annexure III.3

Roles of Different Levels of Government and Different Tiers of Rural Local Bodies in Implementing Important Schemes

Name of the Scheme	Allocation 2002-03	Share in Total	Cum Sum	Centre	State	ZP	TP	GP	Remarks
							Supervising the work progress and giving suggestions wherever required.		
IP (25:75) (01-02-01-0-01)	1022.08	0.82	73.48	75% funding from centre. Designing the guidelines.	25% funding from state.	Minor irrigation and agriculture dept implements the work. Higher officials of ZP, agriculture and minor irrigation dept monitors the work.			
P.D. sectomy sectomy (11-00-5-1-01)	990.40	0.80	74.27	100% funding from centre.		ZP family welfare dept implements the programme and provide incentives to beneficiaries.			
gh ools (02-02-0-0-72)	975.90	0.79	75.06		100% funding from state. Appointment of the teachers.		Payment of salaries and other benefits from Taluk Education dept.		
ni Water pply emes – P (2215-102-2-78)	955.16	0.77	75.83	100% funding from centre.		zp engineering dept prepares the list of needy villages and action plan. Implements the			

Annexure III.3

Roles of Different Levels of Government and Different Tiers of Rural Local Bodies in Implementing Important Schemes

name of the Scheme	Allocation 2002-03	Share in Total	Cum Sum	Centre	State	ZP	TP	GP	Remarks
						work after the approval from the ZP office.			
district watershed development project-District EST (2002-00-2005-01)	900.00	0.73	76.55		100% funding from state. Appointment of the staff.	Payment of salaries and other benefits.			

Ashraya housing scheme (Rajiv Gandhi rural housing corporation).

ML via loan assistance and subsidy. State Govt stands guarantee and this allocation minus subsidy forms part of State Govt contingent liability. Current in the state budget and not in the link document allocations.

Registering the beneficiaries list.

Constituted by MLA constituency headed by MLA selects the beneficiaries from list recommended by GPs.

Annexure III.4A Distribution of Schemes by Sector and Tier 2001-02

Sector	Sector Name	Central scheme			Centrally sponsored			State plan scheme			Total Number of Schemes		
		No of Schemes			No. of Schemes			No. of Schemes			GP	TP	ZP
		GP	TP	ZP	GP	TP	ZP	GP	TP	ZP			
1	Primary and Secondary education		1						10	14		11	14
2	Adult Education			1						2			3
3	Sports and youth services-2204									15			15
4	Medical and Public Health services								6	30		6	30
5	Indian System of Medicine								1	8		1	8
6	Family welfare programmes			12						2			14
7	Water supply and Sanitation	2		8					1	14	2	1	22
8	Welfare of SCs and STs		2		3	1	2		22	25	3	25	27
9	Special component plan		1						16			17	
10	Welfare of BCM								10	12		10	12
11	Welfare of women & children		1						4	4		5	4
12	Nutrition								1			1	
13	Agriculture			1			4		3	6		3	11
14	Horticulture								6	7		6	7
16	Animal husbandry								6	9		6	9
17	Fisheries						1			20			21
18	Forest (including soil conservation)			2						7			9
19	Co-operation								6	12		6	12
21	Rural development programmes			1			4		1			1	5
22	Rural energy programmes						1		1			2	
23	Rural employment programmes				1	3	1				1	3	1
24	Other rural development							2	2	4	2	2	4
25	Minor irrigation								3	6		3	6
26	Village and small scale industries									14			14
27	Sericulture								2	7		2	7
28	Roads and bridges –3054 & 5054								1	17		1	17
29	Secretariat economic services									1			1
30	Tribal sub plan-2225		1						16			17	
31	Handlooms & textiles (v & si)-2851						1			16			17
33	Science & technology-3425									1			1
	Total	2	6	25	4	5	13	2	118	253	8	129	291

Annexure III.4B: Distribution of Schemes by Sector and Tier 2002-03

Sector Name	Central scheme			Central sponsored scheme			State plan scheme			Total Number of Schemes		
	Number of Schemes			Number of Schemes			Number of Schemes					
	GP	TP	ZP	GP	TP	ZP	GP	TP	ZP	GP	TP	ZP
Primary & secondary education								8	13		8	13
Adult education			1						2			3
Sports and youth services-2204									15			15
Medical & public health services								6	30		6	30
Indian systems of medicine								1	6		1	6
Family welfare programmes			12						2			14
Water supply and sanitation	2		8					1	14	2	1	22
Welfare of SCs and STs		2			2	2		20	21		24	23
Special component plan		1						15			16	
Welfare of BCM								10	9		10	9
Welfare of women & children		1						4	3		5	3
Nutrition								1			1	
Agriculture			1			3		3	7		3	11
Horticulture								6	7		6	7
Animal husbandry								6	9		6	9
Fisheries						1			17			18
Forest (including soil conservation)			2						7			9
Co-operation								6	14		6	14
Rural development programmes			1			4						5
Rural energy programmes					1			1			2	
Rural employment programmes				1	2	1					1	2
Other rural dev. Programmes							2	1	3	2	1	3
Minor irrigation								3	6		3	6
Village and small scale industries									14			14
Sericulture								2	7		2	7
Roads and bridges –3054 & 5054								1	17		1	17
Secretariat economic services									3			3
Tribal sub plan-2225		1						16			17	
Handlooms & textiles (v & si)-2851						1			31			32
Science & technology-3425									1			1
Total	2	5	25	1	5	12	2	111	258	5	121	295

Annexure III.4C. Fund Allocation to Schemes 2001-02

	Central sector Schemes (Rs. Lakh)			Central sponsored scheme Rs. Lakh			State plan scheme Allocation (Rs. Lakh)			Total Allocation (Rs. Lakh			Share in the total expenditure of the sector			Share of /
	GP	TP	ZP	GP	TP	ZP	GP	TP	ZP	GP	TP	ZP	GP	TP	ZP	
Secondary education		13746						23089	2058.1	0.0	36835	2058.1	0.0	94.7	5.3	
			46.1						42.5	0.0	0.0	88.6	0.0	0.0	100.0	
Health services-2204									399.7	0.0	0.0	399.7	0.0	0.0	100.0	
Public health								477.2	3247.9	0.0	477.2	3247.9	0.0	12.8	87.2	
Programmes of medicine								13.8	318.3	0.0	13.8	318.3	0.0	4.2	95.8	
Programmes			9702.2						139.4	0.0	0.0	9841.6	0.0	0.0	100.0	
Waste and sanitation	2619.4		9040.5					820.6	5666.0	2619.4	820.6	14707	16.9	5.3	94.7	1.4
For SCs and STs		1475.3		7.2	223.0	128.2		3641.1	2125.4	7.2	5339.4	2253.6	0.1	70.3	29.7	0.0
Welfare plan		1100.1						3075.8		0.0	4175.9	0.0	0.0	100.0	0.0	
Welfare								1107.2	2024.5	0.0	1107.2	2024.5	0.0	35.4	64.6	
For women & children		8949.5						348.8	2389.0	0.0	9298.2	2389.0	0.0	79.6	20.4	
								4826.0		0.0	4826.0	0.0	0.0	100.0	0.0	
			17.2			1123.3		173.5	178.2	0.0	173.5	1318.7	0.0	11.6	88.4	
								172.3	281.5	0.0	172.3	281.5	0.0	38.0	62.0	
Welfare						208.4		1946.0	692.6	0.0	1946.0	692.6	0.0	73.8	26.2	
									205.3	0.0	0.0	413.7	0.0	0.0	100.0	
For soil conservation			281.8						1878.8	0.0	0.0	2160.7	0.0	0.0	100.0	
								95.3	118.5	0.0	95.3	118.5	0.0	44.6	55.4	
Welfare programmes			1615.2			8867.7		962.0		0.0	962.0	10483	0.0	8.4	91.6	
Welfare programmes					134.5			397.6		0.0	532.1	0.0	0.0	100.0	0.0	
Welfare programmes				8788.2	8623.7	6129.6				8788.2	8623.7	6129.6	59.6	58.5	41.5	4.8
Welfare Programmes							19807	1991.8	8681.6	19807	1991.8	8681.6	185.6	18.7	81.3	10.8
								125.7	764.4	0.0	125.7	764.4	0.0	14.1	85.9	
Welfare all scale ind									444.7	0.0	0.0	444.7	0.0	0.0	100.0	
								57.1	312.9	0.0	57.1	312.9	0.0	15.4	84.6	
Welfare -3054 & 5054								347.2	3086.8	0.0	347.2	3086.8	0.0	10.1	89.9	
Welfare economic services									33.8	0.0	0.0	33.8	0.0	0.0	100.0	
Welfare -2225		1030.8						709.1		0.0	1739.9	0.0	0.0	100.0	0.0	
Welfare textiles (v & si)-2851						0.2			284.6	0.0	0.0	284.8	0.0	0.0	100.0	
Welfare technology-3425									20.0	0.0	0.0	20.0	0.0	0.0	100.0	
	2619.4	26301	20703	8795.5	8981.2	16457	19807	44377	35394	31221	79660	72555	20.5	52.3	47.7	17.0

Annexur III.4D: Fund Allocation to Schemes 2002-03

Sector Name	Central scheme			Central sponsored scheme			State plan scheme			Total Allocation (Rs. Lakh)			Percent of Sector expenditure			Share of All the T	
	GP	TP	ZP	GP	TP	ZP	GP	TP	ZP	GP	TP	ZP	GP	TP	ZP	GP	TP
Secondary education								2261.2	1073.1	0.0	2261.2	1073.1	0.0	67.8	32.2		
Health services-2204			41.8						34.2	0.0	0.0	75.9	0.0	0.0	100.0		
Medical health services								258.2	1836.9	0.0	258.2	1836.9	0.0	12.3	87.7		
Dispensaries of medicine								7.3	174.1	0.0	7.3	174.1	0.0	4.0	96.0		
Health programmes			10025						106.0	0.0	0.0	10131	0.0	0.0	100.0		
Water supply and sanitation	3028.6		9529.4					633.4	4227.3	3028.6	633.4	13757	17.4	3.6	79.0	2.4	
Water supply and STs		1449.8			205.5	126.0		1608.0	1042.2	0.0	3263.3	1168.3	0.0	73.6	26.4		
Water supply -ment plan		1203.0						2202.8		0.0	3405.8	0.0	0.0	100.0	0.0		
Water supply -VI								338.5	659.4	0.0	338.5	659.4	0.0	33.9	66.1		
Water supply -men & children		9114.4						552.5	1531.7	0.0	9666.9	1531.7	0.0	86.3	13.7		
								3929.9		0.0	3929.9	0.0	0.0	100.0	0.0		
			20.1			1035.5		130.8	1045.0	0.0	130.8	2100.6	0.0	5.9	94.1		
								128.4	214.6	0.0	128.4	214.6	0.0	37.4	62.6		
Water supply -dry								771.4	626.2	0.0	771.4	626.2	0.0	55.2	44.8		
						192.6			168.3	0.0	0.0	360.9	0.0	0.0	100.0		
Water supply -ing soil conserv)			228.7						1663.4	0.0	0.0	1892.1	0.0	0.0	100.0		
								59.7	85.8	0.0	59.7	85.8	0.0	41.0	59.0		
Water supply -rammes			1673.7			8126.5				0.0	0.0	9800.2	0.0	0.0	100.0		
Water supply -rogrammes					29.6			300.6		0.0	330.2	0.0	0.0	100.0	0.0		
Water supply -ment programmes				7213.2	12810	2885.3				7213.2	12810	2885.3	31.5	55.9	12.6	5.8	10
Water supply - . programmes							14698	519.5	6171.4	14698	519.5	6171.4	68.7	2.4	28.9	11.8	10
								92.1	636.2	0.0	92.1	636.2	0.0	12.6	87.4		
Water supply -all scale ind									151.3	0.0	0.0	151.3	0.0	0.0	100.0		
								41.2	250.2	0.0	41.2	250.2	0.0	14.1	85.9		
Water supply -s -3054 & 5054								411.9	2415.9	0.0	411.9	2415.9	0.0	14.6	85.4		
Water supply -nomic services									77.9	0.0	0.0	77.9	0.0	0.0	100.0		
Water supply -2225		1067.4						503.7		0.0	1571.0	0.0	0.0	100.0	0.0		
Water supply -extiles						0.2			150.3	0.0	0.0	150.5	0.0	0.0	100.0		
Water supply -nology-342E									15.8	0.0	0.0	15.8	0.0	0.0	100.0		
	3028.6	12835	21518	7213.2	13045	12366	14698	14751	24666	0.0	40630	58550	0.0	41.0	59.0	20.1	3

Annexure III.5		
State Sector Schemes That Can be Transferred to Local Bodies		
Department/Code	Name of the Scheme	Outlay (Rs. Lakhs)
I. Schemes transferable to local bodies in different departments		
1. Agriculture		
2401-00-104-0-01	Agricultural Farms Bagalkot and Kudige	42.34
2401-00-104-0-02	Agricultural Development Centre, Dharwar	12.39
2401-00-104-0-03	Strengthening of Development Work in Agricultural Devel.	30
2401-00-108-1-13	Mini Mission-II under Technology Mission on Cotton	556.0
2401-00-109-0-01	Farm Information Unit	40
2401-00-109-0-03	Rural Development Training Centres	206.23
2401-00-109-0-04	Extension Cum Training Centres	49.6
2401-00-109-0-05	Agricultural Training Schools	314.81
2401-00-109-0-21	Farmers Contact Centres - Farm Clinics	512
2401-00-109-0-80	Project for Agricultural Training of Farm Women and Youths	600
2401-00-119-1-03	Development of Mushroom	10
2401-00-119-1-12	Special Programme for Development of Grapes for Export	10
2401-00-119-2-02	Demonstration of Flowers of Floriculture Centres	11.19
2401-00-119-2-05	development of commercial Floriculture	0.07
2401-00-119-3-01	Extension and Training	30
2401-00-119-3-02	Training to Farmers	44.83
2401-00-119-4-03	Production and Distribution of Quality Planting Materials Horticulture Crops	50
2401-00-119-4-05	Developing Undeveloped Areas in Farms & Nurseries and Development of New Farms	10
2401-00-119-6-03	Horticulture Buildings	60
2401-00-800-1-04	Productivity Awards for Farmers	140
2401-00-800-2-25	Cold Storage Subvention	10
2406-02-112-0-01	Lalbagh Botanical Gardens Development	143.21
2406-02-112-0-03	Maintenance of Other Parks & Gardens in the State	277.7
2406-02-112-0-04	Environmental Improvements in Hospital Gardens	3.98
2406-02-112-0-07	Development of Botanical & Other Ornamental Gardens	137
2406-02-112-0-08	Manitenance and Development of Gardens of Legislator Home	3.54
2406-02-112-0-11	Special Scheme for Improvement of Cubbon Park	25
2. Animal Husbandry		
2403-00-101-0-07	Mordernisation of Slaughter House Project	55
2403-00-101-0-18	Civil Works	40
2403-00-103-0-01	State Poultry Farms	145.96
2403-00-105-0-01	Pig Breeding Stations	40.95
2403-00-105-0-08	Integrated Piggery Development Scheme	50
2403-00-107-0-01	Fodder Seed Farms	10.48
2403-00-107-0-10	Development of Grass Lands including Grass Reserves	50
2403-00-109-0-01	Veterinary Education & Training	38.28
2403-00-800-0-23	Live-stock Development Farms	549.81
2405-00-101-0-01	Fish Seed Production, Rearing & Distribution	135.56
2405-00-101-0-02	Development and Exploitation of Reservior and Lake Fish	15.39
2405-00-101-0-14	Augmenting Productive Capacity of Fish Ponds	15
2405-00-800-0-01	Setting Up of Acquaria	32.6
4405-00-103-3-01	Construction	50
4405-00-103-4-01	Construction	200
4405-00-103-5-01	Construction	50
4405-00-800-1-01	Setting Up of Aquarium	10
4405-00-800-2-02	Link Road Construction and Maintenance	5
4405-00-800-2-03	Construction of Fisheries Link Roads, Bridges and Jetty with NABARD Assistance - Eradication of Rinderpest	10
3. Cooperation		
3475-00-107-0-02	Marketing Committees	2116.8
3475-00-107-0-15	Development of Primary Rural Markets	15

Annexure III.5		
State Sector Schemes That Can be Transferred to Local Bodies		
Department/Code	Name of the Scheme	Outlay (Rs. Lakhs)
3475-00-107-0-19	Development of Rural Sandies	10
3475-00-107-0-22	Cold Storage Facilities	20
4. Education		
2202-01-053-0-01	Maintenance of School Buildings	654.64
2202-01-101-0-06	Special Program for Construction of Primary School Buildings	300
2202-01-104-0-00	Inspection	414.46
2202-01-107-0-08	New Policy of Education for Training Inservice Teachers	10
2202-01-789-0-01	Vidya Vikas Schemes	1300
2202-01-789-0-02	Providing Educational Facilities to SC Children Studying	200
2202-01-796-0-01	Vidya Vikas Schemes	500
2202-01-796-0-02	Providing Educational Facilities to SC Children Class I to IV	60
2202-01-800-1-13	Pustakalaya	925
2202-01-800-1-14	Ahara	106.19
2202-01-800-1-16	Repairs to Class Rooms	800
2202-01-800-1-17	Construction of Class Rooms Exclusive to Class I	2100
2202-01-800-1-19	Manoranjan, Reading, Arts & Music Promotions, Games and	60
2202-01-800-1-35	Activities to Promote Universalisation of Primary Education	750
2202-01-800-1-37	Basic Amenities to Government Teacher's Training Institute	20
2202-01-800-1-38	Construction of Buildings to Govt. Teachers' Trg.Institutes	30
2202-01-800-1-46	Examination Fee for Girls Studying in VII Standard	65
2202-01-800-1-47	Reimbursement of Non-Govt Fees to SC/ST Children Studying Govt. Primary Schools	155
2202-01-800-1-48	Reimbursement of Non-Govt Fees to Girls Studying in Govt. Primary Schools	360
2202-01-800-1-49	Remuneration to Contract Teachers	200
2202-01-800-2-01	Construction of New Primary Schools	371.9
2202-01-800-2-02	Construction of Toilets and Providing Drinking Water to Schools	191.58
2202-01-800-2-03	Repairs to Class Rooms	563.46
2202-02-101-0-00	Inspection	290.23
2202-02-106-0-03	Divisional and District Text Book Depots	60.86
2202-02-106-0-06	Children's Literature & Competitions	20
2202-02-106-0-08	Establishment of Gulbarga Branch of Text Book Press	3.13
2202-02-109-0-01	Junior Colleges	323.84
2202-02-109-0-02	Government Higher Secondary Schools Converted into Juninor Colleges (District Sector Schemes)	12531.75
2202-02-109-0-03	High Schools (District Sector Schemes)	300
2202-02-109-0-05	Supply of Materials to Secondary Schools (B.U.)	100
2202-02-109-0-08	Additions & Alterations - Bangalolre Urban	688
2202-02-109-0-09	Secondary School Buildings (B'lore Urban)	600
2202-05-102-0-03	Appointment of Hindi Teachers in Non-Hindi Speaking Sta	250
2202-80-800-0-22	Early Childhood Education	6
2202-80-800-0-23	Computer Literacy Awareness in Secondary Schools	1500
2202-80-800-0-26	Information Technology - State Share to Computer Litrea	1500
4202-01-202-1-01	State Plan Schemes	150
4202-01-202-1-02	Construction of Office Complex and Godown	25
4202-01-203-1-01	State Plan Schemes	10
4202-02-104-1-01	State Plan Schemes	20
5. Forest		
2406-01-070-0-01	Roads and Bridges (Maintenance)	55.86
2406-01-070-0-02	Water Supply and Other Works	20.83
2406-01-070-0-03	Buildings (Maintenance)	110.74
2406-01-102-1-04	School Forestry	24.5
2406-01-102-2-05	Soil Conservation (Afforestation)	153.29
2406-01-102-2-07	Matchwood Plantations	36.94

Annexure III.5		
State Sector Schemes That Can be Transferred to Local Bodies		
Department/Code	Name of the Scheme	Outlay (Rs. Lakhs)
2406-01-102-2-11	Social Forestry Project (M.N.P) (State Sector)	300
2406-01-102-2-18	Road Side Plantation (State Sector)	5
2406-01-102-2-19	Village Forest Committees (State Sector)	2
2406-01-102-2-31	Integrated Tanks Development Project in Bangalore City	50
2406-01-102-2-32	Vana Samvardhana Yojane	300
2406-01-105-0-05	Grass & Other Minor Forest Produce	44.45
2406-01-105-0-06	Payment of sale Realization of the Felled Trees in Unredeemed Coffee Plantations in Kodagu District	0.98
2406-01-796-0-00	Tribal Area Sub- Plan	108
2406-01-800-0-01	Vanamahotsava	6.42
2406-01-800-0-05	Special Component Programme for S.Cs	335
2406-02-110-0-35	Rehabilitation of Villages of Bhadra Wild Life Sanctuary	100
2406-02-110-0-38	Tribal Development Around National Parks	100
2501-05-101-0-08	Association of ST and Rural Poor in Regeneration of Deg	30.12
4406-01-070-0-01	Communication & Roads	1
6. Health & Family Welfare		
2210-01-110-1-15	Buildings (for Health Services)	585.28
2210-01-110-1-16	Buildings (for ISM & H Dept.)	10.29
2210-01-110-1-17	Buildings (for Drugs Control Dept.)	7.2
2210-01-110-2-06	Major and District Hospitals	6034.23
2210-01-110-2-11	Establishment of Blood Banks	32.2
2210-01-110-2-16	The Bangalore Accidents Rehabilitation and Other Servie	125.22
2210-01-110-2-34	Urban Health Services Scheme	63.66
2210-01-110-2-80	Secondary Level Hospitals (KFW)	150
2210-01-110-2-82	Development of District Hospital Raichur(OPEC)	359.08
2210-01-800-0-05	EFC Grants for Establishment of Regional Diagnostic Centre	422
2210-03-110-0-01	Taluk Level General Hospitals	808.36
2210-03-110-0-04	Refurbishing Existing PHCs	40
2210-03-800-0-03	Maintenance of Dispensaries by Municipalities	12.29
2210-03-800-0-06	Incentive to SC/ST for ANMs Training Programmes	10
2210-03-800-0-08	School Helath Services	64.15
2210-04-101-1-06	Opening & Maintenance of Ayurvedic Hospitals & Dispensaries	177.77
2210-06-101-1-03	National Anti-Malaria Programme(Urban)	80
2211-00-003-0-02	Training of Auxiliary Nurses, Midwives, Dadis and Lady Health Visitors	201.6
2211-00-102-0-01	Urban Family Welfare Centres run by State Government	191.99
2211-00-103-0-10	Women Health Care	95
2211-00-103-0-11	Honararium to Anganawadi Workers	47
2211-00-103-0-72	Personal Hygiene Kits to Rural Women	95
2211-00-200-0-01	District Level Post Partum Programme	628.8
4210-01-110-1-80	Development of District Hospital, Raichur (OPEC)	100
4210-01-110-1-84	Secondary Level Hospitals	25
4210-01-110-2-80	Development of District Hospital, Raichur (OPEC)	40.92
4210-01-110-2-84	Secondary Level Hospitals (KfW)	25
4210-03-101-1-01	State Plan Schemes	70
4210-03-105-1-01	State Plan Schemes	250
4210-03-105-2-01	State Plan Schemes	45
4211-00-108-2-70	Construction	2164
7. Industries		
2851-00-102-0-13	District Industries Centres - Central Cell at Directorate	24.07
2851-00-102-0-21	District Industries Centres - D.I.C Promotional Scheme	454.73
2851-00-102-0-22	D.I.C. Promotional Scheme Including Industries (Sub-Divisional Offices) (Committed)	473.84
2851-00-102-0-48	Training of Entrepreneurs Under Prime Minister's Rozgar	200
2851-00-102-0-52	TSP Boards, Corporations & Apex Institutions	44

Annexure III.5		
State Sector Schemes That Can be Transferred to Local Bodies		
Department/Code	Name of the Scheme	Outlay (Rs. Lakhs)
2851-00-102-0-64	Establishment of Mini-tool Room	300
2851-00-102-0-65	Yashaswini - Programme for Women Entrepreneurship Devel	100
2851-00-102-0-66	<i>Kayaka Nagara</i>	100
2851-00-103-0-51	Project Package Scheme for Handloom Weavers	20
2851-00-103-0-55	Living-cum-Workshed	100
2851-00-107-1-05	Cocoon Markets and Ranges	619.22
2851-00-107-1-06	Graft Nurseries	37.18
2851-00-107-1-11	Buildings	1
2851-00-107-1-31	Introduction of Multiend Machines for Reeling	1
2851-00-108-0-02	Collective Weaving Centres	3
2851-00-108-0-03	Pre Loom Facilities	5
2851-00-108-0-09	Powerloom Complex	10
2851-00-108-0-18	Modernisation of Powerlooms	10
2852-08-202-1-01	Management	10.46
2852-08-202-1-02	Operation and Maintenance	267.73
2852-08-202-1-03	Renewals and Peplacements	0.98
2852-08-202-1-04	Machinery and Equipment	1.96
2852-08-202-1-05	Other Expenditure	27.48
2852-08-202-2-01	Management	10.64
2852-08-202-2-02	Operation and Maintenance	255.64
2852-08-202-2-03	Renewals and Replacements	9.39
2852-08-202-2-04	Other Expenditure	25.01
2852-08-202-3-01	Management	8.62
2852-08-202-3-02	Operation & Maintenance	251.05
2852-08-202-3-03	Renewals & Replacements	5.97
2852-08-202-3-04	Other Expenditure	26.71
2852-08-202-4-01	Management	4.51
2852-08-202-4-02	Operation and Maintenance	255.44
2852-08-202-4-03	Renewals & Replacements	2.55
2852-08-202-4-04	Machinery and Equipment	1.45
2852-08-202-4-05	Other Expenditure	30.65
2852-08-202-5-01	Management	5.64
2852-08-202-5-02	Operation and Maintenance	111.83
2852-08-202-5-03	Renewal and Replacement	1.03
2852-08-202-5-04	Other Expenditure	26.04
4851-00-102-0-07	Construction of DIC Quarters	50
4851-00-107-2-80	Buildings	1
6851-00-103-2-21	Project Package Scheme for Handloom Weavers	14
6851-00-108-0-02	Collective Weaving Centres	6
6851-00-108-0-03	Power Loom Facilities	8
8. Irrigation		
2701-01-315-0-01	Establishment for Collection of Water Rate--Bhadra Project	26.38
9. Labour		
2230-01-111-0-03	Asha Kiran-Welfare Schemes for Hamalis, Hawkers Etc.	4.9
2230-03-101-0-01	Industrial Training Institutes/ Centres	2751.98
2230-03-101-0-03	Apprentice Training Scheme in Industrial Training Insti	118.06
2230-03-101-0-17	Special Component Plan for Training Programme for SC/ST	80
2230-03-101-0-19	Establishment of Divisional Offices for Implementation	63.47
2230-03-101-0-20	Introduction of Production Oriented Training Scheme in I.T.I	4.9
10. Non District		
2205-00-102-1-66	District Festivals	4
2205-00-102-1-70	Special Festivals	5
2205-00-102-4-03	Assistance to District Ranga Mandiras	3
2205-00-105-0-04	District Library Authorities under Section 31 of Karnataka	31.61
2205-00-105-0-11	Development of District Central Libraries	10

Annexure III.5		
State Sector Schemes That Can be Transferred to Local Bodies		
Department/Code	Name of the Scheme	Outlay (Rs. Lakhs)
2205-00-105-0-13	Libraries in 500 Villages	50
2217-05-001-1-09	Opening of Town Planning Units	181.01
2217-80-001-4-04	Solid Waste Management	100
2217-80-001-4-07	Computerisation of Urban Local Bodies	100
2217-80-001-4-09	Mechanical Cleaning of Underground Drianages	100
2217-80-001-4-10	Bangalore Local Urban Observatory	5
2217-80-001-4-11	Urban Mapping	100
2217-80-001-5-01	Bangalore Metropolitan Task Force	50
2250-00-102-1-00	Administration of Mysore Religious and Charitibale Institutins Act 1927	56.67
2506-00-101-5-10	Computerisation of Land Records	680
2506-00-101-5-12	Computerisation of Records	254
4217-60-800-2-01	Buildings	42
4235-60-800-2-01	Construction of Rest Houses (Aramgarh)	35
11. Public Works Department		
2059-80-051-0-06	District Administration-Building	5
2059-80-051-0-14	Education-Building	8
2059-80-051-0-15	Agriculture-Building	4
2059-80-051-0-17	Medical-Building	3
2059-80-052-0-02	Repairs and Carriages	355.74
2059-80-052-0-04	Repairs & Carriages – CMO	135.24
2059-80-053-1-01	Medical-Special Repairs	128.2
2059-80-053-1-02	Education-Special Repairs	98.75
2059-80-053-2-01	Medical-Special Repairs	409.65
2059-80-053-2-02	Education-Special Repairs	355.76
2059-80-053-3-00	Travellers Bungalows-Maintenance and Repairs	553.23
2059-80-800-0-01	Travellers Bungalows - Establishment Charges - (C & B S	210.38
2059-80-800-0-05	Travellers Bungalows - Establishment Charges - (C & B N	61.48
2216-01-700-2-04	Public Works-Construction	40
2216-01-700-2-06	Education-Construction	5
2216-01-700-2-07	Medical-Construction	3
2216-01-700-3-01	Ordinary Repairs	575.82
2216-01-700-3-02	Special Repairs	196.93
3054-01-800-0-01	Surveys-Building	4.7
3054-03-102-0-01	Repairs to Bridges	530.64
3054-03-337-0-01	Ordinary Repairs of Roads	4277.37
3054-03-337-0-03	Special Repairs Roads	1807.58
3054-04-800-1-02	Repairs to Roads in Ayacut Area	1442.77
4216-01-700-2-20	Buildings Renovation Programme-Construction	100
4216-01-700-2-22	Residential Quarters in the New Districts-Construction	10
5051-80-800-0-01	Appurtenant Civil works	7
5054-03-337-0-01	Asphalting of Roads TMCA Forming Sub- Grade Repairing New Surface	15
5054-03-337-0-02	Other Road Formation	981
5054-03-337-0-07	Special Development of Roads in Assembly Constituencies	43
5054-04-337-1-03	Commemoration of 50th Anniversary of Independence - Approaches Roads to Unconnected Villags	30
5054-04-800-1-04	Development of Roads in Sugar Factory Areas	270
5054-04-800-1-05	Development of Upgraded Roads	5
5054-04-800-3-01	Rural Roads	12056
5054-04-800-3-02	Rural Bridges	2500
5054-05-337-1-01	Road Works	10
5054-05-337-2-01	Road Works	10
12. Rural development		
2215-01-001-2-01	Public Health Engineering Circles	255.93

Annexure III.5		
State Sector Schemes That Can be Transferred to Local Bodies		
Department/Code	Name of the Scheme	Outlay (Rs. Lakhs)
2215-01-001-3-01	Public Health Engineering Circles	74.14
2215-01-052-2-00	Repairs and Carriages	17.77
2215-01-102-7-81	District Project Cell	374.99
2215-01-102-7-82	Integrated Rural Water Supply & Environmental Sanitation	70
2215-01-102-9-04	Strengthening of Drilling Equipment	25
2215-02-105-4-00	Panchasutra	1000
2501-01-003-0-02	Special Scheme for Providing Employment to Rural Youths	125.48
2501-04-105-0-02	Establishment of Integrated Rural Employment Programme Centre	100
2501-05-101-0-08	Association of ST and Rural Poor in Regeneration of Deg	30.12
2501-05-101-0-09	Integrated Afforestation and Eco-Development Project Un	151.53
2575-60-265-0-01	State Legislators Local Area Development Scheme	7500
2810-01-001-0-03	Anila Yojana	700
2810-80-800-0-01	Promotion of Non-Conventional Energy Sources	65
13. Social Welfare		
2225-01-102-0-08	Special Programme for SCs including Dr. Ambedkar Centenary	9070
2225-01-102-0-09	Dr. Ambedkar Birthday Celebration	32.41
2225-01-190-2-02	Rehabilitation of Devadasis	50
2225-01-800-0-11	Observance of Untouchability Week	315
2225-01-800-0-13	Compensation to SC/ST Victims	300
2225-01-800-0-14	Dr. Ambedkar Centenary Celebrations - Sites for SC Hostels, Office Buildings	75
2225-02-277-0-27	Special Incentive to Parents of Primitive Tribal Group	5
2225-02-277-0-31	Additions & Alterations of Hostels & Ashrama Schools	8.5
2225-02-283-0-02	Construction of Houses to Scheduled Tribes	2083
2225-02-800-0-03	Sites for Hostels/Office Buildings	10
2225-03-102-2-11	Payment of Stipend to I.T.I. and Diploma Students of Minorities	12.14
2225-03-102-3-03	Post-matric Girls Hostels	35
2225-03-102-3-04	Pre-matric Girls Hostels	25
2225-03-102-3-05	Occupational Training to Minorities	20
2225-03-277-2-08	Coaching Centre for Competitive Examinations	12.56
2225-03-277-2-11	Hostels Run by Minority Organisations	66.58
2225-03-277-2-31	Improvement of Ashrama Schools/Orphanages/Teachers Training Centres	54
2225-03-277-2-32	Inspection Assistance at Taluk Level Offices	163
2225-03-277-2-33	Starting of New Post-matric Hostels	100
2225-03-277-2-36	Morarji Desai School for Minorities	80
2225-03-277-2-38	Starting of New Post-Matric Hostels for Girls	150
2225-03-277-2-42	Ashrama Schools-Revision of Boarding & Uniform Charges	3
2225-03-800-0-03	Community Irrigation/ Individual Irrigation Scheme (Backward Classes)	600
2225-03-800-0-04	Community Irrigation/Individual Irrigation Scheme (Minorities)	505
2225-03-800-0-07	Mangalya Bhagya	50
4225-01-277-2-01	Construction of Hostel Buildings	1000
4225-01-277-2-03	Construction of Hostel Buildings (State Scheme)	1540
4225-01-277-2-04	Residential Schools	100
4225-01-277-2-05	Construction of Navodaya & Morarji Desai School for SCs	100
4225-02-277-2-01	Ashramas & Hostels	44
4225-03-277-2-01	Construction of Community Hall/Shadi Mahal for Minorities	75
4225-03-277-2-03	Construction of Hostel Buildings for Minorities	40
14. Women & Child Development		
2235-02-101-0-17	Govt. Schools for Physically Handicapped	97.59
2235-02-101-0-32	Community Based and Other Rehabilitation Services	80
2235-02-101-0-35	Issue of Identity Cards to Disabled Persons	4
2235-02-101-0-36	Supply of Telephone Booth to Disabled Persons	9
2235-02-101-0-39	Job Training to Disabled Youth	2

Annexure III.5		
State Sector Schemes That Can be Transferred to Local Bodies		
Department/Code	Name of the Scheme	Outlay (Rs. Lakhs)
2235-02-101-0-45	Medical Relief for the Disabled	5
2235-02-102-0-12	Juvenile Service Bureau and Child Guidance Clinics	89.86
2235-02-103-0-01	Hostels for Working Girls	12.87
2235-02-103-0-03	Starting of Girls Hostels	30
2235-02-103-0-08	Mane-Belaku	100
2235-02-103-0-11	Rehabilitation of Devadasi Women	65
2235-02-103-0-26	Constitution of Welfare for Anganwadi Workers and Helpers	2.5
2235-02-103-0-32	Women Economic Empowerment	50
2235-02-103-0-33	Market	10
2235-02-103-0-35	Jagruthi - Scheme for Adolescent Girls	30
2235-02-103-0-38	Udyogini - Women Development Corporation	75
2235-02-106-0-01	State Homes & District Shelters for Men	28.56
2235-02-106-0-02	Borstal School, Dharwar	76.32
2235-02-106-0-03	Marriage of Institutional Inmates	0.5
2235-02-106-0-05	Buildings	50
2235-02-106-0-08	Certified Schools & Remand Homes	598.12
2235-02-106-0-12	Cell for Enforcement of Eradication of Social Evils	12.81
2235-60-200-2-01	Establishment Charges	97.53
4235-02-101-1-01	State Plan Scheme	50
4235-02-106-1-01	State Plan Scheme	160
15. Youth		
2204-00-001-1-02	Divisional & District Level	73.09
2204-00-101-0-02	Nationalised Physical Education Institution, Chickaballapura	11.88
2204-00-103-0-10	Maintenance of Youth Hostels at Jog & Kumbalgod	5.44
2204-00-103-0-15	Development of Vidyanagar Campus	23
2204-00-103-0-18	In House Activities at State Youth Centre	10
2204-00-104-0-08	Conduct of Training Programmes	14.78
2204-00-104-0-12	Maintenance of Stadia	36.92
2204-00-104-0-17	Sports Schools, Sports Hostels and Division	79.99
2204-00-104-0-28	Chamundi Vihar Swimming Pool at Mysore	5
2204-00-800-0-07	Youth Hostels	3.64
2204-00-800-0-09	Other Development Schemes	15
Total: Outlay that may be transferred to local bodies		115516.52
Centrally Sponsored Schemes - Pass through to Local Bodies		70381.20
Allocation to State Plan Schemes included in the Link Document		459066.49
Schemes That May Be Retained By the State Government		562301.8
Transfer Payments to Individuals		19405.3
Grants to institutions		615324.23
Total		1841995.5

Annexure III.6

Fiscal Autonomy in Rural Local Bodies in Karnataka: Composition of Outlay

Sr. No	Local Body/Name of the Scheme	Salary	Grant in Aid	Transfers	Other Scheme Based	Others	Total
I	I. Gram Panchayat						
IA	Central Schemes						
1	Maintenance of Piped water Supply Schemes				1419.06	0.00	1419.06
2	Maintenance of Mini-Water Supply Scheme				1200.32	0.00	1200.32
3	Jawahar Grama Samruddi Yojana (JGSY)				8788.23	0.00	8788.23
4	Others			7.22		0.00	7.22
	Total IA: Central Schemes			7.22	11407.61	0.00	11414.83
IB	State Schemes						
1	Grants to Grama Panchayats					11318.00	11318.00
2	Development Grants to Grama Panchayat				8488.5	0.00	8488.50
	Total - State Schemes				8488.5	11318.00	19806.50
	Total: Gram Panchayat	0.00	0.00	7.22	19896.11	11318.00	31221.33
II	Taluk Panchayat						
IIA	Central Schemes						
1	Central Plan Scheme of Operation Black Board	13745.51				0.00	13745.51
2	CSS of Integrated Child Development Service	8949.46				0.00	8949.46
3	Indira Awas Yojana			7866.07		0.00	7866.07
4	Lump sum Grants- Special component Plan			1100.07		0.00	1100.07
5	Post-Matric Scholarship to Schedule Castes			1074		0.00	1074.00
6	Lump sum Grants - Tribal sub plan			1030.78		0.00	1030.78
7	Others	0.00	0.00	1516.33	0.00	0.00	1516.33
	Total IIA: Central Schemes	22694.97	0.00	12587.25	0.00	0.00	35282.22
IIB	State Schemes						
1	Primary Schools	17447.82				0.00	17447.82
2	Pre-school Children Feeding Program (MNP)			4826		0.00	4826.00
3	High Schools	4000.88				0.00	4000.88
4	Opening of Rural Vet. Dispensaries and their Upgradation as Taluk Level Dispensaries	1722.42				0.00	1722.42
5	Taluk Panchayat Grants	1291.8				0.00	1291.80
6	Pre-matric Hostels	377.28		880.33		0.00	1257.61
7	SGSY Monitoring cell –Block Assistance to Zp's & Gp's	962.94				0.00	962.94
8	Roads and Bridges				879.3	0.00	879.30

Annexure III.6

Fiscal Autonomy in Rural Local Bodies in Karnataka: Composition of Outlay

Sr. No	Local Body/Name of the Scheme	Salary	Grant in Aid	Transfers	Other Scheme Based	Others	Total
9	Maintenance of Borewells				820.62	0.00	820.62
10	Elementary Schools GIA		779.33			0.00	779.33
11	Rural Water Supply – Mini Water Supply				726.43	0.00	726.43
12	Development Grants to Taluk Panchayat				700	0.00	700.00
13	Scholarships to Students of I to IV Stds.			638.81		0.00	638.81
14	Others	920.919	2.7	3670.71	3729.97	0.00	8324.30
	Total IIB: State schemes	26724.059	782.03	10015.851	6856.32	0	44378.26
	Total IIA+IIB -Plan schemes: Taluk Panchayat	49419.03	782.03	22603.10	6856.32	0.00	79660.48
IIC	Non-plan Schemes						
1	Govt Primary school	112583.82				151.31	112735.13
2	High schools	23854.18				53.92	23908.10
3	Assistance to non-govt Elementry schools		15293.98			0.00	15293.98
4	pre-school feeding programme			6524.95		0.00	6524.95
5	Local body sec school taken over by Govt	4490.19				25.43	4515.62
6	Agriculture dept Taluk establishment	4038				110.72	4148.72
7	Welfare of SC-Pre-matric hostels	1517.61		1971.83		0.00	3489.44
8	Panchayat raj-Pay and allowances	3032.5				285.35	3317.85
9	Inspection	2734.66				43.20	2777.86
10	Opening of rural veterinary dispensaries and their upgradation as taluk level dispensaries	2316.31				4.56	2320.87
11	Salaries and allowances of GP secretaries and TP EOs	1841.58				3.66	1845.24
12	Soil conservation on watershed basis	1181.28				27.87	1209.15
13	Establishment of new sub-centres(MNP)	821.75				9.03	830.78
14	Welfare of SC-Nursery cum women welfare centres	482.31		73.39		0.00	555.70
15	Assistance to non-govt pre- elementry school		512.48			0.00	512.48
16	Others	1249.44	133.6	1375.04	795.51	70.70	3624.29
	Total II.C: Non-plan schemes	160143.63	15940.06	9945.21	795.51	785.75	187610.16
	Total II: Taluk Panchayat	209562.66	16722.09	32548.31	7651.83	785.75	267270.64
III	Zilla Panchayat						
IIIA	Plan schemes: Central						
1	Employment Assurance Scheme/ SGRY				6129.61	0.00	6129.61
2	Piped Water Supply Scheme (ARWS)				4074.5	0.00	4074.50

Annexure III.6

Fiscal Autonomy in Rural Local Bodies in Karnataka: Composition of Outlay

Sr. No	Local Body/Name of the Scheme	Salary	Grant in Aid	Transfers	Other Scheme Based	Others	Total
3	Swarna Jayanthi Gram Swarozgar Yojana				3444.71	0.00	3444.71
4	Rural Family Welfare Centres at PHCs	3333.28				5.10	3338.38
5	Rural Sub-Centres (Opened under Family Welfare)	2747.76				0.00	2747.76
6	DPAP (50:50)				2646	0.00	2646.00
7	Integrated Development of Western Ghat Region (100% Centre)			1615.18		0.00	1615.18
8	DRDA Administration Charges	1559.02				0.00	1559.02
9	Mini Water Supply Scheme – Normal				1364.78	0.00	1364.78
10	DDP (25:75)				1217.92	0.00	1217.92
11	Borewells with Hand Pumps – Normal				1015.01	0.00	1015.01
12	District Family Welfare Bureau	997.75				0.00	997.75
13	I.U.D. Vasectomy & Tubectomy			961.91		0.00	961.91
14	Rural Sanitation			927.50		0.00	927.50
15	Mini Water Supply Schemes – SCP				868.84	0.00	868.84
16	Oil Seeds Production Programme			838.00		0.00	838.00
17	District Level Post-Partum Programme	824				0.00	824.00
18	Borewells (HPS) – SCP				596.65	0.00	596.65
19	Others	499.99		646.43	846.34	0.10	1992.86
	Total II.A:Central plan schemes	9961.8		4989.02	22204.36	5.20	37160.38
IIB	Plan Schemes: State						
1	Grants to Panchayat Raj Institutions under EFC Recommendations				7882	0.00	7882.00
2	Piped Water Supply Scheme				2318.69	0.00	2318.69
3	Payment of Additional Honorarium to Anganwadi Workers	147.009		1631.44		0.00	1778.45
4	Forestry & Environment Project for Eastern Plains-OECF	1486.63				0.00	1486.63
5	Primary Health Centres (GOI Pattern)(MNP)	1284.35				0.00	1284.35
6	Private High Schools Completing 7 years of Existence GIA	1199.46				0.00	1199.46
7	Prematric Hostels	280.752		655.09		0.00	935.84
8	Construction of New Bridges and Culverts and Improvements to existing roads				782.89	0.00	782.89
9	Mini Water Supply Scheme – Normal				777.42	0.00	777.42
10	Asphalting of Roads Treating Sub Grade and Preparing the Surface				713.25	0.00	713.25

Annexure III.6

Fiscal Autonomy in Rural Local Bodies in Karnataka: Composition of Outlay

Sr. No	Local Body/Name of the Scheme	Salary	Grant in Aid	Transfers	Other Scheme Based	Others	Total
11	Piped water Supply Schemes Augmentation				658.47	0.00	658.47
12	Piped Water Supply Scheme Revival				572.36	0.00	572.36
13	Others	3475.001	185.17	1501.86	9404.29	438.28	15004.61
	Total III B: State Plan Schemes	7873.20	185.17	3788.39	23109.37	438.28	35394.42
	Toal IIIA+IIIB - Plan Schemes	17835.00	185.17	8777.41	45313.73	443.48	72554.80
IIIC	Non-Plan Schemes						
17	Maintenance and GIA to Non-govt secondary school		37974.58			0.00	37974.58
18	Direction and Administration ZP Establishment Charges	7331.63				154.32	7485.95
19	Primary health centres-GOI pattern	7211.26				94.95	7306.21
20	Veternary hospitals and dispensaries	3219.1				54.09	3273.19
21	Other roads-renewals				3068.97	0.00	3068.97
22	Welfare of other BC-maintenance of pre-matric hostels for boys and girls	1331.99		1733.02		0.00	3065.01
23	Medical sub centres - primary health centres	2562.49				5.67	2568.16
24	zilla panchayat maintenance grant	1321.25				1013.04	2334.29
25	Appointment of School Mothers	2270.37				2.85	2273.22
26	Other roads-ordinary repairs				2232.32	0.00	2232.32
27	Agricultural Extension project	2004.28				85.17	2089.45
28	Horticultural dept Executive Establishment	1394.13				181.15	1575.28
29	Welfare of SC-Postmetric scholarships on the basis of 84-85 expenditure			1573.43		0.00	1573.43
30	Taking over of Taluk devt board dispensaries	1417.99				58.80	1476.79
31	Secondary Education Inspection	1374.94				55.35	1430.29
32	Primary health units of Mysore type	1262.96				53.86	1316.82
33	Watershed development	1262.24				30.33	1292.57
34	Local fund combined hospitals and dispensaries	1107.95				38.45	1146.40
35	sericulture - Technical service centre	1110.97				12.48	1123.45
36	Other roads-special repairs				982.22	0.00	982.22
37	Drugs and chemicals				963.74	0.00	963.74
38	Upgradation of PHC - community health centres	819.07				1.84	820.91
39	Taluk level general hospitals	790.56				3.42	793.98
40	Welfare of SC - Executive establishment	719.31				60.28	779.59
41	Sericulture - Super Numerary staff	699.73				0.00	699.73

Annexure III.6

Fiscal Autonomy in Rural Local Bodies in Karnataka: Composition of Outlay

Sr. No	Local Body/Name of the Scheme	Salary	Grant in Aid	Transfers	Other Scheme Based	Others	Total
42	Appointment of hindi teachers in non hindi speaking states	674.61				0.00	674.61
43	Other govt hospitals and dispensaries	607.46				35.76	643.22
44	Welfare of other BC-concession of fees			587.22		0.00	587.22
45	population centres	517.02				46.51	563.53
46	Fisheries dept- Divisional establishment	529.74				18.10	547.84
47	Leprosy control scheme(CSS)	524.63				2.72	527.35
48	Other roads-repairs to bridges				517.51	0.00	517.51
49	Welfare of SC-Residential schools	278.67		227.97		0.00	506.64
50	Maintenance and Repairs - Ordinary Repairs				506.03	0.00	506.03
51	Others	10897.54	440.54	1846.21	3180.54	698.56	17063.39
	Total IIIC: Non-Plan Schemes	42344.35	37974.58	4121.64	8270.79	2009.14	94720.50
	Total III: Zilla Panchayat	60179.35	38159.75	12899.05	53584.52	2452.62	167275.30
	Total : I+II+III (Rural Local Bodies)	269742.01	54881.84	45454.58	81132.46	14556.37	465767.27

Source: Link Document, RDPR, Government of Karnataka

Chapter IV

Analysis of Panchayat Revenues: Level, Composition and Determinants

IV.1 Introduction

A critical element of fiscal decentralisation is the assignment of revenue powers. Tax assignment to subnational governments should be distinguished from revenue assignment. While the former refers to the transfer of tax bases or assignment of the *power* to tax, the latter implies transfer of revenues to subnational governments. When revenue powers are assigned, the local governments are enabled to exercise the choice of public service – tax mix in conformity with the preferences of their electorate. Potential welfare gains from decentralisation is realised as people are enabled to exercise their choice for public service – tax mix through either exit (Tiebout, 1956) and/or voice (Breton, 1974, Olson, 1967, Oates, 1969). Of course, it is not possible to perfectly match devolution of revenue powers with that of expenditures in any scheme of fiscal devolution, and the entire theory of fiscal federalism deals with the subjects of offsetting externalities arising from imperfect mapping of expenditure and revenue functions, and filling the gap between revenue and expenditure powers (Oates, 1972, 1999).

Assignment of revenue powers provides fiscal autonomy to local governments to exercise choices of public services for their voters. As it helps to link revenue expenditure decisions at the margin and strengthens the “Wicksellian link”, it ensures greater efficiency in the provision of public services (Bird, 2002, Breton, 1995). It also gives a sense of ownership to the services provided and therefore, ensures greater accountability of the officials and elected representatives in designing and implementing policies on the provision of public services to taxpayer-voters.

The relationship of local government tax assignment with fiscal accountability may be elaborated further. An important implementation rule of fiscal decentralisation is that the local governments should have taxing powers. As argued by Bahl (2002), voters will hold both local politicians and bureaucrats more accountable, if public services are financed to a large extent by taxing their own residents. The tax burden on local voters should be large enough to make them demand accountability. Another important rule of fiscal decentralisation is the need to have a hard budget constraint at the local level, that is, the local

governments are required to balance their budgets and can not depend on central bail outs in the form of additional grants or loans. To live with the requirement of a hard budget constraint, local governments must have independent taxing powers.

Which taxes should be assigned to local governments? In assigning revenue sources, there is a serious trade off between the objectives of achieving fiscal autonomy and harmony in the tax systems among subnational governments. It is very well recognized that mobility of tax bases across different subnational jurisdictions creates comparative disadvantage to local governments in raising revenues. Therefore, local governments should be empowered to finance their public services from taxes borne by the local residents (Bird, 2002). Thus, local governments should be assigned power to tax mainly the bases that are relatively less mobile (Musgrave, 1983, Bird, 2002).

The two most important considerations in assigning revenue powers are: (i) the local governments should have revenue powers that enable them to finance a significant proportion of the cost of the public services that they provide (ii) The burden of raising revenues for financing public services by local governments should fall on the residents who are the beneficiaries of these public services.

This chapter examines decentralisation of revenue powers to rural local governments in Karnataka. It analyses the adequacy of revenue powers given to the three levels of Panchayats and the extent to which they have exploited these powers. Given that only GPs have any notable tax powers, the chapter also analyses the factors determining the variations in revenues among the GPs in the State. While the general analysis of panchayat finances is carried out for panchayats in all the districts of the state for the year 2000-01, more detailed analysis is carried out for the panchayats in the Four districts of Bagalkot, Bidar, Mandya and Udupi. The chapter begins with the description of revenue powers of the three levels of panchayats according to the Karnataka Panchayat Act, 1993. It then examines the level and composition of revenues of panchayats. This is followed by the analysis of the determinants of revenues of GPs in the four districts. From the determinants analysis, an attempt has been made to estimate the tax effort differences among GPs. The chapter also examines the cost of tax collection to analyse collection efficiency. The last section brings together the findings of the revenue assignment and highlights important policy recommendations to reform the revenue assignment system.

IV.2 Revenue Powers of Panchayats

The Karnataka Panchayat Act, 1993 specifies own revenue sources of the three levels of Panchayats in the State. According to the Act, only GPs have the powers to raise revenue from taxes and neither the TPs nor ZPs have independent tax powers. The ZPs and TPs have to depend upon the transfers made from the Central and State governments.

The own revenues of ZPs and TPs are minor; they consist of fees charged by them, gifts and contributions received by them, rents charged on the shops, establishments and buildings rented by them and sale proceeds of movable and immovable properties owned by them. The ZPs too do not have significant own sources of revenue. In the main, these consist of fees and penalties levied by ZPs, rent from land and other properties let out by ZPs, interests and profits of ZPs, gifts and contributions made to ZPs and revenue from sale proceeds of land and other properties of ZPs.

Under clause 199 of the Karnataka Panchayat Act, 1993, the GPs can levy tax on land and buildings within the limits of their respective geographical area that are not subject to agricultural assessment. This levy is subject to the exemptions and maximum rate specified by the State government. In addition GPs may also levy water rate for the supply of water for drinking and other purposes. The Act also specifies some other taxes to be levied subject to the exemptions and maximum rates prescribed by the State government. These are: (i) tax on entertainment other than cinematograph shows; (ii) taxes on vehicles other than motor vehicles; (iii) taxes on advertisements and hoarding; (iv) pilgrim fees on persons attending jatras, festivals etc., when GPs make arrangement for water supply, health and sanitation; (v) market fee; (vi) fees on the registration of cattle brought for sale in the market (vii) fees on buses and taxies and auto-stands provided the GP, and (viii) fee on grazing cattle in the grazing lands.

IV.2.1 Assigned taxes

The Act also provides that taxes, rates or fees payable by the owners of any factory or industry established in any Panchayat area may be compounded into an annual lump sum payment as agreed upon by the owner and the GP. If such an agreement is not possible, the concerned ZP, after hearing both the GP and the owner of the factory, may determine the lump sum payable and this will be binding on the GP and the owner of the factory.

Collection of taxes, fees or other revenues may be done by the GP or any agency entrusted with the task by the GP.

In addition to these, the State government may levy a cess equivalent to the rate of land revenue on all items of land revenue, and the proceeds will be passed on to the GPs in the respective areas. Similarly, the State government may levy additional stamp duty imposed by the Karnataka Stamp Act, 1957 on the transfer of immovable property at a rate not exceeding 3 per cent on the market value of property, and in the case of lease, the value of rent for 10 years. The proceeds of the additional stamp duty will be transferred to the TPs based on the collections in their respective jurisdictions.

IV.2.2 Revenues of panchayats

Table IV.1 presents revenue receipts of the three levels of panchayats in Karnataka for 2000-01. As already mentioned, both TPs and ZPs do not have tax powers. They can and in fact do, raise some revenue from rents on properties let out, but the amount is negligible. Thus, while TPs and ZPs have the powers to exercise supervisory roles in many administrative and political spheres, they are merely deconcentrated entities as far as fiscal decentralisation is concerned. They merely implement the schemes and programs designed by the central and state governments. Only GPs can levy taxes and have command over some untied resources, and in this sense are the only meaningful units of local government as far as fiscal decentralisation is concerned. The question however is, whether the tax power assigned to GPs is adequate so that they can satisfactorily carry out the functions assigned to them and provide standards of public services as preferred by the electorate. An equally important issue is whether the GPs have utilised the tax powers assigned to them to raise the required revenues to finance public services.

Analysis of the total revenues received by the three tiers of panchayats shows that the fiscal role of GPs in terms of both revenues raised and expenditures incurred is insignificant. Of the total revenue accruals, the share of GPs is just about 5.6 per cent and in contrast, TPs and ZPs claimed 54 per cent and 40 per cent of total revenues accruing to panchayats (Table IV. 1). The pattern is broadly similar in the four districts. In 2001-02, the share of GPs varied from 4.2 per cent in Bidar to 8.1 per cent in Udupi. In all the four districts, TPs had the highest share ranging from 58 per cent in Bidar to 51 per cent in Bagalkot. Thus, interestingly, GPs are the only panchayat tier with any independent revenue source, and

despite this, it plays insignificant role in providing public services. Thus, though GP is the only meaningful tier of fiscal decentralisation, its role is negligible in the overall fiscal system.

The insignificant role of the GPs in providing services is seen by the fact that total revenues accruing to GPs, including transfers from the Centre and States in 2000-01, constituted less than 0.4 per cent of Gross District Domestic Product (GDDP). In per capita terms, it was just about Rs. 75 or Rs. 6.2 per capita per month (Annexure IV. 1). Although this was higher than the previous year's per capita revenue accrual by Rs. 17 or about by 0.1 per cent of DDP, it would be well nigh impossible to provide any worthwhile local public services with the resources in the hands of the panchayats.

Table IV. 1
Total Revenues in Different Panchayat Tiers in Karnataka – 2000-01

	Per Capita Revenue (Rs)	Percent of GDDP	Percent of Total
Bagalkot			
Grama Panchayat	77.11	0.32	5.49
Taluk Panchayat	719.26	2.97	51.23
Zilla Panchayat	607.59	2.51	43.28
Total	1403.97	5.81	100.00
Bidar			
Grama Panchayat	56.97	0.36	4.16
Taluk Panchayat	799.36	5.10	58.38
Zilla Panchayat	512.84	3.27	37.46
Total	1369.16	8.73	100.00
Mandya			
Grama Panchayat	73.39	0.37	5.51
Taluk Panchayat	702.01	3.70	52.75
Zilla Panchayat	555.38	2.92	41.73
Total	1330.78	6.99	100.00
Udupi			
Grama Panchayat	93.74	0.40	8.07
Taluk Panchayat	647.52	2.76	55.75
Zilla Panchayat	420.23	1.79	36.18
Total	1161.48	4.95	100.00
Four Districts			
Grama Panchayat	74.59	0.36	5.64
Taluk Panchayat	717.88	3.52	54.28
Zilla Panchayat	530.13	2.60	40.08
Total	1322.60	6.49	100.00

Note: GDDP = Gross district domestic Product.

Total Revenue Excludes Opening Balance

Source: Respective Panchayats.

There are significant differences in per capita revenues accruing to GPs within each of the four districts under study, and even more variation between different taluks within each district (Annexure IV.2). In 2000-01, per capita GP revenue in Udupi was the highest at Rs 94 and with Rs. 57 it was the lowest in Bidar. In terms of percentage of GDDP, the average GP revenue accrual in Mandya and Udupi was 0.37 and 0.40 whereas it was 0.32 in Bagalkot. Within the districts, the GP revenue accrual was the highest in Udupi taluk (Rs.105) in Udupi district and the lowest in Bidar taluk (Rs.47) in Bidar District (Annexure III.2). In fact, the revenue accruing to GPs (including opening balance) was less than Rs. 80 in 10 of the 21 taluks and more than Rs. 100 only in four taluks.

As mentioned earlier, only the GPs have own sources of revenue. However, the share of own revenue in total revenue declined from about 29 per cent in 1999-2000 to 22 per cent in 2000-01 (Table IV.4). Their own revenues constituted less than 0.10 per cent of GDDP except in Udupi. By any standard, the revenue raised by the GPs is abysmally low and clearly, is a major factor hindering them from taking a meaningful role in public service provision. In any scheme of achieving a meaningful fiscal role of GPs, augmentation of revenues from their own sources is critical. The main reason for low revenue collection by GPs has to be found in the fact that broad-based taxes are not assigned to them. At the same time, the only important tax (property tax), assigned to them suffers from weaknesses of under valuation, poor administrative capacity and weak collection effort. Unless concerted effort is made in this area, not only will it not be possible to provide satisfactory standards of local public services in rural areas, but also the role of decentralised units will remain as implementing agencies. Successful fiscal decentralisation hinges critically on the measures taken to augment the own revenues of the GPs.

Table IV. 2: Level of Revenues in Gram Panchayats

District	Per capita Revenues					Percent to GDDP				
	Opening Balance	Own Revenue	Transfers	Total Revenue (excl OB)	Total Revenue (incl OB)	Opening Balance	Own Revenue	Transfers	Total Revenue (excl OB)	Total Revenue (incl OB)
1999-00										
Bagalkot	9.59	12.16	39.56	51.72	61.31	0.043	0.055	0.178	0.232	0.275
Bidar	5.29	8.17	42.97	51.15	56.44	0.036	0.056	0.296	0.352	0.389
Mandya	4.68	17.86	37.67	55.52	60.20	0.027	0.104	0.219	0.323	0.350
Udupi	22.07	27.98	37.59	65.57	87.64	0.102	0.129	0.174	0.303	0.405
Four Districts	9.54	16.30	39.34	55.64	65.18	0.051	0.087	0.210	0.298	0.349
2000-01										
Bagalkot	11.90	13.11	64.00	77.11	89.01	0.049	0.055	0.266	0.321	0.370
Bidar	5.02	6.43	50.54	56.97	61.98	0.032	0.041	0.322	0.363	0.395
Mandya	10.32	16.23	53.34	69.57	79.89	0.055	0.087	0.285	0.372	0.427
Udupi	19.57	31.08	62.66	93.74	113.30	0.083	0.133	0.267	0.400	0.483
Four Districts	11.34	16.22	57.14	73.36	84.70	0.056	0.080	0.282	0.362	0.418

IV.3 Level and Composition of Revenues of GPs

The level and composition of revenues of the GPs is presented in Table IV.3. In absolute terms, the revenues collected by GPs at the average of Rs. 16.2 per capita or 0.080 per cent of GDDP is abysmal. The fact that this constituted 22 per cent of total GP revenue in 2000-01 reinforces the point made earlier that the GP is the only meaningful fiscally decentralised unit, but its overall role in providing public services is negligible. Note also that the share of own revenues of the GPs in the four districts declined by seven percentage between 1999-2000 and 2000-01.. This is not because own revenues showed a decline but because transfers increased during the year as the arrears of last instalment of Statutory Grants from the State for the year 1999-00 and Central Finance Commission grants for the years 1998-99 and 1999-00 were disbursed and accounted for in the year 2000-01. Thus, although own revenues expressed in per capita terms or expressed as a percent of GDDP increased in 2000-01 over the previous year, the proportion of own revenues in total revenues of the GPs showed a significant decline.

There are variations in this performance between districts and even within districts, between different taluks (Annexure IV.2) and between different panchayats within the taluks. In general, GPs in Udupi district had the highest own revenues both in per capita terms and as a ratio of their respective total revenues. In 2000-01, GPs in Udupi district on an average raised Rs. 31 as compared to the four-district average of Rs. 16.22 and Rs. 6.4 in Bidar. In terms of shares in total revenues, own revenue in Udupi constituted 33 per cent as compared to the average of 22 per cent in the four districts and 12 per cent in Bidar, the district with

lowest share. However, even in the most developed district in the sample, Udupi, own revenues collected in 2000-01 was only about Rs. 31 or 0.13 per cent of GDDP. In other words, there is considerable scope for raising revenues from property tax by GPs even in the most developed and best performing districts.

The low per capita revenue collection is not merely an average phenomenon; in fact, the majority of the GPs had very low revenue collections. In the four districts, almost 42 per cent of the GPs raised less than Rs. 10 per capita and 85 per cent of the GPs had less than Rs. 25 in 2000-01 (Table IV.4). In Bidar, the poorest district, 86 per cent of the GPs had per capita revenues less than Rs. 10. The pattern is broadly similar in Bagalkot and Mandya districts as well though in Udupi, less than 12 per cent of the GPs had less than Rs. 10 in per capita revenues. On the other hand, on an average, only 3.7 per cent of the GPs in the four districts had per capita revenue more than Rs. 50. In Bidar, no GP had revenues of Rs. 50 or more and in Bagalkot it was 1.8 per cent.

IV.3.1 Property tax

The most important source of revenue of the GPs is the property tax, which is basically the tax on buildings and lands that are not subject to agricultural assessment located within the panchayat area. The revenue from this source in both 1999-2000 and 2000-01 constituted nearly one half of total revenue raised by the GPs (Table IV. 3). However, in per capita terms, this amounted to a meagre Rs. 8 in 2000-01 and showed a marginal decline from the previous year. The share of property tax in the own revenues was the lowest in Mandya (40 per cent) and the highest in Bidar (81 per cent) with Bagalkot and Udupi collecting 62 percent and 42 percent respectively. Together with water charges, on average, property taxes accounted for 56 per cent of own revenues. In Bidar the two sources accounted for more than 87 per cent of the revenue collection. Another source of revenue in some GPs is income from rents on the properties let out. On average, this constituted 11 per cent of GP's revenue collections. While in Udupi, this source contributed almost a quarter of GP's revenues; in Bidar this was negligible at 1.2. The pattern of revenues in the four districts shows that generally, in the more developed districts, the proportion of property tax is lower and this shows availability of other revenue handles. In the less developed districts, own resources for the GPs have to come mainly from property taxes

Although property tax is the predominant source of revenues of GPs, the average property tax effort appears to be weak. Per capita collections were the lowest in Bidar (Rs. 5.2) and the highest in Udupi (Rs. 13) with Mandya and Bagalkot collecting Rs. 6.5 and Rs. 8 respectively. Average Property tax collections in different Taluks (Table IV.3) shows that the highest collection was in Udupi (Rs. 17) and the lowest was in Aurad (Rs. 4.2) in Bidar district. Most of the taluks had less than rs. 10 per capita property tax collections in all the districts except udupi.

As in the case of total own revenues, the majority of the GPs collected very low revenue from property tax (Table IV.3). Almost 80 per cent of GPs had property tax collections less than Rs. 10 in the four districts taken together. In Bidar and Mandya, over 90 per cent of the GPs had property tax collections less than Rs. 10. The fact that in Bidar district, the proportion of property tax in the own revenues of the GPs was the highest among the four districts analysed, shows the poor revenue collection in this district. At the same time, in Mandya more than 90 per cent of the GPs had less than Rs. 10 of property tax collections. In Udupi too, 56 per cent of GPs had less than Rs. 10 per capita property tax collection.

By and large, it is seen that amount of property tax collected by GPs is lower in poorer districts. The average property tax collection per capita is the highest in Udupi, the most affluent district and the lowest in Bidar, the poorest (Table IV.3). However, in terms of percentage to own revenues collected, the property tax makes the highest contribution in the poorest district. This, as already noted, is explained by the fact that GPs in less developed districts do not have other revenue handles. As these are not urbanised, and the market activities are at a low level, GPs in less developed districts can not raise much revenues from licence fees and rents.

Table IV. 3
Level and Composition of Revenues of Gram Panchayats

District	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya	Udupi	Four Districts
	1999-00					2000-01				
Per capita Revenues										
Property Tax	7.62	7.05	7.55	11.29	8.21	8.08	5.22	6.46	12.96	7.88
Licence Fee	1.01	0.15	1.75	4.25	1.71	1.15	0.18	1.9	4.5	1.85
Water Charges	1.44	0.38	2.48	0.28	1.29	1.65	0.35	2.1	0.25	1.2
Rents	0.51	0.08	0.43	6.62	1.63	0.5	0.08	0.42	7.76	1.86
Other Revenue	1.58	0.52	5.65	5.53	3.45	1.73	0.6	5.35	5.61	3.43
Own Revenue	12.16	8.17	17.86	27.98	16.3	13.11	6.43	16.23	31.08	16.22
Share of Revenues in Own Revenue										
Property Tax	62.66	86.22	42.27	40.36	50.38	61.62	81.23	39.8	41.69	48.6
Licence Fee	8.27	1.89	9.79	15.19	10.48	8.74	2.76	11.7	14.49	11.39
Water Charges	11.89	4.61	13.9	1.02	7.94	12.62	5.42	12.91	0.8	7.42
Rents	4.21	0.97	2.42	23.66	10	3.84	1.21	2.61	24.97	11.46
Other Revenue	12.98	6.31	31.63	19.78	21.2	13.19	9.38	32.98	18.06	21.13
Own Revenue	100	100	100	100	100	100	100	100	100	100
Share of Own Revenue in Total Revenue	23.51	15.98	32.16	42.67	29.29	17.01	11.28	23.33	33.16	22.11
Share in GDDP										
Property Tax	0.034	0.049	0.044	0.052	0.044	0.034	0.033	0.035	0.055	0.039
Licence Fee	0.005	0.001	0.010	0.020	0.009	0.005	0.001	0.010	0.019	0.009
Water Charges	0.006	0.003	0.014	0.001	0.007	0.007	0.002	0.011	0.001	0.006
Rents	0.002	0.001	0.003	0.031	0.009	0.002	0.000	0.002	0.033	0.009
Other Revenue	0.007	0.004	0.033	0.026	0.018	0.007	0.004	0.029	0.024	0.017
Own Revenue	0.055	0.056	0.104	0.129	0.087	0.055	0.041	0.087	0.133	0.080
Total Revenue	0.232	0.352	0.323	0.303	0.298	0.321	0.363	0.372	0.400	0.362

In spite of low revenue collection from property tax, this is the only major tax handle with the GPs and not surprisingly, constitutes an overwhelming proportion of their own revenues. The predominance of property taxes in the GP's own revenues is clearly seen from the frequency distribution of GPs in regard to the share of property tax collected by them (Table IV.4). On average, in the four districts, almost 66 per cent of the Panchayats collected more than 50 per cent of their revenues from property tax and only 10 per cent of the panchayats collected less than 30 per cent. The proportion of property tax collected was particularly high in less developed districts of Bidar, Bagalkot and Mandya. In Bidar, and Bagalkot over 80 per cent of the GPs had more than 50 per cent share of property tax in own revenues and the corresponding percentage for Mandya district was 42 per cent. In contrast, in Udupi, the share was 44 per cent. This implies that, in more developed districts, higher revenue collections do not come from property tax, but from other sources, mainly rental revenue from property let out. The level of property tax in more developed district is not appreciably higher, either in absolute (per capita) terms and as a ratio of own revenues. It seems, existence of other sources of revenue obviates the need to increase collections from

property tax. It is possible that the existence of more diversified revenue sources, particularly revenue from rents on the property let out, removes some pressure on the GPs to raise revenues from property taxes.

Thus, property tax is the only major source of revenue to GPs. However, the average amount of tax collected from this source is very small, and there are wide variations among panchayats in the collection of the tax. Variations are still higher in the collection of user charges. Other revenues consist of mainly rents from shops and establishments let out by the GPs. This is an important revenue source in Udupi, perhaps due to higher degree of urbanisation and greater proximity/connectivity of panchayats to urban centres.

Considering the fact that property tax is the only major source of revenue to panchayats, augmenting revenues from this tax is critical to fiscal decentralisation and to ensure a meaningful fiscal role for GPs in Karnataka. Reforming the structure and operation of the property tax in itself is a major reform agenda and we will only make some broad references to this later in this report. Equally important is the issue of collecting user charges on the water supplied to households. Unless proper user charges are levied, efficient operation of water supply will suffer for want of proper maintenance.

Table IV. 4**Percentage of tax revenues in own revenues – Frequency distribution of GPs 2000-01**

	Per Capita Revenue (Rupees)	Property Tax	Licence Fee	Water Rates	Rents	Other Own Revenue	Total Own Revenue
Four Districts	Less Than Rs. 10	79.60	98.02	99.29	96.46	92.21	42.21
	10 - 25	17.56	1.70	0.57	2.12	6.37	43.77
	25 - 50	2.55	0.28	0.14	0.99	0.85	10.34
	Above 50	0.28	0.00	0.00	0.42	0.57	3.68
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	7.88	1.85	1.20	1.86	3.43	16.22
	Minimum	0.39	0.01	0.01	0.03	0.00	0.50
	Maximum	70.81	29.06	33.79	63.07	68.02	160.26
Bagalkot	Less Than Rs. 10	71.78	98.77	100.00	99.39	96.32	39.88
	10 - 25	28.22	0.61	0.00	0.61	3.07	53.37
	25 - 50	0.00	0.61	0.00	0.00	0.00	4.91
	Above 50	0.00	0.00	0.00	0.00	0.61	1.84
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	8.08	1.15	1.65	0.50	1.73	13.11
	Minimum	0.39	0.01	0.13	0.03	0.00	0.70
	Maximum	23.81	27.41	9.10	14.80	68.02	79.72
Bidar	Less Than Rs. 10	92.94	99.41	100.00	100.00	97.65	86.47
	10 - 25	6.47	0.59	0.00	0.00	2.35	12.35
	25 - 50	0.59	0.00	0.00	0.00	0.00	1.18
	Above 50	0.00	0.00	0.00	0.00	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	5.22	0.18	0.35	0.08	0.60	6.43
	Minimum	0.50	0.09	0.03	0.49	0.05	0.50
	Maximum	25.70	13.35	8.92	2.76	20.62	44.54
Mandya	Less Than Rs. 10	90.31	99.12	97.80	99.12	88.55	30.40
	10 - 25	8.37	0.88	1.76	0.88	10.13	55.95
	25 - 50	1.32	0.00	0.44	0.00	0.44	10.13
	Above 50	0.00	0.00	0.00	0.00	0.88	3.52
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	6.46	1.90	2.10	0.42	5.35	16.23
	Minimum	1.12	0.08	0.01	0.09	0.01	2.17
	Maximum	43.97	21.71	33.79	11.71	61.01	108.77
Udupi	Less Than Rs. 10	56.16	93.84	100.00	84.93	86.99	11.64
	10 - 25	32.88	5.48	0.00	8.22	8.90	50.68
	25 - 50	9.59	0.68	0.00	4.79	3.42	27.40
	Above 50	1.37	0.00	0.00	2.05	0.68	10.27
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	12.96	4.50	0.25	7.76	5.61	31.08
	Minimum	2.36	0.45	0.25	0.04	0.00	3.67
	Maximum	70.81	29.06	8.12	63.07	53.48	160.26

Note: * While calculating minimum, the GPs which are not levying that particular tax have been excluded.

Table IV. 5

Composition of Own Revenues – Frequency Distribution of GPs.

	Percentage of Tax revenue in Own Revenue	Property Tax	Water Tax	Others	Property Tax	Water Tax	Others
		1999-00			2000-01		
Bagalkot	Nil	0.00	22.70	2.45	0.00	18.40	4.29
	1-15	1.23	49.69	58.28	1.23	46.63	52.15
	16-30	3.68	20.25	20.86	4.91	26.99	22.70
	31-50	8.59	6.75	11.66	12.88	7.36	12.88
	51-75	34.97	0.61	4.91	34.97	0.61	6.13
	Above 75	51.53	0.00	1.84	46.01	0.00	1.84
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	62.66	11.89	25.46	61.62	12.62	25.76
	Minimum	4.70	0.15	0.72	6.50	0.39	0.71
Bidar	Nil	1.18	78.82	61.76	0.59	75.88	61.18
	1-15	0.00	7.65	20.59	0.00	11.18	21.18
	16-30	2.35	8.82	7.65	2.94	7.65	8.24
	31-50	3.53	4.12	6.47	4.12	4.12	4.71
	51-75	13.53	0.59	2.35	12.35	1.18	2.35
	Above 75	79.41	0.00	1.18	80.00	0.00	2.35
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	86.22	4.61	9.17	81.23	5.42	13.36
	Minimum	21.05	2.00	0.07	16.87	0.48	0.86
Mandya	Nil	0.00	3.52	0.00	0.00	2.64	0.00
	1-15	2.20	52.42	7.93	1.76	57.27	4.85
	16-30	11.45	35.24	25.99	16.30	33.48	22.47
	31-50	43.61	8.81	42.73	46.70	5.73	42.73
	51-75	39.21	0.00	20.26	32.16	0.88	27.31
	Above 75	3.52	0.00	3.08	3.08	0.00	2.64
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	42.27	13.90	43.83	39.80	12.91	47.29
	Minimum	2.66	0.20	4.12	1.82	0.09	3.88
Udupi	Nil	0.00	91.78	0.00	0.00	89.73	0.00
	1-15	2.05	7.53	0.68	1.37	10.27	0.00
	16-30	14.38	0.68	8.90	17.12	0.00	15.75
	31-50	39.04	0.00	35.62	31.51	0.00	34.93
	51-75	39.73	0.00	47.26	43.84	0.00	37.67
	Above 75	4.79	0.00	7.53	6.16	0.00	11.64
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	40.36	1.02	58.62	41.69	0.80	57.52
	Minimum	11.04	0.14	12.80	9.66	1.02	16.58
Four Districts	Nil	0.28	44.33	15.44	0.14	41.93	15.72
	1-15	1.42	31.73	21.10	1.13	33.99	18.70
	16-30	8.07	18.27	16.86	10.62	18.84	17.71
	31-50	24.93	5.38	25.35	25.50	4.53	25.07
	51-75	32.15	0.28	17.99	30.45	0.71	18.56
	Above 75	33.14	0.00	3.26	32.15	0.00	4.25
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	50.38	7.94	41.68	48.60	7.42	43.97
	Minimum	2.66	0.14	0.07	1.82	0.09	0.71

IV.3.2 Reforming the property tax system: major issues

The low revenue yield from the only major tax assigned to GPs, the property tax, is a major constraint in successful fiscal decentralisation. Although there are wide variations in the amount of property taxes collected, there is considerable under-taxation of the base throughout the State. Therefore, in order to offer proposals for reform the property tax system, closer examination of the base, rate structure and system of administration of the tax is necessary.

All the GPs are empowered to levy the tax on non-agricultural land and property within their jurisdictions. However, generally, property tax is levied only on residential dwelling units.. Often, this is simply a lump sum tax paid by each household at a nominal rate. The tax has not been revised for over 30 years in a majority of the GPs. Not surprisingly, revenue collections from the tax are hardly adequate to provide worthwhile local public services. What is more important, GPs are not able to collect the tax due, even at these low rates.

A critical factor determining revenue performance of GPs is collection efficiency. An important indicator of collection efficiency is the percentage of tax collections to tax demand. Given the fact that the effective rate of property tax is extremely low, one would expect a fairly high degree of tax compliance. However, that does not seem to be the case. Analysis of revenue collections from property tax in the four districts shows that the collection, on average, was 69 per cent of the demand in 2000-01. It was just about 63 per cent in Mandya, 67 per cent in Bagalkot and was the highest in Udupi at 93 per cent (Table IV.6). Considering the fact that average tax is only Rs. 7.9 per capita, this rate of collection indicates a poor collection efficiency. The ratio of collections to demand was lower than 20 per cent in 5 per cent of GPs and less than 50 per cent in 24 per cent of GPs. Collection efficiency was the highest in Udupi where more than 90 per cent of the GPs collected more than 75 per cent of the demand. It was the lowest in Bidar and Mandya where about 40 per cent of the GPs collected less than 50 per cent of the demand. The analysis shows that in Udupi administrative capacity is better and there is a better culture of tax compliance than in all the other three districts.

The lack of capacity and inability of the GPs to make proper valuation of property has significantly eroded the tax base. Moreover, the State government has placed the ceiling

on the tax rate at 10 per cent. It is no surprise that the revenue productivity has been extremely low. That GPs are unable to collect even these low amounts is especially worrisome because it is generally believed that at local levels due to better linkage with service levels, tax compliance will be higher. However, in a situation where local governments do not have enforcement capacity, (or willingness) free-riding becomes an acceptable behaviour for many taxpayers. This underlines the urgency of not only rationalising the tax system and creating a proper mechanism for reforming the structure and operation of the tax, but also empowerment of the GPs to enforce and recover the tax from the residents.

A number of important measures are necessary to institute a property tax system that is efficient, and productive in terms of revenue generation and buoyancy and equitable. We have already referred to the need for removing the ceiling tax rate (10 per cent) fixed by the State government. While this is important, it must be stated that it is not presently a binding constraint to GPs in improving revenue productivity. Still, in a decentralized system, local voters should be able to tax themselves more or less depending on how they value the services they are receiving from local governments. By international standards, a tax rate higher than 10 percent on rental value of property would not seem high, and this is especially true in light of outdated valuation rolls. The most important administrative measures to improve revenue productivity involve (i) modernising the valuation system of properties and (ii) building capacity to administer the tax and (iii) instituting an effective enforcement mechanism.

Modernising the valuation system is a critical component of property tax reform in Karnataka. To begin with, the GPs might be classified into three categories, depending on the development of the district and taluk, and proximity to the district/taluk headquarters. Once the state government makes this classification, each GP should set up a system of valuing houses based on the nature of the roof (thatched/tiled or concrete), plinth area (broadly defined as A, B, or C) and location of the house property (again classified as A, B, and C depending upon proximity to the market and accessibility to road). The standard guidance value for each category can be indicated. The state government should give broad guidelines to help the GPs to determine the criteria for making valuations. Once this

guidance value is given, self-reporting of taxes due may be introduced to enable better compliance with the tax.¹⁴

Table IV. 6
Distribution of GPs in Terms of Ratio of Property Tax Collection to Demand

District	Less than 20%	20% – 50%	50%-75%	More than 75%	Total	Average
1999-00						
Bagalkot	1.89	15.09	32.08	50.94	100	73.7
Bidar	2.37	24.26	17.16	56.21	100	71.08
Mandya	2.69	22.87	17.94	56.50	100	74.30
Udupi	0.0	0.69	8.97	90.34	100	93.26
Four Districts	1.87	16.81	19.11	62.21	100	77.28
2000-01						
Bagalkot	3.14	20.75	35.22	40.88	100	67.33
Bidar	7.69	33.14	19.53	39.64	100	57.71
Mandya	7.08	32.74	19.47	40.71	100	62.79
Udupi	0.0	1.37	8.22	90.41	100	92.86
Four Districts	4.86	23.57	20.71	50.86	100	68.90

The most important feature about the present property tax system is that it is in effect a voluntary tax. GPs do not have a machinery to enforce the tax. While on paper, penalty for late payment is stipulated, GPs have not been able to impose any penalties. There is a close contact between the taxpayers and collectors and the latter do not have any means (or willingness) to enforce the tax on the local elite. Voluntary compliance with the tax cannot be expected and the consequence has been very low revenue productivity of the tax system. Unless measures are taken to empower the GPs to enforce the tax, no effort to introduce more scientific valuations and build administrative capacity will help to improve the revenue productivity.

IV.3.3 Cost of tax collection

An important aspect of collection efficiency of the tax system is the cost of collection. In a situation where GP collections are so low, one needs to assess the net return to government, over and above collection costs. A problem in such an analysis is the measurement of the cost of collecting local taxes (and user charges). We have attempted to do this by taking the salaries of the watermen and the bill collectors as the collection costs.

¹⁴ This system would be roughly similar to that which was successfully introduced in Bangalore Municipal Corporation in the year 2000.

To the extent these officers have other duties, this clearly will be an overstatement of collection costs. This caveat should be kept in mind.

The analysis of cost of tax collection in GPs in Karnataka brings out a revealing picture. The cost of tax collection is unduly high in respect of both property tax and total own revenues in GPs (Table IV.7). This is true of all the four districts. On an average, an amount equivalent to about 72 per cent of revenue is spent in merely collecting the taxes and in the case of property tax, the cost of collection constituted 57 per cent of the revenue collected. It is also seen that the ratio of collection cost to revenue has shown a sharp increase in 2000-01 as compared to the previous year.

There are significant differences in the ratio of collection cost to revenues collected in the four districts as well as among various taluks within each of the four districts. In fact, in case of Bidar, the cost of collection was more than the tax collected in respect of both property tax and own revenues. In fact, the collection ratio in Bidar increased sharply from 102.5 per cent in 1999-2000 to 145 per cent in the next year. Next to Bidar, the cost of collection ratio was highest in Bagalkot (70.8 per cent). The lowest cost ratio was in Udupi (26 per cent), and it has remained more or less the same in the two years. The detailed taluk-wise analysis shows that in every taluk in Bidar district cost of tax collection was significantly higher than the tax collected in 2000-01 and, the cost of collection ratio showed sharp increases over the previous year (Annexure IV.7B). It was 2.4 times the revenue collected in one Aurad taluk.

It is important to analyze the variations in the collection cost ratio among GPs in the State. The analysis presented in Table IV. 8 shows that in over 36 per cent of the GPs in the four districts, the cost of collection was more than the tax collected! The corresponding figure for property tax and water charges is 42 per cent. In other words, these GPs would have been better by disbanding collection machinery and not collecting the tax altogether! It is seen that in Bidar district over 80 per cent of the GPs incurred higher cost than the revenue collected and in the case of property tax the corresponding percentage was 76 per cent. On average, in almost one half of GPs in the four districts the cost of tax collection was equivalent in amount to more than 75 per cent of the total revenue collected. This is not to overstate the case that by removing the bill collector and the waterman, the GPs would be better off. The point simply is that not enough effort is put in by these to collect the revenues that are due to the government. Of course, the lack of enforcement mechanism causes the tax compliance at

very low level. However, the anecdotal evidence presented on the field visits indicate that even when the people are willing to pay the taxes, the taxes are not collected and when they are collected, they may not even be deposited in the GP's account. In such a case, greater facilitation of tax payments directly to the GP's account in the banks would go a long way in improving the revenue collections.

Table IV. 7
Cost of Tax Collection in GPs in Karnataka

District/ Taluk	Cost of Collection* (Rs. Lakh)		Revenue Collected (Rs. Lakh)		Per Cent of Cost of Collection to Revenue	
	1999-2000	2000-01	1999-2000	2000-01	1999-2000	2000-01
Property Tax and Water Charges*						
Bagalkot	56.72	75.88	102.54	111.87	55.31	67.83
Bidar	73.56	84.2	82.2	62.52	89.49	134.67
Mandya	94.74	111.41	155.18	133.16	61.05	83.67
Udupi	39.01	44.13	111.91	129.19	34.86	34.16
Four Districts	264.03	315.62	451.82	436.74	58.44	72.27
Total Own Revenue**						
Bagalkot	79.68	106.67	137.56	150.7	57.93	70.78
Bidar	92.76	104.89	90.5	72.16	102.5	145.37
Mandya	136.18	159.24	273.71	252.45	49.75	63.08
Udupi	70.14	79.8	270.46	304.11	25.93	26.24
Four Districts	378.78	450.61	772.23	779.42	49.05	57.81

Note: * Consists of Salary of bill collector and water men ** Cost of Collection refers to total Salaries.

Table IV. 8

Distribution of GPs According to Ratio of Cost of Collection to Tax Collected.

District	Less than 25%	25-50%	50-75%	75-100%	More than 100%	All
Property Tax and Water Charges*						
Bagalkot	3.07	28.83	21.47	15.34	31.29	100
Bidar	0.59	3.55	9.47	10.06	76.33	100
Mandya	1.31	14.41	15.72	22.27	46.29	100
Udupi	23.97	34.93	24.66	6.85	9.59	100
Four Districts	6.22	19.38	17.4	14.57	42.43	100
Total Tax Collection**						
Bagalkot	3.68	17.18	29.45	13.5	36.2	100
Bidar	0.59	2.35	6.47	9.41	81.18	100
Mandya	2.18	15.28	30.57	27.51	24.45	100
Udupi	30.82	51.37	12.33	4.11	1.37	100
Four Districts	8.05	20.06	20.76	15.11	36.02	100

Note: * Consists of Salary of bill collector and water men

** Cost of Collection refers to total Salaries

IV.4 Determinants of Revenues

In the previous section we have noted that one of the major constraints of GPs has been their inability to raise substantial revenues from the sources assigned to them. We have also noted that property tax is the major tax handle assigned to them and they have not been able to raise substantial revenues from it. Obviously, the general policy recommendation that follows from this is that augmenting own revenues is the key to achieving meaningful fiscal decentralisation and this has to be done substantially by reforming the property taxes. Of course, there are other revenue sources that need to be exploited better. For example, improving collections from user charges on water supply is important. However, this can be done only when water connection is given to individual households. In many cases, water is supplied through public taps and it is not possible to collect user charges in such cases. This is particularly true of GPs in Udupi. Another important revenue source in GPs is rents. The GPs proximate to taluk/district headquarters can collect significant revenues from rents. A number of GPs proximate to urban agglomerations have been able to collect substantial revenue by renting shops, marriage halls and similar other structures.

We have also seen substantial variations in the revenues raised by GPs. The variations in the revenues raised by GPs are seen between districts, between different taluks within each district and between different GPs within each taluk. The coefficients of variation (CV) in per capita property tax revenue and per capita own revenues in panchayats in different taluks and the four districts in the State are presented in Table IV.9. It is seen that the CV was the highest in Udupi district (91 per cent) followed by Mandya (80 per cent), Bidar (76 per cent) and Bagalkot (74 per cent). The pattern is similar for aggregate per capita own revenues. The analysis shows that the variations in per capita own revenues and revenue from property tax among the GPs are higher in districts which are more developed than those that are poorer. It is important to understand the causes of variations in revenue collections between the GPs. In particular, we are interested in the extent to which these variations are due to differences in taxable capacity or differences in tax effort.

The variance in revenues across panchayats can be due to variance in their capacity to raise revenues and variance in their efforts (Bahl, 1971). Both capacity and effort variations depend on administrative capacity and the nature and functioning of institutions. It would be useful to understand the reasons for the variations in revenues among GPs in terms of various

capacity and effort factors. When the variance in revenues is explained by taxable capacity factors, the residual variance is attributed to variations in tax effort among GPs.

Table IV. 9
Coefficients of Variation in GP Revenues in 2000-01

	Per Capita Property Tax				Per Capita Own Revenue			
	Average	Coefficient of Variation	Minimum	Maximum	Average	Coefficient of Variation	Minimum	Maximum
Bagalkot District	8.08	53.99	0.39	23.81	13.11	73.62	0.70	79.72
Badami	8.77	27.82	5.10	13.98	13.69	90.47	5.92	79.72
Bagalkot	11.04	46.49	0.68	19.23	15.83	64.30	0.70	50.38
Bilgi	6.49	61.78	0.41	14.92	10.11	53.54	1.05	19.70
Hungund	8.42	64.56	0.39	22.84	15.17	75.02	1.70	50.33
Jamkhandi	6.31	55.15	0.93	15.31	12.15	75.90	1.61	40.67
Mudhol	7.53	59.59	3.38	23.81	10.88	54.61	5.83	32.60
Bidar District	5.22	64.57	0.50	25.70	6.43	76.28	0.50	44.54
Aurad	4.18	61.38	0.50	12.56	4.66	56.05	0.50	12.94
Basavakalyan	5.63	50.17	0.57	11.52	6.34	52.62	0.57	14.71
Bhalki	6.08	56.89	1.37	17.65	8.02	66.67	1.37	27.02
Bidar	5.70	50.50	1.93	15.48	6.70	48.96	1.93	16.11
Humnabad	4.56	94.44	0.67	25.70	6.60	110.45	1.65	44.54
Mandya District	6.46	78.25	1.12	43.97	16.23	79.73	2.17	108.77
KR Pet	4.72	40.23	1.14	9.93	11.66	52.62	2.23	27.08
Maddur	7.67	95.44	1.12	43.97	15.87	66.37	4.57	56.88
Malavalli	5.16	51.89	1.41	15.18	12.61	88.29	4.52	73.03
Mandya	7.97	57.21	2.63	22.71	19.00	54.03	5.42	54.68
Nagamangala	5.97	79.34	1.34	25.60	13.52	82.74	2.17	59.89
Pandavapura	5.80	56.34	1.39	16.06	22.98	81.11	7.47	76.40
SR Patna	8.05	93.32	2.88	40.87	21.34	96.28	6.19	108.77
Udupi District	12.96	84.33	2.36	70.81	31.08	91.45	3.67	160.26
Karkala	10.76	54.60	2.88	30.17	28.29	80.07	8.26	102.01
Kundapura	9.16	108.44	2.36	65.16	21.46	92.23	3.67	108.33
Udupi	17.50	68.13	3.22	70.81	41.36	82.68	7.73	160.26
Four Districts	7.88	85.52	0.39	70.81	16.22	106.39	0.50	160.26

We have regressed per capita own revenues and per capita revenue from property taxes on a number of variables representing revenue capacity of the GPs in a linear regression model. Unfortunately, at the GP level it is extremely difficult to obtain reliable data on various 'capacity' and 'effort' factors determining own revenues of the GPs. Unfortunately, there is no system of collecting information on economic variables at the GP level and hardly any information is available on capacity and effort variables. The Rural Development Department has assembled information on some of the relevant factors in recent years, but

there are questions about the reliability of these data. In the course of collecting budgetary data for GPs, we have collected information on some variables which are taken as proxies to represent capacity factors. The following variables have been taken to represent revenue capacity variables:

- (i) Gross cropped area per capita
- (ii) Proportion of irrigated area to gross cropped area;
- (iii) Road length per square kilometer area;
- (iv) Proportion of surfaced road to total road length;
- (v) Distance from taluk headquarters;
- (vi) Distance from district headquarters;
- (vii) Proportion of households with water supply connections;

The two variables, 'gross cropped area' and 'proportion of irrigated area' together represent the income generated from agriculture, which is the predominant economic activity in rural areas. The variables - road length and percentage of metalled roads indicate the degree of market accessibility, which influences the value of property and hence directly affects the capacity to raise revenue from property taxes. Distance from taluk headquarters and district headquarters also represent the proximity to market centres, which influences property values and potential from rental incomes. We have also employed another variable – the proportion of villages covered under protected water supply - to represent perceptions about quality of service provided. As water supply is an important service that GPs provide, this variable denotes the perception about the service quality which can influence tax compliance and willingness to pay for the services provided.

A number of models with alternative specifications (linear and log-linear) are employed to estimate the effect of various factors on the revenues of panchayats. In the following only the results of two sets of equations selected for analysis are reported. In the first, the dependent variables, per capita own revenue and per capita property tax revenue in GPs in 2000-01, are regressed on various capacity variables and "district effects" are estimated by specifying dummies for different districts. In the second, these models are re-estimated by including two intergovernmental transfer variables – per capita total transfers and proportion of lump sum transfers given by the state government to total State transfers. Although there are 708 GPs in the four districts, some observations had to be dropped for want of data on all the variables used in the regressions. Thus, altogether, the regressions were estimated with data from 639 GPs in the four districts.

The effect of intergovernmental transfers on own revenues of sub-national governments has been a subject of considerable debate. The ‘veil’ hypothesis suggests that lump transfer is a veil for the tax cut and therefore, *ceteris paribus*, transfers will encourage the sub-national governments to substitute lower taxes for more transfers. However, the empirical analysis has shown that “money sticks where it hits” and lump sum transfers to sub-national governments result in higher expenditures rather than lower taxes. In other words, the coefficient of transfers on own revenues of the sub-national governments would be positive and significant if the transfer stimulates rather than substitutes own revenues of the sub-national governments. The statistical analysis carried out here attempts to test the veil hypothesis and the flypaper effect. For this purpose, two transfer variables – per capita total transfers and proportion of lump sum transfers in the total are included as explanatory variables.

The regression results for the three sets of models are presented in Table IV.10. In the first, the model is estimated by including only the economic variables and district dummies. The intergovernmental transfer variable is excluded from the analysis. In the second, per capita intergovernmental transfer is included as an independent variable, along with other economic variables and district dummies. The third model, in addition, separately estimates the effect of per capita total transfers and proportion of lump sum transfers in the equation.

All equations are statistically significant as indicated by the F values. Although explanatory powers (R^2) of the equations are not high, the equations bring about some interesting insights. It is seen that the proxy for income generation variables – per capita gross cropped area and percent irrigated area are not found to be significant. Thus, per capita property tax and per capita total revenues seem to have no relationship with the level of incomes in the GPs¹⁵. This finding is not surprising in a system where the property tax is levied on a lump sum basis on the households, and indicates the weakness in the structure and operation of the property tax system.

Interestingly, per capita property taxes and per capita own revenues are significantly related to the variables representing accessibility to markets - the road length per sq. km area and proportion of metalled roads. It is also seen that the two variables - distances from taluk

¹⁵ As a caveat to this finding, however, we note the possibility of a high degree of collinearity between income level and the “proximity” variables, as well as the possibility that the income variable has not been properly specified.

and district headquarters are negative and significant in the case of per capita own revenue and per capita property tax, but the coefficients are higher for the the own revenues equation. This indicates contributions from revenues other than property taxes, particularly rental income of GPs from letting out shops and establishments are significantly related to the proximity to district and taluk headquarters .

The regression equations with intergovernmental transfers do not confirm the veil hypothesis. The per capita transfer variable has a positive and significant coefficient as far as aggregate revenues are concerned. Per capita transfers tend to increase per capita own revenues of the States. The lump sum transfer also does not have a significant negative impact on own revenues This implies that lump sum transfers do not substitute for own revenues which implies that expenditures will increase by the volume of transfers. This confirms the flypaper effect.

This result, however, does not hold in regard to revenue from property tax considered alone. In the case of property taxes, the total transfer variable is not significant and lump sum transfer is negative and significant. This implies that aggregate transfer has no impact on revenue from property taxes but that those GPs getting higher lump sum transfers, *ceteris paribus*, tend to have lower property tax revenues. Thus, while the flypaper effect seems to apply in the case of aggregate revenues, this does not apply in the case of property tax revenues.

In the specification of the equation, the coefficient of the constant denotes the coefficient of the omitted district, Udupi district. The significance of the dummy variable coefficients may thus be interpreted as a (positive or negative) difference vs Udupi district, even after the effects of all other independent variables are taken into account. It is seen that consistently, the coefficients of the district dummies are negative and significant. Thus, the performance of Udupi, was the best in raising revenues from both property tax and total own revenues.

Table IV.10
Regression Results of GP Revenues in Four Districts

	Four Districts With District Dummies		Four Districts With District Dummies and Transfers		Four Districts With District Dummies, Transfers and Lumsum Transfers' share	
	Per Capita Property Tax (N = 639)	Per Capita Own Revenue (N = 639)	Per Capita Property Tax (N = 639)	Per Capita Own Revenue (N = 639)	Per Capita Property Tax (N = 639)	Per Capita Own Revenue (N = 639)
Constant	9.371 (7.835)*	21.474 (8.539)*	7.387 (5.085)*	19.362 (6.317)*	8.076 (4.408)*	27.483 (7.176)*
Per capita Gross Cropped Area	-0.170 (-0.830)	-0.430 (-0.999)	-0.196 (-0.957)	-0.458 (-1.061)	-0.196 (-0.959)	-0.464 (-1.084)
Percent irrigated Area	-0.003 (-0.330)	-0.012 (-0.639)	-0.005 (-0.551)	-0.014 (-0.748)	-0.005 (-0.595)	-0.018 (-1.008)
Road length per square KM area	0.455 (9.462)*	0.664 (6.567)*	0.451 (9.421)*	0.660 (6.530)*	0.452 (9.421)*	0.663 (6.613)*
Percent Metalled Road	0.038 (3.668)*	0.081 (3.704)*	0.037 (3.557)*	0.080 (3.640)*	0.036 (3.501)*	0.074 (3.407)*
Distance from Taluk	-0.040 (-1.807)*	-0.129 (-2.729)*	-0.038 (-1.709)*	-0.126 (-2.675)*	-0.038 (-1.688)*	-0.121 (-2.586)*
Distance from District	-0.026 (-2.722)*	-0.038 (-1.860)*	-0.027 (-2.797)*	-0.038 (-1.893)*	-0.027 (-2.829)*	-0.043 (-2.128)*
Percent of Villages covered under Water supply	0.010 (1.114)	0.030 (1.596)	0.009 (1.037)	0.029 (1.555)	0.009 (1.033)	0.029 (1.548)
Percapita Transfers			0.032 (2.387)*	0.034 (1.205)	0.031 (2.366)*	0.031 (1.105)
Percent lumsum Transfers					-0.015 (-0.618)	-0.180 (-3.482)*
Bagalkot	-1.962 (-2.784)*	-10.280 (-6.939)*	-1.952 (-2.780)*	-10.269 (-6.934)*	-2.026 (-2.843)*	-11.140 (-7.481)*
Mandya	-4.765 (-6.923)*	-8.877 (-6.134)*	-4.410 (-6.286)*	-8.499 (-5.742)*	-4.369 (-6.196)*	-8.010 (-5.434)*
Bidar	(-4.813 (-6.859)*	-16.774 (-11.368)*	-4.364 (-6.028)*	-16.296 (-10.669)*	-4.351 (-6.003)*	-16.139 (-10.654)*
R ²	0.271	0.306	0.278	0.307	0.278	0.321
F Value	23.424	27.709	21.971	25.340	20.152	24.651

Note: Figures in parenthesis are T values and * indicates that T values are significant at 10 percent level of significance.

Thus, the regression results show that revenue collections are not significantly higher in more prosperous panchayats. However, Panchayats with greater proximity to taluk and district headquarters and those with better connectivity and access to markets are able to collect significantly higher revenues both from property taxes as well as other sources of revenue assigned to them. The results also show that the transfer system has not dampened

the revenue collections of the GPs. Finally, among the four districts, revenue performance of Udupi was the strongest, even after the effects of these other variables are taken into account .

The regression analysis of GPs in the four individual districts with intercept dummies specified to isolate the taluk specific effects is presented in Table IV.11. The results are by and large consistent with the aggregate results analysed above. The two proxies for agricultural incomes – gross cropped area and proportion of irrigated area, are not significant. .. On the other hand, the variables representing access to markets - the road length and proportion of metalled road had significant and positive effect on both property tax revenue and total own revenues in Udupi district, but not in Mandya, Bidar and Bagalkot districts. This implies that the variables have positive effect in only the more developed district. The distance from Taluk showed significant negative effect for property tax in Mandya, where as Bidar witnessed a positive significant effect. There are no consistent results in regard to the two variables – distance from taluk and district headquarters. Only in Bagalkot, the variables are significant with the negative sign for both property tax and total own revenues. Similarly, the perception about the quality of service provided as represented by the coverage of villages for water supply has a significant effect on total own revenues only in Bagalkot and Udupi and negative effect in Mandya . The effect on property tax is positive and significant only in Udupi.

The analysis of GPs in individual districts is helpful to examine whether there are regionspecific effects associated with individual taluks influencing revenues within each of the four districts. This may also be interpreted as relative performances of different taluks within each of the districts in raising both own revenues and revenue from property taxes. The coefficients of the intercept dummies specified to separate the effect of individual taluks in the regression equations can be used to infer their relative performances.

Table IV.11

Regression Results for Individual Districts

	Bagalkot District		Bidar District		Mandya District		Udupi District	
	Own Revenue (N =148)	Property Tax (N =148)	Own Revenue (N =155)	Property Tax (N =155)	Own Revenue (N = 201)	Property Tax (N =201)	Own Revenue (N = 132)	Property Tax (N =132)
Constant	11.455	7.089	10.713	4.832	26.746	8.701	35.430	7.424
	1.803	2.080	3.868	2.332	4.039	3.151	2.996	1.263
Per capita Gross Cropped Area	-0.305	-0.164	0.117	1.743	-1.471	0.651	-13.830	-2.414
	-0.968	-0.972	0.068	1.350	-0.519	0.551	-1.131	-0.397
Percent irrigated Area	-0.020	-0.004	-0.019	-0.002	0.009	0.014	-0.007	0.005
	-0.645	-0.241	-1.219	-0.186	0.281	1.036	-0.102	0.158
Road length per square KM area	0.307	0.009	-0.237	0.040	0.210	0.119	0.974	0.630
	0.483	0.027	-0.745	0.167	1.123	1.525	5.236	6.810
Percent Metalled Road	0.036	0.018	-0.024	-0.015	0.037	0.021	0.150	0.070
	1.165	1.069	-1.624	-1.366	0.806	1.084	2.011	1.890
Distance from Taluk	-0.206	-0.087	0.027	0.047	-0.125	-0.082	-0.116	-0.031
	-3.077	-2.434	0.801	1.890	-1.187	-1.879	-0.904	-0.479
Distance from District	-0.054	-0.019	-0.011	-0.013	0.026	0.001	-0.030	-0.055
	-1.649	-1.069	-0.750	-1.209	0.634	0.069	-0.424	-1.564
Percent of Villages covered under Water supply	0.059	0.018	0.003	0.009	-0.052	-0.025	0.209	0.077
	1.849	1.026	0.199	0.864	-1.620	-1.866	2.926	2.183
Percapita Transfers	0.025	0.047	-0.005	0.002	0.220	0.073	-0.020	0.050
	0.590	2.086	-0.210	0.127	4.337	3.432	-0.191	0.980
Percent lumsum Transfers	0.049	0.037	-0.034	-0.006	-0.324	-0.067	-0.595	-0.147
	0.557	0.794	-0.776	-0.197	-3.247	-1.616	-3.300	-1.643
Badami/ Aurad/ KR Pet/ Karkala	-3.517	-2.085	-3.225	-1.648	-9.623	-3.802	-6.957	-3.231
	-1.571	-1.737	-3.101	-2.117	-2.433	-2.305	-1.586	-1.481
Bilgi/ Basava Kalyan/ Manddur/ Kundapura	-4.899	-5.291	-2.188	-0.418	-7.275	-1.523	-9.797	-3.861
	-1.612	-3.246	-2.033	-0.520	-1.983	-0.996	-2.613	8.000
Hungund/ Bidar/ Malavalli/ --	-1.956	-2.978	-1.050	-0.353	-11.209	-3.986		
	-0.851	-2.417	-0.762	-0.342	-3.060	-2.609		
Jamkhandi/ Humnabad/ Mandya/ --	-2.091	-4.187	-1.388	-1.189	-1.883	-0.521		
	-0.770	-2.874	-1.239	-1.419	-0.489	-0.325		
Mudhol/ --/ Nagamangala/ --	-4.939	-3.949			-7.488	-2.516		
	-1.713	-2.554			-1.677	-1.351		
--/ --/ Pandavapura/ --					0.140	-1.997		
					0.033	-1.124		
R ²	0.191	0.214	0.122	0.108	0.233	0.202	0.389	0.413
F Value	2.257	2.601	1.516	1.327	3.770	3.136	6.998	7.747

The coefficients of taluk dummies in the four districts are summarised in Table IV.12.

The analysis shows that in Bagalkot district, *ceteris paribus*, per capita property revenues were significantly lower in all taluks of Bilgi, Jhamkandi, Mudhol, Hungund and Bidar than

in the best performing taluk, Bagalkot. [in the case of property tax though]. In the case of total own revenues, the performances of only Bilgi and Mudhol weresignificantly lower than Bagalkot. In Bidar district, per capita property tax was significantly lower in Aurad and Basava Kalyan Taluks compared to the best performing Taluk Balki. In case of own revenues there was not much difference between taluks except Aurad. In Mandya district, the revenue from property tax was significantly lower only in Malavalli and KR Pet relative to the best performing taluk, Srirangapatna. However, in the case of total own revenues, the performance of all the taluks except Pandavapura and Mandya was significantly lower than the best performing taluk. In Udupi district, in the case of both property tax and total revenue, only Kundapur taluk showed significantly lower in the performance compared to best performing Taluk Udupi. The analysis shows that broadly, the differences in the performances of GPs between different districts are more pronounced that between different taluks. This perhaps indicates the importance of institutional differences. The differences in system and institutions between different taluks within a district seem to be more homogeneous than between different districts and the regression results tend to confirm this.

Table IV.12
Taluk Specific effects in GPs in Four Districts

Bagalkot District		Bidar District		Mandya District		Udupi District	
Property Tax							
Baglkot	7.089	Balki	4.832	Srirangapatna	8.701	Udupi	7.424
Badami	5.004	Aurad	3.185	Kr Pet	4.900	Karkala	4.193
Bilgi	1.798	Basavakalyan	4.414	Maddur	7.178	Kundapura	3.563
Hungund	4.111	Bidar	4.480	Malavalli	4.715		
Jamkhandi	2.902	Humnabad	3.644	Mandya	8.180		
Mudhol	3.140			Nagamangala	6.185		
				Pandavapura	6.705		
Own Revenue							
Baglkot	11.455	Balki	10.713	Srirangapatna	26.746	Udupi	35.430
Badami	7.938	Aurad	7.488	Kr Pet	17.123	Karkala	28.473
Bilgi	6.556	Basavakalyan	8.525	Maddur	19.472	Kundapura	25.633
Hungund	9.499	Bidar	9.663	Malavalli	15.537		
Jamkhandi	9.363	Humnabad	9.325	Mandya	24.863		
Mudhol	6.516			Nagamangala	19.258		
				Pandavapura	26.886		

IV.5 Augmenting Revenues: Reforms in Policies and Institutions

Analysis of rural fiscal decentralisation brings out clearly that both ZPs and TPs merely implement the schemes designed either by the centre or the State governments. They do not have independent revenue sources and depend upon the transfers from above. As the transfers are essentially scheme based, and predominantly for meeting salary payments, they have very little fiscal autonomy or flexibility.

Among rural local governments, GP is the only meaningful governmental tier for fiscal decentralisation as it has independent tax powers and raises revenues to finance about one fifth of their expenditures. However, in absolute terms, the revenue raised by GPs is negligible and so they play only a minor role in providing services.

A critical element in ensuring meaningful fiscal decentralisation in Karnataka is to enhance the revenue productivity of the GPs significantly. Reforming the tax system and user charges levied by the GPs is arguably the most important element of fiscal decentralisation reform. While there are problems with the structure of property taxes levied, and the state government will do well to remove the ceiling rate stipulated, the more important issue in property tax reform are (a) the need for valuation improvements, and (b) the need for better enforcement. It may easily be stated that tax payments to the GPs are voluntary and GPs do not have any worthwhile enforcement machinery. This calls for not only creating a policy environment but also building capacity at the GP level to enforce the tax. Unless this is done, whatever are the changes in the tax structure or valuation system, the revenue productivity is not likely to show any significant improvement. Thus, changes in the structure of the tax, imparting scientific method of determining the base and instituting effective mechanism for improvement should be undertaken in a co-coordinated manner to achieve the desired results in tax reform. Capacity building is also likely to enhance collections from user charges.

Often, handing over additional tax handles is pointed out as an important solution to the poor revenue raising feature of the GPs. One possible candidate is land revenue. One argument in favour of assigning this tax to GPs is that since at the local level the people associate tax payments with public services provided, the compliance rate would be higher and revenue productivity would be higher. A close examination of the system, however, does not support such a contention. In a situation where GPs do not have any enforcement powers,

it is doubtful whether the rural elite will voluntarily pay land revenue to GPs. Even the State government has not succeeded in raising the revenue productivity from this tax. At the same time, it must be mentioned that, it is possible to significantly improve the revenues from the basis already assigned to the GPs, if the reforms are carried out on the lines indicated above. The analysis of determinants of revenue performance shows that the income related variables do not significantly explain the variations in per capita own revenues of GPs. On the other hand, revenues are higher in GPs which have better connectivity in terms of road length and proportion of metalled roads. Also, revenues are higher in panchayats which are closer to taluk and district headquarters. The lack of relationship of income related variables on both per capita property tax revenues and total per capita own revenues highlights the poor design of the property tax system. The fact that property taxes are not related to the income levels of the GPs shows that there is an urgent need to redesign the tax system to make it more responsive to the value of property owned by the residents of the GPs. Redesigning the property tax system and ensuring cost recovery from water supplied lies at the heart of fiscal decentralisation reform. We have indicated in the report the lines on which the reform in the design and implementation of property tax should be undertaken.

The determinants analysis also shows that per capita revenue from property taxes are not affected by the transfer system. The coefficient of per capita total transfers on per capita property tax revenue is not significant and the coefficient of lump sum transfers is negative and significant. This implies that while the transfers as a whole do not impact on own revenues, the GPs that receive higher lump sum transfers, *ceteris paribus*, tend to collect lower per capita property tax revenues.

However, the impact of intergovernmental transfer on the own revenues in aggregate is positive. This implies a flypaper effect.

Annexure IV.1
Finances of Panchayats among Three Tiers 2000-01

	Per Capita in Rupees					Percent to District SDP				
	Opening Balance	Own Revenue	Transfers	Total Revenue (excl.OB)	Total Revenue (incl.OB)	Opening Balance	Own Revenue	Transfers	Total Revenue (excl.OB)	Total Revenue (incl.OB)
BAGALKOT DISTRICT										
GPs	11.90	13.11	64.00	77.11	89.01	0.049	0.055	0.266	0.321	0.370
TPs	53.16	0.17	719.09	719.26	772.42	0.220	0.001	2.973	2.974	3.194
ZP	1.95	0.00	607.59	607.59	609.54	0.008	0.000	2.512	2.512	2.520
Total	67.01	13.28	1390.69	1403.97	1470.98	0.277	0.055	5.752	5.807	6.085
BIDAR DISTRICT										
GPs	5.02	6.43	50.54	56.97	61.98	0.032	0.041	0.322	0.363	0.395
TPs	20.03	0.17	799.18	799.36	819.39	0.128	0.001	5.095	5.096	5.223
ZP	0.00	0.00	512.84	512.84	512.84	0.000	0.000	3.269	3.269	3.269
Total	25.05	6.60	1362.56	1369.16	1394.21	0.160	0.042	8.686	8.728	8.888
MANDYA DISTRICT										
GPs	6.71	16.22	57.17	73.39	80.09	0.055	0.087	0.285	0.372	0.427
TPs	59.44	0.00	702.01	702.01	761.45	0.313	0.000	3.695	3.695	4.008
ZP	0.00	0.00	555.38	555.38	555.38	0.000	0.000	2.923	2.923	2.923
Total	66.15	16.22	1314.56	1330.78	1396.93	0.368	0.087	6.904	6.991	7.359
UDUPI DISTRICT										
GPs	19.57	31.08	62.66	93.74	113.30	0.083	0.133	0.267	0.400	0.483
TPs	35.07	0.00	647.52	647.52	682.59	0.150	0.000	2.761	2.761	2.910
ZP	0.00	0.00	420.23	420.23	420.23	0.000	0.000	1.792	1.792	1.792
Total	54.64	31.08	1130.40	1161.48	1216.12	0.233	0.133	4.820	4.952	5.185
FOUR DISTRICTS										
GPs	10.17	16.22	58.37	74.59	84.76	0.056	0.080	0.282	0.362	0.418
TPs	43.65	0.08	717.80	717.88	761.54	0.214	0.000	3.523	3.523	3.738
ZP	0.47	0.00	530.13	530.13	530.60	0.002	0.000	2.602	2.602	2.604
Total	54.29	16.30	1306.30	1322.60	1376.89	0.273	0.081	6.407	6.487	6.760

Annexure IV.2
Finances of Gram Panchayats – 2000-01

District/ Taluk	Per capita in Rupees					Percent to GDDP				
	Opening Balance	Own Revenue	Transfers	Total Revenue (excl OB)	Total Revenue (incl OB)	Opening Balance	Own Revenue	Transfers	Total Revenue (excl OB)	Total Revenue (incl OB)
2000-01										
Bagalkot Dist.	11.90	13.11	64.00	77.11	89.01	0.049	0.055	0.266	0.321	0.370
Badami	6.42	13.69	62.89	76.58	83.00	0.005	0.010	0.047	0.058	0.062
Bagalkot	9.21	15.83	53.14	68.98	78.19	0.006	0.010	0.033	0.043	0.049
Bilgi	21.89	10.11	75.36	85.47	107.36	0.010	0.005	0.035	0.039	0.049
Hungund	14.67	15.17	54.86	70.04	84.71	0.012	0.012	0.043	0.055	0.067
Jamkhandi	10.23	12.15	64.83	76.98	87.21	0.009	0.010	0.055	0.066	0.075
Mudhol	12.52	10.88	76.86	87.74	100.26	0.009	0.007	0.053	0.060	0.069
Bidar Dist.	5.02	6.43	50.54	56.97	61.98	0.032	0.041	0.322	0.363	0.395
Aurad	4.88	4.66	52.65	57.31	62.20	0.006	0.006	0.067	0.073	0.080
Basavakalyan	3.84	6.34	47.02	53.35	57.20	0.006	0.009	0.068	0.077	0.083
Bhalki	4.55	8.02	57.93	65.94	70.49	0.005	0.009	0.067	0.076	0.082
Bidar	3.28	6.70	40.62	47.32	50.60	0.004	0.008	0.049	0.057	0.061
Humnabad	8.58	6.60	55.14	61.74	70.32	0.011	0.008	0.070	0.078	0.089
Mandya Dist.	10.32	16.23	53.34	69.57	79.89	0.055	0.087	0.285	0.372	0.427
KR Pet	9.87	11.66	51.65	63.31	73.19	0.008	0.010	0.042	0.052	0.060
Maddur	6.34	15.87	60.86	76.74	83.08	0.006	0.015	0.056	0.070	0.076
Malavalli	8.22	12.61	59.04	71.65	79.87	0.007	0.011	0.053	0.064	0.071
Mandya	11.27	19.00	52.32	71.32	82.59	0.012	0.020	0.054	0.074	0.085
Nagamangala	14.19	13.52	50.24	63.76	77.95	0.009	0.009	0.033	0.042	0.051
Pandavapura	15.29	22.98	44.03	67.00	82.29	0.009	0.014	0.027	0.041	0.051
SR Patna	8.66	21.34	48.89	70.22	78.88	0.004	0.009	0.020	0.029	0.032
Udupi Dist.	19.57	31.08	62.66	93.74	113.30	0.083	0.133	0.267	0.400	0.483
Karkala	15.87	28.29	68.81	97.10	112.97	0.013	0.023	0.055	0.078	0.091
Kundapura	19.68	21.46	58.85	80.30	99.98	0.033	0.036	0.098	0.134	0.167
Udupi	21.13	41.36	63.45	104.81	125.94	0.038	0.074	0.113	0.187	0.225
Four Dists.	11.34	16.22	57.14	73.36	84.70	0.056	0.080	0.282	0.362	0.418

Annexure IV. .3							
Frequency Distribution of GPs as per share of Tax Revenues in Own Revenue 2000-01							
	Share of Tax Revenue in Own Revenue	Property Tax	Water Tax	Others	Property Tax	Water Tax	Others
		1999-00			2000-01		
Badami	Nil	0.00	20.59	0.00	0.00	14.71	2.94
	1-15	2.94	70.59	61.76	2.94	70.59	58.82
	16-30	0.00	8.82	23.53	0.00	14.71	29.41
	31-50	2.94	0.00	11.76	5.88	0.00	2.94
	51-75	32.35	0.00	0.00	29.41	0.00	2.94
	Above 75	61.76	0.00	2.94	61.76	0.00	2.94
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	62.80	6.92	30.28	64.04	6.73	29.24
	Minimum	4.70	0.96	1.17	6.50	0.39	1.35
Bagalkot	Nil	0.00	18.18	13.64	0.00	18.18	4.55
	1-15	0.00	45.45	50.00	0.00	50.00	59.09
	16-30	0.00	31.82	22.73	0.00	31.82	22.73
	31-50	18.18	4.55	13.64	13.64	0.00	9.09
	51-75	27.27	0.00	0.00	31.82	0.00	4.55
	Above 75	54.55	0.00	0.00	54.55	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	65.36	13.72	20.92	69.73	12.94	17.33
	Minimum	41.08	2.76	0.73	37.65	2.13	0.86
Bilgi	Nil	0.00	30.00	0.00	0.00	30.00	15.00
	1-15	5.00	35.00	60.00	0.00	25.00	45.00
	16-30	0.00	30.00	15.00	5.00	35.00	5.00
	31-50	15.00	5.00	10.00	25.00	10.00	20.00
	51-75	35.00	0.00	10.00	25.00	0.00	15.00
	Above 75	45.00	0.00	5.00	45.00	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	62.74	12.95	24.31	64.20	15.43	20.37
	Minimum	9.98	5.61	0.72	27.36	6.99	0.71
Hungund	Nil	0.00	26.67	3.33	0.00	16.67	0.00
	1-15	0.00	53.33	43.33	3.33	43.33	40.00
	16-30	10.00	10.00	26.67	10.00	26.67	33.33
	31-50	6.67	10.00	16.67	16.67	10.00	20.00
	51-75	26.67	0.00	10.00	30.00	3.33	3.33
	Above 75	56.67	0.00	0.00	40.00	0.00	3.33
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	60.72	11.24	28.04	55.49	12.77	31.74
	Minimum	18.04	1.60	1.47	13.38	1.28	0.81
Jamkhandi	Nil	0.00	31.25	0.00	0.00	28.13	6.25
	1-15	0.00	31.25	68.75	0.00	31.25	50.00
	16-30	9.38	25.00	12.50	12.50	28.13	9.38
	31-50	6.25	9.38	9.38	9.38	12.50	18.75
	51-75	37.50	3.13	6.25	46.88	0.00	12.50
	Above 75	46.88	0.00	3.13	31.25	0.00	3.13
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	58.46	14.93	26.61	51.96	14.96	33.08
	Minimum	19.16	0.15	1.18	17.30	4.87	1.32
Mudhol	Nil	0.00	8.00	0.00	0.00	4.00	0.00
	1-15	0.00	56.00	64.00	0.00	52.00	60.00
	16-30	0.00	24.00	24.00	0.00	32.00	32.00
	31-50	8.00	12.00	8.00	12.00	12.00	8.00
	51-75	52.00	0.00	4.00	44.00	0.00	0.00

Annexure IV. .3							
Frequency Distribution of GPs as per share of Tax Revenues in Own Revenue 2000-01							
	Share of Tax Revenue in Own Revenue	Property Tax	Water Tax	Others	Property Tax	Water Tax	Others
		1999-00			2000-01		
	Above 75	40.00	0.00	0.00	44.00	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	66.80	12.74	20.45	69.24	15.06	15.70
	Minimum	30.48	2.62	1.50	37.82	1.36	1.35
Bagalkot District	Nil	0.00	22.70	2.45	0.00	18.40	4.29
	1-15	1.23	49.69	58.28	1.23	46.63	52.15
	16-30	3.68	20.25	20.86	4.91	26.99	22.70
	31-50	8.59	6.75	11.66	12.88	7.36	12.88
	51-75	34.97	0.61	4.91	34.97	0.61	6.13
	Above 75	51.53	0.00	1.84	46.01	0.00	1.84
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	62.66	11.89	25.46	61.62	12.62	25.76
	Minimum	4.70	0.15	0.72	6.50	0.39	0.71
Aurad	Nil	0.00	59.46	67.57	0.00	62.16	70.27
	1-15	0.00	18.92	24.32	0.00	10.81	16.22
	16-30	2.70	10.81	5.41	0.00	16.22	10.81
	31-50	0.00	8.11	2.70	2.70	8.11	2.70
	51-75	16.22	2.70	0.00	13.51	2.70	0.00
	Above 75	81.08	0.00	0.00	83.78	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	87.87	9.15	2.98	89.64	7.01	3.35
	Minimum	28.85	2.09	0.07	45.45	1.16	2.12
Basavakalyan	Nil	0.00	82.86	77.14	0.00	85.71	77.14
	1-15	0.00	11.43	11.43	0.00	8.57	14.29
	16-30	5.71	2.86	2.86	0.00	2.86	2.86
	31-50	2.86	2.86	5.71	2.86	2.86	2.86
	51-75	2.86	0.00	2.86	8.57	0.00	2.86
	Above 75	88.57	0.00	0.00	88.57	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	87.40	4.05	8.54	88.86	2.06	9.07
	Minimum	21.05	2.00	3.07	40.83	3.99	3.07
Bhalki	Nil	0.00	90.91	57.58	0.00	81.82	48.48
	1-15	0.00	0.00	24.24	0.00	6.06	27.27
	16-30	0.00	9.09	6.06	9.09	9.09	9.09
	31-50	3.03	0.00	12.12	3.03	3.03	6.06
	51-75	18.18	0.00	0.00	12.12	0.00	3.03
	Above 75	78.79	0.00	0.00	75.76	0.00	6.06
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	91.48	1.60	6.93	75.88	4.35	19.77
	Minimum	45.90	16.64	0.56	18.80	6.44	0.86
Bidar	Nil	0.00	77.42	58.06	0.00	83.87	67.74
	1-15	0.00	3.23	19.35	0.00	6.45	16.13
	16-30	3.23	12.90	12.90	0.00	3.23	9.68
	31-50	6.45	6.45	6.45	9.68	3.23	3.23
	51-75	16.13	0.00	3.23	9.68	3.23	3.23
	Above 75	74.19	0.00	0.00	80.65	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	80.66	6.52	12.81	85.11	7.94	6.95
	Minimum	27.57	10.83	0.33	31.37	11.09	1.41
Humnabad	Nil	5.88	85.29	47.06	2.94	67.65	41.18
	1-15	0.00	2.94	23.53	0.00	23.53	32.35
	16-30	0.00	8.82	11.76	5.88	5.88	8.82
	31-50	5.88	2.94	5.88	2.94	2.94	8.82

Annexure IV. .3							
Frequency Distribution of GPs as per share of Tax Revenues in Own Revenue 2000-01							
	Share of Tax Revenue in Own Revenue	Property Tax	Water Tax	Others	Property Tax	Water Tax	Others
		1999-00			2000-01		
	51-75	14.71	0.00	5.88	17.65	0.00	2.94
	Above 75	73.53	0.00	5.88	70.59	0.00	5.88
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	83.22	3.37	13.41	69.06	6.69	24.26
	Minimum	41.37	12.09	1.46	16.87	0.48	2.88
Bidar District	Nil	1.18	78.82	61.76	0.59	75.88	61.18
	1-15	0.00	7.65	20.59	0.00	11.18	21.18
	16-30	2.35	8.82	7.65	2.94	7.65	8.24
	31-50	3.53	4.12	6.47	4.12	4.12	4.71
	51-75	13.53	0.59	2.35	12.35	1.18	2.35
	Above 75	79.41	0.00	1.18	80.00	0.00	2.35
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	86.22	4.61	9.17	81.23	5.42	13.36
	Minimum	21.05	2.00	0.07	16.87	0.48	0.86
KR Pet	Nil	0.00	8.82	0.00	0.00	8.82	0.00
	1-15	2.94	50.00	17.65	2.94	70.59	5.88
	16-30	11.76	29.41	14.71	20.59	20.59	23.53
	31-50	38.24	11.76	44.12	29.41	0.00	35.29
	51-75	35.29	0.00	20.59	35.29	0.00	32.35
	Above 75	11.76	0.00	2.94	11.76	0.00	2.94
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	41.90	13.89	44.21	40.48	8.36	51.16
	Minimum	9.84	3.15	4.12	7.81	0.92	8.10
Maddur	Nil	0.00	0.00	0.00	0.00	0.00	0.00
	1-15	2.38	64.29	4.76	0.00	50.00	11.90
	16-30	14.29	33.33	28.57	14.29	35.71	21.43
	31-50	42.86	2.38	35.71	42.86	11.90	45.24
	51-75	38.10	0.00	28.57	38.10	2.38	21.43
	Above 75	2.38	0.00	2.38	4.76	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	46.04	11.91	42.04	48.31	13.10	38.59
	Minimum	13.70	2.03	6.53	21.84	1.16	3.88
Malavalli	Nil	0.00	0.00	0.00	0.00	2.63	0.00
	1-15	0.00	55.26	15.79	0.00	50.00	5.26
	16-30	7.89	36.84	26.32	23.68	39.47	36.84
	31-50	42.11	7.89	34.21	36.84	5.26	34.21
	51-75	50.00	0.00	21.05	39.47	2.63	21.05
	Above 75	0.00	0.00	2.63	0.00	0.00	2.63
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	44.88	12.49	42.63	40.89	14.03	45.09
	Minimum	19.95	2.64	6.41	19.12	1.14	5.55
Mandya	Nil	0.00	8.89	0.00	0.00	0.00	0.00
	1-15	0.00	44.44	4.44	0.00	71.11	0.00
	16-30	6.67	37.78	28.89	15.56	26.67	8.89
	31-50	42.22	8.89	53.33	62.22	2.22	60.00
	51-75	51.11	0.00	13.33	22.22	0.00	28.89
	Above 75	0.00	0.00	0.00	0.00	0.00	2.22
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	47.55	14.75	37.70	41.95	11.67	46.39
	Minimum	22.31	0.20	7.19	17.02	0.09	23.89
Nagamangala	Nil	0.00	3.70	0.00	0.00	7.41	0.00
	1-15	0.00	62.96	3.70	0.00	62.96	3.70
	16-30	7.41	33.33	25.93	3.70	29.63	22.22

Annexure IV. .3							
Frequency Distribution of GPs as per share of Tax Revenues in Own Revenue 2000-01							
	Share of Tax Revenue in Own Revenue	Property Tax	Water Tax	Others	Property Tax	Water Tax	Others
		1999-00			2000-01		
	31-50	51.85	0.00	51.85	59.26	0.00	48.15
	51-75	29.63	0.00	18.52	33.33	0.00	25.93
	Above 75	11.11	0.00	0.00	3.70	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	46.69	11.82	41.48	44.16	10.72	45.12
	Minimum	25.91	0.25	9.94	19.56	2.02	12.61
Pandavapura	Nil	0.00	0.00	0.00	0.00	0.00	0.00
	1-15	12.50	58.33	0.00	12.50	54.17	0.00
	16-30	16.67	33.33	25.00	12.50	41.67	25.00
	31-50	37.50	8.33	41.67	41.67	4.17	33.33
	51-75	33.33	0.00	20.83	33.33	0.00	29.17
	Above 75	0.00	0.00	12.50	0.00	0.00	12.50
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	28.77	10.35	60.88	25.24	10.86	63.90
	Minimum	2.66	1.37	20.20	1.82	2.39	15.31
SR Patna	Nil	0.00	0.00	0.00	0.00	0.00	0.00
	1-15	0.00	17.65	5.88	0.00	23.53	5.88
	16-30	23.53	47.06	35.29	23.53	52.94	23.53
	31-50	58.82	35.29	35.29	58.82	23.53	29.41
	51-75	17.65	0.00	17.65	17.65	0.00	41.18
	Above 75	0.00	0.00	5.88	0.00	0.00	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	37.79	25.03	37.18	37.74	24.43	37.84
	Minimum	15.44	0.26	13.95	25.16	3.19	13.33
Mandya District	Nil	0.00	3.52	0.00	0.00	2.64	0.00
	1-15	2.20	52.42	7.93	1.76	57.27	4.85
	16-30	11.45	35.24	25.99	16.30	33.48	22.47
	31-50	43.61	8.81	42.73	46.70	5.73	42.73
	51-75	39.21	0.00	20.26	32.16	0.88	27.31
	Above 75	3.52	0.00	3.08	3.08	0.00	2.64
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	42.27	13.90	43.83	39.80	12.91	47.29
	Minimum	2.66	0.20	4.12	1.82	0.09	3.88
Karkala	Nil	0.00	96.55	0.00	0.00	96.55	0.00
	1-15	0.00	3.45	0.00	0.00	3.45	0.00
	16-30	17.24	0.00	3.45	24.14	0.00	6.90
	31-50	37.93	0.00	41.38	37.93	0.00	34.48
	51-75	41.38	0.00	44.83	34.48	0.00	44.83
	Above 75	3.45	0.00	10.34	3.45	0.00	13.79
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	37.54	0.02	62.44	38.02	0.06	61.92
	Minimum	20.63	0.14	22.82	18.62	4.45	16.58
Kundapura	Nil	0.00	92.86	0.00	0.00	89.29	0.00
	1-15	5.36	7.14	1.79	3.57	10.71	0.00
	16-30	10.71	0.00	14.29	14.29	0.00	17.86
	31-50	37.50	0.00	30.36	26.79	0.00	37.50
	51-75	37.50	0.00	44.64	44.64	0.00	32.14
	Above 75	8.93	0.00	8.93	10.71	0.00	12.50
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	40.32	0.96	58.72	42.72	1.15	56.14
	Minimum	11.04	5.70	12.80	9.66	1.89	17.32
Udupi	Nil	0.00	88.52	0.00	0.00	86.89	0.00
	1-15	0.00	9.84	0.00	0.00	13.11	0.00

Annexure IV. .3							
Frequency Distribution of GPs as per share of Tax Revenues in Own Revenue 2000-01							
	Share of Tax Revenue in Own Revenue	Property Tax	Water Tax	Others	Property Tax	Water Tax	Others
		1999-00			2000-01		
	16-30	16.39	1.64	6.56	16.39	0.00	18.03
	31-50	40.98	0.00	37.70	32.79	0.00	32.79
	51-75	40.98	0.00	50.82	47.54	0.00	39.34
	Above 75	1.64	0.00	4.92	3.28	0.00	9.84
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	41.28	1.36	57.37	42.32	0.85	56.83
	Minimum	21.75	0.55	21.40	15.10	1.02	22.32
Udupi District	Nil	0.00	91.78	0.00	0.00	89.73	0.00
	1-15	2.05	7.53	0.68	1.37	10.27	0.00
	16-30	14.38	0.68	8.90	17.12	0.00	15.75
	31-50	39.04	0.00	35.62	31.51	0.00	34.93
	51-75	39.73	0.00	47.26	43.84	0.00	37.67
	Above 75	4.79	0.00	7.53	6.16	0.00	11.64
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	40.36	1.02	58.62	41.69	0.80	57.52
	Minimum	11.04	0.14	12.80	9.66	1.02	16.58
Four District	Nil	0.28	44.33	15.44	0.14	41.93	15.72
	1-15	1.42	31.73	21.10	1.13	33.99	18.70
	16-30	8.07	18.27	16.86	10.62	18.84	17.71
	31-50	24.93	5.38	25.35	25.50	4.53	25.07
	51-75	32.15	0.28	17.99	30.45	0.71	18.56
	Above 75	33.14	0.00	3.26	32.15	0.00	4.25
	Total	100.00	100.00	100.00	100.00	100.00	100.00
	Average	50.38	7.94	41.68	48.60	7.42	43.97
	Minimum	2.66	0.14	0.07	1.82	0.09	0.71

Annexure IV. 4
Composition of Per capita Revenues

District	Per capita Revenues						Per capita Revenues					
	Property Tax	Licence Fee	Water Charges	Rents	Other Revenue	Own Revenue	Property Tax	Licence Fee	Water Charges	Rents	Other Revenue	Own Revenue
	1999-00						2000-01					
Bagalkot Dist	7.62	1.01	1.44	0.51	1.58	12.16	8.08	1.15	1.65	0.50	1.73	13.11
Badami	8.41	0.48	0.93	0.62	2.95	13.39	8.77	0.44	0.92	0.55	3.01	13.69
Bagalkot	9.54	0.93	2.00	0.26	1.87	14.60	11.04	0.97	2.05	0.24	1.54	15.83
Bilgi	7.08	0.72	1.46	0.45	1.57	11.29	6.49	0.85	1.56	0.32	0.89	10.11
Hungund	7.44	1.66	1.38	0.55	1.23	12.26	8.42	1.81	1.94	0.95	2.05	15.17
Jamkhandi	6.26	1.24	1.60	0.39	1.23	10.70	6.31	1.85	1.82	0.34	1.83	12.15
Mudhol	7.26	0.79	1.38	0.78	0.65	10.87	7.53	0.63	1.64	0.52	0.56	10.88
Bidar Dist	7.05	0.15	0.38	0.08	0.52	8.17	5.22	0.18	0.35	0.08	0.60	6.43
Aurad	5.44	0.10	0.57	0.00	0.08	6.19	4.18	0.12	0.33	0.00	0.04	4.66
Basavakalyan	6.57	0.11	0.30	0.00	0.53	7.51	5.63	0.17	0.13	0.05	0.35	6.34
Bhalki	9.54	0.17	0.17	0.11	0.44	10.43	6.08	0.16	0.35	0.14	1.29	8.02
Bidar	6.84	0.24	0.55	0.25	0.59	8.48	5.70	0.13	0.53	0.18	0.15	6.70
Humnabad	7.14	0.15	0.29	0.06	0.94	8.58	4.56	0.31	0.44	0.03	1.26	6.60
Mandya Dist	7.55	1.75	2.48	0.43	5.65	17.86	6.46	1.90	2.10	0.42	5.35	16.23
KR Pet	4.94	0.98	1.64	0.62	3.61	11.78	4.72	1.31	0.98	0.57	4.08	11.66
Maddur	8.40	1.74	2.17	0.30	5.62	18.23	7.67	1.99	2.08	0.19	3.94	15.87
Malavalli	6.24	1.18	1.74	0.07	4.68	13.91	5.16	1.39	1.77	0.11	4.18	12.61
Mandya	9.94	2.90	3.09	0.28	4.70	20.92	7.97	2.67	2.22	0.34	5.81	19.00
Nagamangala	7.02	1.16	1.78	0.63	4.46	15.04	5.97	1.31	1.45	0.54	4.25	13.52
Pandavapura	7.23	1.52	2.60	1.23	12.53	25.11	5.80	1.82	2.50	1.26	11.61	22.98
SR Patna	8.94	2.89	5.92	0.00	5.91	23.65	8.05	3.10	5.21	0.11	4.87	21.34
Udupi Dist	11.29	4.25	0.28	6.62	5.53	27.98	12.96	4.50	0.25	7.76	5.61	31.08
Karkala	9.61	4.36	0.01	6.35	5.28	25.60	10.76	4.57	0.02	7.65	5.30	28.29
Kundapura	8.09	2.91	0.19	3.96	4.91	20.06	9.16	3.43	0.25	4.21	4.40	21.46
Udupi	15.02	5.45	0.49	9.21	6.22	36.39	17.50	5.48	0.35	11.14	6.89	41.36
Four Dists	8.21	1.71	1.29	1.63	3.45	16.30	7.88	1.85	1.20	1.86	3.43	16.22

Annexure IV. .5								
Level and Composition of Revenues in Panchayats								
	Share in Own Revenue					Share of Own Revenue in Total Revenue	Per capita Own Revenue	Per Capita Total Revenue
	Property Tax	Licence Fee	Water rates	Rents	Other Revenu			
1999-00								
Bagalkot Dist	62.66	8.27	11.89	4.21	12.98	23.51	12.16	51.72
Badami	62.80	3.62	6.92	4.66	22.00	28.23	13.39	47.42
Bagalkot	65.36	6.40	13.72	1.75	12.78	28.83	14.60	50.63
Bilgi	62.74	6.39	12.95	3.99	13.93	19.79	11.29	57.05
Hungund	60.72	13.54	11.24	4.48	10.02	26.06	12.26	47.03
Jamkhandi	58.46	11.55	14.93	3.60	11.46	19.36	10.70	55.30
Mudhol	66.80	7.31	12.74	7.13	6.01	19.84	10.87	54.77
Bidar Dist	86.22	1.89	4.61	0.97	6.31	15.98	8.17	51.15
Aurad	87.87	1.67	9.15	0.00	1.30	13.59	6.19	45.56
Basavakalyan	87.40	1.52	4.05	0.00	7.02	15.15	7.51	49.58
Bhalki	91.48	1.64	1.60	1.07	4.22	17.80	10.43	58.59
Bidar	80.66	2.85	6.52	2.96	7.00	20.41	8.48	41.54
Humnabad	83.22	1.79	3.37	0.67	10.95	14.08	8.58	60.95
Mandya Dist	42.27	9.79	13.90	2.42	31.63	32.16	17.86	55.52
KR Pet	41.90	8.28	13.89	5.29	30.64	24.67	11.78	47.77
Maddur	46.04	9.56	11.91	1.67	30.81	33.47	18.23	54.47
Malavalli	44.88	8.51	12.49	0.51	33.62	25.74	13.91	54.05
Mandya	47.55	13.89	14.75	1.33	22.48	34.89	20.92	59.95
Nagamangala	46.69	7.68	11.82	4.17	29.64	27.31	15.04	55.09
Pandavapura	28.77	6.05	10.35	4.91	49.91	40.00	25.11	62.78
SR Patna	37.79	12.21	25.03	0.00	24.97	42.85	23.65	55.19
Udupi Dist	40.36	15.19	1.02	23.66	19.78	42.67	27.98	65.57
Karkala	37.54	17.01	0.02	24.79	20.63	37.69	25.60	67.92
Kundapura	40.32	14.50	0.96	19.74	24.48	36.49	20.06	54.97
Udupi	41.28	14.97	1.36	25.29	17.10	48.95	36.39	74.35
Four Dist	50.38	10.48	7.94	10.00	21.20	29.29	16.30	55.64
2000-01								
Bagalkot Dist	61.62	8.74	12.62	3.84	13.19	17.01	13.11	77.11
Badami	64.04	3.23	6.73	4.01	21.99	17.87	13.69	76.58
Bagalkot	69.73	6.10	12.94	1.50	9.73	22.96	15.83	68.98
Bilgi	64.20	8.36	15.43	3.18	8.83	11.83	10.11	85.47
Hungund	55.49	11.96	12.77	6.26	13.52	21.67	15.17	70.04
Jamkhandi	51.96	15.24	14.96	2.76	15.08	15.78	12.15	76.98
Mudhol	69.24	5.80	15.06	4.75	5.15	12.40	10.88	87.74
Bidar Dist	81.23	2.76	5.42	1.21	9.38	11.28	6.43	56.97
Aurad	89.64	2.50	7.01	0.00	0.86	8.13	4.66	57.31
Basavakalyan	88.86	2.70	2.06	0.86	5.52	11.88	6.34	53.35
Bhalki	75.88	1.97	4.35	1.70	16.10	12.16	8.02	65.94
Bidar	85.11	2.00	7.94	2.71	2.25	14.16	6.70	47.32
Humnabad	69.06	4.63	6.69	0.49	19.14	10.69	6.60	61.74
Mandya Dist	39.80	11.70	12.91	2.61	32.98	23.33	16.23	69.57
KR Pet	40.48	11.23	8.36	4.92	35.01	18.42	11.66	63.31
Maddur	48.31	12.55	13.10	1.22	24.82	20.69	15.87	76.74
Malavalli	40.89	11.01	14.03	0.89	33.18	17.60	12.61	71.65
Mandya	41.95	14.07	11.67	1.77	30.55	26.64	19.00	71.32

Annexure IV. .5								
Level and Composition of Revenues in Panchayats								
	Share in Own Revenue					Share of Own Revenue in Total Revenue	Per capita Own Revenue	Per Capita Total Revenue
	Property Tax	Licence Fee	Water rates	Rents	Other Revenue			
Nagamangala	44.16	9.72	10.72	3.97	31.42	21.20	13.52	63.76
Pandavapura	25.24	7.91	10.86	5.48	50.52	34.29	22.98	67.00
SR Patna	37.74	14.51	24.43	0.50	22.83	30.39	21.34	70.22
Udupi Dist	41.69	14.49	0.80	24.97	18.06	33.16	31.08	93.74
Karkala	38.02	16.14	0.06	27.05	18.73	29.13	28.29	97.10
Kundapura	42.72	16.00	1.15	19.64	20.49	26.72	21.46	80.30
Udupi	42.32	13.24	0.85	26.92	16.66	39.47	41.36	104.81
Four Dist	48.60	11.39	7.42	11.46	21.13	22.11	16.22	73.36

Annexure IV..6 (A)
Frequency of GPs based on cost of collection*-2000-01

	Less than 25%	Between 25 and 50%	Between 50 and 75%	Between 75 and 100%	More than 100%	Total
Bagalkot	30.67	37.42	15.95	7.36	8.59	100.00
Badami	47.06	41.18	8.82	2.94	0.00	100.00
Bagalkot	31.82	36.36	18.18	4.55	9.09	100.00
Bilgi	20.00	30.00	10.00	20.00	20.00	100.00
Hungund	16.67	30.00	30.00	13.33	10.00	100.00
Jamkhandi	28.13	40.63	15.63	3.13	12.50	100.00
Mudhol	36.00	44.00	12.00	4.00	4.00	100.00
Bidar	13.61	40.24	19.53	13.61	13.02	100.00
Aurad	2.70	32.43	16.22	24.32	24.32	100.00
Basavakalyan	25.71	45.71	17.14	2.86	8.57	100.00
Bhalki	15.15	42.42	18.18	15.15	9.09	100.00
Bidar	9.68	32.26	35.48	12.90	9.68	100.00
Humnabad	15.15	48.48	12.12	12.12	12.12	100.00
Mandya	18.78	46.72	17.03	9.61	7.86	100.00
KR Pet	14.71	52.94	20.59	2.94	8.82	100.00
Maddur	16.67	38.10	19.05	11.90	14.29	100.00
Malavalli	12.82	41.03	20.51	20.51	5.13	100.00
Mandya	33.33	42.22	13.33	6.67	4.44	100.00
Nagamangala	3.70	70.37	14.81	3.70	7.41	100.00
Pandavapura	8.33	50.00	12.50	16.67	12.50	100.00
SR Patna	44.44	38.89	16.67	0.00	0.00	100.00
Udupi	49.32	33.56	9.59	6.16	1.37	100.00
Karkala	48.28	41.38	6.90	3.45	0.00	100.00
Kundapura	35.71	42.86	12.50	7.14	1.79	100.00
Udupi	62.30	21.31	8.20	6.56	1.64	100.00
Four Districts	26.59	40.31	15.84	9.34	7.92	100.00

Note: * Cost of collection refers to the salary of bill collector
Revenue accrual is the revenue from property tax only

Annexure IV.6 (B)
Frequency of GPs based on cost of collection*-2000-01

District/ Taluk	Less than 25%	Between 25 and 50%	Between 50 and 75%	Between 75 and 100%	More than 100%	Total
Bagalkot	3.07	28.83	21.47	15.34	31.29	100.00
Badami	0.00	29.41	29.41	14.71	26.47	100.00
Bagalkot	0.00	18.18	36.36	22.73	22.73	100.00
Bilgi	0.00	0.00	30.00	20.00	50.00	100.00
Hungund	6.67	16.67	10.00	20.00	46.67	100.00
Jamkhandi	3.13	46.88	15.63	6.25	28.13	100.00
Mudhol	8.00	52.00	12.00	12.00	16.00	100.00
Bidar	0.59	3.55	9.47	10.06	76.33	100.00
Aurad	0.00	0.00	2.70	2.70	94.59	100.00
Basavakalyan	2.86	11.43	11.43	11.43	62.86	100.00
Bhalki	0.00	0.00	15.15	6.06	78.79	100.00
Bidar	0.00	0.00	9.68	12.90	77.42	100.00
Humnabad	0.00	6.06	9.09	18.18	66.67	100.00
Mandya	1.31	14.41	15.72	22.27	46.29	100.00
KR Pet	2.94	8.82	11.76	26.47	50.00	100.00
Maddur	0.00	11.90	7.14	19.05	61.90	100.00
Malavalli	0.00	5.13	5.13	35.90	53.85	100.00
Mandya	4.44	20.00	28.89	17.78	28.89	100.00
Nagamangala	0.00	3.70	11.11	29.63	55.56	100.00
Pandavapura	0.00	12.50	33.33	12.50	41.67	100.00
SR Patna	0.00	55.56	16.67	5.56	22.22	100.00
Udupi	23.97	34.93	24.66	6.85	9.59	100.00
Karkala	20.69	37.93	27.59	13.79	0.00	100.00
Kundapura	17.86	26.79	33.93	5.36	16.07	100.00
Udupi	31.15	40.98	14.75	4.92	8.20	100.00
Four Districts	6.22	19.38	17.40	14.57	42.43	100.00

Note: * Cost of collection refers to the salary of bill collector and water men
Revenue accrual is the revenue from property tax and water charges

Annexure IV.6(C)
Frequency of GPs based on cost of collection*-2000-01

	Less than 25%	Between 25 and 50%	Between 50 and 75%	Between 75 and 100%	More than 100%	Total
Bagalkot	3.68	17.18	29.45	13.50	36.20	100.00
Badami	2.94	17.65	35.29	20.59	23.53	100.00
Bagalkot	0.00	18.18	18.18	31.82	31.82	100.00
Bilgi	0.00	0.00	30.00	10.00	60.00	100.00
Hungund	3.33	16.67	23.33	3.33	53.33	100.00
Jamkhandi	9.38	18.75	34.38	9.38	28.13	100.00
Mudhol	4.00	28.00	32.00	8.00	28.00	100.00
Bidar	0.59	2.35	6.47	9.41	81.18	100.00
Aurad	0.00	0.00	2.70	0.00	97.30	100.00
Basavakalyan	2.86	2.86	5.71	8.57	80.00	100.00
Bhalki	0.00	6.06	9.09	12.12	72.73	100.00
Bidar	0.00	0.00	3.23	19.35	77.42	100.00
Humnabad	0.00	2.94	11.76	8.82	76.47	100.00
Mandya	2.18	15.28	30.57	27.51	24.45	100.00
KR Pet	2.94	17.65	23.53	29.41	26.47	100.00
Maddur	2.38	14.29	16.67	23.81	42.86	100.00
Malavalli	0.00	5.13	30.77	28.21	35.90	100.00
Mandya	2.22	22.22	37.78	28.89	8.89	100.00
Nagamangala	0.00	7.41	33.33	37.04	22.22	100.00
Pandavapura	8.33	16.67	29.17	37.50	8.33	100.00
SR Patna	0.00	27.78	55.56	0.00	16.67	100.00
Udupi	30.82	51.37	12.33	4.11	1.37	100.00
Karkala	27.59	65.52	0.00	6.90	0.00	100.00
Kundapura	32.14	44.64	14.29	5.36	3.57	100.00
Udupi	31.15	50.82	16.39	1.64	0.00	100.00
Four Districts	8.05	20.06	20.76	15.11	36.02	100.00

Note: * Cost of collection refers to the total salaries
Revenue accrual is the total own revenue

Annexure IV.7A

Cost of Collection of Property Tax by Gram Panchayats

	Cost of Collection (Rs. lakh) (salary of bill collector only)		Revenue Accrual (Rs. Lakh) (property tax only)		Share of cost to accrual (per cent)	
	1999-2000	2000-01	1999-2000	2000-01	1999-2000	2000-01
Bagalkot	25.18	31.55	86.19	92.86	29.22	33.98
Badami	4.60	4.94	18.01	19.02	25.55	25.98
Bagalkot	4.60	6.23	15.29	18.10	30.08	34.40
Bilgi	3.10	3.87	8.95	8.25	34.62	46.94
Hungund	4.30	7.20	15.98	18.32	26.93	39.29
Jamkhandi	4.45	4.98	14.50	14.90	30.67	33.41
Mudhol	4.13	4.34	13.46	14.26	30.69	30.42
Bidar	23.70	27.08	78.03	58.61	30.37	46.20
Aurad	5.02	5.99	12.17	9.43	41.23	63.57
Basavakalyan	4.33	4.67	16.49	14.39	26.24	32.46
Bhalki	4.83	5.08	19.24	12.43	25.11	40.85
Bidar	5.28	6.49	14.38	12.17	36.70	53.30
Humnabad	4.24	4.85	15.74	10.20	26.95	47.55
Mandya	33.90	38.00	116.91	100.57	29.00	37.79
KR Pet	3.62	4.51	11.58	11.19	31.30	40.30
Maddur	7.13	7.91	22.26	20.35	32.04	38.88
Malavalli	5.34	5.81	16.46	13.52	32.45	43.01
Mandya	6.20	7.30	29.66	23.88	20.90	30.58
Nagamangala	4.60	5.02	13.25	11.37	34.75	44.15
Pandavapura	4.22	4.85	12.70	10.30	33.20	47.08
SR Patna	2.78	2.59	10.99	9.96	25.27	26.03
Udupi	23.30	26.41	109.16	126.77	21.35	20.84
Karkala	4.00	4.08	17.56	19.90	22.78	20.49
Kundapura	7.31	8.54	30.50	35.18	23.97	24.26
Udupi	11.99	13.80	61.11	71.69	19.63	19.25
Four Districts	106.08	123.05	390.29	378.81	27.18	32.48

Note: Cost of collection refers to the salary of bill collector
Revenue accrual is the revenue from property tax only

Annexure IV.7B
Cost of Collection of Revenues by Gram Panchayats

	Cost of Collection (Rs. lakh)(bill collector and watermen)		Revenue Accrual (Rs. lakh) (property tax and water charges)		Share of cost to accrual (per cent)	
	1999-2000	2000-01	1999-2000	2000-01	1999-2000	2000-01
Bagalkot	56.72	75.88	102.54	111.87	55.31	67.83
Badami	11.75	15.33	19.98	21.00	58.81	73.04
Bagalkot	11.22	14.57	18.59	21.55	60.38	67.63
Bilgi	7.13	9.80	10.80	10.24	66.04	95.72
Hungund	9.60	16.85	18.94	22.54	50.70	74.76
Jamkhandi	9.28	10.78	18.20	19.19	51.00	56.20
Mudhol	7.72	8.54	16.03	17.36	48.19	49.20
Bidar	73.56	84.20	82.20	62.52	89.49	134.67
Aurad	16.79	21.06	13.44	10.17	124.94	207.14
Basavakalyan	14.10	14.91	17.26	14.72	81.67	101.29
Bhalki	16.21	16.92	19.58	13.14	82.79	128.81
Bidar	13.65	17.49	15.54	13.31	87.80	131.48
Humnabad	12.82	13.81	16.38	11.19	78.27	123.42
Mandya	94.74	111.41	155.18	133.16	61.05	83.67
KR Pet	10.83	14.84	15.42	13.50	70.26	109.96
Maddur	20.17	23.48	28.02	25.87	71.97	90.77
Malavalli	16.09	18.86	20.97	18.11	76.74	104.12
Mandya	16.84	20.62	38.86	30.52	43.34	67.59
Nagamangala	12.05	13.32	16.60	14.13	72.59	94.27
Pandavapura	10.54	11.47	17.27	14.74	61.06	77.84
SR Patna	8.21	8.81	18.04	16.30	45.49	54.07
Udupi	39.01	44.13	111.91	129.19	34.86	34.16
Karkala	6.49	6.85	17.57	19.93	36.91	34.39
Kundapura	13.13	14.83	31.22	36.13	42.06	41.06
Udupi	19.40	22.44	63.12	73.14	30.73	30.68
Four Districts	264.03	315.62	451.83	436.74	58.44	72.27

Note: Cost of collection refers to the salary of bill collector and watermen

Revenue accrual is the revenue from property tax and water charges

Chapter V

Fiscal Transfers to Panchayats

V. 1 Transfer System for Local Governments: Conceptual Issues

An important issue in intergovernmental finance is the problem of vertical imbalance. Even in an ideal assignment system, imbalances between expenditure needs and revenue resources are unavoidable. This is because higher level governments have comparative advantage in raising revenues and the lower level governments are better placed to implement programmes. To the extent local governments have a comparative advantage in revenue raising, it is for taxes that are not broad-based and therefore not as revenue productive.

The economic rationale for giving transfers to resolve vertical and horizontal imbalances has been advanced on horizontal equity grounds (Boadway and Flatters, 1982) according to which the persons equally well off before the introduction of the fiscal system should also be so afterwards. Taking comprehensive income, it has been shown that, horizontal equity is violated even when national and subnational governments treat equals equally because of differences in the capacity to raise revenues and unit cost differences in providing public services. According to Boadway and Flatters (1982), the degree of equalisation depends on the view one takes on horizontal equity. They define horizontal equity in two alternative ways. According to the *broad* view, the fiscal system should be equitable nation-wide vis-à-vis the action of all Governments and two persons who are equally well off before Central and sub-central operations should also be so afterwards. To fulfil this concept of horizontal equity, it is necessary to give transfers so that each governmental unit within a tier is enabled to provide the same level of public services at a given tax rate. According to the *narrow* view, granter's fiscal actions will be directed to ensure horizontal equity after the recipient's fiscal system has been established. The granter need not offset the inequities introduced by the operation of the recipient's budgets *per se*, but take account of income distributional effects of the latter's fiscal operations (Boadway and Flatters, 1982, p. 20).

The resolution of these vertical and horizontal imbalances would require transferring resources from higher level governments to lower level governments. The design of such transfers will have to be calibrated carefully to ensure that while legitimate resource

requirements of local governments are catered to, it does not give any scope for lowering their own resource generation efforts and indulge in fiscal profligacy (Bird and Valliancourt, 1998).

In additional to the task of offsetting fiscal disabilities, the transfer system has also been employed to incentivise the subnational governments to provide specified public services with significant externalities and therefore, are considered meritorious. The transfer system designed to offset fiscal disabilities discussed above will *enable* the local governments to provide a given level of public services so long as they put in their own tax effort. However, such a transfer system will not *ensure* that the public services are provided at required levels. General purpose transfers are given to augment public services provided by the local governments in general and not meant to ensure a certain normatively determined minimum standards of specified 'meritorious' services provided by them. Meritorious services are those that are considered essential due to their externalities and hence a certain specified minimum of such services should be accessible to all. To ensure provision of minimum levels of such services, it is necessary to design a specific purpose transfer system with matching requirements. Matching requirements can vary among different services depending upon the extent to which the State government wants to incentivise the provision of services considered meritorious.

What should be the mix of general purpose (block) transfers given to offset fiscal disabilities or equalization and specific purpose transfers given to ensure minimum standards of services? In actual practice, the systems vary from one country to another depending on the way the transfer system has evolved historically. In most federal systems except the United States, bulk of the transfers from the Central/Federal governments to regional (State/Provincial) governments are given for equalization, though conditional transfers are also given to ensure minimum standards of specified services. However, transfers from regional to local governments are predominantly for specified purposes, and in many cases require matching contributions from the local governments.

There can be many reasons for giving conditional rather than unconditional transfers to local governments. In most cases this happens because, the local governments are merely used as implementing agencies of the regional governments and in such cases, the transfers have to be conditional. The economic rationale, however, is that the nature of public services provided by the local governments is predominantly quasi - public with significant

externalities and ensuring optimal supply of these services requires subsidization of these services. In most cases, the local public goods, given their limited regional spread and volume of investment involved, can be supplied by the private sector as well. However, due to the high degree of externalities in these services, providing these services through the market would result in their under-provision.

A well-designed conditional transfer system would be a close ended, specific purpose transfer with matching requirement from local governments. This would be like a shared cost program. When local governments are made to meet at least a portion of the cost from their own sources of revenue, there will be a sense of ownership, and such a design of the transfer system promotes both incentives to provide the service and accountability. This would however, require that the local governments would have own resources to meet their matching contributions.

Thus, an ideal transfer system to local governments entails a mix of general purpose and specific purpose transfers and the composition of these depends on the mix of the services that the local governments provide. Given that at local levels most services provided do not satisfy technical characteristics of public goods, the specific purpose transfers predominate. Another reason for the predominance of conditional transfers is the use of local governments as implementing agencies by higher level governments.

V. 2 The State Finance Commission

While making constitutional amendment to give statutory recognition to panchayats, it was foreseen that the revenue powers devolved for them would not be adequate to meet their expenditure requirements. In any case, ZPs and TPs are not assigned any significant revenue powers and the revenue powers assigned to GPs are either not important or are not used to their full potential. Therefore, similar to the constitutional provisions to devolve transfers from the Centre to the States, an Article 243(i) and Article 243(y) were inserted in the Constitution to appoint the State Finance Commission every 5 years. The Commission is required to assess and quantify the fiscal requirements of urban and rural local bodies in the State. The Finance Commission thus appointed must examine the issues pertaining to assignments, transfers and other matters to strengthen the finances of the local governments. The objective of this institution is to ensure fiscal empowerment of local governments

without jeopardizing the finances of the State Government and achieving a fair distribution of resources among different local government units inter se.

The main functions of the State Finance Commission are to (i) set forth the principles and distribute taxes between the State government and local bodies, between different urban and rural local bodies and among different governmental units within each of the local body tiers; (ii) consider which additional taxes and non-tax sources of revenue can be assigned to the urban and rural local bodies to enhance their fiscal empowerment and autonomy; (iii) determine the grants in aid to be given to local bodies in both urban and rural areas; and (iv) recommend measures needed to improve the financial position of rural and urban local bodies in the State.

In Karnataka, two State Finance Commissions have submitted reports. The First Finance Commission recommended that 36 percent of own non-loan revenue receipts of the State Government should be given to the local bodies. The distribution between urban and rural local bodies was recommended to be on the basis of population, area and index of backwardness with equal weights assigned to illiteracy rate, number of persons per bed in government hospitals, and road length per square km. area. Based on these criteria, the Commission recommended that 15 per cent of the sharable resources should be allocated among urban local bodies, and the remaining 85 per cent should be assigned among Panchayat Raj institutions. Within rural local bodies, ZPs, TPs and GPs were allocated 40%, 35% and 25%, respectively.

The Commission also estimated the specific expenditure requirements for ensuring certain pre-determined standards of some important public services provided by both rural and urban local bodies. In rural areas, minimum standards of services are to be ensured in respect of safe drinking water, village sanitation, street lights, rural roads, primary education and primary health care. It estimated expenditure requirements for providing normative standards in respect of each of these services using engineering norms, and estimated the shortfall in respect of those local bodies where the standards were lower than the specified norms. The specific requirement for upgradation was earmarked from the total devolution recommended by the Commission. The local bodies were required to first allocate the resources for the provision of these selected services at normative levels from the resources disbursed to them. The remaining amounts were to be used for general purposes by the local bodies.

The Second Finance Commission has recently submitted the report. It has recommended the devolution of 40 per cent of non-loan gross own revenue receipts (NLGORR). It retained the three factors for the distribution but the index of backwardness was modified to include the scheduled caste and scheduled tribe population instead of road length per sq.km area with the last factor assigned 40 per cent weight and each of the remaining two factors assigned 30 per cent weight. According to the recommendation 80 per cent (32 per cent of NLGORR) should be assigned to the rural local bodies and the remaining 20 per cent (8 per cent of NLGORR) for urban local bodies. It retained the non-plan allocation according to the prevailing ratios, and applied the indicators and weightages only for the allocation of plan funds. The Plan funds are to be distributed to ZPs and TPs in the ratio 65:35. The Commission recommends that the prevailing practice of giving them lump sum grants to GPs should be continued. In the first year, the allocation should be Rs. 3.5 lakhs per GP and the amount should be increased by Rs. 25000 every year for the four subsequent years covered in the Commission's recommendation.

There are serious shortcomings in the recommendations of the Second Finance Commission. The most important is that it has endorsed the pattern of decentralisation currently in vogue. In terms of analytical underpinning or information base the Commission makes no advancement from the First Finance Commission. It takes the prevailing pattern of expenditures as given and basically endorses the existing transfer system (which has evolved not according to any indicators of capacity and need, but on the basis of exigencies, and without any information base). The decision to increase the local share to 40 per cent of NLGORR, the choice of variables and weights assigned to them for distribution, and the distribution of the shares of individual governmental units – are not based on any objective indicator but judgements of the Commission. While the expenditure need has to be estimated in relation to the functions assigned, it is not clear how the factors chosen are relevant to the assigned functions. The Commission does not consider the additional cost disabilities of urban local bodies for providing public services. Most importantly, continuing with the lump sum transfers to GPs and increasing them by Rs. 25000 every year is the most retrograde recommendation. The Commission could have recommended distribution of the funds according to population, which is at least a general indicator of need. The Commission has also not incorporated considerations of the fiscal performances of local bodies in its recommendations.

V. 3 The Transfer System for Rural Local Governments in Karnataka

In the case of the Central Finance Commission's recommendations, a tradition has developed that by and large it is accepted by the central government and implemented. However, in the case of State Finance Commission, there is no such tradition. In fact, the State government did not accept the recommendations of the First Finance Commission either in terms of the total amount devolved, distribution between urban and rural local governments or between different tiers of urban and rural local governments. By and large, the distribution was based on the past expenditure pattern. Thus, in the case of ZPs and TPs, the transfers continued to be on the basis of various schemes implemented by them. In the case of GPs, in addition to the poverty alleviation and Employment Assurance Schemes, specific purpose transfers were given for water supply maintenance, and block transfers consisted of lump sum transfers paid by the State government and the central Finance Commission grants.

As already mentioned, the three tiers of rural local governments in Karnataka predominantly depend on the transfers from the higher level governments to provide public services. The ZPs and TPs do not have any significant revenue powers and their entire functioning depends on the transfers received. As regards GPs, analysis has shown that the volume of revenue raised by them is very small and they are heavily dependent on transfers from the central and state governments to finance public services. Since the transfers they receive are not large, the GPs play a minor role in providing public services.

The transfers from the higher level governments to rural local governments come from both the central and state governments. The central transfers are mainly for central sector and centrally sponsored schemes. Some of these transfers are given to state governments and the latter pass them on to the ZPs for implementation. Most central transfers, however are given directly to ZPs either to implement the programs themselves or to pass them on to TPs and GPs. The State government is, however, informed about the volume of transfers passed on to ZPs. Some of the central programs require matching contributions from the state government. The important central programs implemented by panchayats were analysed in Chapter 2 and are not gone into here. The central transfers given for various schemes also have conditions attached to them.

In addition to the specific purpose conditional transfers for various plan schemes, the Central government gives transfers on the recommendation of the Central Finance Commission as well. The Eleventh Finance Commission, for example, made transfers to the Panchayats.

The transfers from the state government to rural local governments are also given for both plan and non-plan purposes. The plan transfers are included in the district sector plan schemes and given strictly on schematic basis. There are many plan schemes implemented by the panchayats, though only a handful are financially important (See Chapter 2). On the non-plan side also, as detailed in Chapter 2, decentralisation has entailed essentially transferring of schemes, employees to implement the schemes and the funds to pay for the salaries of employees and other expenditures of the schemes. It was also shown in the chapter that the way schemes, employees and funds have been devolved on both plan and non-plan sides has robbed the system the very essence of decentralisation. In the prevailing system, the panchayats do not have the flexibility to determine the standards of various public services to be provided by them. Not only that the volume of spending incurred by them is inadequate to provide satisfactory standards of public services in their domain, but even the level and composition of expenditures is determined by the state government.

At the GP level, the important lump sum grants consist of statutory grants from the state government and the grants given on the recommendation of the central Finance Commission. In 1987-88, a per capita grant of Rs. 7.5 to each GP was introduced and this was increased to the total grant of Rs. 1 lakh in 1993-94. This was increased to Rs. 2 lakhs in 1998-99 and an additional Rs. 1.5 lakh was given as development grant from 2001-02. Thus, at present, a total of Rs. 3.5 lakh is given as a lump sum grant to each of the panchayats. Out of the basic grant, electricity charges payable by the GP to the State Electricity Boards (SEBs) are deducted and the balance is paid to the GP. In addition, the Eleventh Finance Commission has recommended the grant for development purposes to GPs. The GPs are required to make a 25 per cent matching contribution.

The specific purpose transfers include grants for *Jawahar Gram Samridhi Yojana* (JGSY), which is now merged with employment assurance scheme (EAS) to be called *Sampurna Grameena Rojgar Yojana* (SGRY) from April 2002. This is an important direct anti-poverty intervention and money is given as grant to GPs through ZP for wage employment via creating physical infrastructure assets. The distribution of the grants is based

on population (1991 census) and proportion of scheduled and tribe population in the total. Of the total expenditure incurred under the scheme, administrative expenditures should not exceed 10 per cent, and 50 per cent should be earmarked to directly benefit scheduled castes and tribes.

V.4 Analysis of Transfers

The volume and composition of transfers from Centre and States to rural local bodies in Karnataka for 2000-01 are presented in Table V.1. In the aggregate, rural local bodies in Karnataka received Rs. 1631 per capita or 8.3 per cent of GSDP. Of this, 41 per cent was for plan purposes and the remainder was non-plan. Among the three tiers of panchayats, the GPs received only 5.4 per cent of total transfers and the entire amount was on plan account. The shares of TPs and ZPs were 54.4 per cent and 40.2 per cent, respectively. In both TPs and ZPs, the non-plan component of transfers were substantially higher mainly because, as detailed in chapter 2, the rural local bodies are basically involved in dispensing salaries of school teachers and health workers.

Per capita transfers to rural local bodies and their composition across different functional categories in 2000-01 are presented in Tables V.2 and V.3. Interestingly, per capita transfers to rural local governments in the four districts in Karnataka does have a marginal equalizing bias. The per capita transfers in the richest district – Udupi was the lowest, it was the highest in the poorest district, Bidar. This is interesting for, in terms of policy desing, there is no equalization in the transfer system. In other words, fiscal devolution made to meet expenditure requirements of various schemes has historically determined distributive impact. As the anti-poverty transfers are given more to those districts with larger proportion of the poor, the transfers tend to have a progressive bias. This is true of not only the aggregate expenditures but also expenditures on individual functions detailed in the table. Systematic pattern in the transfers is not seen in respect of both plan and non-plan schemes.

Table V.1			
Transfers to Rural Local Bodies in Karnataka			
Local Body	Per capita Transfers	Per Cent of Total	Per cent of GDDP
Gram Panchayats			
Plan	70.38	5.36	0.347
Non-Plan	-		-
Total	70.38	5.36	0.347
Taluk Panchayats			
Plan	218.07	16.54	1.070
Non-Plan	499.73	37.90	2.453
Total	717.80	54.44	3.523
Zilla Panchayats			
Plan	236.29	17.92	1.160
Non-Plan	293.84	22.28	1.442
Total	530.13	40.20	2.612
All Rural Local Bodies			
Plan	525.04	39.82	2.577
Non-Plan	793.57	60.18	3.894
Total	1318.61	100.00	6.472

The functional composition of expenditures in rural local bodies presented in Table V. 3 shows that grants are concentrated in a handful of sectors. Almost one half of the grants to rural local governments are given to the education sector. The high proportion of expenditures is due to the fact that TPs and ZPs have the responsibility of disbursing the salaries of school teachers and distributing grants to aided schools. In fact, disbursing salaries seems to be the major function of rural local governments in Karnataka. Other notable functions for which grants are given include medical and public health in which again, disbursement of salaries of health workers is a major component. The grants given for the welfare of scheduled castes and tribes constituted less than 6.4 per cent of total grants. Transfers to public works constituted 6.0 per cent and for agriculture, 5.9 per cent.

At the GP level, per capita transfers in the four districts averaged just about Rs. 70.4 or 0.34 per cent of GDDP. These constituted only about 5.4 per cent of the total devolution to rural local bodies. The major component of transfer comprises the devolution of funds for anti-poverty programs (Table V. 4). These include the funds transferred for Central sector and centrally Sponsored Schemes for rural development (Rs. 21) as well as rural employment under Jawahar Gram Samridhi Yojana (JGSY), an Employment Assurance Scheme. The lump sum grants given by the state government are also classified under rural development,

and this constituted about 0.12 per cent of GDDP. Another item of transfers is for maintenance of water supply schemes.

Among the four districts, the transfers were the highest in Bidar, the district with the lowest per capita income in both per capita terms and as a ratio of GDDP. It was lowest in Udupi, the district with the highest per capita income. Interestingly, GPs in Mandya had higher transfers than in Bagalkot, though per capita income in the latter was lower. This is probably due to the fact that transfers, particularly TFC and JGSY are devolved based on population in case of TFC, and Population and share of SC/St in the population in case of JGSY.

Table V.5 presents devolution to TPs in the four districts of the State for 2000-01. TPs get devolution implement expenditure programs totaling 3.5 per cent of DDP or about 54.4 per cent of total transfers to rural local bodies. Per cent of the transfers to TPs are for non-plan purposes which includes disbursing salaries passing on transfers to aided institutions and transfer payments. The above paragraph is not clear to me, maybe needs some editing and fill in missing blank.

Table V.2
Per capita Transfers to All Rural Local Governments (Rupees)

	Plan transfers					Non-Plan transfers					Total transfers		
	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya
Sports, Art and Culture	203.12	117.58	83.51	72.32	117.90	486.87	562.05	491.94	547.69	518.68	689.99	679.63	575.4
(PMGY)	1.55	0.00	0.00	3.93	1.18	0.00	0.00	0.00	0.00	0.00	1.55	0.00	0.0
Public Health, Family Health Nutrition	43.64	27.01	49.52	38.67	40.58	75.93	104.78	80.86	82.35	85.62	119.57	131.79	130.3
(PMGY)	0.00	0.00	0.00	1.96	0.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Water Supply and Sanitation	7.08	57.96	108.13	50.49	60.27	44.37	4.41	0.97	0.60	12.10	51.45	62.37	109.1
(Karnataka, PMGY)	1.77	3.42	1.64	4.09	2.59	0.00	0.00	0.00	0.00	0.00	1.77	3.42	1.6
SC, ST, OBC and Minority Welfare	58.64	57.03	55.73	60.43	57.70	29.74	17.96	31.21	23.61	26.18	88.39	74.99	86.9
(IAY, Ashraya, Bedkar,)	61.51	63.26	65.32	31.76	57.03	0.00	0.00	0.00	0.00	0.00	61.51	63.26	65.3
Development (statutory State)	65.09	95.51	30.05	46.48	57.23	19.29	19.18	20.17	16.00	18.87	84.38	114.68	50.2
(SGSY, DRDA,)	40.47	31.63	45.05	38.96	39.54	0.00	0.00	0.00	0.00	0.00	40.47	31.63	45.0
Development (JGSY, EAS, OBB,)	39.99	69.15	38.65	31.36	44.66	0.00	0.00	0.00	0.00	0.00	39.99	69.15	38.6
Other and allied Activities (Irrigation and Minor)	44.50	21.61	22.96	18.77	26.94	57.96	53.69	60.21	27.99	51.52	102.46	75.31	83.1
	0.00	0.00	0.00	0.27	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Other (Roads and Bridges)	3.11	0.16	3.98	0.82	2.22	0.00	0.00	0.00	0.00	0.00	3.11	0.16	3.9
	3.76	3.43	3.44	2.47	3.32	7.57	6.87	15.33	1.06	8.55	11.33	10.30	18.7
Other (Roads and Bridges)	10.53	6.09	9.48	5.45	8.10	60.28	73.04	109.90	20.97	71.08	70.81	79.13	119.3
	21.16	0.00	0.25	0.80	5.31	0.95	1.80	1.01	0.00	0.97	22.10	1.80	1.2
Total	605.92	553.82	517.71	409.02	525.04	782.96	843.79	811.60	720.26	793.57	1388.88	1397.61	1329.3

Table V.3
Composition of Transfers to Rural Local Bodies Across Different sectors (Percentage)

	Plan transfers					Non-Plan transfers					Total transfers		
	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya
Sports, Art and Culture	33.52	21.23	16.13	17.68	22.45	62.18	66.61	60.61	76.04	65.36	49.68	48.63	43.29
' (PMGY)	0.26			0.96	0.22						0.11		
Public Health, Family and Nutrition	7.20	4.88	9.56	9.45	7.73	9.70	12.42	9.96	11.43	10.79	8.61	9.43	9.81
' (PMGY)				0.48	0.08								
Water Supply and Sanitation	1.17	10.47	20.89	12.34	11.48	5.67	0.52	0.12	0.08	1.53	3.70	4.46	8.21
(Karnataka, PMGY)	0.29	0.62	0.32	1.00	0.49						0.13	0.24	0.12
SC, ST, OBC and Minority and Welfare	9.68	10.30	10.77	14.77	10.99	3.80	2.13	3.85	3.28	3.30	6.36	5.37	6.54
' (IAY, Ashraya, Bedkar,)	10.15	11.42	12.62	7.77	10.86						4.43	4.53	4.91
Development (statutory State)	10.74	17.24	5.80	11.36	10.90	2.46	2.27	2.48	2.22	2.38	6.08	8.21	3.78
' (SGSY, DRDA.)	6.68	5.71	8.70	9.52	7.53						2.91	2.26	3.39
Payment													
' (JGSY, EAS, OBB,)	6.60	12.49	7.47	7.67	8.51						2.88	4.95	2.91
and allied Activities Irrigation and Minor	7.34	3.90	4.44	4.59	5.13	7.40	6.36	7.42	3.89	6.49	7.38	5.39	6.26
				0.07	0.01								
Services	0.51	0.03	0.77	0.20	0.42						0.22	0.01	0.30
	0.62	0.62	0.66	0.60	0.63	0.97	0.81	1.89	0.15	1.08	0.82	0.74	1.41
Water, Roads and Bridges	1.74	1.10	1.83	1.33	1.54	7.70	8.66	13.54	2.91	8.96	5.10	5.66	8.98
	3.49		0.05	0.20	1.01	0.12	0.21	0.12		0.12	1.59	0.13	0.09
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table V.4
Devolution of Plan Transfers to Gram Panchayats at District Level 2000-01

		Plan Grants to GPs				
		Bagalkot	Bidar	Mandya	Udupi	Four Districts
Per Capita transfers (Rupees)						
1	Water Supply and Sanitation	3.60	2.28	3.40	2.12	2.92
2	Rural Development (statutory Grants from State)	23.97	25.99	25.47	25.06	25.15
3	Tenth Finance Commission	19.86	22.14	21.94	19.70	21.03
4	JGSY	14.75	35.18	21.12	14.65	21.58
	Total	62.19	85.59	71.93	61.54	70.68
Percent of GDDP						
1	Water Supply and Sanitation	0.015	0.015	0.018	0.009	0.014
2	Rural Development (statutory Grants from State)	0.099	0.166	0.134	0.107	0.123
3	Tenth Finance Commission	0.082	0.141	0.115	0.084	0.103
4	JGSY	0.061	0.224	0.111	0.062	0.106
	Total	0.257	0.546	0.379	0.262	0.347

Notes: Statutory Grants from State are in major head 2515 other Rural development Programmes, Central Finance Commission grant is under Central Plan in major head 2515 other Rural development Programmes and JGSY is in major head 2505 Rural Employment Programmes.

The most important feature of transfer system to TPs is the concentration of the transfers in a few sectors for specific agency functions. It is seen from Table V.6 that 72 per cent of the transfers to TPs are for the education sector alone and of this, the predominant proportion is non-plan expenditures. The main function of TPs in education is disbursement of salaries of school teachers in government schools and the grants given to aided schools by the TPs. Other notable schemes include assistance for housing schemes – predominantly Indira Awas Yojana, Ashraya scheme and Ambedkar housing scheme for scheduled castes and tribes (6.8 per cent). Next in importance are the funds to be allocated to the welfare of scheduled castes and tribes (6.2 per cent). Together, these schemes constituted over 84 per cent of total transfers. The important plan transfers include transfers to these three sectors. As regards non-plan schemes, over 85 per cent of devolution was for the education sector alone, which implies that much of the non-plan activity of TPs was to disburse salaries to school teachers and to give grants to aided schools.

The level of composition of assistance to ZPs from Central and State governments are detailed in Table V. 5. In the scheme of sub-state fiscal devolution in Karnataka, resources are devolved to ZPs amounting to Rs. 530 per capita or 2.6 per cent of GDDP (Table V.7). These constitute about 40.2 per cent of devolution to rural local bodies from the state and central governments. Of this, 39.82 percent is under various plan schemes .

The composition of transfers to ZPs to implement various schemes under different functions is presented in Table V. 8. It is seen that the major component of transfers is again for implementing education sector schemes. Almost 22.4 per cent of the total transfers to ZPs was given for the education sector alone and of the total non-plan transfers to ZPs, 31.1 per cent was for the education sector. The next in importance were transfers to medical, public health and family welfare. In both these sectors, the major function of the ZPs is disbursement of salaries of high school teachers and distribution of grants to aided institutions. Almost 56 per cent of the ZP transfers is focussed on just three sectors, namely, education, medical and public health and water supply. It is interesting to note that aside from the salary related expenses, the other major items for which transfers are given have a strong contract component in them. These include items such as water supply (12.54 per cent) and public works(14.79 per cent).

Table V. 5
Per Capita Devolution of Funds to Taluk Panchayats: 2000-01 (Rupees)

	Plan Transfers					Non-Plan Transfers					Total Transfers			
	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya	Udupi
Sports, Art and Culture	153.37	101.82	58.09	58.46	91.30	370.33	479.72	424.62	436.50	427.03	523.70	581.54	482.71	495.36
PMGY	1.55	0.00	0.00	0.00	0.37	0.00	0.00	0.00	0.00	0.00	1.55	0.00	0.00	0.00
Public Health, Family Health and Nutrition	9.62	2.30	15.50	1.44	8.09	22.70	40.77	16.83	27.68	26.10	32.31	43.07	32.33	32.33
Water Supply and Sanitation	1.59	3.38	2.95	1.03	2.33	0.00	1.80	0.65	0.00	0.63	1.59	5.18	3.60	3.60
PMGY (karnataka, PMGY)	1.77	1.71	1.64	3.07	1.98	0.00	0.00	0.00	0.00	0.00	1.77	1.71	1.64	1.64
SC, ST, OBC and Minority and Welfare	41.69	40.84	33.79	28.71	36.30	9.21	2.39	14.03	9.68	9.24	50.90	43.23	47.83	47.83
PMGY (IAY, Ashraya, Bedkar,)	25.73	63.26	65.32	31.76	48.46	0.00	0.00	0.00	0.00	0.00	25.73	63.26	65.32	65.32
Development (statutory State)	7.94	4.93	4.12	4.70	5.34	0.00	14.81	13.88	9.77	9.93	7.94	19.74	18.00	18.00
PMGY (SGSY, DRDA,)	13.16	6.33	13.03	12.20	11.31	0.00	0.00	0.00	0.00	0.00	13.16	6.33	13.03	13.03
Development (JGSY, EAS, OBB,)	7.44	0.00	0.84	3.41	2.75	0.00	0.00	0.00	0.00	0.00	7.44	0.00	0.84	0.84
Extension and allied Activities (Irrigation and Minor)	9.26	5.93	5.63	6.61	6.77	38.31	27.71	26.87	12.21	26.80	47.57	33.64	32.50	32.50
Development (Schemes)	3.11	0.16	3.98	0.12	2.08	0.00	0.00	0.00	0.00	0.00	3.11	0.16	3.98	3.98
Development (Schemes, Roads and Bridges)	0.24	0.12	0.23	0.17	0.19	0.00	0.00	0.00	0.00	0.00	0.24	0.12	0.23	0.23
Development (Schemes, Roads and Bridges)	2.08	1.21	0.00	0.00	0.78	0.00	0.00	0.00	0.00	0.00	2.08	1.21	0.00	0.00
Total	278.54	231.98	205.13	151.68	218.07	440.55	567.20	496.89	495.84	499.73	719.09	799.18	702.01	694.66

Table V.6
Composition of transfers to TPs in Karnataka 2000-01. (Per cent)

	Plan Transfers					Non-Plan Transfers					Total Transfers		
	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya
Sports, Art and Culture	55.06	43.89	28.32	38.55	41.87	84.06	84.58	85.46	88.03	85.45	72.83	72.77	68.7
PMGY	0.55				0.17						0.21		
Public Health, Family and Nutrition	3.45	0.99	7.55	0.95	3.71	5.15	7.19	3.39	5.58	5.22	4.49	5.39	4.6
Water Supply and Sanitation	0.57	1.46	1.44	0.68	1.07		0.32	0.13		0.13	0.22	0.65	0.5
PMGY (Karnataka)	0.64	0.74	0.80	2.02	0.91						0.25	0.21	0.2
SC, ST, OBC and Minority Welfare	14.97	17.61	16.47	18.93	16.65	2.09	0.42	2.82	1.95	1.85	7.08	5.41	6.8
PMGY (IAY, Ashraya, Bedkar,)	9.24	27.27	31.84	20.94	22.22						3.58	7.92	9.3
Development (statutory State)	2.85	2.13	2.01	3.10	2.45		2.61	2.79	1.97	1.99	1.10	2.47	2.5
PMGY (SGSY, DRDA)	4.72	2.73	6.35	8.04	5.19						1.83	0.79	1.8
Employment													
PMGY (JGSY, EAS, OBB,)	2.67		0.41	2.25	1.26						1.03		0.1
Extension and allied Activities													
Construction and Minor	3.33	2.55	2.75	4.36	3.11	8.70	4.89	5.41	2.46	5.36	6.62	4.21	4.6
Electricity	1.12	0.07	1.94	0.08	0.95						0.43	0.02	0.5
Water Supply	0.08	0.05	0.11	0.11	0.09						0.03	0.01	0.0
Streets, Roads and Bridges	0.75	0.52			0.36						0.29	0.15	
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.0

Table V.7
Per capita Transfers to ZPs in Karnataka 2000-01 (Rupees)

	Plan Transfers					Non-Plan Transfers					Total Transfers		
	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya
Sports, Art and Culture	49.75	15.76	25.42	13.85	26.60	116.54	82.33	67.32	111.19	91.65	166.29	98.09	92.74
PMGY	0.00	0.00	0.00	3.93	0.81	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Public Health, Family and Nutrition	34.02	24.71	34.02	37.23	32.49	53.23	64.02	64.03	54.67	59.52	87.25	88.72	98.05
PMGY	0.00	0.00	0.00	1.96	0.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Water Supply and Sanitation	1.89	52.30	101.79	47.34	55.02	44.37	2.61	0.33	0.60	11.47	46.26	54.91	102.11
PMGY	0.00	1.71	0.00	1.02	0.61	0.00	0.00	0.00	0.00	0.00	0.00	1.71	0.00
SC, ST, OBC and Minority Welfare	16.96	16.18	21.94	31.72	21.40	20.53	15.57	17.18	13.93	16.94	37.49	31.76	39.12
PMGY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PMGY (IAY, Ashraya, bedkar,)	35.78	0.00	0.00	0.00	8.57	0.00	0.00	0.00	0.00	0.00	35.78	0.00	0.00
Development (statutory State)	33.18	64.58	0.46	16.72	26.74	19.29	4.37	6.28	6.23	8.94	52.46	68.95	6.74
PMGY (SGSY, DRDA.)	7.45	3.16	10.08	7.06	7.20	0.00	0.00	0.00	0.00	0.00	7.45	3.16	10.08
PMGY (JGSY, EAS, OBB,)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PMGY (JGSY, EAS, OBB,)	17.80	33.96	16.69	13.31	20.33	0.00	0.00	0.00	0.00	0.00	17.80	33.96	16.69
Extension and allied Activities													
Extension and allied Activities	35.24	15.69	17.33	12.16	20.17	19.65	25.98	33.34	15.77	24.72	54.89	41.67	50.67
PMGY	0.00	0.00	0.00	0.27	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Extension and allied Activities	0.00	0.00	0.00	0.70	0.14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Extension and allied Activities	3.53	3.31	3.21	2.30	3.12	7.57	6.87	15.33	1.06	8.55	11.09	10.19	18.54
Extension and allied Activities	8.45	4.88	9.48	5.45	7.32	60.28	73.04	109.90	20.97	71.08	68.73	77.92	119.38
Extension and allied Activities	21.16	0.00	0.25	0.80	5.31	0.95	1.80	1.01	0.00	0.97	22.10	1.80	1.26
Total	265.19	236.25	240.66	195.81	236.29	342.40	276.59	314.72	224.42	293.84	607.59	512.84	555.38

Table V.8
Composition of Transfers to ZPs in Karnataka 2000-01 (Per cent)

	Plan Transfers					Non-Plan Transfers					Total Transfers			
	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya	Udupi	Four Districts	Bagalkot	Bidar	Mandya	Udupi
Sports, Art and Culture	18.76	6.67	10.56	7.07	11.26	34.04	29.77	21.39	49.54	31.19	27.37	19.13	16.70	22.00
PMGY				2.01	0.34									
Public Health, Family and Nutrition	12.83	10.46	14.14	19.01	13.75	15.55	23.15	20.34	24.36	20.26	14.36	17.30	17.65	22.00
PMGY				1.00	0.17									
Water Supply and Sanitation	0.71	22.14	42.29	24.17	23.28	12.96	0.94	0.10	0.27	3.90	7.61	10.71	18.39	11.00
PMGY (Karnataka)		0.72		0.52	0.26							0.33		
SC, ST, OBC and Minority Welfare	6.39	6.85	9.12	16.20	9.06	6.00	5.63	5.46	6.21	5.76	6.17	6.19	7.04	11.00
PMGY (IAY, Ashraya, bedkar,)	13.49				3.63						5.89			
Development (statutory State)	12.51	27.34	0.19	8.54	11.32	5.63	1.58	2.00	2.78	3.04	8.63	13.44	1.21	
PMGY (SGSY, DRDA,)	2.81	1.34	4.19	3.61	3.05						1.23	0.62	1.81	
Employment														
PMGY (JGSY, EAS, OBB,)	6.71	14.38	6.93	6.80	8.60						2.93	6.62	3.00	
and allied Activities														
Operation and Minor	13.29	6.64	7.20	6.21	8.54	5.74	9.39	10.59	7.03	8.41	9.03	8.12	9.12	
				0.14	0.02									
Others				0.36	0.06									
	1.33	1.40	1.33	1.17	1.32	2.21	2.48	4.87	0.47	2.91	1.83	1.99	3.34	
Buildings, Roads and Bridges	3.19	2.06	3.94	2.78	3.10	17.61	26.41	34.92	9.34	24.19	11.31	15.19	21.49	
	7.98		0.10	0.41	2.25	0.28	0.65	0.32		0.33	3.64	0.35	0.23	
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

V.5 Inter-Panchayat Variations in Grants

The descriptive analysis of transfers from central and State governments to GPs has suggested that the distribution of these transfers does not follow any systematic pattern. The general purpose transfers do not seem to be related to fiscal disabilities and specific purpose transfers do not seem to have been designed to improve standards of public services in areas where the standards are poor. While it may be argued that the standards of most public services are low in the entire State, it is expected that these transfers should be designed to improve the standards in backward areas more than in more developed areas. Thus the descriptive analysis brings out that the transfer system does not appear to be equalizing, nor does it promote the cause of decentralisation in terms of providing fiscal autonomy to local governments.

In this section, an attempt is made to relate the per capita grants to GPs in the four districts to various factors representing taxable capacity and expenditure needs. Per capita gross cropped area, proportion of irrigated area, road length per sq. km area and proportion of metalled roads, distance from district and taluk headquarters are the explanatory factors taken to represent the differences in revenue raising capacity among GPs. In addition, the proportion of households below the poverty line within the GPs has also been taken because generally the socially backward panchayats are also expected to be economically backward. Besides, transfers given to implement anti-poverty interventions have a special scheduled caste and tribe component in them. A properly designed, equalizing transfer system should be negatively related to revenue capacity variables such as gross cropped area, irrigated area, length of roads and proportion of metalled roads, and positively related to distance from district and Taluk headquarters and proportion of scheduled caste and tribe households.

The estimates of the equations regressing per capita transfers to GPs on these explanatory factors are presented in Table V.9. The regression results broadly confirm the conclusions drawn from the descriptive analysis. The regression without the district dummies is not significant which shows that the transfers to GPs can not be explained in any meaningful manner. Either the distribution among GP is random, or it is driven by some other factors that are not included in this regression analysis. It is also seen that none of the explanatory factors is significant except the proportion of irrigated area which implies that transfers do not offset fiscal disparities of GPs. The positive and significant coefficient of this variable indicates that ceteris paribus, GPs which have higher proportion of irrigated area and

therefore, have better revenue capacity also receive higher grants. Although the grant system is not designed in that manner, the way it is distributed has in fact, resulted in such an outcome. In short, there is no evidence of equalization.

Even the regression equation with district dummies does not have a strong statistical fit, which implies that the factors included in the equation are not able to provide a statistically significant explanation of the variations in the per capita transfers to GPs. Only the variable, proportion of irrigated area is significant, and again with a positive sign. Thus, the transfers have not been designed to offset fiscal disabilities. Nor is the transfer system related to the proportion of households below the poverty line.

Table V.9
Determinants of Grants in GPs

Per capita Grants (Rupees)				
	Coefficient	T Value	Coefficient	T Value
Constant	58.56	23.41	63.48	22.47
Gross Cropped Area	0.00008	0.72	-0.000001	-0.01
Percent of Irrigated Area	0.08	2.92	0.05	2.05
Road length per Square Kilometer	0.19	1.32	0.11	0.75
Share of Metalled Roads	-0.01	-0.23	0.03	0.82
Distance from Taluk	0.06	0.95	-0.03	-0.50
Distance from District	-0.03	-1.19	0.02	0.80
Share of BPL Households	-0.02	-0.61	0.03	0.88
Bagalkot			0.25	0.12
Mandya			-8.67	-4.56
Bidar			-14.29	-6.93
R ²	0.03		0.12	
F values	2.32		8.89	

The district dummy variables are significant in two of the three cases. Although not much meaning can be attached to these coefficients in an equation without satisfactory statistical fit, it is seen that it is in the lowest per capita income district, Bidar that the value of district dummy (-6-9) was the lowest and in Udupi, the highest income district, (the omitted dummy), the coefficient was the highest. The district dummy for Mandya, the Chief Minister's district too was negative and significant. The district dummy in Bagalkot is not significant. This can lead us to conclude that, all other things be taken into account, Udupi (the highest income district) receives more in per capita transfers than do Mandya or Bidar.

The regression analysis of transfers to GPs in individual districts (Table V.10) also brings out the random nature of the system and this underscores serious shortcomings in the design of the transfer system at the GPs level. The regression equations in none of the four districts have the desired statistical fit, both when Taluk specific effect is not explicitly quantified and when Taluk dummies are included in the equations. Not only that the equations do not have the explanatory power, but also in most cases individual variables are not significant with the hypothesized sign. The exception to this, however, is the negative and significant coefficient of per capita gross cropped area in Mandya and Bidar,, districts, indicating that per capita transfers were higher in GPs with lower per capita income. This may be more an random occurrence than a systematic attempt to offset fiscal disabilities the district administration. The distribution policies are decided at the State level for district sector programs and lump sum transfers, and by the design of the transfer system in the case of Centrally sponsored schemes. Therefore, the district administration has no say in determining the transfer system.

Table V.10
Regression Results of Transfers for Individual Districts

	Bagalkot		Mandya		Udupi		Bidar	
	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient
Constant	61.09 (11.58)	47.58 (8.30)	61.24 (14.09)	57.99 (9.46)	59.74 (9.93)	58.67 (9.50)	60.20 (11.30)	71.98 (13.20)
Per capita Gross Cropped Area	0.00016 (1.37)	0.00001 (0.12)	-0.0014 (-2.13)	-0.0012 (-1.86)	-0.001 (-0.50)	-0.0019 (-0.98)	-0.0040 (-4.00)	0.0045 (-4.79)
Percent of Irrigated Area	0.20 (3.26)	0.01 (0.22)	-0.05 (-1.03)	-0.06 (-1.35)	0.06 (0.98)	0.07 (1.11)	-0.03 (-0.62)	-0.01 (0.16)
Road length per Sqaure Kilometer	1.10 (0.77)	1.62 (1.23)	-0.09 (-0.34)	-0.18 (-0.65)	0.21 (1.30)	0.25 (1.57)	-1.51 (-1.38)	-0.74 (-0.72)
Share of Metalled Roads	0.07 (1.01)	0.07 (1.02)	-0.03 (-0.45)	-0.06 (-0.84)	0.04 (0.61)	0.001 (0.03)	0.03 (0.64)	0.00 (-0.01)
Distantce from Taluk	-0.31 (-2.05)	-0.21 (-1.56)	0.10 (0.68)	-0.01 (-0.09)	0.11 (0.97)	0.12 (1.02)	-0.09 (-0.75)	-0.11 (-1.07)
Distantce from District	0.001 (-0.05)	0.08 (1.15)	0.01 (0.18)	0.04 (0.67)	-0.01 (-0.22)	-0.02 (-0.36)	0.09 (2.10)	0.01 (0.30)
Share of BPL Households	0.04 (0.49)	0.21 (2.46)	0.02 (0.47)	0.01 (0.10)	0.07 (0.78)	0.15 (1.58)	0.01 (0.15)	0.04 (0.75)
Badami / KR Pet/ Karkala/ Aurad		9.11 (2.02)		2.28 (0.40)		7.94 (2.06)		-4.21 (-1.31)
Bilgi / Manddur/ Kundapura/ Basava Kalyan		30.38 (5.45)		5.93 (1.10)		-4.30 (-1.24)		-11.15 (-3.00)
Hungund / Malavalli/ --/ Bidar		2.80 (0.59)		10.96 (1.96)				-19.07 (-5.09)
Jhamkhandi /Mndya/--/Humnabad		10.29 (2.01)		11.25 (2.00)				-7.18 (-1.99)
Mudhol/Nagama ngala/--/--		27.28 (5.05)		5.84 (0.96)				
--/Pandavapura/-/--				1.12 (0.87)				
R2	0.15	0.35	0.03	0.08	0.03	0.12	0.13	0.29
F values	3.44	6.14	0.84	1.31	0.65	1.79	3.21	5.31

Note: Figures in paranthesis are 'T' values.

V.6 Conclusions

This chapter has analysed the transfer system for Panchayats in Karnataka. The transfer system is the bedrock of local government finance in the state.

The evolution of transfer system to Panchayats in Karnataka has been the by product of the process of decentralisation. A bulk of the transfers to rural local governments is given to TPs and ZPs, while GPs receive only a small proportion (5.4 per cent) of the transfers given to rural local bodies. The lack of independence sources of revenue and total dependence of ZPs and TPs on transfers makes the entire fiscal decentralisation process hostage to the transfer system. Our analysis shows that there is very little general purpose transfer at the district and taluk levels. The scheme-based devolution and micro allocation of resources even within the schemes robs the rural local governments of any leeway in making allocations according to their priorities. In fact, the entire fiscal decentralisation process has ensured that the panchyats are disbursing agents of the higher level governments and little more.

Even the specific purpose transfers can help in augmenting service levels and ensure equity if the transfer system is designed properly. However, the overall transfer system in Karnataka has only helped to maintain the system that existed prior to the transfer of functions and employees in 1993, as basically the transfers are linked to the schemes transferred by the state government. The local governments do not have any autonomy to discontinue the schemes or to change the composition of expenditures between salaries, maintenance and other components. The critical element of needed reform therefore, is to unbundle the transfer system from scheme based transfers into broad programs, and impart flexibility and autonomy for the local governments to make allocation according to their priorities. We have discussed these issues in detail in chapter III.

The transfers made to GPs constituted only 5.4 per cent of total transfers though they financed almost 75 per cent of the total expenditures incurred by the GPs. The consequence of the low level of transfers as also low revenues raised by the GPs has been that GPs have only a small role in delivering public services. This is the only meaningful tier of rural decentralisation and yet, it does not have a meaningful role. The only functions GPs are involved in is in implementing anti-poverty programs (SGRY) and maintenance of water supply schemes. The narrow functional assignment and poor resource base available with the GPs is primarily responsible for the lack of interest by the people as evidenced by the poor attendance in Gram sabhas. Strengthening the resource base of the panchayats both in terms of assigning more important revenue handles and larger untied transfers is critical for the success of the decentralisation program.

The empirical analysis brings out the shortcomings of the design of the transfer system at the GP level. Per capita transfers to GPs are not related to any important indicators of fiscal capacity and therefore, the system has not been designed to offset fiscal disabilities. The random nature of the transfer system brings to the fore the major weakness that it does not serve the objectives of allocative efficiency or equity. With respect to the latter, even the transfers specifically meant to alleviate poverty are not related to the proportion of poor households. Improving the design of the transfer system at the GP level is critical as it is the most challenging task of fiscal decentralisation.

The challenge of properly designing the transfer system to GPs is particularly daunting because of the poor information base. It is possible to design the transfer system to offset fiscal disabilities only when the information on indicators of taxable capacity and cost differences are available. Similarly it is possible to design specific purpose transfers only when the standards of public services available to the residents in respect of specific services to be equalised and its cost of provision is properly known for which a detailed and reliable information base is necessary.

The most important reform issue is the need to change the design of the transfer system to reflect the basic objective of transfers. The specific purpose transfers should be structured to raise the standard of specified services or to enhance outlay on specified services, the general purpose transfers should offset the fiscal disabilities. This implies that the general purpose transfers should be designed to offset shortfall in revenue capacity and higher expenditure needs of the GPs. Unfortunately, the revenue bases at the GP level are not very important and therefore, at the present stage it may not be meaningful to estimate tax capacity and tax effort. Scientific measurement of revenue capacity will have to wait reform of the property tax system in the GPs, along the lines recommended in chapter IV. It is nevertheless important to build in the incentive for the GPs to raise more revenues in the transfer system.

The present practice of giving lump sum transfers is unscientific. It does not take into account either the capacity to raise revenues or expenditure needs of the GPs. It does not even take account the differential needs due to varying population. While at the GP level it is necessary that the transfer system should be simple, it should not ignore the equalisation principle altogether. The easiest way is to give transfers on the basis of population and scheduled cast and scheduled tribe population. With passage of time, as data on reliable

developmental indicators are compiled, transfers could also be related to other proxies of revenue capacity and expenditure need. Given that the basic services at the GP level consists of provision of water supply, sanitation and street lights, a simple formula with population with some indicator of collection efficiency could be used to begin with. If it is thought that there are additional fiscal disabilities due to scheduled castes and tribe population, additional weight could be given to this factor.

It is however, important to compile information and data for important economic and demographic variables at the GP level. Building a reliable information system is key to designing and implementing an efficient equalising program. In the first instance, it is necessary to institute the information system on the finances of GPs, TPs and ZP s based on the prevailing book keeping. However, for the future, it is also necessary to evolve a standard system of book keeping by the panchayats and develop the capacity, particularly at the level of GPs to collect comparable information using uniform concepts and definitions. The RDPR is already compiling information on various economic and demographic variables, called, "*Samanya Mahiti*". For the first time, ISEC in collaboration with the RDPR has also compiled information on the fiscal variables for all ZPs, TPs and GPs and these need to be made comparable. These efforts will have to made regular and systematic to develop a robust data bank on rural fiscal decentralisation in the state.

Chapter VI

Analysis of Expenditures in Gram Panchayats

VI.1 Introduction

Arguments for fiscal decentralization are made mainly on the grounds of efficiency in service delivery. Efficiency gains accrue when the decentralized units have the capacity and autonomy to allocate resources according to the preferences of their residents. Expenditure decentralization is the starting point in examining efficiency in service delivery. This chapter analyses the level and composition of expenditures incurred by the rural local governments in Karnataka.

An important factor determining optimal provision of public services is the assignment system. Clarity in assignment is analogous to giving property rights and this is a necessary condition for the governmental units to make undertake optimal expenditures to provide public services according to the varied preferences of people in a cost-efficient manner. The issue of overlapping assignments between the State and the local government units, between the three tiers of rural local governments and among different units within each of the three tiers is an extremely important precondition for efficient service delivery. These have been discussed at considerable length in Chapter 3.

From the viewpoint of adequacy and efficiency in service delivery, the level and composition of expenditures incurred by the three tiers, and the institutions and methods of implementing the expenditure programs are extremely important. The critical issues involved in efficient service delivery at local level are (i) ability to determine the level of public expenditures according to the preferences of the residents; (ii) flexibility and autonomy to prioritise expenditures according to preferences of the residents; (iii) autonomy and capacity to determine cost efficiency in terms of input purchases and input combinations in the provision of services. Local governments have a comparative advantage in providing services due to their ability to minimise information cost, but will have to trade off this advantage with the possible loss of economies of scale. Considering the fact that one of the important objectives of fiscal decentralization is to improve the efficiency in the delivery of services and provide the services according to the varying preferences of people, these issues have to be considered in designing and implementing expenditure systems.

The broad issues of expenditure assignment have been discussed in Chapter III. It has also examined overlapping expenditure functions – overlapping between the state and local governments and among governmental units within the three tiers of rural local governments. The analysis has brought out that fiscal decentralization in the Indian context, particularly in the case of Karnataka, has meant simply transferring the functions and funds along with the employees. Further, the functions have been transferred in terms of several schemes under both plan and non-plan categories. Thus, the overwhelming proportion of expenditure incurred at the local level is earmarked and panchayats have limited flexibility in designing and implementing programs. The schematic devolution has meant that the local governments have the power to neither prioritize nor design individual programs of service delivery. Further, as the local governments do not have worthwhile revenue handles, they exercise very little fiscal autonomy. Thus, expenditure decentralization has not helped to enhance allocative and technical efficiency in the provision of public services.

The Chapter has also given a blue print for reforming the system in terms of consolidating the various plan and non-plan schemes within the district sector. The analysis identified the state sector schemes that can be transferred to panchayats based on their competitive advantage and transaction cost in implementation.

This Chapter analyses the level and composition of government expenditure at the lowest and the most desirable level of fiscal decentralization, namely GPs. As discussed in the previous chapter, only the GPs have some revenue raising powers and, therefore, have a measure, albeit small, of flexibility and autonomy in their expenditure decisions to achieve allocative and technical efficiency. The present chapter, therefore, undertakes expenditure analysis at the GP level, analyses the major expenditure functions of GPs, and examines adequacy and efficiency. It also undertakes the analysis of inter-panchayat variations in expenditures in the four districts to bring out interesting aspects of expenditure decision making at the GP level.

VI. 2 Expenditures Incurred by the Three Tiers of Panchayats

Before examining the level and composition of expenditure at the GPs, it would be instructive to understand the relative importance of the three tiers in undertaking expenditure decisions. Table VI.1 summarizes the levels of expenditure incurred by the three tiers of panchayats in the four districts of the state in 2000-01. The analysis shows that the share of

GPs in the total expenditure incurred at the panchayat level was just 5.7 per cent in the four districts taken together. The highest share was in Udupi with 7.7 per cent, and the lowest in Bidar at 4.1 per cent. The analysis presented in Table IV.1 also shows that the highest expenditure was incurred at the TP level. While the TPs on an average incurred 54 per cent of the expenditures incurred at the panchayat level in the 4 districts, the share of ZP was 40 per cent and that of GP was just 5.7 per cent. It is just about 0.3 per cent of DZP.

When all the three tiers of panchayats are considered, the per capita expenditures in the four districts do not appear to follow any systematic pattern. It is not possible to discern a clear relationship between the per capita income levels in the districts and per capita expenditure incurred by them. However, at the GP level, per capita expenditures are higher in more affluent districts. Udupi is the highest per capita income district and it had the highest per capita expenditure as well. Similarly, Bidar had the lowest per capita income and the GP in this district had the lowest per capita expenditure. The reason for this has to be found in the fact that by and large GPs in more affluent districts raised more in per capita own revenues. Thus, differences in own per capita revenues were the main source of difference in per capita expenditures. However, as a proportion of district development product (DZP), one cannot discern a clear relationship. This is mainly because own revenues raised by the GP seem to have a positive relationship with income levels in the districts in per capita terms but not as a proportion of DZP.

The ZPs and TPs spend over 94 per cent of total expenditures incurred by local governments in rural areas. However, these local bodies do not have flexibility and autonomy in prioritizing allocation to different functions and choosing various inputs in implementing expenditure decisions. They actually exercise discretion and choice in decision making for less than 10 per cent of the expenditures incurred by them. The overwhelming proportion of their expenditures is scheme based. Thus, ZPs and TPs are mainly involved in implementing expenditure programs as agents of the State government. Even within the schemes, preemption of expenditures for salaries leaves very little room for discretion. Their main functions include dispersing salary to the teachers and employees of the government who have been transferred to them, distributing grants in aid to institutions and spending on the schemes designed by the State government.

Table VI.1
Total Expenditures in Different Panchayat Tiers in Karnataka-2000-01

	Expenditure		
	Per Capita (Rupees)	Percent of GDZP (%)	Share in Total (%)
Bagalkot			
Grama Panchayat	65.55	0.273	5.45
Taluk Panchayat	646.39	2.689	53.75
Zilla Panchayat	490.67	2.041	40.80
Total	1202.61	5.003	100.00
Bidar			
Grama Panchayat	53.82	0.342	4.08
Taluk Panchayat	722.51	4.595	54.76
Zilla Panchayat	543.04	3.454	41.16
Total	1319.38	8.391	100.00
Mandya			
Grama Panchayat	70.05	0.375	6.01
Taluk Panchayat	602.28	3.226	51.68
Zilla Panchayat	492.99	2.640	42.31
Total	1165.32	6.241	100.00
Udupi			
Grama Panchayat	86.42	0.365	7.69
Taluk Panchayat	643.93	2.717	57.31
Zilla Panchayat	393.17	1.659	34.99
Total	1123.52	4.740	100.00
Four Districts			
Grama Panchayat	68.48	0.338	5.70
Taluk Panchayat	649.42	3.201	53.78
Zilla Panchayat	483.95	2.385	40.08
Total	1201.85	5.924	100.00

VI.2.1 Fiscal autonomy of GPs

Efficiency in providing public services, depends upon the level of expenditure incurred and the flexibility and autonomy in designing and implementing the expenditure programs exercised by the GPs. It is seen that, by and large, GPs with higher per capita revenues have higher per capita expenditures as well, and transfers from the higher level governments have been broadly uniform in per capita terms.

Nevertheless, the volume of expenditures incurred by GPs is extremely low both in per capita terms and as a proportion of total expenditure incurred by the panchayats. This is

in spite of the fact that GPs have some revenue raising powers. The analysis of fiscal autonomy at the GP level shown in Table VI.2 indicates that the dependence of GPs on transfers from the higher level of governments was extremely high. On an average, almost 75 per cent of the expenditure at the GP level were met from the transfers received from above. In the highest per capita income district – Udupi – the own revenues collected by the panchayats financed only 35 per cent of total expenditure. In the poorest district of Bidar, the contribution from own revenues in total expenditures was only 12 per cent. On the whole, it seems fiscal decentralization is possible only when the panchayats augment their own resources. The GPs have the flexibility in designing and implementing expenditure decisions only when they have significant own revenues. Since most GPs do not raise much revenues from their own sources, the existing system is a mandated decentralization and the lower level governments are essentially used as agencies to implement the expenditure decisions taken at the State level.

VI. 2.2 Level and composition of expenditures in GPs

The level and composition of expenditure of GPs in the four districts are detailed in Table VI.3. It is seen from the Table that the most important function of GPs is the implementation of Jawahar Gram Samruddi Yojana (JGSY) – the most important anti-poverty interventions¹⁶. The expenditure under JGSY constituted almost a third of the total expenditures of GPs. In the poorest districts of Bagalkot and Bidar the shares of JGSY expenditures in the total were 44 per cent and 42.4 per cent, respectively, whereas in the most affluent district of Udupi, it was much lower at 14.9 per cent. Next in importance was the spending on core services which included maintenance of water supply, sanitation and street lights. About a quarter of the expenditure was incurred on these services on an average in the four districts. This was followed by the expenditure on public works that mainly refers to the construction and repair of roads, bridges and buildings. It is thus seen that the GPs are involved in performing very limited functions and their major activity concerns with implementation of anti-poverty schemes. This implies that large majority of people in the villages is not concerned with the activities of the panchayats and, therefore, involvement of people in the affairs of the panchayats does not seem to be significant.

¹⁶ In 2001-02 JGSY was combined with Employment Assurance Scheme (EAS) to make Sampurna Gram Swarozgar Yojana (SGSY).

Table VI.2
Degree of Fiscal Autonomy

District/ Taluk	Share of Own Revenue in Expenditure	Coefficient of Variance		Share of Own Revenue in Expenditure	Coefficient of Variance	
		Own Revenue	Total Expenditure		Own Revenue	Total Expenditure
		1999-00			2000-01	
Bagalkot						
Badami	28.20	85	34	21.26	89	28
Bagalkot	32.54	80	33	26.21	66	26
Bilgi	24.09	61	30	15.44	54	26
Hungund	30.74	59	37	23.88	75	27
Jamkhandi	22.08	65	16	18.87	76	21
Mudhol	22.02	40	25	14.54	55	23
District Average	26.35	70	30	20.01	74	26
Mandya						
KR Pet	26.61	49	31	17.61	53	27
Maddur	36.15	46	29	20.57	66	25
Malavalli	27.30	76	32	17.34	87	31
Mandya	38.96	40	26	27.55	54	22
Nagamangala	31.95	64	23	20.42	83	27
Pandavapura	41.78	57	26	33.95	82	28
SR Patna	45.73	47	28	29.37	56	24
District Average	34.82	57	29	23.01	72	27
Udupi						
Karkala	39.76	77	33	31.18	80	26
Kundapura	33.26	77	38	25.90	78	30
Udupi	50.91	84	41	43.02	83	34
District Average	43.13	89	41	35.02	91	33
Bidar						
Aurad	15.04	54	32	8.46	56	31
Basavakalyan	17.31	59	28	12.77	53	30
Bhalki	19.41	43	26	12.88	67	25
Bidar	22.54	48	41	14.59	49	21
Humnabad	12.47	80	20	11.11	74	26
District Average	17.00	58	31	11.85	64	28
Four Districts Average	31.26	90	36	23.33	104	33

Table VI.3
Composition of Expenditure in Gram Panchayats

Details	Bagalkot	Mandya	Udupi	Bidar	Four Districts
Per capita Expenditure in Rupees					
1999-00					
Core Services	11.05	17.42	14.85	14.79	14.76
Public Works	5.84	10.06	17.31	2.03	8.64
Office Expenditure	6.49	6.99	10.56	5.82	7.32
SC/ST Welfare	1.10	0.92	4.95	1.04	1.81
JGSY Works	20.43	13.06	12.69	21.41	16.70
JGSY other Exp.	0.99	1.05	0.76	0.79	0.92
Other Expenditure	0.22	0.06	1.31	0.08	0.36
Total Expenditure	46.13	49.57	62.43	45.95	50.50
Of which, Salary	10.40	11.15	9.17	10.41	10.40
Non Salary	35.73	38.42	53.26	35.55	40.10
2000-01					
Core Services	17.78	27.37	19.72	18.78	21.51
Public Works	8.09	12.40	29.28	3.08	12.60
Office Expenditure	8.93	8.44	14.30	7.43	9.51
SC/ST Welfare	1.55	1.31	6.58	1.57	2.50
JGSY Works	28.08	19.29	12.41	22.21	20.69
JGSY other Exp.	0.83	1.16	0.50	0.63	0.82
Other Expenditure	0.30	0.06	3.64	0.12	0.86
Total Expenditure	65.55	70.05	86.42	53.82	68.48
Of which, Salary	10.24	11.07	9.06	10.26	10.28
Non Salary	55.30	58.98	77.36	43.56	58.21
Share in Total Expenditure					
1999-00					
Core Services	23.95	35.14	23.78	32.19	29.23
Public Works	12.66	20.29	27.73	4.41	17.11
Office Expenditure	14.07	14.10	16.91	12.66	14.49
SC/ST Welfare	2.39	1.86	7.93	2.25	3.58
JGSY Works	44.30	26.36	20.33	46.60	33.07
JGSY other Exp.	2.15	2.12	1.22	1.71	1.82
Other Expenditure	0.49	0.12	2.09	0.18	0.71
Total Expenditure	100.00	100.00	100.00	100.00	100.00
Of which, Salary	22.55	22.50	14.68	22.64	20.59
Non Salary	77.45	77.50	85.32	77.36	79.41
2000-01					
Core Services	27.12	39.08	22.82	34.90	31.41
Public Works	12.34	17.70	33.88	5.72	18.40
Office Expenditure	13.62	12.04	16.55	13.81	13.88
SC/ST Welfare	2.36	1.88	7.61	2.93	3.65
JGSY Works	42.84	27.54	14.35	41.26	30.21
JGSY other Exp.	1.27	1.66	0.57	1.17	1.20
Other Expenditure	0.45	0.09	4.21	0.23	1.25
Total Expenditure	100.00	100.00	100.00	100.00	100.00
Of which, Salary	15.63	15.80	10.48	19.07	15.01
Non Salary	84.37	84.20	89.52	80.93	84.99

Table VI.3 (contd.)
Composition of Expenditure in Gram Panchayats

Details	Bagalkot	Mandya	Udupi	Bidar	Four Districts
Share Gross District Domestic Product					
1999-00					
Core Services	0.050	0.101	0.068	0.102	0.079
Public Works	0.026	0.059	0.079	0.014	0.046
Office Expenditure	0.029	0.041	0.048	0.040	0.039
SC/ST Welfare	0.005	0.005	0.023	0.007	0.010
JGSY Works	0.092	0.076	0.058	0.147	0.089
JGSY other Exp.	0.004	0.006	0.003	0.005	0.005
Other Expenditure	0.001	0.000	0.006	0.001	0.002
Total Expenditure	0.207	0.289	0.285	0.316	0.270
Of which, Salary	0.047	0.065	0.042	0.072	0.056
Non Salary	0.160	0.224	0.243	0.244	0.214
2000-01					
Core Services	0.074	0.147	0.083	0.119	0.106
Public Works	0.034	0.066	0.124	0.020	0.062
Office Expenditure	0.037	0.045	0.060	0.047	0.047
SC/ST Welfare	0.006	0.007	0.028	0.010	0.012
JGSY Works	0.117	0.103	0.052	0.141	0.102
JGSY other Exp.	0.003	0.006	0.002	0.004	0.004
Other Expenditure	0.001	0.000	0.015	0.001	0.004
Total Expenditure	0.273	0.375	0.365	0.342	0.338
Of which, Salary	0.043	0.059	0.038	0.065	0.051
Non Salary	0.230	0.316	0.326	0.277	0.287

The issue is underscored by the fact that the total expenditure incurred by them is abysmal. Of the total expenditure incurred of Rs 68.6 from the government, almost Rs 21.5 is spent on anti-poverty policies, Rs 10.3 is spent on salary of waterman and Rs 2.6 is incurred for the welfare of scheduled castes and tribes. These expenditures are concentrated to benefit only a small proportion of the population in panchayats. The programs do not evoke interest even among all poor, scheduled caste and tribe population. The public expenditure which benefits majority of the residents is spending on public works and core services which together constitute Rs 28.8 or about 41 per cent. Given the low level of expenditure incurred by the GPs and the small proportion of expenditure that confers benefits on the majority of population in the village, it is not surprising that majority of villagers do not show interest in the affairs of GPs. Sustained interest in the affairs of the GPs and substantial participation of the people can only be achieved when the GPs are in a position to spend substantially higher amounts on providing public services

The Table also presents the salary and non-salary components of GP expenditures. It is seen that, on an average the salary expenditures constitute about 50 per cent of total GP expenditures. Again, another important feature that is seen is that, the salary component of the expenditures was higher in poorer than in richer districts. In Bidar, for example, salary expenditure constituted about 19.1 per cent of the total expenditure whereas in Udupi it was just about 10.5 per cent.

An important reason for the low salary expenditure in GPs is that it does not truly reflect the total expenditures incurred on salary of personnel. The salary of GP Secretary, for example, is incurred at the ZP level and is not included in the GP expenditures. Similarly, salaries of anganwadi workers, school teachers, health workers and the revenue assistants is incurred either at the TP or at the ZP level. To this extent, the salary expenditures as well as the total expenditures at the GP level are underestimates. The only salary expenditure that is incurred at the GP level is on watermen and bill collectors. These are the only employees appointed by the GPs and they subject to government scales of pay. They are paid a small lump-sum amount per month and therefore it is not surprising that the GP does not incur large expenditure on salaries. Nevertheless given that the level of expenditures at the GPs is extremely low, the non-salary component of the expenditure, although it can constitute as much as 85 per cent of total spending, is very low in absolute terms,

The analysis of per capita expenditures on various functions undertaken by the GPs shows that the expenditures are not only low but are very thinly spread across different functions they undertake. Expenditures of JGSY constitute the highest proportion and in per capita terms in 2000-01, the average per capita expenditure in 2000-01 in the four districts was Rs 21.50. It was highest in Bagalgot (Rs 30) and lowest in Udupi (Rs 13). Table VI.4 (a) presents expenditure per poor household in the four districts and even this shows that the volume of expenditure undertaken for anti-poverty intervention by the GPs is abysmally low -- so low that it cannot make any significant dent on the poverty situation. This shows that the entire exercise of anti-poverty implementation through the GPs is an exercise in tokenism. The fact that GPs are not required to make any contribution to the anti-poverty program from their own resources also robs it of a sense of ownership by the GPs.

The distribution of per capita expenditure on JGSY in terms of various expenditure classes based on expenditure frequency presented in Table VI.4 also shows that on an average 45 per cent of the GPs had per capita expenditure of less than Rs 20 in 2000-01

(corresponding figure for 1999-2000 was Rs 67). In fact, in Udupi 86 per cent of the panchayats had per capita expenditure of JGSY less than Rs 20. On an average over 85 per cent of the panchayats had expenditures less than Rs 30. Only in the district of Bagalgot and Bidar that the significant proportion of GPs had JGSY expenditure of more than Rs 30. In Bagalgot, for example, the percentage of GP was 30, JGSY expenditure was 39 and in Bidar, it was 22. This analysis shows that (i) the amount of money available for anti-poverty intervention at the GP is very low; (ii) the overwhelming proportion of per capita expenditure in GPs in every district has been less than Rs 30 and this can hardly make any dent on the poverty situation; and (ii) for JGSY, the most important program implemented at the GP level, the amount of money spent on it is not significant enough to evoke any interest in the people at GP level.

The second important item of expenditure of GPs is on core services. The frequency distribution of per capita expenditure on core services is presented in Table VI.4c. On an average, in the four districts, the GPs incurred a per capita expenditure of Rs 21.5 on core services in 2000-01. The highest per capita expenditure was in Mandya (Rs 27.4) and the lowest was in Bagalkot (Rs 17.8). In general, expenditures in the districts other than Mandya were more or less similar. The highest per capita expenditure of GPs on core services in Mandya perhaps is explained by the fact that Mandya is the district where the Chief Minister's constituency is located. It is therefore not surprising that substantially higher amount of money is spent on services such as provision of water supply, street lights and sanitation. The frequency distribution of expenditure on core services presented in the Table shows that, on an average, almost one-half of the expenditure of the GPs incurred expenditure of less than Rs 20 on these services. In contrast, less than 20 per cent of the panchayats spend more than Rs 30 on core services. The district-wise analysis shows that in Bagalkot almost 68 per cent of the GPs had expenditure less than Rs 20 and those with more than Rs 30 constitute only 9 per cent. In contrast, in Mandya, about 30 per cent of the GPs had per capita expenditures of more than Rs 30. As mentioned earlier, although in comparison with other districts, Mandya had higher per capita expenditure in relation to the requirements, the amount of money spent on the core services is abysmally low. With this order of spending, it is impossible to expect the GPs to provide any worthwhile services in relation to the basic services such as water supply, sanitation and street lights.

Next in importance in GP expenditure is public works. Although, on an average, GPs in the four districts incurred a per capita expenditure of only Rs 12.6, there are wide variations in the expenditure on public works incurred by the GPs across different districts. It is also seen that the relatively low-income districts spend less on public works than the more affluent ones. In Bidar, the poorest district for example had per capita expenditure on public works was Rs 3 whereas in Udupi the most affluent district, it was Rs 29. Public works are in the nature of providing infrastructure facilities and richer districts are able to provide better infrastructure facilities. This expenditure pattern is only likely to exasperate the regional disparities in the States. Thus, GPs in poorer districts are predominantly involved in poverty alleviation programs and unable to provide physical infrastructure for the growth of private sector in their jurisdiction whereas those in the more affluent districts spend relatively more on physical infrastructure to create greater economic activity in their jurisdictions.

The frequency distribution of per capita expenditure on public works shows that the overwhelming proportion of GPs incurs less than Rs 10 expenditure on public works in the poorer districts. In Bidar, for example, as many as 92 per cent of the GPs spend less than Rs 10 and in Bagalkot the corresponding percentage is 67. In contrast, GPs spending less than Rs 10 in Udupi constitute less than 7.6 per cent and those spending more than Rs 30 constitute 48.3 per cent. On an average, in the four districts taken together 53 per cent of the GPs incurred a per capita public works expenditure of less than Rs 10 and only 11.7 per cent of the GPs had per capita expenditure of more Rs 30.

In general, office expenditure incurred by the GPs are meager. Except in Udupi in all the other districts GPs incurred per capita expenditure of less than Rs 10 on an average. Furthermore, except in Udupi more than 70 per cent of the GPs incurred per capita expenditure of less than Rs 10. In Udupi, predominant proportion of the GPs (63 per cent) had per capita office expenditure between Rs 10 and 20.

The frequency distribution of aggregate per capita expenditure is shown in Table VI.4D. It is seen that on an average in the four districts, the per capita expenditure in GPs amounted to Rs 68.5. The highest per capita expenditure was in Udupi (Rs 86.4), the most affluent district and the lowest was in Bidar (5.38), the least affluent. It is seen from the frequency Table that almost 88 per cent of the GPs in Udupi had expenditure of more than Rs 60 per capita whereas in Bidar the corresponding percentage was just about Rs 36.3. This clearly shows that, *ceteris Paribus* per capita expenditure in GP varied with the level of

development. The expenditure threshold of GPs in more developed districts are much higher. In other words, as many as 95 per cent of the GPs in Udupi had per capita expenditure of more than Rs 50 whereas almost 40 per cent of the GPs in Bidar had per capita expenditure of less than Rs 50. Thus, in the low income districts, not only that the expenditure levels were low but the variations in per capita expenditure between the GPs too were substantially higher.

Table VI.4 A
Frequency Distribution of GP based on JGSY Expenditure
Per BPL* Household

	Percent of GPs						Average Per Capita Rupees
	Less Than 250	250 to 500	500 to 1000	1000 to 1500	Above 1500	Total	
1999-00							
Bagalkot	15.95	38.65	36.81	6.75	1.84	100.00	433.32
Bidar	19.39	50.91	26.67	2.42	0.61	100.00	368.30
Mandya	58.22	36.00	4.89	0.89		100.00	171.01
Udupi	68.28	22.76	7.59	0.69	0.69	100.00	201.94
Four Districts	41.26	37.39	18.05	2.58	0.72	100.00	270.18
2000-01							
Bagalkot	4.91	30.67	44.17	14.11	6.13	100.00	592.82
Bidar	4.19	29.34	50.90	13.77	1.80	100.00	571.52
Mandya	41.96	34.38	21.43	1.34	0.89	100.00	247.76
Udupi	63.19	31.25	4.86		0.69	100.00	195.20
Four Districts	28.65	31.66	30.37	7.02	2.29	100.00	375.59

Note: BPL refers to below Poverty Line.

Table VI.4 B
Frequency Distribution of GPs based on
Per capita JGSY Expenditures

	Per capita Expenditure in Rupees						Average Per capita Exp.
	Less Than 10	10 to 20	20 to 30	30 to 50	More Than 50	Total	
1999-00							
Bagalkot	3.07	46.63	39.88	9.82	0.61	100.00	21.42
Bidar	4.17	38.10	38.69	18.45	0.60	100.00	22.20
Mandya	11.01	76.65	11.45	0.88	0.00	100.00	14.11
Udupi	39.31	44.14	12.41	4.14	0.00	100.00	13.45
Four Districts	13.37	53.77	24.75	7.82	0.28	100.00	17.62
2000-01							
Bagalkot	0.61	13.50	46.63	31.29	7.98	100.00	28.91
Bidar	1.79	32.14	44.64	20.24	1.19	100.00	22.84
Mandya	4.41	44.49	41.85	8.37	0.88	100.00	20.45
Udupi	26.90	58.62	13.10	1.38	0.00	100.00	12.91
Four Districts	7.54	37.27	37.70	15.08	2.42	100.00	21.51

Table VI.4C
Frequency Distribution of GPs based on
Per capita Expenditure on Core Services

	Per capita Expenditure in Rupees					Average Per capita Exp.
	Less than 10	10 to 20	20 to 30	More than 30	Total	
1999-00						
Bagalkot	48.47	44.17	6.75	0.61	100.00	11.05
Bidar	20.83	53.57	20.83	4.76	100.00	14.79
Mandya	10.13	56.39	25.55	7.93	100.00	17.42
Udupi	28.97	47.59	17.93	5.52	100.00	14.85
Four Districts	25.46	51.07	18.49	4.98	100.00	14.76
2000-01						
Bagalkot	9.20	58.90	22.70	9.20	100.00	17.78
Bidar	5.95	47.02	37.50	9.52	100.00	18.78
Mandya	0.00	19.38	44.49	36.12	100.00	27.37
Udupi	13.79	46.90	22.76	16.55	100.00	19.72
Four Districts	6.40	40.83	33.29	19.49	100.00	21.51

Table VI.4D
Frequency Distribution of GPs based on
Per capita Expenditure on Public Works

	Per capita Expenditure in Rupees					Average Per capita Exp.
	Less than 10	10 to 20	20 to 30	More than 30	Total	
1999-00						
Bagalkot	78.53	17.18	3.68	0.61	100.00	5.84
Bidar	95.24	3.57	0.60	0.60	100.00	2.03
Mandya	51.98	41.85	4.85	1.32	100.00	10.06
Udupi	20.00	53.79	15.86	10.34	100.00	17.31
Four Districts	61.88	29.45	5.83	2.84	100.00	8.64
2000-01						
Bagalkot	66.87	26.99	3.68	2.45	100.00	8.09
Bidar	92.26	4.76	2.38	0.60	100.00	3.08
Mandya	43.17	44.93	8.81	3.08	100.00	12.40
Udupi	7.59	16.55	27.59	48.28	100.00	29.28
Four Districts	53.06	25.32	9.96	11.66	100.00	12.60

Table VI.4E
Frequency Distribution of GPs based on Per capita Total Expenditure

	Per capita Expenditure in Rupees							Average Per capita Exp.
	Less than 20	20 to 30	30 to 40	40 to 50	50 to 60	More than 60	Total	
1999-00								
Bagalkot	1.23	8.59	22.70	31.29	22.70	13.50	100.00	46.13
Bidar	1.19	8.93	23.81	25.00	20.24	20.83	100.00	45.95
Mandya	0.44	3.08	14.98	35.68	22.03	23.79	100.00	49.57
Udupi	0.00	0.69	10.34	22.07	24.83	42.07	100.00	62.43
Four Districts	0.71	5.26	17.92	29.30	22.33	24.47	100.00	50.50
2000-01								
Bagalkot	0.61	0.00	3.07	11.66	19.63	65.03	100.00	65.55
Bidar	0.60	1.19	13.10	20.83	27.98	36.31	100.00	53.82
Mandya	0.00	0.00	1.76	4.85	18.94	74.45	100.00	70.05
Udupi	0.00	0.69	0.69	4.14	6.90	87.59	100.00	86.42
Four Districts	0.28	0.43	4.55	10.10	18.78	65.86	100.00	68.48

VI.3 Determinants of GP Expenditure

We have examined the determinants of own revenues and transfers in Chapter IV and V. Given that expenditure is merely the summation of own revenues and transfers (assuming that there is no difference between opening and closing balance), it would be superfluous to estimate a separate set of regressions for identifying the expenditure determinants. In this section, we have merely drawn the inferences on per capita expenditures based on the regression estimates on own revenues and transfers. In addition, in respect of some specified expenditure categories, we have estimated the regressions to identify the determinants of these expenditure categories.

The regression analysis showed that the per capita income related variables are not significant in explaining inter-panchayat variations in either per capita own revenues or per capita transfers. This implies that this factor does not explain expenditure differences either. In fact, bulk of the GP expenditures, almost 75 per cent, is contributed by transfers and the contribution of own revenues to expenditures of the GPs was only about 25 per cent. The regression analysis of transfers, however, has shown that none of the economic variables is significant in determining the transfer system. The transfer system is not designed either on efficiency considerations or to meet the requirements of equity. Even in the case of own revenues, the variables proxying incomes are not significant. Thus, it would seem that per capita expenditure distribution among Panchayats, by and large, is random. As own revenues are significantly related to variables representing proximity and connectivity, we may infer that *ceteris paribus*, per capita expenditures tend to be higher in places which are closer to urban centres and those that are better connected. In other words, the differences in per capita expenditures among GPs are more a random phenomenon than policy determined. This result seems to be the case both for the GPs in all the four districts.

VI.4 Determinants of Expenditures on Selected Services

The important expenditure categories at the GP level include spending on core services¹⁷, public works, JGSY and office expenditures. In 2000-01, in the four districts taken together, spending on core services constituted 31 per cent of total expenditures of the GPs and the respective shares for public works, JGSY and office expenses were 18.4 per cent, 31 per cent and 13.9 per cent, respectively. Conceptually, JGSY though primarily is an

¹⁷ Core services comprised of water supply, sanitation and streetlights.

anti-poverty employment generation scheme is also meant to create physical assets such as roads, bridges and such other activities for the creation of physical assets and is similar in scope to public works projects undertaken by GPs. In this exercise, therefore, we have tried to explain inter-panchayat variations in per capita expenditures on core services and public works including spending on JGSY. We have also made a separate analysis of expenditures on JGSY relating it to examine the design of these transfers.

Public works including JGSY constituted almost one half of the expenditures incurred by the GPs in 2000-01 in the four districts taken together. It is therefore important to understand the reasons for the differences in per capita expenditures in these services. It must be noted that overwhelming proportion of expenditures on public works and JGSY are on various centrally sponsored schemes and therefore, the funds received are of the nature of specific purpose transfers. It is important to know whether and to what extent the GPs themselves make any contribution to this activity from their own revenues. It is also important to understand the contribution of transfers – per capita aggregate grants as well as the proportion of lump sum grants– in explaining the differences in expenditures. Further, since a predominant proportion of the transfers is for poverty reduction, it is necessary to understand whether the proportion of below poverty line (BPL) households and the proportion of scheduled caste and tribe population are significantly related to the expenditures on these activities. In addition we have tried to quantify the contribution of education level of GP President, share of women members among the elected representative and the length of roads per sq. km area of GP. The last variable has been included because, spending on roads and maintenance under Public works is expected to be related to length of roads.

The regression results are presented in Table VI.5. We have estimated the regression equation with per capita public works including JGSY expenditures as the dependent variable and a separate equation for per capita JGSY expenditures. The results show that (i) per capita expenditures on public works is positive and significant for own revenues and transfers and the value of the regression coefficient of the latter is substantially higher. This indicates that the marginal effect of transfers on per capita expenditures is significantly higher than that of own revenues. (ii) the length of roads is a significant factor explaining the differences in per capita expenditure on public works. (iii) while the share of BPL households is not significant in explaining the expenditure variations, the proportion of scheduled castes and tribes is

significatnt. (iv) The proportion BPL households is not significant in explaining the difference even on per capita JGSY expenditures. This brings to the fore the problem of design in the transfer system. Not surprisingly, allocation to this anti-poverty intervention is not on the basis of proportion of poorer households/population, but 40 % is distributed to GPs on the basis of total population in the GP area and the remainder is distributed on the basis of scheduled caste and tribe population. (v) factors such as proportion of women members and educational level of the President have no influence on public works expenditures.(vi) In terms of district specific effects, the coefficient value of Udupi, the highest per capita income district, was the highest and that of the lowest income district, Bidar, was the lowest. Though this is not true of JGSY expenditures, the political importance of the Chief Minister's constituency is seen by the fact that anti-poverty expenditures in Mandya district was higher than Bidar, even though the level of incomes in the latter is much lower and the proportion of poor much higher.

The regression equations for per capita JGSY expenditures estimated for individual districts with taluk dummies broadly show similar results (Table VI.6 and VI.7). Own revenues and transfers are significant in each of the districts. The proportion of BPL households is not significant in three districts but in Bagalkot it is negative and significant which implies that the GPs with higher proportion of the poor actually incurred lower per capita JGSY expenditures. The share of SC/ST population is significant in three districts, but not in Udupi.

Expenditure on core services, which constituted about 31 per cent of GP expenditures is another important item. Core services consist of water supply, sanitation and street lights. The regression estimates for per capita expenditures in core services (Table VI.5) show that the only factors that significantly explain the inter-GP expenditure differences are own revenues, transfers and proportion of lump sum transfers. From the equation, it is clear that these services are financed from mainly general revenues comprising of own revenues and lump sum transfers. The marginal effect of own revenues substantially higher than that of per capita transfers and the regression coefficient of lump sum transfers is positive and significant. The results for four individual districts are similar to the aggregate results analysed above (Table VI.8).

VI.5 Conclusions

In this chapter, we have attempted to examine the level and composition of expenditures incurred at the GP level. The chapter also examines the differences in per capita expenditures on different services among the GPs between and within each of the four districts and makes an attempt to explain and understand these differences.

The analysis shows that the level of expenditures incurred at the GP level is extremely low both in per capita terms (Rs. 68.5) and as a ratio of DZP (0.3%). Even as a ratio of total expenditure incurred at rural local body level, the role of GPs is minimal and fiscal decentralisation in Karnataka essentially implies implementation of the schemes designed by the State and central governments mainly at ZP and TP levels. Only a small proportion of expenditure (5.7%) is incurred at the GP level. In addition, overwhelming proportions of expenditures are incurred for specific purposes such as JGSY, welfare of scheduled castes, and salaries of water man. Of course, these are necessary outlays, but we point out that they are directed to benefit a small section of population within the GPs. Naturally, the activities of GPs do not evoke appreciable interest and response from the majority of people.

Almost 75% of the expenditure incurred at the GP level is met from transfers. This combined with the fact that overwhelming proportion of transfers is given for specified purposes, mean that the GP do not have the autonomy to prioritise even the low level of expenditures it makes.

There are wide variations in per capita expenditures among the GPs, not only across districts but within each of the district analysed. On an average, 37 per cent of the GPs had per capita expenditures less than Rs. 20. Sharp differences in per capita expenditures are seen not only for aggregate expenditures but also in respect of the major components of expenditures.

In general, per capita expenditures were higher in the more affluent districts. The frequency distribution of GPs according to per capita expenditure classification shows that over 88 per cent of GPs in the most affluent district (Udupi) had per capita expenditure of more than Rs. 60. The corresponding percentage in Bidar, the least affluent district was 36. The differences in per capita expenditures were particularly pronounced in the case of expenditures on core services. Interestingly, the JGSY expenditures, which are meant as an important anti-poverty intervention, are not related to the proportion of BPL households.

Over 75 per cent of the GPs expenditures are met from intergovernmental transfers. As the distribution of transfers does not follow any systematic pattern, the expenditure distribution among the GPs is largely random rather than policy determined. In part this may be due to aggregation of different types of transfers, but the end result is clear. The overall distribution of expenditures among GPs does not show a pattern of equity. This is also true of individual expenditure categories.

Table VI.5 Determinants of Expenditure						
Independent Variables	Public Works incl. JGSY		JGSY Expenditure		Core Services	
	Coefficient	T value	Coefficient	T value	Coefficient	T value
Constant	18.263	5.852	8.887	5.288	-5.122	-2.214
Education Level of GP President	-0.343	-0.799	-0.056	-0.243	0.195	0.614
Share of Women Members	0.014	0.364	-0.028	-1.370	0.043	1.515
Road length per square Kilometer	0.288*	3.205	0.070	1.447		
Share of SC ST Population	0.174*	4.109	0.222*	9.720	-0.005	-0.148
Share of BPL households in Total	0.026	1.359	0.000	-0.036	0.001	0.069
Per capita Own Revenue	0.189*	6.678	-0.031*	-2.053	0.261*	12.617
Per capita Grants	0.390*	16.125	0.223*	17.102	0.151*	8.396
Share of Lump sum Transfers in total	-0.210*	-4.623	-0.257*	-10.512	0.127*	3.776
Bagalkot	-5.479*	-3.919	12.667*	16.827	2.866*	2.784
Mandya	-4.912*	-3.891	9.263*	13.625	12.832*	13.710
Bidar	-10.515*	-6.370	8.785*	9.883	7.700*	6.332
R2	0.495		0.657		0.412	
F	61.170		119.500		48.253	
District Dummies						
Udupi	18.263		8.887		-5.122	
Bagalkot	12.784		21.554		-2.256	
Mandya	13.351		18.150		7.710	
Bidar	7.749		17.672		2.578	

* Significant at least at 10 per cent level.

Table VI.6
Determinants of Expenditure Public Works including JGSY

Independent Variables	Bagalkot District	Mandya District	Udupi District	Bidar District
	Coefficient	Coefficient	Coefficient	Coefficient
Constant	24.452 (3.698)*	9.841 (1.863)*	-22.127 (-2.131)*	11.648 (2.301)*
Education Level of GP President	-0.039 (-0.059)	-0.841 (-1.158)	1.343 (0.814)	-0.523 (-0.866)
Share of Women Members	-0.109 (-0.793)	0.070 (1.382)	0.163 (1.406)*	-0.012 (-0.155)
Road length per square Kilometer	-0.419 (-0.650)	0.296 (1.873)*	0.147 (0.966)	0.043 (0.077)
Share of SC ST Population	0.125 (1.901)*	0.353 (4.047)*	-0.002 (-0.013)	0.116 (2.411)*
Share of BPL households in Total	-0.081 (-1.855)*	0.027 (0.933)	-0.015 (-0.174)	0.024 (0.861)
Per capita Own Revenue	0.285 (4.136)*	0.227 (3.763)*	0.280 (5.333)*	0.398 (2.789)*
Per capita Grants	0.466 (9.881)*	0.184 (4.272)*	0.776 (8.498)*	0.363 (8.774)*
Share of Lump sum Transfers in total	-0.419 (-4.484)*	-0.119 (-1.380)	-0.143 (-0.948)	-0.181 (-2.588)*
Badami / KR Pet/ Karkala/ Aurad	0.271 (0.118)	7.312 (2.230)*	2.748 (0.831)	1.826 (1.020)
Bilgi / Manddur/ Kundapura/ Basava Kalyan	-7.592 (-2.543)*	6.236 (2.077)*	6.452 (2.163)*	-4.009 (-2.207)*
Hungund / Malavalli/ --/ Bidar	1.610 (0.690)	8.606 (2.659)*		-5.315 (-2.402)
Jhamkhandi /Mndya/--/Humnabad	-0.372 (-0.149)	6.289 (2.123)*		-0.011 (-0.006)
Mudhol/Nagamangala/--/--	1.302 (0.465)	6.660 (1.911)*		
--/Pandavapura/--/--		4.937 (1.476)		
R2	0.635	0.324	0.491	0.584
F	19.956	7.131	12.925	18.127

Taluk Dummies

Bagalkot District		Mandya District		Udupi District		Bidar District	
Baglkot	24.452	Srirangapatna	9.841	Udupi	-22.127	Balki	11.648
Badami	24.723	Kr Pet	17.152	Karkala	-19.379	Aurad	13.474
Bilgi	16.860	Maddur	16.076	Kundapura	-15.675	Basavakalyan	7.639
Hungund	26.062	Malavalli	18.447			Bidar	6.333
Jamkhandi	24.080	Mandya	16.130			Humnabad	11.637
Mudhol	25.754	Nagamangala	16.501				
		Pandavapura	14.778				

Independent Variables	Bagalkot District	Mandya District	Udupi District	Bidar District
Constant	30.391 (6.268)*	20.677 (8.193)*	2.429 (0.799)	13.041 (3.078)*
Education Level of GP President	0.173 (0.357)	-0.089 (-0.257)	-0.346 (-0.717)	-0.653 (-1.292)
Share of Women Members	-0.172 (-1.702)*	-0.026 (-1.062)	0.043 (1.269)	-0.093 (-1.461)
Road length per square Kilometer	0.158 (0.334)	0.060 (0.795)	0.044 (0.985)	0.329 (0.705)
Share of SC ST Population	0.169 (3.488)*	0.268 (6.421)*	0.387 (6.997)*	0.153 (3.792)*
Share of BPL households in Total	-0.026 (-0.794)	-0.008 (-0.540)	0.008 (0.320)	0.031 (1.317)
Per capita Own Revenue	0.028 (0.558)	-0.076 (-2.655)*	0.008 (0.501)	0.076 (0.634)
Per capita Grants	0.338 (9.767)*	0.152 (7.409)*	0.183 (6.854)*	0.240 (6.933)*
Share of Lump sum Transfers in total	-0.400 (-5.836)*	-0.211 (-5.132)*	-0.164 (-3.712)*	-0.098 (-1.671)*
Badami / KR Pet/ Karkala/ Aurad	-5.718 (-3.380)*	-1.195 (-0.763)	0.935 (0.966)	4.547 (3.036)*
Bilgi / Manddur/ Kundapura/ Basava Kalyan	-6.397 (-2.922)*	-1.006 (-0.701)	0.361 (0.413)	-0.066 (-0.043)
Hungund / Malavalli/ --/ Bidar	-1.260 (-0.737)	1.233 (0.798)		-3.322 (-1.794)
Jhamkhandi /Mndya/-- /Humnabad	-8.290 (-4.538)*	-0.158 (-0.111)		4.117 (2.635)
Mudhol/Nagamangala/--/--	-2.829 (-1.377)	-0.171 (-0.103)		
--/Pandavapura/--/--		-0.908 (-0.568)		
R2	0.675	0.488	0.632	0.548
F	23.830	14.176	23.014	15.660

Figures in brackets are Tvalues and * indicates that they are significant at 10 percent.

Bagalkot District		Mandya District		Udupi District		Bidar District	
Baglkot	30.391	Srirangapatna	20.677	Udupi	2.429	Balki	13.041
Badami	24.673	Kr Pet	19.482	Karkala	3.365	Aurad	17.588
Bilgi	23.994	Maddur	19.671	Kundapura	2.790	Basavakalyan	12.975
Hungund	29.131	Malavalli	21.911			Bidar	9.719
Jamkhandi	22.101	Mandya	20.520			Humnabad	17.158
Mudhol	27.562	Nagamangala	20.507				
		Pandavapura	19.769				

Table VI. 8								
Determinants of Core Services Expenditure								
Independent Variables	Bagalkot District		Mandya District		Udupi District		Bidar District	
	Coefficient	T value	Coefficient	T value	Coefficient	T value	Coefficient	T value
Constant	8.853	1.778	5.654	1.235	7.505	1.171	-9.634	-2.313
Education Level of GP President	-0.605	-1.219	0.173	0.276	-0.963	-0.944	0.479	0.965
Share of Women Members	-0.220	-2.123	0.055	1.259	0.029	0.408	-0.005	-0.073
Share of SC ST Population	-0.028	-0.572	0.060	0.790	0.039	0.331	-0.004	-0.101
Share of BPL households in Total	0.050	1.527	-0.011	-0.443	0.079	1.550	0.005	0.214
Per capita Own Revenue	0.402	7.759	0.243	4.647	0.215	6.858	0.432	3.652
Per capita Grants	0.120	3.394	0.157	4.213	-0.010	-0.188	0.309	9.043
Share of Lump sum Transfers in total	0.158	2.253	0.129	1.725	0.167	1.797	0.196	3.365
Taluk Dummy 1	0.474	0.273	1.331	0.469	-0.863	-0.423	0.226	0.152
Taluk Dummy 2	0.728	0.324	6.078	2.335	-4.734	-2.565	2.791	1.850
Taluk Dummy 3	1.249	0.717	-2.712	-0.964			1.453	0.795
Taluk Dummy 4	-0.244	-0.132	0.034	0.013			0.627	0.404
Taluk Dummy 5			-1.012	-0.335				
Taluk Dummy 6			0.599	0.207				
R2	0.366		0.336093		0.349491		0.444516	
F	7.217		8.138687		8.058856		11.34876	

Taluk Specific Dummies							
Bagalkot District		Mandya District		Udupi District		Bidar District	
Baglkot	8.853	Srirangapatna	5.654	Udupi	7.505	Balki	-9.634
Badami	9.327	Kr Pet	6.984	Karkala	6.642	Aurad	-9.409
Bilgi	9.581	Maddur	11.732	Kundapura	2.771	Basavakalyan	-6.844
Hungund	10.102	Malavalli	2.942			Bidar	-8.181
Jamkhandi	8.609	Mandya	5.688			Humnabad	-9.007
Mudhol	8.853	Nagamangala	4.641				
		Pandavapura	6.252				

Annexure VI.1
Frequency Distribution of GP based on JGSY Expenditure
Per BPL Household

	Percent of GPs						Average Per Capita Rupees
	Less Than 250	250 to 500	500 to 1000	1000 to 1500	Above 1500	Total	
1999-00							
Badami	17.65	44.12	35.29	2.94		100.00	407.01
Bagalkot	13.64	36.36	27.27	13.64	9.09	100.00	423.56
Bilgi	5.00	40.00	35.00	20.00		100.00	565.64
Hungund	23.33	36.67	36.67	3.33		100.00	391.41
Jamkhandi	28.13	40.63	31.25			100.00	330.17
Mudhol		32.00	56.00	8.00	4.00	100.00	678.77
Bagalkot District	15.95	38.65	36.81	6.75	1.84	100.00	433.32
Aurad	17.14	54.29	25.71	2.86		100.00	402.15
Basavakalyan	28.57	60.00	11.43			100.00	297.36
Bhalki	21.88	53.13	25.00			100.00	325.97
Bidar	20.00	56.67	20.00	3.33		100.00	329.33
Humnabad	9.09	30.30	51.52	6.06	3.03	100.00	528.64
Bidar District	19.39	50.91	26.67	2.42	0.61	100.00	368.30
KR Pet	82.35	17.65				100.00	110.51
Maddur	52.38	42.86	4.76			100.00	215.62
Malavalli	74.36	23.08	2.56			100.00	142.94
Mandya	48.89	40.00	8.89	2.22		100.00	217.15
Nagamangala	38.46	50.00	11.54			100.00	180.62
Pandavapura	68.18	31.82				100.00	165.43
SR Patna	29.41	58.82	5.88	5.88		100.00	288.64
Mandya District	58.22	36.00	4.89	0.89		100.00	171.01
Karkala	44.83	51.72	3.45			100.00	266.42
Kundapura	81.82	10.91	5.45	1.82		100.00	163.81
Udupi	67.21	19.67	11.48		1.64	100.00	211.75
Udupi District	68.28	22.76	7.59	0.69	0.69	100.00	201.94
Four Districts	41.26	37.39	18.05	2.58	0.72	100.00	270.18
2000-01							
Badami	2.94	44.12	44.12	8.82		100.00	533.41
Bagalkot	9.09	31.82	31.82	9.09	18.18	100.00	566.18
Bilgi		15.00	40.00	30.00	15.00	100.00	906.13
Hungund	6.67	36.67	53.33	3.33		100.00	494.67
Jamkhandi	9.38	43.75	43.75	3.13		100.00	437.53
Mudhol		48.00	48.00	40.00	12.00	100.00	991.18
Bagalkot District	4.91	30.67	44.17	14.11	6.13	100.00	592.82
Aurad	5.56	25.00	61.11	8.33		100.00	602.88
Basavakalyan	5.71	22.86	51.43	17.14	2.86	100.00	601.06
Bhalki	3.13	34.38	46.88	15.63		100.00	517.46
Bidar	3.23	35.48	48.39	12.90		100.00	517.30
Humnabad	3.03	30.30	45.45	15.15	6.06	100.00	619.78
Bidar District	4.19	29.34	50.90	13.77	1.80	100.00	571.52
KR Pet	67.65	20.59	11.76			100.00	157.97
Maddur	34.15	36.59	29.27			100.00	304.65
Malavalli	58.97	30.77	10.26			100.00	215.65
Mandya	33.33	42.22	17.78	4.44	2.22	100.00	305.89
Nagamangala	26.92	26.92	42.31	3.85		100.00	272.20
Pandavapura	45.45	40.91	13.64			100.00	239.83
SR Patna	11.76	47.06	35.29		5.88	100.00	415.57
Mandya District	41.96	34.38	21.43	1.34	0.89	100.00	247.76
Karkala	34.48	62.07	3.45			100.00	268.58
Kundapura	81.82	16.36	1.82			100.00	161.22
Udupi	60.00	30.00	8.33		1.67	100.00	197.06
Udupi District	63.19	31.25	4.86		0.69	100.00	195.20
Four Districts	28.65	31.66	30.37	7.02	2.29	100.00	375.59

Chapter VII

Conclusions and Recommendations

VII.1 Introduction

There are few analytical studies on rural fiscal decentralisation in India. Most of the studies done to date are descriptive and impressionistic. An important reason for the paucity of analytical studies is the absence of reliable data and information on fiscal, demographic and economic variables at the GP level. Even the analyses done by the Central and State Finance Commissions do not rely on authentic data.

The absence of information at the GP level has prevented the States from designing appropriate transfer system to offset the fiscal disabilities of rural local governments. Nor is there any idea about the volume of resources raised from various sources, the level and composition of expenditures incurred, the involvement of people in implementing public expenditure decisions, or the efficiency and equity in the delivery of public services.

The present study attempts to fill some of this vacuum. In many ways, this is the first analytical study on rural fiscal decentralisation based on the reliable information gathered from a large number of GPs. It undertakes both quantitative and qualitative analysis of fiscal decentralisation in the state of Karnataka. While surely there are significant differences in the process and nature of fiscal decentralisation among different States, this study helps to understand the way in which fiscal decentralisation process has evolved in the country particularly after the Constitutional amendment in 1992. Despite differences in the details, the issues raised in this study will apply with more or less emphasis to most of the States in India. For the state of Karnataka, in particular, the study identifies important areas of possible reform for achieving the objectives of fiscal decentralisation.

This study does not take any position as to whether fiscal decentralisation is inherently a good or bad policy. It takes decentralisation as an inevitable process and attempts to identify the means of strengthening it to enable the local governments to deliver public services in more efficient and equitable ways. It attempts to identify fundamental problems with the design and implementation of the fiscal decentralisation process and institutions in Karnataka, and in making recommendation for reform it has kept practicality

and implementability aspects in the background. Thus, the recommendations made in the study are necessarily incremental. In the process, the solutions offered are not entirely according to the benchmark implementable rules of fiscal decentralisation. The emphasis is to achieve improved outcomes from the prevailing system given the institutional constraints they are placed in.

VII.2 Functional Assignment: Overlapping and Consolidation

Fiscal Decentralisation evolved from the centralised system can not be designed *de novo*, according to textbook characterisation of implementable rules. The process has been essentially a ‘top-down’ with the State government transferring schemes along with employees on respect of selected functions. The transfer of employees had to be accompanied by assurance to protect their salaries, hierarchy and promotional avenues. Because they are saddled with these constraints, the local governments do not have autonomy and flexibility in making allocative decisions between different functions, designing the way in which the schemes should be implemented or appointing the employees and ensuring their accountability.

The reform in the fiscal decentralisation process should begin by consolidating the schemes into meaningful categories. Avoidance of segmentation of expenditure into minute categories creates rigidities in the system. Exercise of local fiscal choice is possible only when the schemes are consolidated into broad categories; and technology and input combination in the provision of services are left to local governments. However, this is possible only in the case of the schemes initiated by the state government. The rationalisation of the central schemes will have to be taken up by the central government. The state government can only try to impress upon the central government to undertake this task.

As regards the district sector plan schemes are concerned, the state government should, in the first instance take up for consolidation all those schemes with more than Rs. 10 crore outlay. The smaller schemes related to these major schemes may be consolidated with them. The remaining schemes should be consolidated within each of the departments so that there can be greater flexibility to prioritise spending decisions within the departments. Phasing out these small schemes will untie the money spent on these schemes, which should be made available to the respective departments within the panchayats. This would help to evolve meaningful schemes, and provide greater discretion and autonomy to the panchayats

in providing public services. The study has made the indicative exercise on consolidation. The reform measures could be initiated on the lines recommended.

It is also important to rationalise the state sector plan schemes. Our analysis shows that there are a number of schemes that are well within the realm of implementation capacity of panchayats and therefore, there is no need for the state government to directly implement them. First, there are many schemes within the state sector that are implemented through the district panchayats or are implemented through the same line agencies that implement the schemes for the district panchayats. These could certainly be transferred to panchayats and should become a part of the consolidation exercise detailed above. The schemes thus transferred should either be consolidated within the large schemes (with more than Rs. 10 crores outlay) or the outlay on the schemes should be provided to the relevant department within the panchayats. The panchayats will determine the prioritise the service provision within each of the departments and each department would have significant lump sum amount available for spending on the services according to their priorities.

It is important to ensure clarity in the role of line agencies. These agencies, which are supposed to implement the schemes for the district panchayats, should implement only their schemes and should not be required to implement the schemes of the state government. Similarly, various regional development boards should be wound up and the schemes implemented by them through these agencies should either be transferred to the district panchayats or to the state government based on their comparative advantage in implementing these schemes. The most important advantage of this will be that overlap in the roles of state sector and district sector will cease, and there will be clarity in the role of the implementing line agencies so that the scope for misappropriation can be minimised.

Another important area of reform is the need to strengthen the accountability of the employees to local bodies. In the present system, local governments have very little say in the appointments, transfers, promotions and emoluments of the employees and naturally, the local employees do not have a sense of belonging to local governments. While it may not be possible to undertake complete overhaul of the system, it should be possible to institute the annual confidential reports to be signed by the local officials and elected executives. Similarly the local bodies should have an important say in the promotions.

VII.3 Augmenting Revenues: Reforms in Policies and Institutions

Analysis of rural fiscal decentralisation brings out clearly that both ZPs and TPs are primarily implementing agencies for the schemes designed either by the centre or the State governments. They do not have significant independent revenue sources and depend entirely upon the transfers from above. Because transfers are essentially scheme based and are earmarked mainly for payment of salaries, finance of continuing schemes and transfers to aided institutions, they have very little fiscal autonomy to exercise choice.

Among rural local governments, GP is the only meaningful governmental tier of fiscal decentralisation. GPs have independent tax powers and raise revenues to finance about a fifth of their expenditures. However, in the overall scheme of fiscal decentralisation, the role of GPs is quite negligible. The total expenditures incurred at the GP level is less than 6 per cent of total expenditures incurred by the panchyats or about 0.3 per cent of the GDDP, and the revenues raised by them are less than 0.05 per cent of GDDP.

A critical element to ensuring meaningful fiscal decentralisation in Karnataka is to enhance the revenue productivity of the GPs. Reforming the tax system and user charges levied by the GPs is the most important element of fiscal decentralisation reform. There are problems with the structure of property taxes levied under the present system, and the state government should consider removing the ceiling rate. However, the more important issue in property tax reform is to institute a scientific mechanism to institute valuation of property to determine the tax base. This should be a priority area of reform, for, any meaningful evolution of fiscal decentralisation is possible only when the GPs raise more revenues to finance expenditures as desired by their citizens.

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

Another approach to enhancing local government revenues is to assign new taxing powers. An often-mentioned candidate is the land tax. While this has the advantage of being a “traditional” local tax where the population bearing the tax burden and those receiving the expenditure benefits roughly correspond, it also has drawbacks. Notably, the state

government has not shown great success with making it revenue productive, and the GP experience with property tax administration causes one to question whether rural local governments could do any better.

The average level of own source revenues is low, but there are also large variations around this average. Analysis of determinants of this variation shows that the income related variables are not significant in explaining the variations in per capita own revenues of GPs. On the other hand, revenues are higher in GPs with better connectivity in terms of road length and proportion of metalled roads. Also, revenues are higher in panchayats that are closer to taluk and district headquarters. The lack of relationship of income related variables on both property tax and aggregate revenues highlights the poor design of the tax system. This underlines the need to redesign the tax system to make it responsive to the value of property owned by the residents of the GPs.

The determinants analysis also shows that per capita revenue from property taxes is not affected by the transfer system. The coefficient of per capita total transfers on per capita property tax revenue is not significant and the coefficient of lump sum transfers is negative and significant. This implies that while the transfers as a whole do not impact on total own revenues, the GPs that receive higher lump sum transfers, *ceteris paribus*, tend to collect lower per capita property tax revenues.

VII.4 Issues in Intergovernmental Transfers

The evolution of transfer system to Panchayats in Karnataka has been the by-product of the process of decentralisation itself. A bulk of the transfers to rural local governments is given to ZPs and TPs, and GPs receive only a small proportion (4 per cent) of the transfers given to rural local bodies. The lack of independent sources of revenue and total dependence of ZPs and TPs on transfers make the entire fiscal decentralisation process a hostage to the transfer system.

To begin with, there is no clear and transparent way in which the aggregate transfers, the relative shares of urban and rural local governments and the allocations to each of the tiers of urban and rural local governments is determined. The entire process seems to have evolved historically, based on the expenditures incurred before the schemes were transferred to the local bodies. Unfortunately, the State Finance Commissions that were required to determine the aggregate volume of devolution and the relative shares of different

governmental units, have also used a simplistic approach. The most recent Finance Commission has not significantly changed this approach. There has been no attempt to estimate the expenditures needed to carry out the functions assigned to the local governments in a satisfactory manner to determine their requirements. It is necessary for the Finance Commissions to be professionalised in order to evolve appropriate approach and methodology to determine the requirements of different types and tiers of local governments.

The analysis shows that there is very little general purpose transfer at the district and taluk levels. The scheme based devolution and micro allocation of resources even within the schemes robs the rural local governments of any leeway in making allocation according to their priorities. Even the specific purpose transfers can help in augmenting service levels and ensure equity if the transfer system is designed properly. However, the overall transfer system in Karnataka has only helped to maintain status quo ante prior to the transfer of functions and employees in 1993, as basically, the transfers are linked to the schemes transferred by the state government. The local governments do not have any autonomy to discontinue the schemes or to change the composition of expenditures between salaries, maintenance and other components. The critical element of reform therefore, is to unbundle the transfer system from scheme based transfers into broad programs and impart flexibility and autonomy for the local governments to make allocation according to their priorities.

The transfers made to GPs constitute only 4 per cent of total transfers, though they finance almost 75 per cent of the total expenditures incurred by the GPs. The consequence of the low level of transfers as also low revenues raised by the GPs has been that GPs hardly have any role in delivering public services. This is the only meaningful tier of rural fiscal decentralisation and yet, it does not have a meaningful role. Not surprisingly, GPs are involved only in implementing anti-poverty programs (SGSY) and maintenance of water supply schemes. The narrow functional assignment and poor resource base available with the GPs is primarily responsible for the lack of interest by the people on the local self government itself as evidenced by the poor attendance in Gram sabhas. The empirical analysis brings out the shortcomings of the design of the transfer system at the GP level. Per capita transfer to GPs is not related to any important indicators of fiscal capacity and therefore, the system has not been designed to offset fiscal disabilities. The random nature of the transfer system brings to the fore the major weakness that it does not serve the objectives of allocative efficiency or equity. It is seen that even the transfers specifically meant to

alleviate poverty are not related to proportion of poor households. Improving the design of the transfer system at the GP level is critical as it is the most challenging task of fiscal decentralisation.

The challenge of designing the transfer system to GPs is particularly daunting because of the poor information base. It is possible to design the transfer system to offset fiscal disabilities only when the data on indicators of taxable capacity and cost differences are available. Similarly it is possible to design specific purpose transfers only when the standards of public services available to the residents in respect of specific services to be equalised and its cost of provision is properly known for which a detailed and reliable information base is necessary.

VII.5 Improving Efficiency in Public Spending at Local Levels

The analysis shows that the level of expenditures incurred at the GP level is extremely low in both per capita terms (Rs. 68.5) and as a ratio of GDDP (0.3%). Even as a ratio of total expenditure incurred at rural local body level, the role of GPs is abysmal and fiscal decentralisation in Karnataka essentially implies implementation (mainly at the ZP and TP level) of the schemes structured designed by the State and central governments. Only a small proportion of expenditure (5.7%) is incurred at the GP level. Even in this, the overwhelming proportion of expenditures is incurred for specific purposes such as JGSY, welfare of scheduled castes, and for paying salary of water man. While these are necessary and in many ways important items of expenditure, it is necessary to note that they are directed to benefit a small section of population within the GPs. GPs do not have important schemes and activities that are in the nature of providing public goods to benefit the majority of residents, and therefore, activities of GPs do not evoke appreciable interest and response from majority of people.

Almost 75% of expenditure incurred at the GP level is met from transfers. Because the overwhelming proportion of transfers is given for specified purposes, even the low level of GP expenditures is allocated according to the priorities set by the donors or Central and State governments.

There are wide variations in per capita expenditures among the GPs not only between different districts but within each of the district analysed. On average, 37 per cent of the GPs had per capita expenditures less than Rs. 20. Sharp differences in per capita expenditures are

seen not only for aggregate expenditures but also in respect of expenditures on each of the services.

In general per capita expenditures were higher in the more affluent districts. The frequency distribution of GPs according to per capita expenditure classification shows that over 88 per cent of GPs in the most affluent district (Udupi) had per capita expenditure of more than Rs. 60. The corresponding percentage in Bidar, the least affluent district was 36. The differences in per capita expenditures were particularly pronounced in the case of expenditures on core services. Interestingly, the JGSY expenditures, which were meant as an important anti-poverty intervention are not related in any systematic way to the proportion of below BPL households.

As mentioned earlier, over 75 per cent of the GPs expenditures are met from intergovernmental transfers. As the distribution of transfer itself does not follow any systematic pattern, the expenditure distribution among the GPs is largely random rather than policy determined. In part this may be due to aggregation of different types of transfers, but the end result is clear. The overall distribution of expenditures among GPs does not show equity. This is also true of individual expenditure categories.

VII.6 Strengthening Fiscal Decentralization in Karnataka: Some Reform Issues

This study has brought out the important shortcomings in fiscal decentralization in Karnataka and has highlighted the areas of reform to strengthen the fiscal decentralization process in the State not only to improve efficiency and accountability in service delivery but also to empower them as institutions of rural self-government.

It must be noted that many of the shortcomings noted in the study can not be avoided for decentralization is not being attempted de novo, on a clean slate. Thus, the implementation rules for fiscal decentralization drawn up in an ideal situation can not be applied strictly in cases where the attempt is to decentralize from the prevailing centralized situation. Decentralization of functions involves transferring functions to local governments and this means that the functionaries will also be transferred. Given that these functionaries are well organized, local governments may not have a complete control over the transferred functionaries and the system. In other words, any improvement in the decentralization will only be marginal and it is over time that the gradual changes will have to add upto create greater functional decentralization.

The report has brought out a number of important recommendations to strengthen fiscal decentralization in Karnataka. These are detailed in the report and it is worthwhile recalling some of the important recommendations here.

- (i) There should be gradual consolidation of various schemes in the district sector. This will untie the funds and provide greater freedom and flexibility to the local governments in implementing expenditures. The study has indicated the broad strategy for consolidation.
- (ii) There are a number of schemes in the State sector that may be transferred to local governments. This would avoid duplication, ensure better organization of service delivery. The report has identified the schemes that may be transferred to local governments along with the funds.
- (iii) There is a considerable need to strengthen the own revenues of the GPs. This requires providing additional sources of revenue to them and building capacity in them to collect more revenue from existing sources. On the former, we have discussed about the need to empower the GPs to levy land revenue with proper co-ordination with the Revenue department.
- (iv) Revenue augmentation from existing sources will have to mainly come from property tax and user charges, particularly the water rates. The property tax is a major reform area and strengthening fiscal decentralization critically depends on this. There is no need to stipulate the ceiling tax rate on the GPs. The GPs need to be adequately empowered to enforce the tax. Building capacity in tax administration is critical to augmenting revenues.
- (v) Another major reform area is State transfer to local bodies. At present, the State government makes lump sum transfers to GPs and these do not fulfill the canon of either equity or efficiency. It is important to design a proper formula for making the transfers and the formula should have elements of both equity and incentives. In the least, the transfers should vary with the population and income levels of panchayats and it should also have a built in incentives for tax performance.

- (vi) At the Taluk and district level, it is important to tie the funds for exercising their own preferences in the provision of public services. Consolidation of schemes and releasing of the funds by discontinuing some schemes that have outlived the utility will go a long way.
- (vii) A major problem faced by the local bodies in receiving grants from the State government is the deduction of electricity charges at source. The State electricity utility under pressure from the state government to generate funds has been placing charges sometimes arbitrarily. As the deduction for the GPs is done at the level of ZPs, they are not even aware of the money that has been deducted. It is important to clean up the mess. The state government may clear outstanding payments once for all and then create a system of collecting the charges in a rational and transparent manner.
- (viii) On the expenditure side, it is necessary to activate the Gram Sabhas to ensure better preference revelation and accountability. The level of expenditures at the GP level is low and any interest of people in local self government will depend on its activity. At the same time, the system of monitoring and evaluation of various programs should be put in place to instill confidence among the people in the activities of the Panchayats.
- (ix) The reform initiative at the local body level is possible, be it in raising revenues, implementing expenditure programs or in designing the transfer system, only when there is reliable fiscal, demographic and other economic variables at the GP, TP and ZP levels. Thanks to the considerable effort put in by the state government, a lot of data have been assembled. It is important that this should become a regular activity. Creating and maintaining a proper information system is critical to the task of strengthening the local governments.
- (x) It is also important that the officials of the State government as well as those of the local governments need training on various aspects of local finance and fiscal decentralization. The objective of training for State government officials is to change their mind set. Infusing confidence in the local bodies is critical to strengthening the local governments and that is possible only when

the state government officials are willing to trust. As regards the employees of local governments, training is necessary to build capacity and this should be continuous. Training for the political representatives is also important to enable them to undertake their task effectively. Proper training of the officials and political representatives is critical to the smooth functioning of political and administrative wings of decentralization.

We have only discussed some of the recommendations in this section. The report details many more recommendations grounded on the analysis of fiscal data of panchayats. The State government has shown tremendous enthusiasm and initiative in strengthening the process of fiscal, political and administrative decentralization and hopefully, this study will help the task to some extent.

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