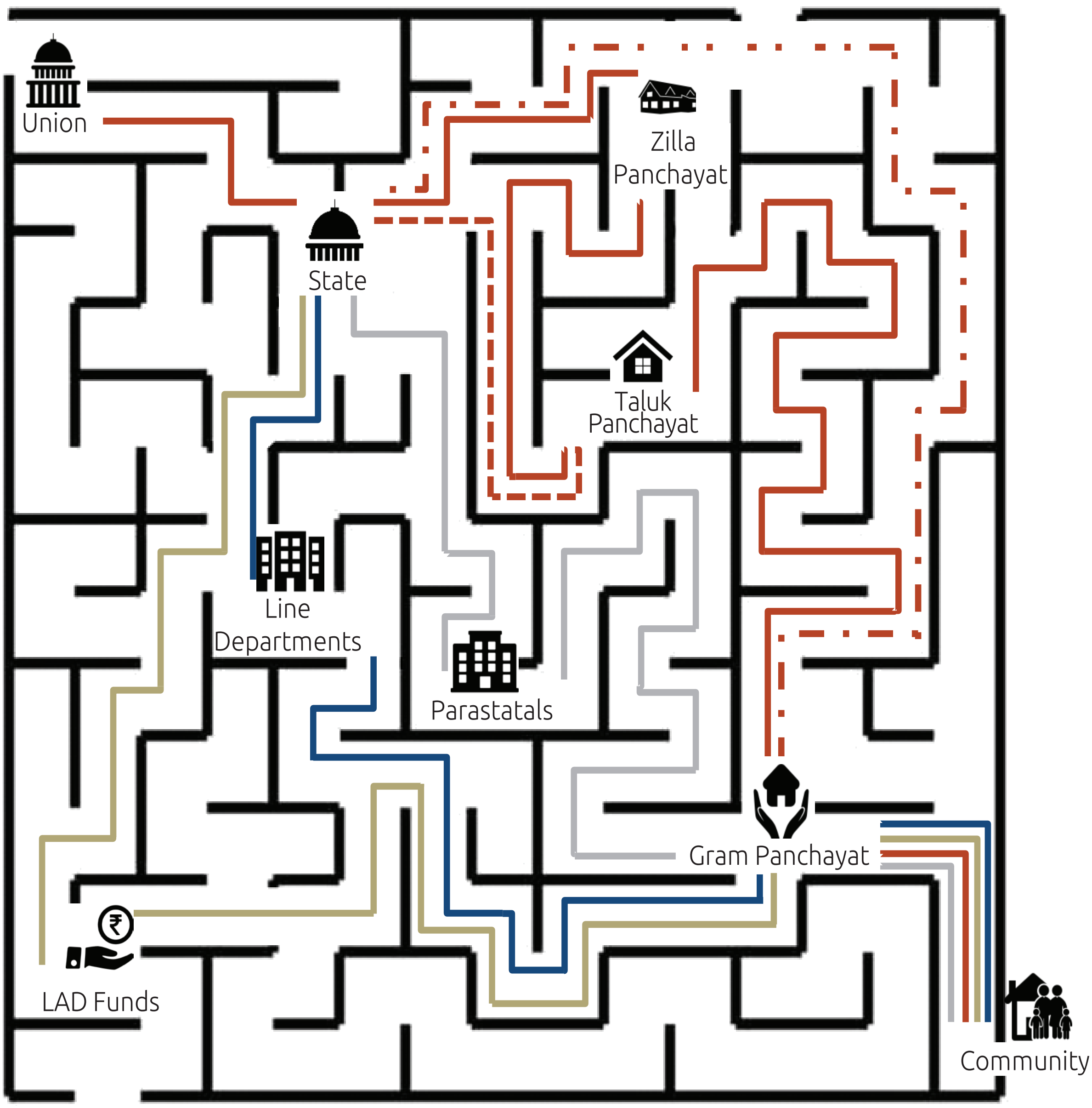
# PAISA FOR PANCHAYATS POLICY BRIEF 2016

## TRACKING FISCAL DEVOLUTION TO LOCAL GOVERNMENTS

*A case study from Kolar district, Karnataka*




Accountability Initiative, Centre for Policy Research, Dharam Marg, Chanakyapuri, New Delhi - 110021
Tel: (011) 2611 5273-76, Fax: 2687 2746, Email: info@accountabilityindia.org, Website: www.accountabilityindia.in

This study tracks trends in fiscal decentralisation in Karnataka, and attempts to identify the quantum of money spent in the jurisdiction of 30 Gram Panchayats in Mulbagal Taluk, Kolar district.

The principal conclusion of this research is that the complex intergovernmental fiscal transfer system in Karnataka has rendered Panchayats powerless as they receive very little funds to fulfill their legally stated mandates. Moreover, Gram Panchayats have no information about the funds that are being spent in their jurisdiction by other administrative and implementation entities and hence are unable to plan and monitor the quality of service delivery in their jurisidictions.

# KEY FINDINGS AND RECOMMENDATIONS

## Trends in financial allocations to Panchayati Raj Institutions (PRIs)

### Mismatch between funds and functions

The total budgetary allocation for Karnataka in FY 2014-15 was ₹1,50,379 crore BE [1]. Based on an analysis of functions devolved to PRIs, as mandated by the Karnataka Panchayati Raj Act 1993 and the Activity Mapping matrix approved by the Government of Karnataka, this study estimates that approximately 33 per cent of the total budget in FY 2014-15 ought to have been earmarked for expenditure by PRIs.

However, the state budgeted an allocation of only 17.5 per cent of its total budget to be devolved to PRIs (₹26,343 crore). As much as ₹16,239 crore or 11 per cent of Karnataka's total budgetary outlay that should have been allocated to PRIs was instead appropriated by the state government for expenditure through line departments.

A further sum of ₹6,357 crore (4 per cent) was allocated to line departments for activities that were also funded through PRIs resulting in duplicate heads of expenditure [2].

Failure to assign funds and overlapping budgetary heads suggests a resistance to devolution on the part of the state departments.

### *We Recommend*

The Karnataka government must undertake a department-wise reviews of activities assigned to the PRIs to ensure role clarity and avoid duplication across levels of government.

Based on these reviews, departments should ensure that financial allocations to panchayats match their functional assignments. This will help clearly track performance and assign accountability across all levels of the government.

### Limited Expenditure Discretion

Plan fund outlays (funds for development expenditure) devolved to PRIs have dropped consistently since 1991. The total budget allocation earmarked for devolution to PRIs dropped from approximately 35 per cent in FY 1991-92 to 16 per cent of the total plan allocation in FY 2014-15.

The bulk of the money allocated to PRIs in the non-plan budget is tied to salary payments. In FY 2014-15, this amounted to 78 per cent of the total non-plan budget allocation

1. Budgetary Estimates
2. It is important to note that BE is merely a statement of government intent. In December every year, the government prepares a Revised Estimate (RE) which is an estimate of how much it is likely to spend within a financial year. The actual expenditure based on government audits are collated and presented in budget statements with a lag of 2 years. Historically, there have been significant gaps between BE, RE and Actual expenditure. Ideally, an accurate analysis should use Actual expenditure. These were not available for FY 2014-15 at the time of our study. While RE for FY 2014-15 have been prepared and are in the public domain, these are not available for the "district sector budget" which identifies allocations and expenditure at the PRI level. Thus the study restricts itself to the use of BE.

earmarked for PRIs. In addition, 23 per cent of the plan budget allocation for PRIs for the same year was tied to salaries. PRIs do not have any administrative control over staff as they are hired by the State and hence accountable to the state machinery. Consequently, PRIs have no discretion over a large proportion of their budget.

Apart from staff salaries, plan grants mostly consist of specific-purpose grants tied to the implementation of central and state schemes. The flexibility in implementing these schemes is limited as PRIs do not have the discretion to divert funds from one budget line item to another. For example, in the Health and Family Welfare department, funds given under the devolved schemes of Provision for Ambulances (scheme code 2210 00 103 0 44), X Ray Facilities to Taluk Hospitals (scheme code 2210 00 103 0 45) and Establishment of Blood Bank ( scheme code 2210 00 103 0 47) cannot be reallocated to other activities within the health budget. Thus PRIs are cast as mere pass-through agencies for the payment of salaries and implementing agents for state and central government schemes.

Finally, plan funds devolved under the district sector budget are fragmented into a number of small schemes. For instance, in FY 2014-15, of the 320 schemes allocated to PRIs through the district sector, 206 had allocations of ₹10 crore or less. This fragmentation causes spending rigidities, administrative inefficiency and accounting overload at the PRIs level.

### *We Recommend*

*Immediate, urgent task*: Scheme rationalization so that smaller schemes are merged with larger schemes and unfunded schemes are closed down.

*Long term policy reform*: Devolution to PRIs needs to move away from the current schematic framework to a thematic framework that encourages sector specific block grants to PRIs allowing them to plan expenditure based on needs and priorities.

## Expenditures at the PRIs level *(Case study of Kolar district: Releases and expenditures for FY 2014-15)*

*Poor fiscal management leading to unpredictable releases and delayed expenditure* - Releases from the state government directly to the Zilla Panchayat (ZP) and Taluk Panchayat (TP) accounts in Kolar district were regular throughout the fiscal year. Funds were released in three, predictable tranches.

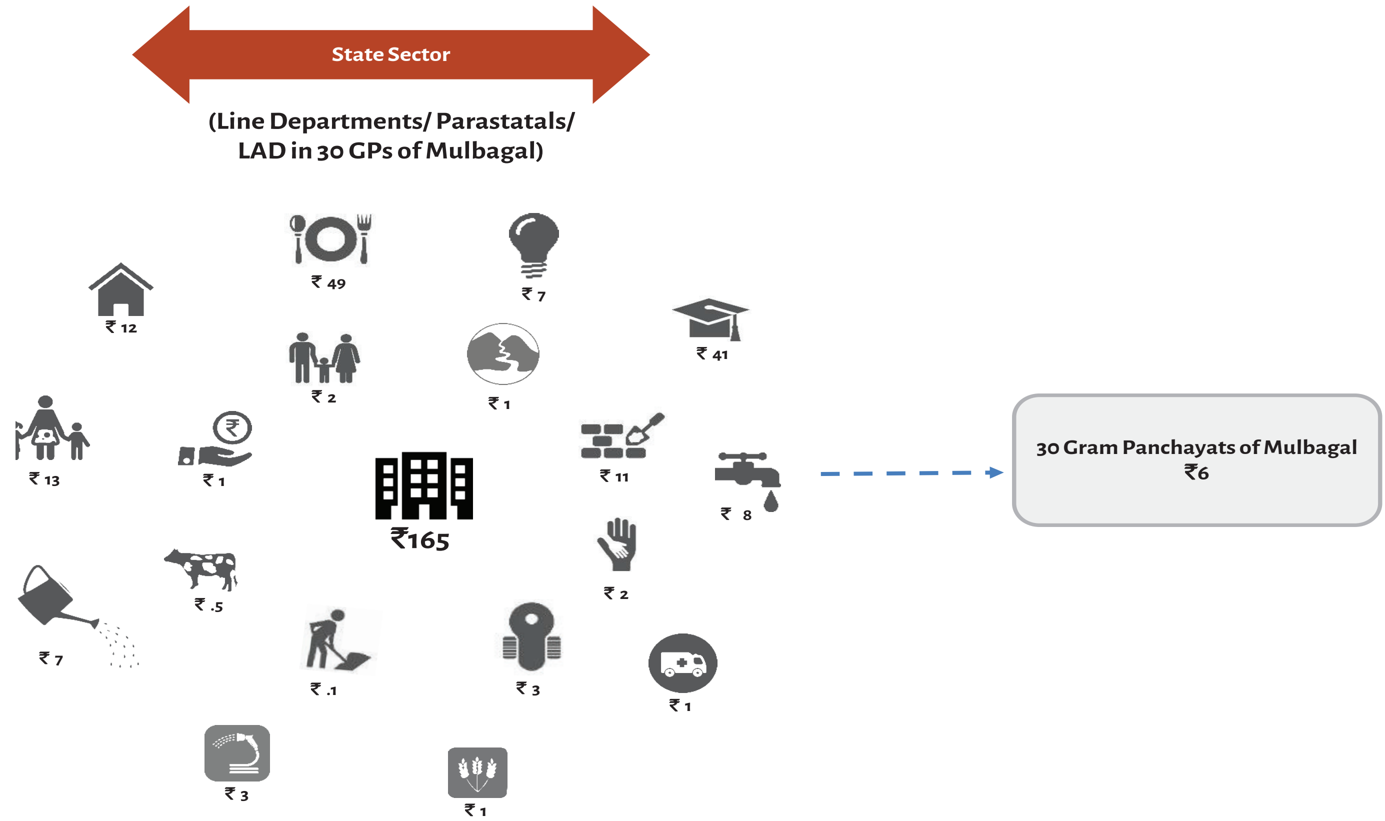
However, fund releases from the state line departments to their district counterparts for State sector schemes were erratic. For instance, in FY 2014-15, 40 per cent of the releases across four major state line departments (Agriculture, Horticulture, Women & Child Development, and Minor Irrigation) at the district level were made in the last financial quarter. In fact, the Minor Irrigation department received no money until the end of the second quarter of the financial year.

In spite of the regularity in releases, expenditures at the ZP and TP levels were erratic and bunched up in the last financial quarter. In FY 2014-15, the ZP and TP spent 44 per cent and 40 per cent of their expenditure respectively in the last quarter.

Expenditure across state line departments in the district followed a similar pattern. The four major state line departments (Agriculture, Horticulture, Women & Child Development, and Minor Irrigation) spent 54 per cent of their funds in the district between January and March.

Delayed expenditure also leads to large unspent balances at the district level. Unutilised amounts at the ZP level was 26 per cent for Health and Family Welfare. Similarly, 71 per cent of the money remained unutilised for the agricultural state line department.

**In FY 2014-15 GPs spent only 3 % of the ₹171 crore that was spent in 30 GPs in Mulbagal taluk**




**Source:** Primary data collected by AI for FY 2014-15. All figures are in crore and rounded to the closest decimal.

*GPs have limited control over expenditures in their jurisdiction (30 GP study in Mulbagal Taluka)*- The average expenditure of line departments, parastatals and other entities including the ZP and TP within a single GP in Mulbagal in FY 2014-15 was approximately ₹ 6 crore. However, on an average only 3 per cent or ₹ 20 lakh of this amount was spent by each GP through its own budget.

Bulk of the expenditure in a GP (including those which fall within the GPs functional mandate) is incurred by entities other than the GP. A critical failure is that the GPs are unaware of the nature and extent of funds spent in their own jurisdiction. Moreover, there is no mandate for administrative units with spending authority at the GP level to maintain details of expenditure at the level of each GP. This makes it impossible for the GP to hold them accountable for expenditure.

Two consequences emerge from this analysis. First, PRIs are being weakened because the state government is appropriating funds that ought to be devolved to them. Interestingly, even Union government funds that are devolved to GP accounts are being re-appropriated by the state.

One example of this is the payment of electricity bills. The Bangalore Electricity Supply Company ltd (BESCOM) supplies electricity to all GPs in Mulbagal Taluk. Payments are expected to be made by the state government. However in 2015, the Rural Development and Panchayati Raj department (RDPR) issued an order mandating that 25 per cent of the Central Finance Commission grants (CFC) and 60 percent of the RDPR statutory grants be deposited into an ESCROW account maintained for each GP. The BESCOM, in turn, withdraws payments directly from these accounts. Technically, the CFC & RDPR grants are meant to be untied funds for GPs to spend based on their own plans.

Second, even if funds are not devolved to PRIs, they could play an important role in planning and monitoring expenditure that is to be undertaken within their jurisdiction. However, the combination of poor fiscal management at the state level that results in delayed fund releases coupled with the fact that state administrative expenditure entities do not collate expenditure at the GP level mean that GPs are unaware of the amount of money that is in fact allocated and spent in their constituencies. Consequently, GP members can neither plan nor monitor service delivery related activities and remain powerless entities with unfunded mandates. This undermines the basic rationale for greater decentralization – enhancing local level accountability and aligning expenditure with local needs and priorities.

### *We Recommend*

A publicly accessible link document, similar to the district and taluk link books must be created for all GPs, state line departments and parastatals. This will ensure that all implementing entities including the ZP and TP disaggregate their budget allocations down to the granularity of each GP. This information should be published on the first day of April every financial year.

The Treasury department's computerized treasury system (Khajane) should capture location details of all expenditures through a unique location code for each habitation. This would enable consolidation of expenditure data across various entities within a geographical area of a habitation. Since all GPs are conglomerations of habitations and villages, expenditure details consolidated for each GP would be automatically available in real time. This information should be made publically available.

All public expenditure by an administrative entity in a district must take place through the Treasury. If the district officer has to function in a dual capacity – for example, when the district chief executive officer (CEO) of the ZP functions as secretary to the ZP, and also the head of State line departments that spend non-devolved funds in the district and below – he/she must be held accountable for all transactions in his/her dual capacity.

A centralised monitoring unit needs to be created at the Rural Development & Panchayat Raj (RDPR) department. The cell should be tasked with obtaining and publishing monthly reports of GP-wise expenditure from the Treasury. It should also ensure these reports are circulated by the respective ZP CEOs across GPs in their jurisdiction. The Decentralisation Analysis Cell of the RDPR department is well equipped to assume this role. This will help to kick-start a system where the ZPs and TPs see themselves as information providers for GPs. It will also enable GPs to share such information with gram sabhas, so that all government expenditure at the GP level is open to public scrutiny.

Progress reports of implementation against allocated releases and expenditure should be published on a quarterly basis by the district, block, state line departments and parastatal bodies.

Implementation of the suggestions mentioned above will ensure that any expenditure incurred by any entity in a GP can be measured. This will enable a better understanding of the financial flows at the frontline. Enhanced transparency of allocations and releases could encourage local level public participation, regardless of how and by whom these funds are administered.

Karnataka is considered a trailblazer for democratic decentralisation in India. However we found PRI burdened with unfunded mandates, functioning largely as pass-through agencies for paying salaries to state government employees and implementing schemes designed and imposed from above.

In summary, it is critical for Karnataka to urgently review the role, processes and systems of fiscal decentralisation in the state to ensure effective, transparent and inclusive use of scarce public resources. It is also essential to note that our findings about the state of decentralisation in Karnataka are not unique to the state. We urge relevant stakeholders in other Indian states to seriously reflect on the results and recommendations of this research and take relevant action to strengthen the process of decentralisation in their own states.

## Notes from the field

Line department offices at the district and the taluk perform multiple roles. They implement programmes devolved to the panchayats, state and union government schemes, and on occasion take over the functioning of the parastatals as well. Lack of single point answerability of a departmental office diffuses its accountability.

Each line department arranges its implementation work in internal systems that may not align with PRI jurisdictions. For example, the Education department organises its administrative system around 'clusters' of schools and the Women & Child Welfare department around 'circles', at the sub-taluka level. This results in a jumble of departmental administrative mechanisms and panchayat jurisdictions.

Karnataka ensures transparency of devolved allocations by maintaining a separate district sector link book. But these can only be traced up to the district and the block, not up to the GP.

Based on the release orders issued, we surmised that allocations made under the district sector are not fully released to the ZP and the TP. The study did not pursue this thread, but it will be good to know how the differences between allocations and releases are adjusted by the state.

## Methodology

This study drew on primary and secondary sources of data.

Secondary data included analysis of the state budget and the specifically the district sector budget. This analysis was used to estimate the quantum of funds devolved to PRIs. It was also used to identify administrative and local government entities that implement schemes in the rural areas of Mulbagal taluk.

Primary data was collected from the offices of state line departments at the district, taluka and GP (30 GPs in Mulbagal). In addition data was collected from the ZP CEO office.

To arrive at GP level fund availability, for those state line departments where data could not be traced, appropriate estimations were made to assess and map GP-wise expenditure and unspent amounts.

The estimates of fund availability for the 30 GPs included only those expenses which the research team was able to trace to GPs. Exclusions include capital expenditures, expenditures of some line departments and parastatals that could not be traced and unutilised funds of the ZP in FY 2014-15. It may be noted that these elements, if included, would only increase the budget envelope of the GP and hence most of our findings would still hold true.

### Contributors

Research Advisor: *T.R. Raghunandan* (trraghu2014@gmail.com)

Lead Researcher & Project Manager: *Swaroop Iyengar* (swaroopiyengar@gmail.com)

Team Members: *Tanvi Bhatikar* (tbhatikar@gmail.com); *Uthara Narayanan* (utharanarayanan@gmail.com); *Padmapriya Janakiraman* (pjanakiraman@accountabilityindia.org)

## PAISA

Planning, Allocations and Expenditures, Institutions Studies in Accountability is AI's flagship project. PAISA is an effort to understand implications of the inter-governmental transfer systems on the delivery of social sector programmes at the front line. It does this by tracking plans, budgets, fund flows, and decision-making systems across the administrative hierarchy.

## STATE OF PANCHAYAT FINANCES

This project extends AI's PAISA methodology to track expenditures, and decision-making processes at the rural local government level. Research undertaken for this project aims to promote thoughtful discussion and action on the nature and effectiveness of decentralisation – a critical institutional mechanism through which governments at all levels can achieve efficient, accountable and transparent service delivery to its citizens.

CENTRE FOR
POLICY
RESEARCH

ACCOUNTABILITY
INITIATIVE

DHARMA MARG, CHANAKYAPURI, NEWDELHI 110021
WWW.CPRINDIA.ORG