

# A CONTEMPORARY ANALYSIS OF FISCAL TRANSFERS TO RURAL LOCAL GOVERNMENTS IN INDIA

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## CONTENTS

Introduction	3
Salient Features of the Study	4
Analysis of the Revenues of RLBs	5
Analysis of Expenditure on Core Functions, by RLBs	20
Comparison of Revenues and Expenditures	24
A Sobering Reflection on the Data, or the Lack of It	29
Consideration of the Data and the FFC's Recommendations	32
And finally, the Opportunities	34

## 1. INTRODUCTION

- 1.1. It is generally known that India's attempts at rapid reduction of poverty have not proceeded with speed, nor met with adequate success across the country. The blame is usually laid at the doorstep of a weak administrative system that lacks capacity to perform basic service delivery at the grassroots level, and even weaker systems to hold them to account for serious service delivery failures. Yet, frontline service delivery agents cannot be wholly responsible for their failure to perform effectively. Higher levels of administration, ranging from the block to the district and the State levels, are weak links in the chain of activities that translates policies into action.
- 1.2. A weak administrative system is further weakened when it goes hand in hand with a complex and inefficient fiscal transfer mechanism, which fails to put money in the hands of those who matter the most in service delivery, when it matters the most. Labyrinthine procedures for budgeting, release, expenditure and accounting combine with a poorly managed administrative system to ensure that money is not spent effectively. While the context might change from sector to sector, be it education, health, agriculture or water supply, the theme of the litany remains the same; it is a story of confusing and multiple streams of money, rigid processes for expenditure, layers of non-transparent decision making processes, lack of risk taking ability and plenty of red tape, which together combine to hamper expenditure.
- 1.3. Democratic decentralization to local governments, ushered in nearly 25 years back, was supposed to change all that. The Constitution envisioned that elected local governments would be devolved power to perform essential local service delivery functions, be transferred the capacity to perform these, and given access to adequate means of funding, both through the power to tax and appropriate these revenues and grants and revenue shares from higher level tiers through an inter-governmental fiscal transfer mechanism.
- 1.4. However, it is well known and documented that these hopes have been belied. Local governments, particularly in rural areas are given little independence. They are entrusted with an inadequate share of public funds and their elected bodies have little influence in the choice of local projects. The State still functions through its deconcentrated entities such as the District Collector, the Block Development Officer, and Departmental local heads at the district and sub-district levels, which closely controls the administration, including the staff of the Panchayats, usually deputed to them by the government.
- 1.5. In 2013-14, the Accountability Initiative, Centre for Policy Research was engaged by the Fourteenth Finance Commission (FFC), to analyse various aspects of Local Government finances and provide inputs for its consideration. This study afforded an excellent opportunity for AI, CPR to examine the contemporary state of affairs

with respect to fiscal decentralization. Did the dismal situation of underfunding of local governments continue or was there improvement over time? Were oft repeated recommendations for reforming the fiscal transfer system at the local level now taking root and being implemented by States? These were some of the broader questions to which we sought answers.

## 2. SALIENT FEATURES OF THE STUDY

- 2.1. The analytical part of the study covered three broad aspects relating to rural local bodies (RLBs) in India. First, we studied all State Panchayati Raj Acts and similar legislations in areas not covered by the obligation to constitute Panchayats, and related executive orders, to ascertain the extent to which ‘core functions’ were entrusted to the Panchayats. These core functions were defined by the FFC prior to this investigation, and comprised of Water supply, Sanitation, Roads and other means of communication, Streetlights and maintenance of community assets. Second, an assessment was made of the cost that might be incurred to provide and maintain these core services of an acceptably defined standard. Third, a study was undertaken of the incomes and expenditures of RLBs; which is the greater focus of this paper.
- 2.2. Before expanding upon an investigation into that familiar adage, that finance ought to follow function, it is necessary to report the trends noticed in the entrustment of functions through law and executive order, to RLBs. The first part of our study, which focused on this aspect, revealed that by and large, there was little variation in the extent to which Village level RLBs were entrusted the task of carrying out ‘core’ functions. However, in the case of the Intermediate and District Panchayats, there was wide variation in the scope and range of entrusted responsibilities related to core functions, ranging from these levels having a commanding sweep of functions to perform, to those where they merely were given advisory powers.
- 2.3. The FFC had sought information from States through 13 formats. These fell into three categories, namely, those for (a) submission of descriptive information, (b) consolidated numerical data for the entire State and (c) numerical data from a sample of about 10 percent of the RLBs in each State, randomly selected by the FFC in consultation with them. After the initial sets of filled in formats were received, the AI, CPR team and FFC officers interacted with State Nodal Officers in order to rectify errors and gaps. However, in spite of these interactions, the data sent by the States were still replete with data gaps and errors<sup>1</sup>. They were in many cases, insufficient and inconsistent when checked against other reliable sources of data<sup>2</sup>.

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1. In respect of Village Panchayat data of the 11923 GPs selected only 6020 GPs (50.49%) responded with full details, including population details, which enabled the calculation of per-capita values, so necessary for inter-state comparison. The response in respect of Intermediate and District Panchayats fares better than that in respect of GPs, with data sets having been received from a large number of samples as identified.

2. The information provided by Arunachal Pradesh, Bihar, Haryana, Jharkhand, Madhya Pradesh, Punjab and Uttar Pradesh could not be fully considered for our analysis due to serious data gaps and other infirmities.

- 2.4. Given the absence of good data, all information given by the respondent sample RLBs could not be used. However, considerable efforts were made to obtain to the extent possible, comparable and corrected information. While undertaking the analysis that is now abstracted in this paper, overall samples were considered for calculations such as the share of a particular type of revenue in the overall revenue basket. However, for the purposes of ascertaining per-capita details of revenues and expenditure, only those samples where population data is available was considered. Throughout the exercise, the random sample data was compared with state level data to discover, highlight and explain patterns, or reveal inconsistent results. Sometimes, significant differences were seen between the per capita incomes and expenditures emerging from sample data and from State-wide data. Since we had no reason to believe that State-wide data was ipso facto inaccurate, data was corrected on a case by case basis. Wherever the data was found to be inconsistent (either sample or State-wide data), recourse was had to secondary sources of information, such as the Censuses of 2001 and 2011, and NSSO reports.
- 2.5. The analysis of data provided by the States comprised of three broad sets of actions, namely, an analysis of the revenues, an analysis of the expenditures and then, a synthesis of the findings that emerge from the two.

### 3. ANALYSIS OF THE REVENUES OF RLBs

- 3.1. RLB revenues comprise of three parts, namely, transfers from the state government, transfers from the central government and the RLB's own revenues (which in turn comprises of tax revenues and non-tax revenues). Table 1 gives details of revenue sources, tier-wise.

**TABLE 1: PER CAPITA REVENUES (RUPEES) TIER WISE**

	2009-10	2010-11	2011-12	2012-13
<b>VILLAGE</b>				
Own Revenues	46.6 (8.4%)	54.7 (10.4%)	61.3 (10.2%)	72.6 (11.3%)
Transfers from Centre	420.6 (69.9%)	348.9 (66.6%)	369.4 (60.6%)	372.1 (60.7%)
Central Finance Commission	37.6 (5.8%)	34.2 (5.6%)	64.4 (9.0%)	72.4 (8.5%)
Assigned and Devolved funds from State	60.8 (8.4%)	56.1 (8.2%)	89.8 (11.5%)	98.7 (11.6%)
Grants in Aid from State	36.7 (4.8%)	39.9 (5.7%)	40.3 (5.3%)	42.1 (4.7%)
Other Receipts	14.7 (2.7%)	13.8 (3.4%)	17.4 (3.4%)	14.1 (3.2%)
<b>Village level; total revenues</b>	<b>617.0 (100%)</b>	<b>547.6 (100%)</b>	<b>642.6 (100%)</b>	<b>672.0 (100%)</b>

	2009-10	2010-11	2011-12	2012-13
<b>INTERMEDIATE</b>				
Own Revenues	2.3 (0.4%)	2.0 (0.3%)	2.2 (0.3%)	3.8 (0.4%)
Transfers from Centre	188.4 (32.5%)	220.7 (32.5%)	206.9 (27.7%)	217.4 (25.6%)
Central Finance Commission	12.7 (2.2%)	12.5 (1.8%)	35.2 (4.7%)	22.2 (2.6%)
Assigned and Devolved funds from State	114.5 (19.8%)	132.9 (19.6%)	154.3 (20.7%)	190.5 (22.4%)
Grants in Aid from State	239.9 (41.4%)	275.6 (40.6%)	310.5 (41.6%)	365.6 (43.0%)
Other Receipts	22.19 (3.8%)	35.7 (5.3%)	37.6 (5.0%)	50.3 (5.9%)
<b>Intermediate level; total revenues</b>	<b>580.0 (100%)</b>	<b>679.4 (100%)</b>	<b>746.6(100%)</b>	<b>849.7(100%)</b>
<b>DISTRICT</b>				
Own Revenues	8.6 (1.9%)	8.0 (1.6%)	9.1(1.6%)	9.6(1.6%)
Transfers from Centre	116.2 (25.1%)	130.2(25.3%)	128.4 (23.0%)	118.2 (19.0%)
Central Finance Commission	16.9 (3.6%)	13.7 (2.7%)	19.1 (3.4%)	28.1 (4.5%)
Assigned and Devolved funds from State	73.6 (15.9%)	79.9 (15.5%)	81.2 (14.5%)	96.4 (15.5%)
Grants in Aid from State	242.8 (52.4%)	274.9 (53.5%)	312.8 (56.0%)	357.5 (57.6%)
Other Receipts	5.4 (1.2%)	7.5 (1.5%)	7.9 (1.4%)	10.5 (1.7%)
<b>District level; total revenues</b>	<b>463.6(100%)</b>	<b>514.1(100%)</b>	<b>558.5(100%)</b>	<b>620.3(100%)</b>

- There is a high level of dependency of RLBs at all levels, on fiscal transfers from the State and Central Governments, with Intermediate Panchayats being the most dependent (only 0.4 per cent of revenues are generated internally). District Panchayats fare no better; they only raise about 1.6 per cent from internal revenues. Village Panchayats fare relatively better, with internal revenues of 11.3 per cent.
- In per capita terms there has been a steady increase of overall revenues in respect of all tiers from 2009-10 to 2012-13. However the annual rate of increase is the least for the village panchayat at around 4%. Intermediate panchayats have shown significant increase in allocations at 48% from 2009-10 to 2012-13, with an annual increase of around 12%. This is largely due to steep increases in the grants in aid and assigned and devolved funds from the State. The District Panchayats have shown a moderate annual increase in allocations of 9%.

- Between 2009 and 2013, States have focused on intermediate panchayats while devolving funds and therefore, have supported them to a much larger extent as compared to the Centre<sup>3</sup>. One possibility for this increase of allocations to Intermediate Panchayats could be the repositioning of State staff cadres to that level and fund transfers to pay salaries to them being shown as grants-in-aid to that level. In some States, what is referred to as devolution, are often state non-plan allocations for salaries drawn by staff working at the District and sub-district levels. In several States, the main employees working at the Village Panchayat levels are allocated from the State bureaucracy. For that reason, the sending of non-plan grants to Village Panchayats is rare.
- There is an inverse relationship between the proportion of Central and State revenues going to the three levels; across all States. In Village Panchayats, Central Revenues comprise a higher proportion (61 per cent) of the total revenues. One reason might be that Central grants are predominantly of Centrally Sponsored Schemes such as NREGA, which are largely implemented at the Village panchayat level. However, Village and District panchayats receive less money per capita as compared to the Intermediate level, where it is between Rs. 700 to 1100/- per capita. Grants in aid from the State level are only 5% in respect of Village Panchayats
- CFC grants, though they have increased, still comprises relatively only a small amount in terms of per capita, at all levels. In Village Panchayats there has only been a modest increase in CFC grants from 2007-8 to 2011-12.

## 3.2. Transfers from States to RLBs; a deeper examination

3.2.1. Both per-capita and total transfers from States to RLBs were compared in our next exercise, after the usual consistency checks<sup>4</sup>. The details as gathered from state-wide data are in Table 2.

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3. In case of intermediate Panchayats and District Panchayats, central transfers amount to 25.6% and 19% whereas Grants in aid from the State level amounts to 43% and 59% respectively. Assigned and devolved funds from the State comprises 22% and 15% respectively.

4. In the case of Chhattisgarh, Gujarat, Kerala, Sikkim and Tamilnadu, the per capita state transfers drawn from sample Panchayats were considerably lower than those drawn from State-wide data. In Andhra Pradesh and Maharashtra, they were considerably higher. However, barring Bihar Madhya Pradesh and Punjab, which did not provide data from the sample Panchayats, in the remaining States, there was not much difference between the per-capita transfers from sample and state wide data. However, the caveat remained that the veracity of both data could be doubtful, because there is no compelling reason to believe that one is more reliable over the other.

**TABLE 2: TRANSFERS FROM STATES TO RLBS (STATE-WIDE DATA)**

State	09-10	10-11	11-12	12-13	09-10	10-11	11-12	12-13
<b>ALL LEVELS</b>								
	<b>Total transfers (Rs crore)</b>				<b>Per capita transfers (Rs)</b>			
Karnataka	12281	13401	15412	17849	3323	3601	4113	4731
Gujarat	7934	10968	11408	14488	2327	3189	3288	4141
Tamil Nadu	2368	3093	4081	4855	644	836	1096	1296
Kerala	2258	2505	3136	3943	1208	1385	1795	2339
Uttar Pradesh	1262	1788	2172	2455	84	117	140	156
Madhya Pradesh	988	1342	1419	2434	194	259	270	456
Bihar	20	18	1781	2153	2	2	193	229
Rajasthan	491	412	1399	1836	98	81	272	351
Orissa	474	602	1163	1448	138	174	333	410
Maharashtra	527	941	1015	1132	87	154	165	182
Chhattisgarh	448	592	759	1101	236	307	387	553
Punjab	319	443	549	644	186	257	316	369
West Bengal	391	402	443	455	64	65	71	73
Uttarakhand	168	220	106	187	244	316	150	263
Sikkim	93	110	158	144	2008	2386	3451	3163
Assam	68	83	228	104	26	32	85	38
Andhra Pradesh	50	50	50	100	9	9	9	18
Himachal Pradesh	63	69	69	80	105	113	113	128
Haryana	0	229	124	77	--	140	75	46
Tripura	24	19	18	18	87	70	66	67
<b>Total</b>	<b>30225</b>	<b>37287</b>	<b>45490</b>	<b>55503</b>	<b>371</b>	<b>453</b>	<b>547</b>	<b>660</b>

- The above analysis showed high volumes of transfers in Karnataka, Gujarat, Tamil Nadu and Kerala, with correspondingly high per capita transfers as well. Sikkim showed a high per capita transfer, but that is because the State reported that it has classified central transfers through CSSs also as State transfers. Bihar also reported a spurt in fiscal transfers from 11-12 onwards, without offering any explanation for such a jump. In the absence of any large political move towards changing the paradigm of empowerment of Panchayats in Bihar, the figure emerging from the state was considered un-reliable.



- As regards trends over time<sup>5</sup>, all States, except Andhra Pradesh, Himachal Pradesh, Haryana and Uttarakhand showed a healthy upward trend of increase in State transfers. In the case of Uttarakhand and Haryana, there was a decline in the volumes of state transfers over the years under review. In the Sample data, though Andhra Pradesh showed a much higher per capita figure of transfers, these seemed to be declining over time.
- The high transfers in Karnataka, Gujarat and Maharashtra may be largely on account of salary transfers to the RLBs. This is also reflected in correspondingly high figures in the sample data as well.

3.2.2. The next question was whether the transfers made by the State governments to RLBs were in keeping with the recommendations of their respective SFCs. A broad snapshot of the approach of SFCs towards revenue sharing, devolution and giving of grants to RLBs was extracted from their recommendations<sup>6</sup>. Checks revealed that there is no standardisation in the way that the States reports the devolution recommended by the SFC. Some States<sup>7</sup> reported it as amounts (either yearly or for the full five year period). Other States indicated the devolution as a percentage of the divisible pool or individual taxes<sup>8</sup>. Some States adopted a combination of both<sup>9</sup>. Interestingly, several States reported transferring more funds than as recommended by their SFCs. Gujarat for example, showed a very high excess of transfer of funds over and above the recommendation by the SFC; we discovered that it was because the State reported only the assigned taxes as a recommended amount, on the ground that its SFCs had not made any recommendation on the quantitative value of devolution, grants, or other transfers. Gujarat and Karnataka also showed a very large amount of funds transferred to the Panchayats, particularly the district and intermediate levels<sup>10</sup>. At the other end of the scale, states such as Madhya Pradesh, Assam and Meghalaya, did not meet the recommendations of their respective Finance Commissions while making fiscal transfers. (Table 3):

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5. As seen in State-wide data.

6. It doing so, we took into account those States where ATRs have been submitted by the State for implementation of the SFC report. That in turn excluded several other States where SFCs had submitted their reports, but ATRs were not furnished by the State.

7. Andhra Pradesh, Assam, Bihar, Haryana.

8. Karnataka, Uttarakhand and Punjab.

9. Kerala.

10. These are classified as 'Grants in aid' in Gujarat and as 'Devolution' in the case of Karnataka.

**TABLE 3: TOTAL AMOUNT RECOMMENDED BY SFCS IN STATES (INCLUDING SHARES OF ASSIGNED TAXES) COMPARED WITH TOTAL AMOUNTS TRANSFERRED (RS. CRORES), FOR ALL LEVELS OF LGS:**

STATE	RECOMMENDED DEVOLUTION AND COLLECTION OF ASSIGNED TAXES (2008-09 TO 2012-13)	GRAND TOTAL OF AMOUNTS TRANSFERRED	DIFFERENCE BETWEEN 4 AND 3
1	2	3	4 (3-2)
Gujarat	1609.51	50962.62	49353.11
Karnataka	65613.84	70402.94	4789.10
Orissa	472.44	4114.60	3453.86
Tamil Nadu	14110.30	17033.36	2923.06
Bihar	1314.46	3995.68	2681.22
Punjab	0.00	2208.15	2208.15
West Bengal	208.91	2008.44	1799.53
Sikkim	0.00	523.78	523.78
Tripura	2.66	113.44	110.77
Himachal Pradesh	305.92	342.94	37.02
Uttarakhand	827.73	847.97	20.24
Haryana	430.14	430.14	0.00
Maharashtra	4326.54	4326.54	0.00
Uttar Pradesh	8958.68	8958.68	0.00
Rajasthan	4395.56	4317.80	-77.76
Kerala	14062.72	13885.61	-177.11
Chhattisgarh	3896.09	3556.76	-339.33
Andhra Pradesh	1200.00	350.00	-850.00
Meghalaya	1172.27	289.54	-882.73
Madhya Pradesh	6901.67	5923.52	-978.15
Assam	3474.70	456.20	-3018.50
<b>Grand total</b>	<b>133284.14</b>	<b>195048.70</b>	<b>47772.92</b>

It may be noted that both Karnataka and Gujarat, along with Maharashtra, represent a model of local government where the District Panchayats have received transfers in the form of salaries of staff placed with these levels on deputation. Even though the

State government departments have a large span of control over such staff, including their transfer, placement, issue of instructions and monitoring of work, disciplinary action and imposition of punishments, these States have classified these considerably large volume of funds as 'devolution' or 'grants', even though both words ought to entail some level of autonomy given to the local government concerned over the staff placed with them. For that reason, the data given by the States on the transfers have to be considered as whether they amount to devolution or otherwise, on a State by State basis. Use of this information to arrive at the conclusion that States generally give more funds than recommended by the SFCs to the Panchayats, need to be treated with caution. Having said that, this observation on Karnataka, Maharashtra and Gujarat is not to mean that salary transfers from the State to RLBs have to be universally rejected as not being of the character of devolution or grants. If the RLBs are indeed given powers of control and superintendence over the staff deputed from the State, then arguably such transfers can be termed as devolution. However, if the control over staff vests in the State, then to classify such transfers as 'devolution' would be misleading.

- 3.2.3. Other States which claim a high degree of devolution such as Tamil Nadu, also may be resorting to the practice of terming salaries of staff nominally placed with Panchayats as 'devolution'. In the case of Tamil Nadu, District Panchayats have very few powers and responsibilities and these mainly relate to advising the State on planning. However, over the six years under review, the District Panchayat have received over Rs. 1300 crore which is classified by the State as devolution. This picture is also reflected in the high per capita values of State transfers made to RLBs in Tamil Nadu.
- 3.2.4. Perhaps the ideal model for separating salary transfers and not including it as devolution, is in Kerala. The state restricts the term 'devolution' to only mean those funds transferred, over which RLBs have a reasonable level of autonomy to spend. In Kerala staff salaries are still paid by the State and RLBs are not used as conduits for such payments. Therefore the amounts devolved to Panchayat or transferred by way of grants-in-aid are not artificially boosted as is done in the case of Gujarat, Tamil Nadu and Maharashtra. Because of that approach, the State shows a modest shortfall in implementing its promised allocations to RLBs.

### 3.3. Transfers from the Central Government and Central Finance Commission Grants

- 3.3.1. Central fiscal transfers to RLBs comprise largely of Centrally Sponsored Schemes (CSSs) and Additional Central Assistance (ACAs). These could be implemented through RLBs, or supervised and monitored by them. When sample and State-wide data were compared, it was noted that invariably, States reported a higher per capita transfer in the Sample data as compared to State-wide data. Only Kerala (for Village Panchayats), Rajasthan

(for Intermediate Panchayats) and Andhra Pradesh, Assam, Maharashtra and Rajasthan (for District Panchayats) showed a higher per-capita value for State wise data as compared to sample data.

The total volume of central transfers as obtained from the State-wide data is detailed in Table 4:

**TABLE 4: TOTAL VOLUME OF CENTRAL TRANSFERS TO RLBS REPORTED BY STATES (RS. CRORE)**

State	2008-09		2009-10		2010-11		2011-12		2012-13	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
Andhra Pradesh	1534.07	7.4%	3070.50	12.2%	2245.85	7.2%	1913.88	6.3%	N.A	N.A
Assam	779.48	3.7%	1415.30	5.6%	1600.96	5.1%	1290.77	4.2%	457.51	1.5%
Chhattisgarh	3019.27	14.5%	1959.58	7.8%	2998.63	9.6%	2744.13	9.0%	2843.85	9.6%
Gujarat	1567.28	7.5%	2313.65	9.2%	2951.15	9.4%	2044.38	6.7%	2267.55	7.7%
Haryana	19.43	0.1%	42.47	0.2%	63.89	0.2%	100.99	0.3%	107.46	0.4%
Himachal Pradesh	75.23	0.4%	98.46	0.4%	110.37	0.4%	117.86	0.4%	137.86	0.5%
Karnataka	65.71	0.3%	179.12	0.7%	421.44	1.3%	734.79	2.4%	782.91	2.6%
Kerala	941.06	4.5%	1324.77	5.3%	1765.35	5.6%	1948.20	6.4%	2394.13	8.1%
Madhya Pradesh	332.60	1.6%	509.85	2.0%	403.03	1.3%	645.39	2.1%	848.92	2.9%
Maharashtra	3701.10	17.8%	4111.55	16.4%	4568.40	14.6%	5076.10	16.7%	7597.00	25.7%
Manipur	4.23	0.0%	8.46	0.0%	5.60	0.0%	5.47	0.0%	7.09	0.0%
Nagaland	306.70	1.5%	601.42	2.4%	557.59	1.8%	707.89	2.3%	496.54	1.7%
Orissa	362.14	1.7%	555.80	2.2%	653.22	2.1%	705.27	2.3%	1024.16	3.5%
Punjab	120.30	0.6%	194.94	0.8%	190.43	0.6%	136.05	0.4%	120.81	0.4%
Rajasthan	5033.34	24.2%	4974.01	19.8%	3893.28	12.4%	3775.91	12.4%	4015.14	13.6%
Uttar Pradesh	1297.27	6.2%	1219.50	4.9%	5948.82	19.0%	4903.78	16.1%	2152.97	7.3%
Uttarakhand	N.A	N.A	N.A	N.A	0.25	0.0%	0.82	0.0%	2.51	0.0%
West Bengal	1680.72	8.1%	2530.13	10.1%	2972.44	9.5%	3539.34	11.6%	4293.38	14.5%
<b>Grand Total</b>	<b>20839.93</b>	<b>100.0%</b>	<b>25109.52</b>	<b>100.0%</b>	<b>31350.70</b>	<b>100.0%</b>	<b>30391.04</b>	<b>100.0%</b>	<b>29549.79</b>	<b>100.0%</b>

- States colour coded in green in Table 17 (Karnataka, Kerala, Maharashtra, and West Bengal) show an increasing trend in their total share in Central transfers going to RLBS.
- Those highlighted in light brown (Assam, Chhattisgarh, Rajasthan) show a decreasing trend.
- States highlighted in yellow (Uttar Pradesh) show fluctuations.

3.3.2. All these schemes are targeted to specific categories of poor people and are therefore intended to be 'equalising', in nature. Fiscal flows in these programmes ought to naturally go to those areas that have a larger number of beneficiaries who meet the programmatic criteria and are entitled to receive more funds. However, when seen in conjunction with the total transfers, there is an indication that in some cases, the objective of equalisation that is central to programmatic fiscal transfers such as CSSs, may not be fully met. States that are receiving a greater share of the overall allocations include those that are more prosperous and relatively better administered, such as Kerala, Maharashtra and Gujarat. This may indicate that these transfers flow more readily to States with greater absorptive capacity. Ministries in the central government who handle large pro poor schemes often re-allocate funds that are not spent by poorer performing states to those states that have the ability to absorb such funds, so that the available budgets do not lapse.

### 3.3.3. ANALYSIS OF CFC TRANSFERS TO RLBS

The data presented in respect of CFC transfers to village, intermediate and district panchayats both individually and together, presented a clear linear growth trend. Another visible trend, again across village, intermediate and district panchayats, showed that the quantum of transfers made to states is in direct proportion to the size of rural population<sup>11</sup>. Transfers to village panchayats were the highest, followed by intermediate panchayats and finally the district panchayats (Table 5).

**TABLE 5: TRANSFER OF CFC GRANTS TO RLBS (RS. CRORES)**

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Village Panchayats	2526.15 (69.0%)	3245.62 (70.1%)	3765.82 (71.9%)	4348.61 (71.9%)	7159.43 (73.6%)	8587.71 (75.3%)
Intermediate Panchayats	538.85 (14.7%)	567.82 (12.3%)	665.22 (12.7%)	974.24 (16.1%)	1397.5 (14.4%)	1575.47 (13.8%)
District Panchayats	593.73 (16.2%)	815.63 917.6%)	805.38 (15.4%)	725.97 (12.0%)	1175.61 (12.1%)	1247.06 (10.9%)
<b>Total transfers</b>	<b>3658.73</b>	<b>4629.07</b>	<b>5236.42</b>	<b>6048.82</b>	<b>9732.54</b>	<b>11410.24</b>

## 3.4. Analysis of own revenues of RLBS:

3.4.1. The analysis<sup>12</sup> of the own revenues of RLBS covered the following questions:

11. However, it may be noted that the transfers in 2010-11, 2011-12 and 2012-13 cover the period during which only the basic Block grant recommended by the 13th FC was transferred. We did not have information on the draws by State of the performance grants in 2013-14 and 2014-15.

12. In the case of the analysis of own revenues too, a comparison of state wide data and sample Panchayat data revealed significant differences. While in the case of Village Panchayats the per capita figures derived for the entire state were lower by about 30 per cent than the corresponding data drawn from the sample RLBS, in the case of intermediate and district level RLBS, the opposite was the case. In the case of district Panchayats, State-wide per capita own revenues is nearly 10 times more than that derived from sample data.

- Overall volumes of own revenues collected;
- Share of own revenues in the total revenues received by each level of Panchayat;
- Inter-se importance of immovable property taxes, other taxes and user charges in the own revenues of Panchayats

3.4.2. The overall volume of own revenues collected cumulatively increased from 2007-08 till 2011-12 by nearly 65 per cent. Own revenues were predominantly collected at the Village RLB level (50 to 53 per cent of all own revenue collected), followed by the District level. The intermediate level collected the least volumes of own revenues. Both 'other taxes' and 'user charges & non tax revenues' showed increases of 76 and 73 per cent respectively and these constituted the bulk of the collections. On the other hand, immovable property tax showed only a modest increase of 37 per cent over the corresponding period (Table 6).

**TABLE 6: TIER WISE AND CATEGORY WISE DETAILS (IN RS. CR) OF OWN REVENUES COLLECTED**

Level	2007-08	2008-09	2009-10	2010-11	2011-12
<b>TIER WISE DETAILS (RS. CRORE)</b>					
Village level	2046.09	2179.89	2419.90	2783.68	3118.58
Intermediate level	311.74	339.85	381.62	531.71	575.17
District level	1352.40	1672.69	1772.25	2168.21	2414.95
Grand Total	3710.23	4192.43	4573.77	5483.59	6108.69
<b>CATEGORY WISE DETAILS (RS. CRORE)</b>					
Immovable property tax	993.25	945.69	1076.39	1245.85	1361.14
Other taxes	1209.67	1407.21	1540.39	1798.31	2135.35
User charges and non-tax revenues	1507.31	1839.53	1956.99	2439.43	2612.20
<b>Total</b>	<b>3710.23</b>	<b>4192.43</b>	<b>4573.77</b>	<b>5483.59</b>	<b>6108.69</b>

3.4.3. There was a high degree of skewedness in State-wide performance in the collection of each category of own revenues, and that had a bearing on the overall figures. In all states except Andhra, Karnataka, Kerala, Gujarat and Tamil Nadu, the per capita own revenues were negligible. Intermediate and district level panchayats reported insignificant own revenue in the form of rents from buildings and interest earned from deposits. Eight States showed a higher percentage of own revenue as compared to total revenue headed by Maharashtra<sup>13</sup>, where RLBs obtain 35.01% of their total

13. In the case of Maharashtra, there is considerable collection of 'other taxes' by the District Panchayat and also a steep increase over the years – in 2012-13, all of 90 per cent of all other taxes collected at the District level happens in Maharashtra. This is inexplicable, as no information is provided by the State on its taxation levels at the District Panchayat, either in the Schedules or the Topic Notes submitted to the FFC. The data on own source revenue relating to Maharashtra contained in the 13th FC report indicates a per-capita figure of Rs. 64 in 2002-03, increasing to Rs. 80 in 2007-08, which does not tally with the per capita figures in the case of District Panchayats, which shows around Rs. 100 in 2007-08, increasing steeply to Rs. 200 in 2012-13. Maharashtra might have reported a tax assigned to the District level as 'other taxes'.

revenues from own revenue. Other States providing more own revenue as compared to the national average include Karnataka (25%), Andhra Pradesh (21.6%), Goa (29.9%), Tamil Nadu (18.1%), Gujarat (30.1%), Telangana (17.6%) and Kerala (14.6%). Seven States show less than 1.00% of own revenues as a part of their total revenues. They are Assam (0.93%), Sikkim, Jammu and Kashmir and Manipur (all Nil), Tripura (0.36%), Uttar Pradesh (0.09%) and Uttarakhand (0.53%). This lack of village level own revenues are not made up by collection at Block or District level either. Kerala and Rajasthan show hardly any improvement at 1.60% and 1.01% respectively.

3.4.4. While most laws for RLBs assign to them the functions of collecting taxes on immovable property (by whatever name called), from the State-wide data, only 13 States reported the collection of immovable property tax at any level of RLB. (Table 7).

**TABLE 7: TOTAL COLLECTION OF IMMOVABLE PROPERTY TAXES IN RLBS<sup>14</sup>**

State	2007-08	2008-09	2009-10	2010-11	2011-12
<b>VILLAGE PANCHAYAT</b>					
Maharashtra	377.61	278.14	348.92	407.12	459.70
Andhra Pradesh	146.89	170.84	176.48	194.59	215.72
Karnataka	127.19	138.84	143.93	185.56	204.97
Kerala	99.85	86.08	110.60	112.02	134.13
Tamil Nadu	76.69	85.86	107.06	128.22	121.41
Gujarat	34.69	35.48	46.98	50.25	51.89
West Bengal	22.60	27.34	36.61	43.16	47.69
Haryana	9.31	13.44	12.26	15.28	16.33
Madhya Pradesh	0.00				6.29
Himachal Pradesh	2.82	2.28	2.87	3.33	4.27
Uttarakhand	0.28	0.28	0.28	0.28	0.28
Assam	0.00	0.00	0.00	0.00	0.00
Chhattisgarh				1.67	
<b>Total<sup>15</sup></b>	<b>897.93</b>	<b>838.58</b>	<b>985.99</b>	<b>1141.48</b>	<b>1262.68</b>
<b>INTERMEDIATE PANCHAYAT</b>					
Gujarat	18.18	15.26	12.29	14.05	18.18
Maharashtra	6.38	6.11	7.26	11.61	6.5

14. Compiled from data submitted by States in Schedule 4A, submitted by States.

15. 12 States, namely, Arunachal Pradesh, Bihar, Goa, J&K, Manipur, Orissa, Punjab, Rajasthan, Sikkim, Tripura and Uttar Pradesh report no collection of Immovable property taxes at the village level.

State	2007-08	2008-09	2009-10	2010-11	2011-12
Haryana	0.58	0.31	0.23	0.4	0.57
<b>Total<sup>16</sup></b>	<b>25.14</b>	<b>21.68</b>	<b>19.78</b>	<b>26.06</b>	<b>25.25</b>

#### DISTRICT PANCHAYAT

Gujarat	43.49	46.99	24.68	39.6	29.64
Maharashtra	15.02	25.44	31.48	23.78	28.14
Uttar Pradesh	10.24	11.45	12.76	13.21	13.39
Uttarakhand	1.37	1.48	1.67	1.61	1.84
Kerala	0		0.03	0.03	0.14
Haryana	0.06	0.07	0	0.08	0.06
<b>Total<sup>17</sup></b>	<b>70.18</b>	<b>85.43</b>	<b>70.62</b>	<b>78.31</b>	<b>73.21</b>

#### TOTAL IMMOVABLE PROPERTY TAXES COLLECTED AT ALL LEVELS

Village Level	897.93	838.58	985.99	1141.48	1262.68
Intermediate Level	25.14	21.68	19.78	26.06	25.25
District Level	70.18	85.43	70.62	78.31	73.21
<b>Grand Total</b>	<b>993.25</b>	<b>945.69</b>	<b>1076.39</b>	<b>1245.85</b>	<b>1361.14</b>

However, there seems to be some level of compensatory effort by the intermediate and district levels, when it comes to the collection of other taxes, apart from immovable property tax. (Table 8)

**TABLE 8: TOTAL COLLECTION OF OTHER TAXES IN RLBS (RS. CRORE)**

State	2007-08	2008-09	2009-10	2010-11	2011-12
<b>VILLAGE LEVEL</b>					
Punjab	125.10	139.00	154.45	180.07	210.03
Maharashtra	112.3	134.73	146.51	156.17	192.78
Kerala	77.81	81.91	96.04	89.66	117.64
Karnataka	75.69	84.87	77.26	71.39	107.11
Andhra Pradesh	68.26	79.97	76.32	83.89	83.35
Tamil Nadu	39.85	42.10	26.26	51.07	50.18

16. The remaining states which have intermediate levels, namely, Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Himachal Pradesh, Karnataka, Kerala Madhya Pradesh, Orissa, Punjab, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand and West Bengal report zero collection of immovable property taxes at the intermediate level.

17. The remaining states, namely, Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Himachal Pradesh, Karnataka, Kerala Madhya Pradesh, Manipur, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, and West Bengal report zero collection of immovable property taxes at the district level.



State	2007-08	2008-09	2009-10	2010-11	2011-12
Gujarat	23.53	25.37	30.84	31.61	40.13
Haryana	12.32	15.55	9.03	17.94	26.80
Orissa	3.12	5.11	5.9	6.1	6.52
Assam	0.63	0.79	1.19	2.26	4.74
Rajasthan	0.94	1.46	1.65	2.35	2.46
Uttar Pradesh	4.38	3.57	3.14	2.54	2.19
Chhattisgarh				6.11	
<b>Total</b>	<b>543.94</b>	<b>614.43</b>	<b>628.58</b>	<b>701.15</b>	<b>843.93</b>

#### INTERMEDIATE LEVEL

Punjab	83.49	92.76	103.07	118.48	136.19
Andhra Pradesh	2.05	1.78	22.59	19.71	36.41
Gujarat	11.12	12.57	11.35	10.95	11.12
Maharashtra	8.4	11.16	7.6	7.61	7.63
Rajasthan	1.57	1.19	1.9	1.95	1.97
Haryana	0.25	0.32	0.75	0.45	1.36
Assam	0.10	0.12	0.18	0.30	0.57
Chhattisgarh				0.07	
<b>Total</b>	<b>106.98</b>	<b>119.90</b>	<b>147.44</b>	<b>159.52</b>	<b>195.25</b>

#### DISTRICT LEVEL

Maharashtra	429.65	495.2	671.05	812.27	964.15
Andhra Pradesh	80.09	115.19	50.31	69.57	59.09
Gujarat	38.4	50.58	29.19	40.26	54.1
Punjab	10.35	11.51	12.78	14.50	16.44
Haryana	0.18	0.33	0.92	0.75	1.31
Assam	0.07	0.07	0.11	0.30	0.72
Kerala					0.36
<b>Total</b>	<b>558.75</b>	<b>672.88</b>	<b>764.37</b>	<b>937.64</b>	<b>1096.17</b>

#### TOTAL IMMOVABLE PROPERTY TAXES COLLECTED AT ALL LEVELS

Village Level	543.94	614.43	628.58	701.15	843.93
Intermediate level	106.98	119.90	147.44	159.52	195.25
District Level	558.75	672.88	764.37	937.64	1096.17
<b>Grand Total</b>	<b>1209.67</b>	<b>1407.21</b>	<b>1540.39</b>	<b>1798.31</b>	<b>2135.35</b>

- 11 States<sup>18</sup>, report no collection of 'other taxes' at the village level. Intermediate and District Panchayats are even more lax (or disempowered) in this regard, with a predominant majority of States<sup>19</sup> reporting no collection of 'other taxes' at this level.
- The case of Punjab, where intermediate and village levels have high levels of other taxes, might be an exception that is explained by the fact that these levels of Panchayats have valuable lands (Shamlat lands) which are leased out and which therefore earn considerable incomes for these Panchayat levels .
- With respect to areas coming under the Sixth Schedule, and arrangements other than the Panchayat system and the Sixth Schedule, there is only one instance of other taxes being collected; in the case of Manipur ADC, which reports a negligible figure of Rs. 7.8 lakh collected in 11-12.

The dismal trends in the collection of property taxes and other taxes seemed to be somewhat compensated in the case of the collection of user charges and non-tax revenues (Table 9).

**TABLE 9: TOTAL COLLECTION OF USER CHARGES IN RLBS (RS. CRORE)**

State	2007-08	2008-09	2009-10	2010-11	2011-12
<b>VILLAGE LEVEL</b>					
Kerala	124.62	243.81	212.16	263.43	301.09
Maharashtra	88.54	86.55	121.38	163.67	157.05
Tamil Nadu	121.12	88.69	103.32	119.20	140.80
Andhra Pradesh	101.39	121.24	124.66	139.77	134.17
West Bengal	39.01	43.40	59.88	67.56	74.65
Haryana	42.55	44.12	83.37	51.70	60.80
Rajasthan	31.32	28.63	35.04	44.50	45.55
Assam	4.14	5.17	7.75	14.73	30.94
Gujarat	26.17	37.76	28.90	29.99	30.40
Orissa	10.99	12.48	13.78	14.07	15.16
Himachal Pradesh	4.82	5.42	6.12	8.35	12.06
Uttar Pradesh	9.07	8.98	8.28	7.78	8.38
Tripura	0.48	0.64	0.65	0.58	0.78
Sikkim	0.00		0.05	0.05	0.14
Chhattisgarh				15.66	
<b>Total</b>	<b>604.22</b>	<b>726.88</b>	<b>805.33</b>	<b>941.05</b>	<b>1011.97</b>

18. Namely, Arunachal Pradesh, Bihar, Goa, Himachal Pradesh, J&K, Madhya Pradesh, Manipur, Sikkim, Tripura and Uttarakhand and West Bengal.

19. 13 out of twenty states that are to constitute intermediate Panchayats and 17 States in the case of District Panchayats.

State	2007-08	2008-09	2009-10	2010-11	2011-12
<b>INTERMEDIATE LEVEL</b>					
Tamil Nadu	70.12	61.09	73.17	104.73	136.20
Maharashtra	30.18	31.87	55.04	115.23	64.86
West Bengal	15.50	20.72	20.12	40.90	44.17
Andhra Pradesh	19.26	31.74	12.82	13.47	31.22
Assam	5.22	6.27	9.09	15.45	29.55
Rajasthan	14.05	13.65	16.70	25.07	18.25
Gujarat	16.64	22.87	14.24	16.17	16.64
Haryana	4.33	4.83	6.91	5.29	5.83
Kerala	1.29	2.32	2.99	3.26	3.78
Himachal Pradesh	2.80	2.60	3.00	3.10	3.70
Tripura	0.22	0.31	0.32	0.25	0.47
Chhattisgarh				3.21	
<b>Total</b>	<b>179.62</b>	<b>198.27</b>	<b>214.40</b>	<b>346.13</b>	<b>354.67</b>
<b>DISTRICT LEVEL</b>					
Maharashtra	463.47	655.97	609.28	798.20	911.20
Uttar Pradesh	76.13	76.77	88.00	116.82	113.69
Andhra Pradesh	89.44	83.19	132.18	82.08	57.91
West Bengal	35.73	39.51	42.72	47.71	52.48
Gujarat	30.39	24.02	30.99	50.04	47.35
Assam	2.15	2.15	3.45	8.98	21.55
Uttarakhand	12.84	13.58	13.54	16.36	14.77
Kerala	4.07	5.40	6.59	17.87	11.37
Rajasthan	4.70	9.85	5.79	7.64	9.09
Haryana	1.43	1.24	1.22	1.75	2.33
Himachal Pradesh	2.60	2.30	2.50	2.03	2.13
Tripura	0.52	0.40	0.96	2.78	1.69
Sikkim	0.00		0.03	0.01	0.01
<b>Total</b>	<b>723.47</b>	<b>914.38</b>	<b>937.26</b>	<b>1152.26</b>	<b>1245.57</b>
<b>Village Level</b>	604.22	726.88	805.33	941.05	1011.97
<b>Intermediate level</b>	179.62	198.27	214.40	346.13	354.67
<b>District Level</b>	723.47	914.38	937.26	1152.26	1245.57
<b>Grand Total</b>	<b>1507.31</b>	<b>1839.53</b>	<b>1956.99</b>	<b>2439.43</b>	<b>2612.20</b>

- Sikkim, and Assam have shown significant increase in collection of user charges and non-tax revenues at the village level. Both States have more than doubled their

collections between 2010-11 to 2011-12. Assam has increased collection of user charges and non-tax revenues at the district levels also. Tripura has also increased its collection by 34.48%. Kerala has topped the list in collection of these charges.

- In Maharashtra and Andhra Pradesh there is reduction in collection of user charges and non-tax revenues at the village level. In the case of Maharashtra, its overall performance also needs to be seen in the light of a steep and inexplicable rise in the 'other taxes' revenues at the District Panchayat level.
- At the intermediate level, Tripura and Assam have maintained their increasing trend significantly. Andhra Pradesh had shown a reduction in collection at the village level but have increased collection at the intermediate level by 131%.

There is thus a clear preference emerging for the collection of user charges as compared to property taxes and other taxes. The former also seems to be the more preferred route for the collection of own revenues, at the Intermediate and District levels.

## 4. ANALYSIS OF EXPENDITURE ON CORE FUNCTIONS, BY RLBS

4.1. Our analysis of expenditure on the revenue and capital account was done using data provided by States on expenditure with respect to the core functions of water supply, sanitation, street lighting, roads and other means of communication and maintenance of community assets. As was the case with our analysis of revenues, we ran into rough weather straightaway, as comparisons of sample and State wide data revealed inconsistencies. We noticed considerably higher per capita figures in the case of State-wide data, as compared to sample data for all three levels of RLBS. This difference was much more marked in the case of capital expenditure data for all three levels, progressively increasing at the district level, where expenditure was as high as a two to three times difference, between State-wide and sample data. At the intermediate level the opposite trend was seen; state-wide data was lower than the sample data except for the year 2010-11. On the other hand, in the case of revenue expenditure, just the opposite was observed. With respect to the Village and District level, the per capita figures of State data was higher than that of the sample data. In the case of the intermediate level, state level data revealed lower figures than the sample data.

4.2. Our educated guess was that in the case of State-wide data, there could be low reporting of expenditures. Besides, in the sample data, as more detail was available in the expenditure heads, reclassification was undertaken so as to conform to a modicum of a common standard of attributing expenditures to different heads<sup>20</sup>. To compound

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20. For example, in the case of MGNREGs expenditure, where many works pertaining to roads, plantations, land development, drainage etc. are undertaken, variations were seen in how this expenditure was classified in one Panchayat and the other. While some Village panchayats have shown this expenditure in a single category termed 'MGNREGS', many others have separately shown this expenditure under various separate expenditure heads.

the confusion further, some GPs showed some expenditures as capital expenditure, rather than as revenue expenditures. This misclassification might have also arisen because Panchayats maintain a plethora of bank accounts (particularly at the GP level) in which they deposit funds for various schemes and they might have attributed these schematic expenditures in the formats of the FFC in the best manner they thought fit. We also surmised that as in some States considerable expenditure incurred on salaries of government functionaries deputed to RLBs by the government is shown as 'devolution', this might tend to drive up the overall expenditure on establishment in these states, as compared to other States. State-wide expenditure data might have omitted such data. Furthermore, we noted that it might be possible that expenditure incurred by local level line departments and parallel agencies, are nevertheless reported as RLB expenditure. Schemes that operate through local implementing bodies other than PRIs, with only a weak link to the PRIs for institutional control, include the NRHM, SSA and PMGSY.

Consistency checks and correctives applied to clean up the data were undertaken, following which we proceeded with an analysis of the expenditure incurred on core services.

## 4.3. Overall expenditure

4.3.1. Details of the expenditure undertaken core service wise<sup>21</sup>, is detailed in Table 10:

**TABLE 10: PER CAPITA TOTAL EXPENDITURE BY CORE FUNCTION (RS.)**

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average per capita
<b>VILLAGE</b>							
Roads and Bridges	45.4	76.8	99.3	90.7	98.7	109.2	86.7
Water Supply	23.6	43.0	48.4	44.8	48.9	58.7	44.6
Buildings/Community assets	51.3	66.5	92.5	100.3	104.3	100.7	85.9
Street Lighting	5.0	8.0	8.8	11.2	12.1	13.5	9.8
Sanitation, Storm water drainage and solid waste	7.6	13.6	15.4	18.4	20.0	23.1	16.3
Other means of communication	8.4	10.0	13.6	12.7	13.8	14.9	12.2
Other Expenditure	30.9	46.3	92.9	103.3	81.5	86.6	73.6
<b>Village level</b>	<b>121.1</b>	<b>152.6</b>	<b>241.1</b>	<b>240.0</b>	<b>240.2</b>	<b>279.1</b>	<b>212.4</b>

21. The break-up of revenue and capital expenditure was done, but its results are omitted from this paper for brevity's sake. Besides, as we noted that RLBs tended to misclassify revenue and capital expenditures, it is more relevant to examine core services expenditure as a whole.

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average per capita
<b>INTERMEDIATE</b>							
Roads and Bridges	30.8	33.6	66.1	55.3	64.6	66.8	52.8
Water Supply	10.1	11.3	13.1	13.8	15.3	16.1	13.3
Buildings/ Community assets	14.1	17.9	23.0	28.1	32.7	39.5	25.9
Street Lighting	0.1	0.1	0.1	0.1	0.1	0.4	0.2
Sanitation, Storm water drainage and solid waste	2.2	3.1	3.7	3.2	4.5	5.1	3.6
Other means of communication	6.1	8.0	12.9	14.4	11.6	12.1	10.9
Other Expenditure	32.1	29.2	54.9	52.6	47.1	51.0	44.5
<b>Intermediate level</b>	<b>95.5</b>	<b>103.2</b>	<b>175.4</b>	<b>167.6</b>	<b>176.0</b>	<b>191.1</b>	<b>151.5</b>
<b>DISTRICT</b>							
Roads and Bridges	34.2	42.9	45.2	49.9	60.3	66.1	49.8
Water Supply	11.4	15.5	13.8	15.8	16.7	19.7	15.5
Buildings/ Community assets	12.0	12.5	19.0	18.9	21.2	26.2	18.3
Street Lighting	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Sanitation, Storm water drainage and solid waste	1.6	3.0	3.4	4.1	4.0	5.6	3.6
Other means of communication	2.5	2.6	4.1	2.7	3.3	2.9	3.0
Other Expenditure	30.4	31.6	38.3	42.3	40.0	39.8	37.1
<b>District level</b>	<b>92.6</b>	<b>108.4</b>	<b>124.2</b>	<b>134.2</b>	<b>146.2</b>	<b>161.1</b>	<b>127.8</b>
<b>TOTAL EXPENDITURE (AT ALL LEVELS)</b>							
Roads and Bridges	110.4	153.2	210.6	195.9	223.6	242.1	189.3
Water Supply	45.1	69.7	75.3	74.4	81.0	94.5	73.3
Buildings/ Community assets	77.4	96.9	134.5	147.2	158.2	166.4	130.1
Street Lighting	5.4	8.4	9.1	11.6	12.6	14.2	10.2
Sanitation, Storm water drainage and solid waste	11.4	19.7	22.4	25.8	28.4	33.7	23.6
Other means of communication	16.9	20.6	30.5	29.8	28.8	30.0	26.1
Other capital Expenditure	93.4	107.1	186.0	198.3	168.5	177.4	155.1
<b>Total Expenditure</b>	<b>309.2</b>	<b>364.2</b>	<b>540.7</b>	<b>541.7</b>	<b>562.5</b>	<b>631.2</b>	<b>491.6</b>

- Expenditure on core functions is mainly roads, building, sanitation, streetlights and other means of communication. This expenditure is mainly dominated by roads and community assets at Rs.189 per capita and Rs.130 per capita respectively and very little is being spent on water supply (Rs.73), sanitation (Rs.24) and other services like streetlights (Rs.10). Much of this expenditure is undertaken at the village level. Districts spend the least in per capita terms, as compared to Intermediate and Village levels. With respect to each core function, the Village spends the highest, leading with roads and bridges, spending Rs. 87 per capita, followed by buildings and community assets where the spending is Rs. 86 per capita.

State-wise expenditure (Table 11) indicate wide variations between States. Tripura has the highest per capita spending at Rs. 1048 and the lowest is Uttar Pradesh at Rs. 8.77. Again, whether the data is comparable might depend how, and what expenditures are attributed to 'core services'. For example, the attribution of salaries of staff to core expenditures might account for the high per-capita values in some States as compared to others.

**TABLE 11: STATE-WISE PER CAPITA TOTAL EXPENDITURE (RS)**

States	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average per capita
Tripura	565.72	603.77	910.12	976.03	1381.38	1851.74	1048.13
Telangana	475.46	550.82	1106.84	1335.37	749.18	951.78	861.58
Manipur	97.24	678.62	542.70	801.78	1497.41	1480.28	849.67
Orissa	480.34	529.15	586.54	924.43	1236.05	1223.48	830.00
Andhra Pradesh	500.74	487.36	889.19	962.53	895.53	936.79	778.69
Rajasthan	539.95	695.51	886.47	743.09	797.68	926.33	764.84
Gujarat	427.81	509.18	726.40	676.68	773.98	1124.79	706.48
Maharashtra	491.08	565.85	710.10	684.52	774.03	832.09	676.28
Assam	420.56	526.57	798.46	697.88	784.03	779.81	667.89
Karnataka	428.04	514.10	700.50	775.36	713.21	831.50	660.45
Sikkim	348.22	618.84	724.28	574.02	666.36	608.52	590.04
Tamil Nadu	333.50	403.33	454.00	441.68	526.12	767.03	487.61
Kerala	282.94	332.01	384.07	535.47	606.72	614.12	459.22
West Bengal	157.41	184.38	340.33	368.77	446.23	556.56	342.28
Goa	73.71	68.18	187.30	150.47	220.08	135.41	139.19
Himachal Pradesh	50.18	95.00	121.18	117.89	145.10	187.20	119.43
Chhattisgarh	99.67	114.78	110.46	111.35	120.97	157.38	119.10
Uttarakhand	22.60	10.91	30.01	43.27	63.73	37.00	34.59

States	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average per capita
Uttar Pradesh	4.38	7.70	9.68	11.61	10.37	8.77	8.75
Jammu and Kashmir	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All States	309.2	364.2	540.7	541.7	562.5	631.2	491.6

## 5. COMPARISON OF REVENUES AND EXPENDITURES

5.1. As a final check of whether the data is consistent over a period of years, a comparison was undertaken of the revenues and expenditures by States. The hypothesis is that while there need not be a strict one-to-one correspondence between revenues and expenditures in each year, the difference ought not to be considerable, or show sudden increases or reductions over a period of years. Any such trends would throw doubt on the data that is compared. Such discrepancies in the expenditure and income may arise due to the following factors –

- States might not have reported opening or closing balances under the revenue and/or expenditure heads;
- While typically we analyze intergovernmental fiscal transfers as involving the Centre, the States and Local governments, we often overlook the fact that there is a system of inter-agency transfer within the three levels of RLBs. There is often not sufficient knowledge of how transfers between different levels of local government are accounted for in different States. For example, there might be arrangements through which funds are assigned or given by one level as an agency to other levels. In such cases, there is a likelihood of expenditure being booked separately and independently by each level, as being on its own account.
- As a corollary of such arrangements, money transferred for the performance of agency functions, if unspent, may be re-credited back to the higher level of government, where it might be classified as revenues again. If the nuances of such inter-level transfers happening within the RLB system is not understood or captured accordingly, there is the strong possibility of double accounting happening at multiple levels, which might reflect in discrepancies between revenues and expenditures.

5.2. In order to detect whether there are any such discrepancies, a comparison of Revenues, expenditures and the deficits or surpluses that arise, was undertaken on a State wise basis (Table 12).



**TABLE 12: COMPARISON OF PER-CAPITA REVENUES AND EXPENDITURES**

State	Per Capita Revenues (Rs)				Per Capita Expenditures (Rs)				Deficit/Surplus			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
	VILLAGE LEVEL											
Andhra	612	729	745	646	441	481	455	467	171	249	290	179
Assam	465	450	422	429	253	207	231	287	213	243	191	142
Chhattisgarh	104	154	184	242	176	188	204	236	-72	-34	-20	6
Goa	248	385	712	344	297	334	375	415	-49	52	336	-71
Gujarat	234	316	312	370	206	199	213	255	28	117	99	116
Himachal	1296	1641	1452	1763	129	122	148	193	1167	1520	1304	1570
J&K	213	294	776	1144	Expenditure is reported to be made through line departments							
Karnataka	1156	1031	815	925	1007	825	665	775	149	206	150	150
Kerala	895	1068	1305	1616	599	817	936	1055	296	251	368	561
Manipur	856	1140	1798	1694	484	625	1187	1152	372	514	611	542
Maharashtra	258	347	349	357	188	185	222	265	70	162	127	92
Orissa	244	328	377	423	137	180	229	262	108	148	147	161
Rajasthan	1268	1053	1013	1084	710	550	613	722	558	503	401	361
Sikkim	682	881	1725	541	375	629	653	574	307	252	1072	-33
TN	854	1114	1392	1638	394	380	460	690	460	734	932	948
Telangana	787	991	595	710	716	911	501	629	71	80	93	82

State	Per Capita Revenues (Rs)				Per Capita Expenditures (Rs)				Deficit/Surplus			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
Tripura	2124	2072	2954	3098	876	900	1258	1338	1248	1172	1695	1760
Uttarakhand	138	145	155	229	44	61	95	71	94	85	60	158
UP	446	111	451	345	29	30	23	20	418	82	428	324
WB	458	431	478	586	329	342	353	446	129	89	124	140
<b>All States</b>	<b>617</b>	<b>548</b>	<b>643</b>	<b>672</b>	<b>344</b>	<b>338</b>	<b>330</b>	<b>392</b>	<b>273</b>	<b>210</b>	<b>312</b>	<b>280</b>
<b>INTERMEDIATE LEVEL</b>												
Andhra	732	845	702	777	535	585	493	532	197	260	210	245
Telangana	784	815	487	589	645	648	399	487	139	167	88	102
Assam	581	506	557	477	450	408	448	379	131	98	108	98
Chhattisgarh	Information not furnished											
Gujarat	1689	2146	2138	2635	1285	1586	1676	2062	404	560	462	572
HP	69	109	149	217	35	47	60	48	33	62	89	169
J&K	No block level RLB											
Karnataka	1885	2137	2315	2908	1780	2008	2137	2732	105	129	178	176
Kerala	373	452	528	659	298	358	432	452	75	93	96	207
Manipur	No block level RLB											
Maharashtra	1369	1506	1754	2097	1389	1603	1769	1924	-20	-98	-16	173
Orissa	288	614	817	771	289	627	861	784	-1	-12	-43	-13

State	Per Capita Revenues (Rs)				Per Capita Expenditures (Rs)				Deficit/Surplus			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
Rajasthan	265	262	261	302	235	234	250	283	30	28	11	19
Tamil Nadu	237	266	376	432	156	170	173	216	81	97	203	216
Tripura	69	42	47	87	69	44	50	84	0	-2	-4	3
Uttarakhand	Information not furnished											
UP	46	51	116	39	113	33	30	27	-67	18	86	12
West Bengal	184	318	382	387	101	222	331	293	83	96	51	94
<b>All States</b>	<b>580</b>	<b>679</b>	<b>747</b>	<b>850</b>	<b>261</b>	<b>275</b>	<b>300</b>	<b>326</b>	<b>319</b>	<b>405</b>	<b>446</b>	<b>524</b>
<b>DISTRICT PANCHAYATS</b>												
Andhra	305	244	205	214	82	63	86	73	223	181	119	141
Assam	183	177	212	223	153	146	174	172	30	32	38	51
Chhattisgarh	Information not furnished											
Goa	77	83	88	86	45	43	48	55	32	40	40	30
Gujarat	1157	1481	1516	1754	703	873	985	1160	454	608	531	595
Himachal	18	19	27	29	17	16	14	24	1	4	13	5
J&K	Line departments make the expenditures											
Karnataka	1321	1512	1411	1617	1849	2655	1773	1814	-529	-1143	-362	-197
Kerala	154	182	164	150	145	139	168	202	9	42	-4	-52

State	Per Capita Revenues (Rs)				Per Capita Expenditures (Rs)				Deficit/Surplus			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
Manipur	67	188	328	370	67	184	318	363	0	4	9	7
Maharashtra	2028	2289	2612	2922	1787	2018	2255	2197	240	272	357	725
Orissa	216	178	209	246	217	179	210	248	-1	-1	-2	-2
Rajasthan	177	206	262	268	134	159	191	178	43	47	71	91
Sikkim	358	432	662	551	656	477	551	506	-298	-45	111	45
Tamil Nadu	18	15	38	40	16	12	26	31	2	3	12	9
Telangana	95	67	61	80	118	127	62	110	-23	-60	-1	-30
Tripura	67	95	125	255	71	164	208	580	-4	-69	-83	-326
Uttarakhand	Information not furnished											
UP	63	65	69	61	50	58	63	39	13	7	6	22
West Bengal	241	216	232	247	118	103	124	132	123	113	109	115
All States	464	514	559	620	268	309	298	313	195	205	260	307

- Except in the case of States highlighted in yellow, the differences between revenues and expenditures do not seem to be considerable. In the case of both Himachal Pradesh and Tripura either the receipts are over stated or expenditures under stated.
- In the case of district panchayats in Karnataka there are continuous negative balances, caused by expenditures that seem to be more than revenues. This may be due to the fact that withdrawal of unspent balances, expenditures and transfers in the form of sanctions of funds from the treasury system might not be reflected in the accounts as revenue receipts. It may be also that state deficits are financed through opening balances, which are not mentioned in the data Schedules.

## 6. A SOBERING REFLECTION ON THE DATA, OR THE LACK OF IT

- 6.1. Given the background of the various discrepancies in the data furnished by the States and therefore, the various caveats that the AI, CPR team had to state beforehand while presenting conclusions from its analysis, it is not surprising that the FFC did not use any but the broadest of conclusions that could be drawn from it. Thus, the FFC, based on the fact that much of the responsibilities for performance of core functions are with the Village Panchayats and that much of the expenditure on these are also incurred at that level, took the unprecedented decision that its funds would go to the Village Panchayats alone. The Intermediate and District Panchayats could be supported by fiscal transfers from the States, it suggested. This too, was in line with the data analysis, which showed that States were even as of now, providing much greater support to this level as compared to the Village Panchayats.
- 6.2. Going beyond the recommendations of the FFC, what is disturbing is the persistent inability of States to provide consistent and comprehensive data on incomes and expenditures of RLBs. Indeed, there is a greater failure in that such data is not available in the public domain in all States, in spite of investments in computerization and accounting reforms that States claim they are undertaking.
- 6.3. Why has there been such severe administrative failure, which prevents States from providing simple data on incomes and expenditures of local bodies, in spite of nearly two decades of reforms in this direction? Earlier CFCs had recommended that the CAG be involved in Technical Guidance and Supervision of local body audits and in the preparation of formats for the maintenance of accounts by local bodies. At least one CFC<sup>22</sup>, had recommended that funds be earmarked for States to improve their capacities in assisting maintenance of accounts of local governments. The National Informatics Centre (NIC) has invested plenty of time and money in developing the Priasoft software, which is a generic software for the maintenance of panchayat level accounts, which can be adapted by each State for its use. Priasoft computerized the formats prepared by the CAG for the maintenance of Panchayat accounts. In addition, under the e-Panchayat programme of the Ministry of Panchayati Raj, funds were invested by the Central government to assist States in improving the accounting systems in Panchayats. Even though a few States decided that they would not use Priasoft, but would develop their own software suites for accounts, nearly all of them have formally accepted that the formats designed by the CAG would be customized for use of accounting in their respective local bodies. If all these initiatives were implemented, even modestly, it would have been possible for the FFC to undertake an online tapping into the accounts of the local governments and secure data independently for analysis.

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22. The Eleventh Finance Commission.

- 6.4. The frustration of not being able to obtain consistent data might drive us all to blame States for their lackadaisical attitude or their lack of capacity. However, that might not be true any longer. Only a few States really lack the capacity to maintain accounts at the local level, beset as they are with overburdened and untrained staff, slow progress in computerization and lack of Panchayat level infrastructure. In most States, these capacity gaps have been addressed to varying degrees and certainly, if they wished to do so, they could have provided consistent and reliable data. However, that they have not been able to do so in a manner that inter-State comparisons can be drawn, speaks of a deeper and more fundamental failure of governance, which can be traced back to the sad reality of the political economy of multi-level governance. Nearly all States, while they speak the language of devolution and even pass laws that aim to achieve a modicum of it, run their fiscal and administrative systems to serve deconcentration. This is clearly evidenced in the design of actual administrative arrangements across the levels of local government. Nowhere in any State is the Chief Executive or departmental heads of a local government appointed by the local government; they are invariably State employees posted on deputation to them. In reality therefore, these officials exercise a dual authority. Their roles in the local government system is often subordinated to their role as deconcentrated agents of the State, owing allegiance to the State and implementing State programmes, using the local government office only as a place from which to operate.
- 6.5. This dichotomy between the de-jure design of devolution and the de-facto operation of deconcentration is also the root cause why the accounting of funds at RLB levels go awry. The only consistency is in the broad patterns of inconsistent accounting which lead to States being able to attribute revenues and expenditures to various heads in the manner that they choose, leading to the failure to provide reliable and truthful data.
- First, many programmes of the government that are implemented in a deconcentrated fashion are shown to be nominally undertaken at the RLB level, even though in reality they are undertaken by individual departments who deal with a host of user groups or committees, again nominally linked with the Panchayats<sup>23</sup>.
  - Second, while there is some modicum of standardization of accounting heads and revenue streams at the Gram Panchayat level, there is a wide variation in the extent of funds given to the District and Intermediate Panchayats. This variation is also due to the wide variation in the functional assignments to these levels – whilst in some States the District Panchayats are centres of power in the District and lot of non-plan funds are channelized through them and shown as devolution, in other States these bodies lack real power and have been assigned only advisory roles.

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23. For example, even though the Sarva Shiksha Abhiyan guidelines mandate that the SDMCs are sub-committees of the Panchayats and this tenuous connections has been established on paper, in an accounting sense, their budgets are not part of RLB budget. Even in the case of the NREGA - the sole programme where there is a statutory requirement that at least 50 percent of the expenditure ought to be incurred at the Village Panchayat level - in many states these expenditures are not shown as having taken place at that level. Since wage payments have been centralized, even in an accounting sense they are not accounted for at the Village Panchayat level and shown as Village Panchayat expenditure.

- Third, inter-agency transfers and re-crediting of funds takes place between the three levels of RLBs – this is described in Para 4.1 in greater detail – which can lead to double accounting of incomes and expenditures. This tendency makes the deciphering of the accounts of the Intermediate Panchayats a nightmare. Besides, in most States, these bodies bear the least resemblance to a local government. They are at best, a deconcentrated extension offices of the rural development department of the State with an elected body transplanted onto it. Invariably, while powers in respect of other departments are said to be devolved to the intermediate Panchayat, funds relating to the programmes of these departments are channelized through their individual Intermediate level officers and are not captured in the accounts of the Intermediate Panchayats<sup>24</sup>. This often results in backlogs in the auditing of intermediate Panchayat accounts.
- Fourth, many State and Central level programmes are operated through ‘Mission’ offices, at the District and Intermediate levels, which channelize funds for specific programmes and ring fence these from both deconcentrated departmental accounting systems, and the tiered local government system as well. State-appointed officers serving in the Local Governments hold dual charge of mission offices as well, but that does not mean that they share the information that they manage in the mission office, with elected representatives in the local governments. On the other hand, wielding of dual authority makes them immune to whatever weak efforts of holding them to account, that the local government is able to muster.

6.6. It might seem that in the final analysis, there has been little headway in improvement of local government accounts, in spite of the recommendations repeated by successive CFCs over the past two decades. Initially, the recommendations of CFCs were firm in their intent, but the fact that States have not responded and indeed, have been fairly blasé about their lack of achievement of these recommendations, has resulted in a tone of resignation in the FFC’s recommendations. We could conclude that the obiter dicta of the FFC, like those of its predecessors will lack teeth. The denial of funds and performance grants in the past for non-fulfillment of accounting conditionalities has not worked in the past and there is no reason why it should work this time. As long as there is only lip service to the spirit of devolution, States will continue to interpret formats sent by successive CFCs in a manner that shows it up in the best light. Data will not be comparable between States.

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24. In the case of Rural Development programmes, the funds that pass through the Intermediate Panchayat present a bewildering array of sources, and end use points. A typical Intermediate Panchayat could receive funds for its own programmes, which could include devolved funds such as the CFC grants and SFC grants. It could also receive funds from the District Panchayat, which it could spend as an agency of the latter. There might be funds received from the District Panchayat or the State level, for onward transmission to the Village Panchayat. And last, there could be funds that are spent by line department offices that are nominally placed with the Intermediate Panchayat, but in reality function under a direct command and control system of their District level controlling offices.

## 7. CONSIDERATION OF THE DATA AND THE FFC'S RECOMMENDATIONS

- 7.1. Before we proceed to look at the opportunities, one needs to look more closely at the reasoning of the FFC in arriving at what it did. A digression into the semantics of interpretation of the Article 280 (3) (b) and (c) is worthwhile (Box 1):

### BOX 1

As any teacher of languages will emphasise, the positioning of a punctuation mark in any sentence can dramatically alter the latter's meaning. When the sentence in question is one in the Constitution of a country, it can radically change the way institutions of government are to interact and function.

Under Article 280 (3) (bb) and (c), clauses introduced into the Constitution through the 73rd and 74th amendments, the Central Finance Commission is to recommend the measures needed to augment the Consolidated Fund of a State to supplement the resources of Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. The terms of reference given to the Fourteenth Finance Commission (FFC) quotes this provision of the Constitution verbatim<sup>26</sup>.

There are no commas in these Constitutional provisions, nor in its reproduction as a TOR of the FFC.

Yet, when the FFC refers to its TORs at the commencement of Chapter 9, named, 'Local Bodies', it states as follows: "the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State, (there is a comma, here; emphasis mine) on the basis of the recommendations made by the Finance Commission of the State."

The presence of that comma does not merely have the effect of enabling the Finance Commission and its readers to catch their breath, but, as a reading of the report of the Commission shows, it defines the way in which the Commission has approached its tasks of indicating the measures required to augment the Consolidated Fund of a State.

The Constitutional design for the flow of Central revenues flowing to local bodies, envisages that the Central and State Finance Commissions act in concert. However, the sequence in which the report of one overlays the reports of the other, would be altered by the presence or absence of that little comma.

Two interpretations of the Constitutional provisions are possible. The first – which I refer to as the 'comma-less approach' - indicates a sequence of recommendations and decision making on fiscal transfers as follows:

- (a) The CFC recommends the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State. In doing so, it may consult the SFCs as well, but this is not a necessary condition.
- (b) The actual supplementation of the resources of each local body is undertaken on the basis of the recommendations made by the Finance Commission of the State concerned.

The second interpretation - the 'comma' approach - indicate a sequence of events as follows;

25. Chapter 1, Para 1.2 (iii) of the report of the 14th FC.



- (a) The CFC refers to the recommendations of State Finance Commissions when examining the issue of determining the measures required to augment the Consolidated Fund of a State. It does so, because it has to necessarily 'base' its report on the reports of SFCs
- (b) After such examination of SFC reports, the CFC determines these measures, in order to supplement the resources of the Panchayats and Municipalities in the State.

The 'comma-less approach' positions the CFC as the initiator and the designer of the first part of the fiscal transfer mechanism to Local bodies, namely, the determination of the measures required to augment the consolidated fund of the State to supplement the Local Body finances. This formulation would mean that once the CFC recommended revenue streams reach the State, then the SFC recommendations become the determinant of the manner of supplementation of Local Body finances. However the 'comma' approach positions the CFC in a more proactive position. It makes the need to consult the SFCs is an a-priori requirement; once done, the CFC is ostensibly free to recommend the measures that span the processes of both augmentation of the Consolidated Funds of States and the supplementation of the finances of local bodies. By implication, this line of interpretation would mean that once the CFC has referred to SFC reports when finalizing its recommendations, it is open to the CFC to restrict or confine the roles of the SFCs, if need be, in the process of the actual supplementation of Local Body finances.

Having introduced the 'comma' into its TORs, it is not surprising that the FFC has pursued the latter line of thinking. It has consulted the SFCs and interacted with them closely at the time of preparing its report, but when making its recommendations, it has stated that for several reasons, it cannot 'base' its report on any but the most general recommendations made by the SFCs. It has then made recommendations that restrict to some extent, the subsequent vertical and horizontal formula setting role that is expected to be undertaken by the SFCs, to guide how funds ought to flow to each local body at each level. It has further stamped a seal of authority on its recommendation, stating that no further changes or conditions ought to be imposed when its award is implemented.

7.2. Given that, the FFC's recommendations are simple, easy to understand and easy to monitor. Even if arguably it pushes the envelope by being very prescriptive in its approach, it has sound reasons to be so. By recommending that its grants be restricted only to Village level RLBs and that too, for core services alone, it attempts to channelize its funds towards clearly defined mandates, which in all probability are still unfunded. While at first sight, this arguably hampers and restricts the scope of the recommendations of future SFCs, the confining of CFC grants to Village level bodies is already an establishing trend. There might be the birth of a new paradigm here, by which there is a role separation between the CFC and SFCs, with the latter focusing on District and Intermediate levels and the former on the village level alone.

7.3. A significant point to note is that the FFC has increased the share of the local governments allocated from the divisible pool of taxes from Rs. 86161 crore to Rs. 287436 crore, an increase of 234% over the grants recommended by the 13th FC. This amounts to a 344% increase in the allocation of basic grants, from Rs. 56335 crore to Rs. 249978 crore. In the case of performance grants, which, as a proportion of the total grants has been brought down to 10 percent and 20 percent in the case of rural local governments and urban local governments respectively, the increase is relatively modest; from Rs. 29826 crore to Rs. 37458 crore. All in all, this amounts to an increase in the FFC grant to local governments, from 2.28% to 4% of the central divisible pool

of taxes. At the Village RLB level, the increase could be from Rs. 5 lakhs to Rs. 25 lakhs per year, depending upon the population size.

- 7.4. The focused approach of the CFC is not without risk. The practice of States delaying and diverting funds meant for the Panchayats<sup>26</sup>, a distressing trend noticed by the 12th and 13th FCs, might continue. States might resort to grant substitution, reducing their grants to Village level RLBs, even doing away with it altogether, and concentrating only on the TPs and ZPs.

## 8. AND FINALLY, THE OPPORTUNITIES

- 8.1. So, what is next? More precisely, is there a productive role that research institutions could play? Does the FFC's new paradigm of central augmentation of the Consolidated Funds of States to supplement the revenues of RLBs, comprising of (a) giving funds solely to Village level RLBs, (b) restricting their use to the performance of core functions and (c) imposing simple conditions on accounting and auditing for the release of performance grants create opportunities for the Accountability strengthening business of which we are all a part?
- 8.2. There is possibly no greater opportunity that exists now for public expenditure tracking aficionados than tracking allocations, release, expenditure and results in local governments where the deleterious effects of a chaotic fiscal transfer mechanism is most clearly seen. The market for this work is wide; but not as often thought, do they exist in the rarefied atmosphere of State capitals or New Delhi. Nearly 3.2 million people, many of them poor and marginalized, get elected to these bodies every five years. They carry the weight of expectations of their voters and come with enthusiasm and the desire to do something significant for them, however, modest that might look to others. It is this market that needs to be satiated. Much of the initial enthusiasm of these representatives is rapidly overcome by frustration and disinterest, because even as they see more and more money being poured into rural areas, they realise that much of it is beyond their control or responsibility. On the other hand, the incentives for contractors and their proxies to get elected to local governments is high, because the funds that swirl around and pass through the local government, provide ample opportunity for them to dispense patronage, without being accountable for the results. All they need to do is to master the complex web of relationships between the official and political hierarchies, which arises when the official system is hybridized with LG administration.
- 8.3. If this large numbers of elected representatives are equipped with the basic skills of tracking fund transfers, the tide could turn in favour of true devolution. Progressively enlightened individuals amongst them could begin to ask pointed questions as to the

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26. This has already begun to happen. Karnataka State has recently issued orders that 25 percent of the FFC grants going to the Village level RLBs will be diverted to settle pending bills from the Grama Panchayats towards electricity consumption by them, for Streetlights and drinking water provision.

adequacies of allocation, and why promised funds have not been received. They could begin to demand accountability not only for transfers due to their RLBs, but also for all other expenditure incurred by State level agencies, missions and parallel bodies in their jurisdictions. It is only when such informed pressure emerges from below, that the de-facto deconcentrated system will begin to feel the heat. Depending upon the fortuitous emergence of champions from within higher political levels and the bureaucracy, would not be sufficient.

- 8.4. Given that it is they who have created this hybridized system, States have little incentive to make the details of allocations, releases and downstream expenditures transparent. Hence, there has been little headway in operating 'just in time' fiscal transfer systems, combined with an 'Expenditure Information Network', it is more than five years since these ideas were conceived and recommended. The Centre is too remote from the scene of the action. Central Line Ministries only have an interest in tracking the fate of their schemes and these are often operated by parallel structures. That means that they have little interest in the overall functioning of local governments. CFC grants to Local governments are nobody's baby; the Central Ministry of Finance is too busy with its other priorities to spend quality time on tracking these releases and the outcomes that emerge. The only hope is that the Ministry of Panchayati Raj, now divested of schematic allocations, assumes charge as the custodian and reporter of the outcomes from FFC grants going to Village level RLBs.
- 8.5. The AI, CPR, through its new initiative, 'Paisa for Panchayats', has a job for the asking here. If the objective is to inform the large body of elected representatives in local governments and their staff of the fate of the considerable amount of funds that swirl around them, the Paisa for Panchayats initiative could fulfill that need.
- 8.6. The process of developing research methodologies and techniques for fiscal tracking has begun in Karnataka in real earnest. There are many features of the initiative that distinguish it from similar, earlier efforts. The first is the range of the task planned to be undertaken. The idea is to determine the fund flows from all sources external to the Panchayat, which accrue within a Panchayat and within its geographic jurisdiction. This would require identifying the universe of funds across various sources, namely, Centrally Sponsored Schemes, CFC grants and State Plan and non-plan Schemes. These Central and State funds, when sent down to local agencies for implementation could take multifarious routes. These could be (a) funds given to the Panchayats directly, or cascading from the District to the Intermediate to the Gram Panchayats (termed the devolved component), (b) overlapping and parallel allocations, which are partly given to the Panchayats and partly kept with the State and its parastatals for implementation and (c) the non-devolved allocations, which are not within the functional domain of the Panchayats (but may be nevertheless spent in the jurisdiction of a Gram Panchayat by State entities). These fiscal streams can take a bewildering range of transfer paths before they reach the local level. The objective of the study is to unravel how

money reaches and is spent in the geographical jurisdictions of grama panchayat. The hypothesis being pursued is that there is enough and more money available at the local level – in Karnataka that could mean between Rs. 5 to 10 crores within the jurisdiction of an average Grama Panchayat, with a population of between 8 and 10 thousand.

- 8.7. For our study, the path of fund flow has been identified. This comprises of flows from the Central government to the State of Karnataka, then from the State to Kolar District, Mulbagal Taluk and thence, to be spent within the jurisdiction of the 30 Gram Panchayats in Mulbagal taluk. A complete and exhaustive compilation of the Karnataka State government budget for 2014-15 has been completed. All devolved line items, both plan and non-plan, have been identified along with budget allocations. Overlapping schemes with partial devolution have been identified for tracking. In this regard, State plan schemes that are eligible for devolution, but that have not been devolved or has only been partly devolved have been analysed and identified for tracking. Parastatals and parallel bodies operating in the jurisdiction of Gram Panchayats have been identified.
- 8.8. Following the identification of the flow paths of potentially all sources of government expenditure in the jurisdiction of a Panchayat, the Kolar district Zilla Panchayat 'Link documents'<sup>27</sup> has also been analysed to establish flow-down and linkages between centre and the state government allocations to Kolar district and Mulbagal Taluk. Currently the amounts released to various levels of Panchayats are being compiled together. While data is being obtained from the State treasury, tracking of releases to mission bodies and parastatals, through bank accounts, is proceeding.
- 8.9. The undertaking of such research will not yet be able to better inform future CFCs. This is because the nuances of how Panchayats are disempowered fiscally in different States, as also how they cover up their tracks, would vary. To address issues of comparability, nationally accepted parameters of how certain fund flows are to be attributed to RLBs, will need to be worked out. In particular, issues such as how (a) non-plan salary transfers, (b) allocations to and expenditures made by parallel bodies and user groups, (c) revenue transfers from the State of shared taxes, and (d) inter-agency transfers and recoupment of funds are to be treated, will need to be resolved. If these are not addressed well in time for the next CFC's deliberations, we might find a repetition of the same story of inconsistent and un-usable data, five years from now. If these are indeed addressed, we might find a happy dawn where data is available online in real time, which not only CFCs and SFCs could mine and analyse for their policy recommendations, but which would be of direct, practical use by local elected representatives to check why teachers are absenting themselves from school, why the streetlights are not burning, the potholes remain unfilled and why there are no medicines in the local Primary Health Centre.

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27. This term refers to an annexe to the State annual budget in Karnataka, in which the 'devolved sector' of the budget is further broken up into district level allocations. Karnataka has further broken up this allocation within the district to each taluk through a Taluk 'Link Book' as well.