



A STUDY FINANCE OF MEASURING FISCAL FLOWS WITHIN THE JURISDICTION OF GRAMA PANCHAYATS IN KARNATAKA

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ABSTRACT

The 73 Amendment aimed to lay down in the Constitution certain essential features of PRIs to enable them to acquire the status and dignity of viable and responsive people's bodies. This paper argues that more than two decades after the passage of this amendment, there is a clear indication that decentralization did not end up achieving the objectives it has visualized. In particular, Karnataka's political vision of democratic decentralization in rural areas has not been adequately and rationally operationalized through the process of fiscal devolution. However, the problem is not unique to Karnataka. In this context, the paper provides certain important recommendations to strengthen the democratic decentralization and make the intergovernmental fiscal transfer system rational, simple and transparent.

Key Words: Panchayats, jurisdiction, Grama Panchayats.

INTRODUCTION

Karnataka is often cited as a pioneer in democratic decentralization in India. The state's contemporary reform efforts began with the enactment of the Karnataka Zilla Parishads, Taluk Panchayat Samitis, Mandal Panchayats and Nyaya Panchayats Act in 1983,² which established a two-tier system consisting of a Zilla Parishad at the District level and Mandal Panchayats at the village agglomeration level³ of elected LGs in rural areas. The law gave 25 percent reservation to women. It also gave the Zilla Parishad president the status of a Minister. The law was matched by several bold administrative decisions. On the fiscal side, the functional assignment was matched by a carving up of the state budget into district and state sectors. A State Finance Commission was set up. The Deputy Commissioners of Districts were divested of their development responsibilities and officers senior to them were posted as "Chief Secretaries" of the Zilla Parishads. With approval from the Government of India (GoI), District

Rural Development Agencies (DRDAs) were merged with the Zilla Parishads. The Chief Secretaries of ZPs were squarely accountable to the ZP; their Confidential Reports were written by the ZP Adhyaksha. The system resulted in a radical and fundamental shift in the power structure, both amongst politicians as also bureaucrats.

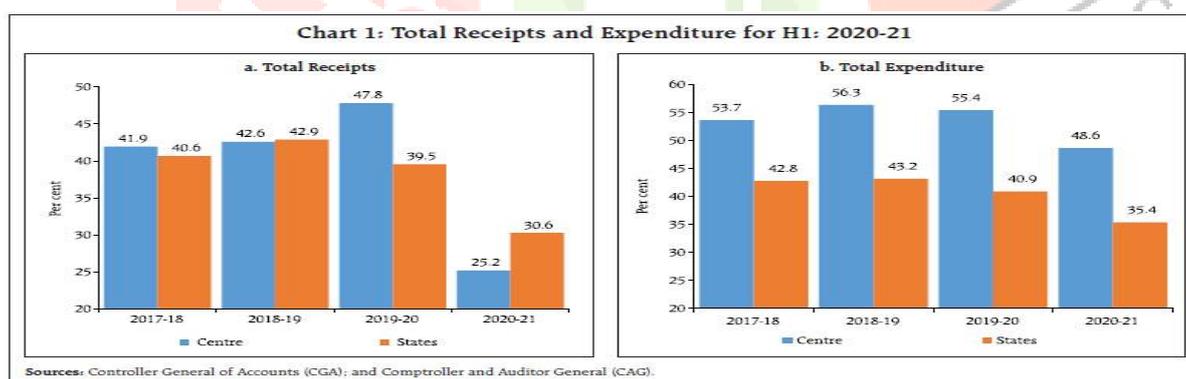
Following the 73rd and 74th amendments to the Indian Constitution, Karnataka's 1983 Act was replaced by the Karnataka Panchayat Raj (KPR) Act 1993, which established a three-level elected system, comprising Zilla Panchayats (ZPs) at the district, Taluka Panchayats (TPs) at the intermediate and Grama Panchayats (GPs) at the village levels. Through this Act, the state devolved several activities mapping effort of 2003 activities pertaining to all 29 matters listed in the Eleventh Schedule of the Constitution, to the three levels of Panchayats. The KPR Act 1993 was further amended in 2003 to strengthen structures to enhance accountability and catalyse peoples' participation in governance. In 2003, the state-issued through a government order, an activity mapping framework clarifying the devolution of functions to panchayats.

FUNCTIONAL DEVOLUTION

Analysis of the KPR Act and related orders show that a range of powers and responsibilities in respect of all the 29 matters listed in the Eleventh Schedule of the Constitution have been devolved to the ZPs. In the case of TPs, devolution extends to 28 matters and for GPs, to 25 matters. Thus, there is a high degree of functional devolution to all levels of panchayats,

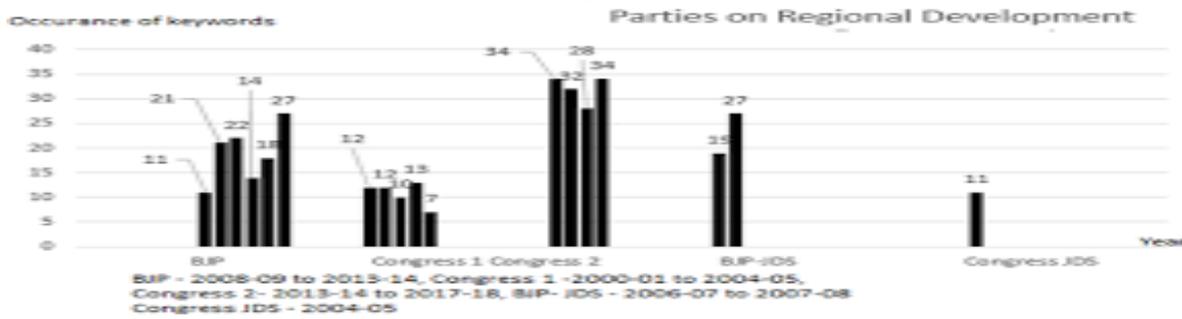
TRENDS IN FISCAL DEVOLUTION FOR PANCHAYATS

Fig-1 provides budget allocations in Karnataka from FY 2001-02 to FY 2018-19. The Karnataka State budget grew by 463 percent. (Plan funds - 545 % and non-plan - 412 %). During the same period funds devolved to PRIs grew by 446 per cent (Plan - 471 %, non-Plan - 430 %).



Source: For plan funds: Economic Survey of Karnataka 2018-19 and Department of Planning, Government of Karnataka (GoK), for data for FY 2012-13 to FY 2018-19. For non-plan: Accounts at a Glance, 1960-2018, Finance Department, and GoK.

However, funds devolved to the Panchayats under Plan as a cent in 1991-92 to 16 percent in 2018-19 (Fig 2). percentage of total state Plan allocations declined from 35 per

Fig 2: Trends in devolution of Plan funds to the Panchayats as a percentage of State Plan funds

Source: Economic Survey of Karnataka 2018-19 and Department of Planning, GoK, for data for FY 2012-13 to FY 2018-19.

A sizeable share of the funds devolved to the Panchayats these deputed employees has declined, as State government under both Plan and non-Plan heads, comprises of salary departments have centralised transfer and placement decisions. Transfers Panchayats have little discretion in expenditure of If salary payments from the Plan allocations are added to the these funds as they are pass through payments to State non-Plan allocations, the percentage of funds devolved under employees placed on deputation with the Panchayats. Over Plan heads declines even further, to about 12 percent of the State time, the control and superintendence by the Panchayats over budget (Refer Table 1).

Table 1: Allocations of funds in 2018-19 (B.E.)

1	Total State Plan Budget (Rs. Cr)	67076
2	Total State non-Plan Budget (Rs. Cr)	83303
3	Total State Budget (1 + 2) (Rs. Cr)	190379
4	District Sector Plan Budget (Rs. Cr)	10481
5	District Sector Non Plan Budget (Rs. Cr)	19862
6	Total District Sector (4 + 5)	26343
7	Plan Devolution % (District Sector Plan/Total Plan)	19.63
8	Non-Plan Devolution % (District Sector non-Plan/Total non-Plan)	19.04
9	Total Devolution % (District Sector/Total State Budget)	17.52
10	Of Item 4, Plan funds earmarked for salaries (Rs. Cr)	2447
11	Net plan allocations, excluding salaries (4-10)	8034
12	Percentage of non-salary Plan allocations to Panchayats, against total Plan outlay of State	11.97

The study went into the allocation of non-Plan and Plan salaries and non-plan allocations were 78 and 87 percent allocations across the three levels of Panchayats. This revealed respectively; these institutions were largely salary paying that significant proportions of the total allocations going to the machines, with very little discretionary funding to implement ZPs and TPs comprised of salary heads of account. In the case of their plans and programmes (Refer Table 2). The **Bidar** ZP and the **Kalaburgi** TP, the total allocation of plan

Table 2: Cumulative effect of non-plan and plan (salary) heads, on ZP and TP budgets

Fund Description	Total allocation	Total Plan Allocation	Total non-plan allocation	% of non-plan in total allocations	Plan allocations			% of non-plan + salary plan, in total allocations
					With Salaries	Without Salaries	% of salary allocations	
District Sector , Karnataka	26343	10481	19862	60.21	10481	8034	23.35	69.50
Bidar	598	197.23	410	68.56	197.23	131.5	29.77	77.88
Kalaburgi	72	14.2	58	80.56	14.2	9.4	33.80	87.22

Clearly, over the years, there has been an erosion of the panchayats in Schedules I, II and III of the KPR Act clearly discretionary funding that is available to the Panchayats for reveals that from the stage of allocating budget heads itself carrying out their devolved functions effectively. This is further fiscal devolution does not mirror functional devolution. This is confirmed through examination of both the Link book and the regardless of the fiscal allocations being made under these State budgets. A mapping of the budget heads in the Link Book heads (Table 3). For allocations against the functions devolved upon the

Table 3: Heads of Account contained in the link book, for devolved functions

Description	ZP	TP	GP
1. of subjects of Eleventh Schedule functionally devolved	29	28	25
2. of subjects fiscally devolved and have budget heads assigned to them	24	17	3
3. of subjects that do not have funds allocated though budgets heads exist	NIL	2	3

There were 269 schemes with a cumulative allocation of Rs governance, all expenditures incurred by any department of the 22,596 crores pertaining to devolved activities, that were state government, its parastatals, the ZP, TP and their retained in the State Sector and implemented through state line implementing offices, end up in the jurisdiction of one or the departments, parastatals and agencies as state sector schemes. Other GP the GPs could therefore perform a watchdog role on this result in further mismatches between the functional behalf of the Grama Sabhas, to keep track of allocations and assignments and fiscal transfers to the Panchayats. Many State expenditures of all other departments (including the ZPs and the Sector schemes have descriptions similar to schemes in the TPs) in its jurisdictions.

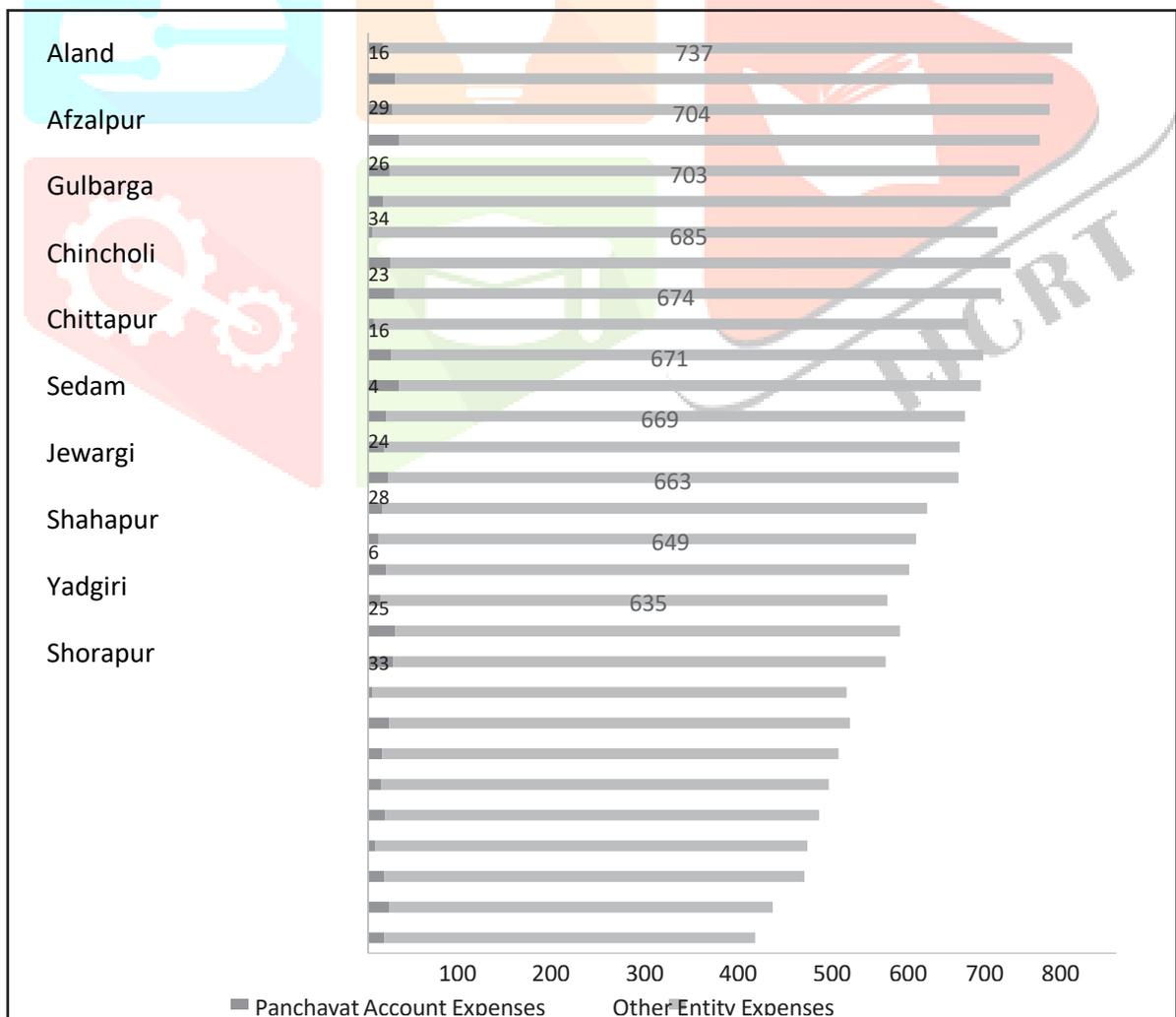
Keeping this potential in mind the district sector thus leading to over laps Rs. 6357 crores worth of study ascertained how much money is allocated and spent allocations were found to be “overlapping” with district sector through government departments, autonomous institutions, schemes. These trends indicated a strong and un-hindered ZPs and TPs, in the geographic jurisdiction of a GP. This, of tendency of State departments to dilute devolution through course, was apart from ascertaining what the GP itself was recentralisation.

Public expenditure at the gram panchayat level

The study found that in FY 2018-19, the average budget In the spectrum of local governance, GPs are the closest to the envelope for a GP in **Kalaburgi** Taluk amounted to about Rs. 6 people and carry several key responsibilities relating to crore. The highest budget envelope for any GP was Rs. 7.3 essential services for the people. As the first mile of crore, and the lowest just under Rs. 4 crore.

However, 97 per cent of these allocations and expenditures were incurred by a jurisdiction, as government departments and autonomous spectrum of entities other than the GP. Of the total budget institutions did not maintain allocation, release and expenditure envelope of Rs.179.37 crore, allocated and spent by all details on a GP wise basis. It goes without saying that GPs are agencies put together, the budgets of GPs alone only comprised largely unaware of the planning process underlying the design of 5.76 crore. Not only did the GPs not control the expenditures and implementation of schemes of other entities, within their of other entities within their jurisdictions, they were also jurisdictions.

Details are in Fig 3: oblivious of the nature and extent of funds spent in their
Fig 3: GP wise Budget Envelope details for 2018 – 19



FINDINGS OF THE STUDY

Other Key Findings: Panchayats to meaningfully plan for and expenditure across departments, and across GP jurisdictions. Illustrative findings are as follows:

- 52 per cent of the expenditure incurred in a GP were of the Education department and the subsidies through the public distribution system.
- There were significant shortfalls in expenditure by departments, even on those services that were accorded a high priority by Grama Sabhas and GPs. For example, only 70 per cent of its annual allocation was released for Rural Water Supply and only 39 per cent was spent. This was in spite of **Kalaburgi** taluk suffering from chronic water shortages. Only Rs. 10 Lakh was spent across only 5 out of the 30 villages under the Pradhan Mantri Gram Sadak Yojana. No money was released under the Chief Minister Gram Sadak Yojana. Local area development (LAD) funds spent by MP, MLA and MLC amount to only 1 per cent of the spending. No MP LAD funds were expended in **Kalaburgi** Taluk in FY2018-19.
- Departmental expenditures across GPs were skewed. The Horticulture department spent anything between Rs. 50 lakhs to Rs 10 Lakh in a GP. The Minor Irrigation department spent 20 per cent of its budget (i.e. Rs. 64 Lakh out of Rs 330 Lakh) in just two GPs. 12 GPs had no expenditure by the Minor Irrigation department. 3 GPs accounted for 25 per cent of MGNREGA expenditure in the taluk, while 11 GPs accounted for just 10 per cent of the expenditure. Similarly, Swachh Bharat Abhiyaan (SBM) saw high expenditure in 3 villages, while on the other hand, 3 GPs recorded zero expenditure. Similarly, the Watershed department spent its allocation only in 10 out of the 30 GPs in **Kalaburgi**.
- 77 per cent of the GP budgets were comprised of Central Finance Commission grants. However, these allocations provided little discretion to the GPs, as these funds were allocated to pay bills for electricity supply by the Bangalore Electricity Supply Company Limited (BESCOM). Expenditure on this account for streetlights and water supply installations of the GPs, constituted about 4 percent of the total budget envelop for GPs in **Kalaburgi**.

SUMMARY AND RECOMMENDATIONS

Karnataka's political vision of democratic decentralization in rural areas has not been adequately and rationally operationalised through the process of fiscal devolution. While at the state level, total plan and non-plan allocations have grown multifold, the proportion of allocations made to panchayats has fallen.

Furthermore, these are nearly entirely comprised of salary transfers, or rigid schemes that offer little scope for the Panchayats to meaningfully plan for and carry out their responsibilities. Panchayats are configured as agencies of higher level governments to implement top down schemes with little autonomy in planning, designing and implementing expenditure programmes. Fiscal devolution is the true measure of the State's political intent to devolve and by that yardstick Karnataka's record is tarnished and its reputation as a leader in devolution, considerably eroded.

The a-priori allocation of funds through a District and Taluk Link Book, while a good practice, reveals considerable scope for improvement. Of the 320 schemes in the District Sector, 205 schemes have allocations of Rs 1000 lakhs or less. The inter governmental fiscal transfer system could be considerably simplified by eliminating schemes with small allocations.

There is poor knowledge about the existence of Taluk Link books and therefore, this reform has had little impact on transparency of allocations at the Taluk level.

There is no GP Link Book that breaks down allocations of all schemes in the district sector to the granularity of each GP. The absence of GP level link documents makes it difficult for the GPs to hold the ZP and TP accountable for their performance even though all expenditure of the latter takes place within the jurisdiction of one or the other GP.

Given that the panchayats and their limited organizational capacities (comprising of State employees deputed to the Panchayats) are burdened with agency functions, they have very little motivation or capacity to plan or financially contribute to the performance of their devolved responsibilities.

Their own sources of revenue such as property tax are left uncollected. Schematic transfers are soft budget constraints that provide little incentive for panchayats to collect their taxes and make up the deficits. These trends result in a downward spiral that makes Local Governments (LGs) more and more dependent on higher levels of government for meeting their financing needs.

CONCLUSION

The 73 Amendment aimed to lay down in the Constitution certain essential features of PRIs to enable them acquire the status and dignity of viable and responsive peoples' bodies. More than two decades after the passage of this amendment, there is a clear indication that decentralisation did not end up achieving the objectives it had visualised.

Implementation of the suggestions mentioned above will help Karnataka move closer to effective devolution and hence ensure effective, transparent and inclusive use of scarce public resources. In summary, the vision of the 73 Amendment is not distant. We urge relevant stakeholders to seriously reflect on the results and recommendations of this research (which we believe is not unique to Karnataka) and deliberate on what can be done to strengthen the process of decentralisation given the circumstances of their states.

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