

## **CMDR Monograph Series No. 67**

# **Mobilization of Finances by Panchayat Raj Institutions: A Comparative Study of Selected GP's in North and South Karnataka Districts**

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**2012**

CMDR Monograph Series No. 67

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First Published : 2012

**Mobilization of Finances by Panchayat Raj Institutions:**

## **A Comparative Study of Selected GP's in North and South Karnataka Districts**

### **(1) Statement of the Problem:**

According to the principles of federal finance, finances have to be divided among different [layers] of Government on the basis of functions assigned to different levels of government. In this respect, theoretical economists like Oates<sup>1</sup>, Charles<sup>2</sup>, Thimmaiah<sup>3</sup>, Brennan and Buchanan<sup>4</sup>, have clearly pointed out that the finances have to flow from the centre to the state governments. Applying the same principles to PRIs, the finances have to flow from state governments to PRIs. It is popularly called as decentralized hypothesis. According to this hypothesis, those functions which supply public services to meet the varying tastes and preferences of citizen voters should necessarily go to the lower levels of Governments. Those functions which do not involve such variations in tastes and preferences and which enjoy economies of scale should go to higher levels of Government.

The economic justification in such an arrangement is to recognize that such institutions at the local levels can provide services better to the people living in Gram Panchayat area and they can see the relation between their contributions in terms of taxes, fees and levies to the services they get. By implication it amounts to making the people feel that they are paying for the service which they get. The economic justification of decentralized government is also because of its cost effective implementation of projects. It is in this context that the institutional arrangements for various functions at various levels of Governance take into account the advantages of decentralization of such functions where the costs as well as economies of scale are taken into account.

In fact, allocation of functions to various levels by decentralization involves the arrangements in such a way that the division of functions will not ensure more economic ways in the provision of services but also render accountability at both administrative and political levels. If services are rendered, keeping in view the demands based on the preferences of citizens, it is better to entrust certain functions to PRIs or GPs. Function assigned to decentralized government are on consideration of account-ability as also of transparency in operations. It is keeping this in mind that transfer of resources has to be looked upon as a method by which the state Government shares its revenue with the PRIs, so that responsibilities to provide services are shared between the state Governments on the one hand and PRIs on the other.

However, scholars like Remy<sup>5</sup>, Mclure<sup>6</sup> and Adarkar<sup>7</sup> have questioned this new challenge to decentralization on various grounds like miss-utilization and underutilization of funds, decentralization of corruption, nepotism and favouritism.

In India, several studies [Mathew<sup>8</sup>, Krishnan<sup>9</sup>, Webster<sup>10</sup>, Singh and Ali<sup>11</sup> and Bengeri<sup>12</sup>] show that the financial position of PRIs is weak and grants released by the state Governments are inadequate. In spite of this problem, PRIs in advanced regions have succeed in mobilizing their own revenue resources and utilized the grants effectively. But, the financial performance and utilization of the grants in backward area is poor.

The success of decentralization mainly depends on the mobilization of own revenue resources of GPs and quantum of finance devolved from State Government to PRIs. Further, Government grants should match the development functions assigned to the GPs.

## **(2) Functions of Gram Panchayats**

Financing of PRIs is a matter of great concern as it is directly related to development and welfare activities in the villages. These bodies can be effective only if they are provided with sufficient resources. As a result of the introduction of the decentralized administration [i.e., The Karnataka Panchayat Raj Act, 1993] for rapid change and development, the GPs have entrusted with a long list of functions. “The GPs have to perform functions as envisaged in section 58 of Panchayat Raj Act 1993. There are 17 functions listed in this Section – providing sanitary latrines to not less than ten percent of the households every year, supply of drinking water, sanitation, road construction and maintenance and maintenance of records relating to census and persons below poverty line are some of the main functions included. There is a provision to assign more functions to GPs vide Section 59. Powers have to be given to GPs to perform all these functions as per Section 60. In Schedule – I of the Act, preparation of annual plan, budget, and maintenance of essential statistics, agriculture, horticulture and other functions are entrusted to GPs”<sup>13</sup>. Further, there is a transfer of functions from higher level to these local bodies. In all, as per the act, GPs have to perform 29 functions.

## **(3) Main Sources of Income to GPs in Karnataka**

The income of the GPs is derived from three major sources. Local Taxation, Grants from the State and Central Governments and miscellaneous sources. The revenue of the Gram Panchayats in Karnataka has the following four constituents:

- i) Own revenue of Gram Panchayats which consist of taxes, rates and fees.

- ii) Share of GPs out of the NLGORR of the State Government.
- iii) Grants from the Central Government. These are schemewise transfers for creation of employment opportunities and removal of poverty and other welfare measures.
- iv) Grants coming from the center on the recommendations of the Central Finance Commission for specific purposes<sup>14</sup>.

**(4) Income Pattern of GPs in Karnataka**

The following table No.1 presents a picture of revenue pattern of GPs in Karnataka

**Table – 1**  
**Composition of Income of GPs in Karnataka**  
**[Average for the period 2002-2003 to 2006-07]**

Sl. No.	District	Central Grants	State Grants	Own Revenue	Others	Total
1	2	3	4	5	6	7
1	Bangalore Rural ZP	21.7	30.9	38.4	9.0	100
2	Gulbarga ZP	47.8	35.7	10.7	5.9	100
3	Karnataka	35.8	40.6	16.5	7.1	100

[in%]

*Source: Third State Finance Commission Report – p.57*

*Note : Due to limitation of time and other resources of investigation, the study is confined to only to financial years of PRI's.*

It is observed from the data presented in Table-1 that the higher percent of income of GPs is derived from the Government grants. For example, of the total revenue of all the GPs in the state, 16.5 percent is from their own tax revenue and 83.5 percent from state-central grants. This clearly shows the extent of dependency by lower level governments on the higher level governments. However, an interesting observation can be made from the same table that the dependency level of GPs varies among the districts. For instance, GPs in Bangalore rural district received 61.6 per cent grants from the government. On the other hand, GPs in Gulbarga district received 89.4 percent grants from state and central governments.

The above discussion clearly shows that the GPs in Bangalore rural district have mobilized more own revenue income [38.4%] than that of GPs in Gulbarga district [10.7%]. It is

to be noted here that, the own tax revenue mobilization also varies from district to district in Karnataka. For example, the extent of own tax revenue mobilization is more in Bangalore Urban District (53.1), Udupi (25.6) Ramanagram (22.9%) Mysore (22.4%) and low in the GPs of Bidar District (7.6%), Raichur (8.3%). Thus it is found from the present study that the GPs in North Karnataka districts have utterly failed in mobilizing their own tax revenue income. As compared to this, majority GPs in South Karnataka Districts have succeeded in mobilizing huge own revenue resources. It is noteworthy to mention here that the variation in tax revenue mobilization among GPs in the State is going to create regional disparity, income disparity and disparity in standard of living. In other words, such type of revenue mobilization is going to hamper the economic development of GPs in the backward district.

**(5) Sources of own Income to GPs.**

Among various sources of income, own tax revenue income plays a very important role in strengthening the finances of local self governments in general and GPs in particular. Own tax revenue is a permanent, progressive and regular source of income to GPs. Further, higher own revenue mobilization certainly reduces the extent of dependency by lower level governments on the higher level governments. It also helps in solving major problems at GP level.

Among the three tiers of PRIs namely Zilla Panchayat, Taluka Panchayat and Gram Panchayat, it is GPs which have been assigned independent sources of revenue of their own. Own revenue of GPs in Karnataka consists of tax on buildings, tax on non-agricultural land, tax on vehicle, tax on entertainment, tax on advertisement, fees on bus stands, fees on markets and fees on registration of cattle, water rates and license fees. The Karnataka Panchayat Raj Act 1993 in Schedule IV prescribes maximum rates for these items of revenue. For house tax the maximum rate is 10 percent of the annual letting value. Land tax is one rupee for hundred square meter of open land. Entertainment tax is twenty rupees per show. For vehicle tax the maximum rate is for four wheeled vehicle drawn by two or more animals Rs. 25/- per year, for two wheeled vehicle drawn by one or more animals, the rate is Rs. 10 per year, for a bicycle Rs. 5. A GP can collect fees on bus stand at the rate of Rs. 2 per day per bus. The maximum market fee is also prescribed. It is fifty paise per day for every plot of one square meter of land occupied. A market fee is also collected from villagers who come to sell their produce at the market. The fee is collected at the rate of 25 paise per bag or basket per day. The prescribed maximum rate of tax on advertisement is Rs. 5 per month on square meter of spaced occupied. And for registration of cattle brought for sale is one rupee per head<sup>15</sup>.

The above mentioned fees and taxes are quite reasonable and payable by villagers. Gram Panchayats are imposing some of these taxes in their respective areas and mobilizing their own tax revenue resources. It is to be noted here that, the own tax revenue income of GPs in Karnataka has increased from Rs. 102 crores in 2004-05 to Rs. 137 crores in 2006-07. But

unfortunately tax recovery performance is very poor. For instance, the tax demand by GPs is Rs. 312 crores and actual tax collection is Rs. 137 crores in 2006-07. During this year, the tax dues amount is to the extent of Rs. 175 crores [i.e. 57%]. This clearly shows increasing trend in tax due and poor recovery performance of GPs in the State.

**(6) Own Revenue Mobilization by Selected GPs**

As has been discussed in earlier paras, taxes, fees, rates etc. are the main sources of own revenue of selected GPs. As per the act, every GP should prepare a list of properties and regularly revise the same and incorporate necessary changes. Once in four years taxes should be revised. The list of properties should contain the properties which are leviable and also non-leviable. The following paras throw light on mobilization of own revenue income of GPs in Bangalore Rural and Gulbarga districts in the state. It is to be noted here that GPs in Bangalore Rural districts are economically highly advanced and GPs in Gulbarga district are economically most backward as per Nanjundappa Committee Report. "It was observed that all the GPs in ..... Gulbarga district comes under most backward category..... there are no most backward GPs in Bangalore Rural Districts"<sup>16</sup>. Hence, two ZPs have been selected for the present study. Of the two, one is from highly advanced region and another one from the most backward region of the state. Accordingly, Bangalore Rural ZP from advanced South Karnataka Region and Gulbarga ZP from North Karnataka region have been selected. These two ZPs have been selected on the basis of socio-economic indicators, budget provisions, mobilization of own revenue resources, funds received & utilized etc. Four Gram Panchayats, at the rate of two GPs, from the selected ZPs have been selected. For selection of GPs, the above mentioned indicators have been used. For the present work secondary data is used, secondary data has been collected from the various records of selected PRIs and local audit circles of GPs.

In the present research, an attempt is made to know the mobilization of own revenue resources total revenue and expenditure pattern of the selected GPs. Table-2 presents the data regarding the mobilization of own revenue resources in the study period.

**Table -2**  
**Own revenue mobilization of selected GPs**

[in Rs.]

District	GP	Year	Total demand	Total collection	Balance
1	2	3	4	5	6
Bangalore Rural District	Arasinakunte	2006-07	51,54,282	36,47,900 [70.7]	15,06,382 [29.3]
		2007-08	59,94,518	57,41,347 [95.7]	2,53,171 [4.3]
	Entaganahalli	2006-07	67,56,744	46,60,616 [64.5]	23,96,128 [35.5]
		2007-08	60,40,737	48,31,067 [79.9]	15,72,670 [20.1]
Gulbarga District	Kolkunda	2006-07	5,65,730	1,68,230 [29.7]	3,97,500 [70.3]
		2007-08	7,80,800	1,97,381 [25.2]	5,83,419 [74.8]
	Motakapalli	2006-07	1,05,616	37,474 [35.5]	68,142 [64.6]
		2007-08	2,39,430	1,12,955 [47.0]	1,26,575 [53.0]

*Source: Local Audit Circles, Bangalore Rural and Gulbarga Districts, 2006-07 & 2007-08*

*Note: Figures between the parenthesis are percentages*

*Note : Due to limitation of time and other resources of investigation, the study is confined to only to financial years of PRI's. i.e., 2006-07.*

It is observed from table-2 that the GPs in Bangalore district collected more own revenue than that of GPs in Gulbarga district. For instance, the total tax collection in Arasinakunte GP has increased from Rs. 36,47,900 lakhs in 2006-07 to Rs. 57,41,347 lakhs in 2007-08. Similarly, own revenue income collection of Entaganahalli GP increased from Rs. 46,60,616 lakhs to Rs. 48,31,067 lakhs during the said period. The tax collection situation and trend is quite low in Gulbarga district GPs. For instance, in Kolkunda GP own tax revenue collection increased from Rs. 1,68,230 in 2006-07 to Rs, 1,97,381 in 2007-08. The tax mobilization position is still worse in Motakapalli GP. In this GP own tax collection amount increased from Rs. 37,474 to Rs. 1,12,955 in the above period. This analysis clearly reveals the tax collection and mobilization trends in selected GPs.

The researcher made an attempt to ascertain the reasons for poor mobilization of own tax revenue in Gulbarga district GPs. The GP secretaries cited the following reasons for the poor mobilization of tax revenue. Broadly 10 reasons were found to be responsible for the poor collection of taxes in Gulbarga district GPs. They were (i) Poverty, (ii) backward agriculture (iii) non-development of subsidiary occupations (iv) lack of political will (v) ignorance and illiteracy (vi) lack of follow up measures (vii) lack of awareness (ix) unwillingness to pay taxes by villagers and indifferent attitude on the part of government officials and (x) large number of agricultural workers.

A rather interesting observation is made from the Table-2 that the tax recovery performance is very poor in all selected GPs. The total tax dues i.e., balance in Arasinkunte GP is Rs. 15,06,382 lakhs in 2006-07 and 2,53,171 in 2007-08. In Entaganahalli it is Rs. 23,96,128 lakhs in 2006-07 and Rs. 15,72,670 in 2007-08. The recovery performance is still poor in Gulbarga GPs. In Kolkunda GP the tax balance amount is Rs. 3,97,500 in 2006-07 and Rs. 5,83,419 in 2007-08. The tax balance amount in Motakapalli GP increased from Rs. 68,142 to Rs. 1,26,575 during the study period. This problem can be solved by implementing measures like (i) tax collection during and immediately harvest (ii) introduction of progressive tax system (iii) timely information to all tax payers (iv) all tax laws are to be made simple (v) all taxes to be collected in the financial year only (vi) legal action to be taken against defaulters (vii) people's plan campaign and (viii) special tax collection campaign by all members of GPs.

**(7) Total Revenue of Selected GPs:**

As has been discussed earlier that the main sources of income to GPs in the state are internal resources and government grants, the present study makes an attempt to analyze the total revenue resources of selected GPs.

**Table -3**

**Total Revenue of selected GPs.**

[in Rs.]

District	GP	Year	Internal Income	Government Grants	Total
1	2	3	4	5	6
Bangalore Rural District	Arasinakunte	2006-07	36,47,900 [52.1]	33,58,919 [47.9]	70,06,819
		2007-08	57,41,347 [50.0]	58,64,817 [50.0]	1,16,06,164
	Entaganahalli	2006-07	46,60,616 [72.0]	18,17,843 [28.0]	64,78,459
		2007-08	48,31,067 [59.8]	32,48,040 [40.2]	80,79,107
Gulbarga District	Kolkunda	2006-07	1,68,230 [3.0]	55,25,648 [97.0]	56,93,678
		2007-08	1,97,381 [6.3]	29,38,067 [93.7]	31,35,448
	Motakapalli	2006-07	37,474 [1.5]	24,70,133 [98.5]	25,07,607
		2007-08	1,12,955 [3.5]	31,18,679 [96.6]	32,31,634

**Source: Local Audit Circles, Bangalore Rural and Gulbarga Districts, 2006-07 & 2007-08**

*Note : Due to limitation of time and other resources of investigation, the study is confined to only to financial years of PRI's. i.e., 2006-07.*

It is found from the data presented in table-3 that the main source of revenue to GPs in Bangalore rural district is from internal tax resources. On an average the total income of the Arasinakunte GP for a period of two years is Rs. 93,06,491. Of the total income, the internal source of income is Rs. 46,94,643 and Government grant is Rs. 46,11,868 in the said period. Needless to say that yearwise analysis gives clear picture of the total revenue income of the GPs. For example, of the total revenue income of Rs. 70,06,819 in 2006-07 internal source of income is Rs. 36,47,900 and Government grants is Rs. 33,58,919. In 2007-08, the internal source of income is Rs. 57,41,347 and government grants is Rs.58,64,817. It is also found from the table that the internal source of income of Arasinakunte GP considerably increased from Rs. 36,47,900 in 2006-07 to Rs. 57,41,347 in 2007-08. Fortunately, government grants also increased from Rs.33,58,919 to Rs. 58,64,817 in the said period.

It is also found from the table-3 that the main source of income to Entaganahalli GP is from the internal source of revenue income. For instance, the average total income of the Entaganahalli GP for a period of two years is Rs. 72,78,783/-. Of this, the internal source of income is Rs. 47,45,341/- and government grants is Rs. 24,32,941/-. Yearwise analysis still gives clear cut picture regarding the revenue position of this GP. For example, of the total income of Rs. 64,78,459/-, the internal income is Rs. 46,60,616 and government grants is Rs. 18,17,843/- in 2006-07. Similarly in 2007-08 the internal income is Rs. 48,31,067 and government grant is Rs. 32,48,040/-. It is also found from the table that the revenue income from internal resources increased from the 46,60,616/- in 2006-07 to Rs. 48,31,067/- in 2007-08.

The research made an attempt to ascertain the reasons for higher mobilization of own tax revenue in Bangalore district GPs. The GP secretaries cited the following reasons for the higher mobilization of tax revenue. Broadly ten reasons were found to be responsible for the higher collection of taxes in these two selected GPs. They were (i) development of regional markets, (ii) development and provision of physical infrastructure facilities, (iii) provision of social infrastructure, (iv) highly advanced agriculture, (v) development of subsidiary occupation, (vi) development in small scale and medium scale industries, (vii) positive political will, (viii) expansion in entertainment events, (ix) timely and proper follow up measures and (x) other agglomeration effects.

A rather interesting observation is made from table-3 that the revenue pattern of other two selected GPs of Gulbarga district is quite different. In these two GPs, the share of internal revenue income in the total revenue is very negligible. For instance, the internal income of Kolakunda GP is Rs. 1,68,230 and Government grants in Rs. 55,25,648 in 2006-07. Similarly in 2007-08 the internal source of income is Rs. 1,97,381/- and government grants is Rs. 29,38,067. A rather serious matter concerned to this aspect is that, the increase in revenue income is also negligible during study period. The internal revenue income of this GP increased from Rs. 1,68,230/- in 2006-07 to Rs. 1,97,381/- in 2007-08. However, the total revenue declined from Rs. 56,93,678/- to Rs.31,35,448/- in the study period. This decline is mainly due to decline in the government grants. For example government grants declined from Rs. 55,25,648/- to Rs. 29,38,067/- in the above said period.

A serious observation can also be made from table-3 that the revenue position of Motakapalli GP is not sound and satisfactory. The average total revenue income of this GP for a period of two year is Rs. 28,69,620/-. Of the total, internal revenue income is Rs. 75,214/- and government grants is Rs.27,94,406/- in the study period. Yearwise analysis throws more light on the revenue position of Motakapalli GP. For instance of the total revenue of Rs. 25,07,607, the internal revenue income is Rs. 27,474/- and government grants is Rs. 24,70,133 [2006-07]. In 2007-08, the internal source of income is Rs. 1,12,955/- and government grants is Rs.

31,18,679/-. It clearly shows poor revenue mobilization of selected GPs in Gulbarga district. The following conclusions can be derived from the above analysis as regards the total revenue income of selected GPs.

- i) The over all total revenue position is highly satisfactory in Bangalore Rural GPs and unsatisfactory in Gulbarga district GPs.
- ii) Of the total income, internal source of income is more than 50 per cent in Bangalore rural GPs and it is less than 6 per cent in Gulbarga GPs.
- iii) The extent of dependency, by two selected GPs in Gulbarga district is very high and low in GPs of Bangalore Rural.
- iv) The internal source of income in Bangalore Rural GPs is witnessing increasing trend and it is static in Gulbarga district GPs.
- v) Government grants released to GPs are fluctuating and untimely.
- vi) Total income of GPs is fluctuating from year to year.

#### **(8) Nature and type of Grants received by the selected GPs**

Grants are a source of strength to local bodies. The GPs get grants towards development of education [elementary and adult], agriculture and allied activities, health and welfare activities, water supply, low cost housing, roads and other development works and overall development of the rural economy. Government assists GPs in the work of rural development by providing financial assistance in the form grants. Now a days, both central and state governments are releasing huge grants to rural local bodies. All these grants are released to GPs as per State Finance Commission and Central Finance Commission Reports. As on today, GPs are receiving huge grants as per 3<sup>rd</sup> State Finance and 12<sup>th</sup> Central Finance Commission recommendations. (For details please see appendix-1)

Government grants given to GPs can be grouped as conditional and non-conditional grants. These grants are credited to different accounts of GPs. GPs, as per guidelines, utilize the grants for the specific purposes only. The grants received by selected GPs is summarized under three groups:

- Group-I** Some vital grants are received by all selected GPs. Such grants are statutory grants, 12<sup>th</sup> finance, SGRY, Indira Awas Yojana & Rajiv Gandhi Vasati Yojana.
- Group-II** A few specific grants are received by Bangalore GPs only. Such grants are, Ashraya Housing, Continuing Education, Nirmal Karnataka, Self help group, Swatch Gram and Suvarna Gram.
- Group-III** Some specific purpose grants are received by Gulbarga [ZP] district GPs only. These are, total sanitation, library, Water supply, Gram swaraj, Namma Bhoomi Namma Thota, Rain Water Harvesting and NREGA.

In Group I all four selected GPs received grants for the purpose of payment of salary to the workers and officials of GPs, maintenance and repair works, electricity charges, honorarium to elected members, stationery, rural roads, bridges, forestry, rural electricity, rural housing and other infrastructure development. It is to be noted here that these grants are used for creation and development of basic infrastructure facilities in villages. Thus, certain specific grants are released by the Governments for all GPs.

Group II grants are received by GPs of Bangalore Rural district. These grants are utilized for education, housing, development of subsidiary occupations, cleanliness, health and modern basic facilities in GPs. The main purpose of these grants is to improve the quality of life and standard of living of the people.

Group III grants are availed by GPs of Gulbarga district. These grants are used for generation of employment opportunities, eradication of poverty, development of dry land agriculture, provision of irrigation, supply of drinking water, development of small vegetable plots, development of agriculture and rural areas. The main goal of all these grants is to eradicate poverty and development of backward areas.

#### **(9) Expenditure Pattern of Selected GPs**

No doubt the success of any GP depends to a large extent on the financial resources available to it. But more importantly it depends on how the mobilized resources are spent by the Panchayat. GPs incur expenditure on payment of salary to staff, education, health and sanitation, welfare, water and electricity supply, agriculture and animal husbandry, maintenance and formation of roads, bridges, low cost housing and other miscellaneous activities. The following table provides the expenditure pattern of selected GPs.

**Table 4**  
**Expenditure Pattern of Selected GPs**

[in percentages]

Sl.No.	Items	GPs in Bangalore district	GPs in Gulbarga district
1	2	3	4
1	Establishment	9.4	12.0
2	Development work	56.9	44.4
3	Electricity	10.7	8.8
4	Non-Development work	11.5	20.2
5	Others	11.4	14.6

*Source: Local Audit Circle Bangalore (R) - & Gulbarga, 2007-08.*

It is observed from the above table that the selected GPs in Bangalore rural district utilized more funds on Development work [56.9%] than that of GPs in Gulbarga district [44.4%]. It is almost 12.9 percent lower than the GPs in Bangalore rural district. Further, GPs in Gulbarga district utilized revenue resources on establishment [12.0%], non-development [20.2%] and other expenditure items [14.6%]. Opposite to this, GPs in Bangalore rural district utilized more on development work and less on other sectors as compared to GPs in Gulbarga district.

**(10) Per Capita own Income and Expenditure of selected GPs**

It is common perception that economically advanced GPs have greater revenue capacity to spend more on its population. The following table 4 presents the data regarding the per capita own revenue & expenditure of selected GPs.

**Table 5**  
**Per capita own revenue and expenditure of selected GPs for the year 2007-08**

District	GP	Per capita own revenue (Rs.)	Per capita Expenditure (Rs.)	Per capita grants (Rs.)
1	2	3	4	5
Bangalore (R) District	Arsinakunte	1210	2695	1236
	Entaganahalli	5630	8528	3785
Gulbarga District	Kolakunda	43	798	685
	Motakapalli	55	1358	1587

*Source: Local audit circal Bangalore (R) Gulbarga*

*Note : Due to limitation of time and other resources of investigation, the study is confined to only to only one financial year.*

It is observed from table 5 that the per capita own revenue mobilization is quite high in Bangalore Rural GPs. For instance, per capita own revenue of Entaganahalli GP is Rs. 5630 and Arasinakunte is Rs. 1210. This increase is mainly due to the development of regional market, more developed infrastructure, development of agriculture, agro-based industries, subsidiary occupations, development of social infrastructure, better and regular employment opportunities, etc. On the other hand, per capita income of GPs in Gulbarga district is very low. For example, per capita income of Kolakunda GP is Rs. 43 and Motakapalli GP is Rs. 55. The researcher identified the following reasons for low per capita income of GPs in Gulbarga district. They are; Large number of agricultural workers and SC/ST population, Poverty, traditional agriculture, non-development of subsidiary occupation, non-development of industries, regional markets, unemployment, illiteracy, lack of medical facilities etc.

## **11. Policy Implication:**

The findings of the present study will lead to the following implications for policy purpose.

- 1) Proper utilization of financial resources of GPs calls for preparation of sound plans at GP level. The planning process should be revamped in such a way that the development plans emanate from below rather than trickle down from above. At present, GPs prepare plans in their respective villages. But these plans are prepared by illiterate and ill-equipped planning machinery. Such plans prepared by GPS are not going to help for proper utilization of natural and financial resources. Hence, it is suggested by the present researcher that planning machinery should be streamlined by involving experts. Planning machinery at GP level should consists of educated youths, invites, senior citizens, school and college teachers, retired persons, senior female members, government representatives and GP elected members.
- 2) Better Government support to the GPs in the form of human resources is the need of the hour. The secretary can, at best look, after the administrative matters of a gram panchayat. The local employees of a GP can appoint like typist, clerk cum accountant, valveman cum technician can attend to the routine functions of GP. It is the development planning that is sidelined. Hence, B.A./M.A. Economics or B.Com/M.Com graduate from the rural area should be appointed as the development officer/planning officer for each GP. By doing so, plans can be prepared and implemented more effectively.

- 3) Proper utilization of natural resources, financial resources, preparation of plans and implementation of development programmes at GP level calls for involvement of people through formation of “People’s Plan Campaign”. The main goal of this campaign is pursuing and educating the villagers towards taking active participation in the planning process. This is popularly called as “decentralized participatory planning. ‘People’s Plan Campaign’ is an association of education youths, teachers, retired persons, senior citizens and people belonging to all castes and NGOs. In this plan campaign, all above mentioned personalities have to form association in each and every GPs & move from house to house, from one lane to another and from one GP to another GP. The main job is to pursue the villages to take active participation in all socio-economic programmes in rural areas. The strategy to be followed is “learning by doing, doing something, making mistakes, learning lessons, correcting and moving forward. Such a People’s Plan Campaign is the need of the hour in the state.
- 4) Development of agriculture and subsidiary occupations in villages is a key to mobilization of tax revenue resources at GP level. Once agriculture is developed, it will take care of development of subsidiary occupations in rural areas. Such development enhances the income of all. Once there is an increase in the income, the tax paying capacity will go up and finally it helps in mobilizing higher revenue income to GPs. It is to be noted here that agriculture is the foundation of manufacture and commerce. Hence, state government should adopt appropriate policy measures towards agriculture development in backward district.
- 5) Creation and development of social and economic infrastructure facilities is another key to the process of tax revenue mobilization in rural India. Once these are created in rural areas, the productivity of all factors of production will go up and this leads to higher productivity and income to the villagers. It naturally enhances tax paying capacity and changes the mental attitude of tax payers towards payment of taxes to the GP.
- 6) Regular and continuing training programmes should be organized for the members of GPs. During training period, all information pertaining to the grants, quantum of grants, preparation of the plans and budget, fixation of priorities and effective utilization of the grants. Three phase training programmes are to be conducted.
- 7) Grants should be released to ZPs as per the link document, on even and regular basis, through out the year.

- 8) Tax efforts by GPs in backward districts are less than 6 percent of the total revenue. So there is need for stepping it up. Adhyaksha, Upadhyaksha and members must persuade people to pay taxes regularly and properly. Grants no doubt play a vital role but GPs must make maximum efforts to increase internal resources.
- 9) There is no political awareness among women and self-confidence among SC/ST members. Therefore, there is a need for greater awareness on the part of SCs/STs and women so that they can help in mobilization of revenue resources from their communities.
- 10) To enable the GPs of the state to mobilize additional funds, they should be permitted to levy the taxes and rates, other than the existing ones. The GPs should be encouraged to increase their non-tax revenues. The GPs financial resources can be significantly augmented by allowing them to impose the following levies:
  - a. Road users tax on the vehicle owners of the villages. On all the vehicles motorized as well as non-motorized-this tax should be levied, at the progressive rates, depending upon the types of the vehicle.
  - b. Education tax on the private schools, nurseries, clinics and school teachers.
  - c. Vocation tax on rural artisans, medical practitioners and traders.
  - d. A special tax on the agricultural land owners who are employed.
  - e. Live stock tax at the rate of one rupee per animal on the live stock population
  - f. A special tax on the absence landlords and irrigated farmers.
  - g. Additional land revenue on the lands used for horticultural and floricultural activities.
  - h. Rural entry tax on the hawkers and peddlers, who come from the towns and cities to sell their wares in the rural areas.
- 11) Proper and correct maintenance of accounts at GPs level is going to help in efficient utilization of total revenue resources. Hence, accounts should be maintained property and neatly. Failing which suitable action should be taken against concerned officials.
- 12) Misuse and misappropriation of funds of PRIs should be checked. It can be possible by regular conduct of social auditing.

- 13) Centralized utilization of funds is another very important way for eradicating misuse and misappropriation of revenue resources of GPs. In this connection, it is suggested that government should appoint Class II officers in all revenue circles. Utilization of all available funds of revenue circle GPs [i.e. group of villages] should be the responsibility of Class II officer. In other words, GP members are free to prepare their plans according to their needs and utilization of the GPs funds should be the responsibility of Class II officer.
- 14) Illegal activities and corruption in PRIs can be mitigated by appointing Ombudsman's in all district and taluka places. In this regard, Government of Karnataka has already appointed such officers in few district places. Hence, it is suggested that such posts are to be created in all taluka places.

In brief, mobilization of own revenue resources and utilization of total revenue resources mainly depend on people's involvement and participation in the planning process at grass root level. 'People's Plan Campaign' is the only way for rural development and mobilization of financial resources at GPs level.

### **Conclusion :**

GPS in Karnataka, as per the findings of the present research work, have succeeded in transfer of power to the people and mobilising financial resources. In Karnataka, rural citizen voters are paying taxes regularly and enjoying maximum fruits from the GPS. However, it is observed in present study that, GPS in few backward ZP area have utterly failed in mobilising their own revenue resources. And on the other hand, receiving huge grants from the governments and enjoying maximum fruits from GPs this calls for development of agriculture and Small scale industries in backward ZP areas.

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## **Appendix-1**

### **Major recommendations of the State Finance Commission Report**

Formation of State Finance Commission plays a crucial role in fiscal decentralization. State Finance Commission (SFC) has the onerous responsibility of reviewing the financial position of the PRIs. Article 243(1) & Article 243(4) of the constitution (73<sup>rd</sup> Amendment) Act, 1992 envisages constitution of SFC's at the expiration of every 5<sup>th</sup> year to review the financial position of the PRI's.

The State Finance Commission determines the principles governing the sharing of funds between the state Government and also recommends the measures for improving the finances of PRI's. The report is submitted to the Governor & it must be place before both the houses of state legislature.

Government of Karnataka, so far, has constituted three finance commissions. The First Finance Commission was constituted by the Government on 10<sup>th</sup> June, 1994 under the chairmanship of Dr. G. Thimmaiah, Dr. Abdul Aziz and A. K, Agarwal were members of the first SFC gave its report the committee relating to PRI's in July, 1996. The Government of Karnataka in exercise of powers conferred by article 243(1) and 243(4) which envisages the state Governments to constitute the Finance Commission at the expiration of every five years constituted the second SFC in October 2001 vide notification No. FD 1 ZPA 2000 dated 28-02-2002 under the chairmanship of K. P. Surendranath, Prof . M. C. Kodli and Shashidhar were members of the committee. This committee submitted its report in December, 2002. The Third Finance Commission was constituted by the Government, on 28<sup>th</sup> August, 2006 under the chairmanship of A. G. Kodgi. The other two members of the committee were Dr. M. S. Kanthi and T. Thimmegouda. The TSFC submitted its report in December, 2002.

Following are some major recommendation of the First, the Second & the Third Finance Commissions.

**Key Recommendation of the First SFC<sup>1</sup>:**

The First SFC of Karnataka recommended transferring one consolidated share from the total Non-Loan Gross Own Revenue Receipts (NLGORR) of the state government to PRI's & ULB's in Karnataka. The NLGORR of the state government include all taxes, duties, fees, interest, receipts and other non-loan, non-tax receipts levied and collected by the state government. Further, the first SFC also recommended that the total shares of PRI's and ULBs out of NLGORR of the state Government should be 36 per cent. Based on the weightages fixed to the indicators, the FSFC recommended that the share of PRI's should be 85 per cent of 36 per cent i.e 3.60 per cent of NLGORR and that of ULB's was 15 per cent i.e., 5.40 per cent of NLGORR.

**Key Recommendation of the Second SFC<sup>2</sup>**

The second SFC retained the concept of NLGORR as the basis for devolution of funds to the PRIs & ULBs. Considering the fact that the state government had caused 39 plus percentage of devolution during the period from 1997-98 to 2001-02 to the PRIs & ULBs put together, it enhance the share from 36 per cent to 40 per cent. The indicators & weightages were slightly modified and relative share of PRIs and ULBs was arrived at 80 and 2p per cent respectively. In other words the share of Panchayat Raj Institutions was 32 per cent and that of Urban Local Bodies was 8 per cent of NLGORR.

### **Key Recommendation of the Third SFC<sup>3</sup>**

The important recommendations are ;

1. The TSFC recommended distribution of fund to lower level governments from the Net Own Revenue Receipts of the state.
2. It strongly recommended Incentive Grant for the best performing GPs in mobilizing own resources & providing civic amenities in their respective areas.
3. It also strongly recommended that the statutory development should be released on the basis of size of the population
4. Additional statutory development grants to backward regions / GPs based on Dr. Nanjundappa Committee Report.

The above discussion clearly reveals the various recommendation made by all three finance commissions for transferring of state revenue to PRIs & ULBs. Unfortunately, it is found from the present research study that Government has adopted indifferent attitude towards transfer of resources to PRIs.