

RURAL LOCAL BODY CORE FUNCTIONS AND FINANCES

A study for the Fourteenth Finance Commission

By the Centre for Policy Research, New Delhi

*First report,
30 May, 2014*

Acronyms

ADC	Autonomous District Council
AG	Accountant General
ATIR	Annual Technical Inspection Report
ATR	Action Taken Report
BPL	Below the Poverty Line
BRGF	Backward Regions Grant Fund
C&AG	Comptroller and Auditor General
CEO	Chief Executive Officer
CPR	Centre for Policy Research, New Delhi
CSS	Centrally Sponsored Schemes
DC	Deputy Commissioner/District Collector
DLFA	Director of Local Fund Audit
DPC	District Planning Committee
DRDA	District Rural Development Agency
EFC	Eleventh Finance Commission
FFC	Fourteenth Finance Commission
GO	Government Order
GP	Gram Panchayat
IAY	Indira Awas Yojana
LG	Local Government
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MoPR	Ministry of Panchayati Raj, Government of India
MoRD	Ministry of Rural Development, Government of India
MPLADS	Member of Parliament Local Area Development Scheme
NIC	National Informatics Centre
NRHM	National Rural Health Mission
NRLM	National Rural Livelihood Mission
NSAP	National Social Assistance Programme
PESA	Panchayat Extension to Scheduled Areas Act 1996
PMGSY	Pradhan Mantri Gram Sadak Yojana
PRI	Panchayat Raj Institutions
RLB	Rural Local Bodies
RSBY	Rashtriya Swasthya Bima Yojana
Schedule V	The Fifth Schedule of the Constitution
Schedule VI	The Sixth Schedule of the Constitution
SGSY	Swarna Jayanti Gram Swarozgar Yojana
SSA	Sarva Shiksha Abhiyan

TFC	Thirteenth Finance Commission
TGS	Technical Guidance and Supervision
TOR	Terms of Reference
TP	Taluk Panchayat
TSC	Total Sanitation Campaign
TwFC	Twelfth Finance Commission
ZP	Zila Panchayat, Zila Parishad

Table of contents

Sl	Contents	Page
1	Introduction	4
2	Chapter 1: Status of Functional Devolution to Rural Local Bodies in India	6
3	Chapter 2: Financial accountability, which covers Accounts, entrustment of technical guidance and supervision to C&AG, audit arrangements in place, status of audit of accounts.	36
4	Chapter 3: Role of parastatals in service delivery.	47
5	Chapter 4: Structure of transfer from State to Panchayats. (Including the issue whether central Finance Commission grants are included in State level transfers or are treated as additional).	55

Introduction

1.1. Objectives and terms of reference

The Terms of Reference of the study are to examine the following matters on the basis of the data provided by the States through the Finance Commission.

Governance and devolution issues

- Status of devolution of the following basic civic functions water supply, sanitation, solid waste management, drainage, roads, streetlights, community assets such as parks, burial and cremation grounds, and other means of communication such as waterways to rural local bodies.
- Financial accountability, which covers Accounts, entrustment of technical guidance and supervision to C&AG, audit arrangements in place, status of audit of accounts.
- Role of parastatals in service delivery.
- Structure of transfer from State to Panchayats. (Including the issue whether central Finance Commission grants are included in State level transfers or are treated as additional).

Analysis of Finances

Analysis of all revenue sources in terms of trends, performance and efficiency based on sample data provided by the Finance Commission.

- Revenue
 - i. Tax Revenue - Receipts from all sources to be analysed with respect to trend, performance across states and time
 - ii. Non-Tax Revenue - Receipts from all sources like user charges, fees, etc. to be analysed with respect to trend, performance across states and time
- Transfers from State Government - Trend analysis as well as a description of the nature of the transfers to be provided
- Transfers from the Central Government - Finance Commission Grants and transfers for agency functions.
- Capital Account Receipts & Debt Status – Sources, trends and purpose of the receipts

- Expenditure on Revenue Account – Expenditure analysis on core functions water supply, sanitation (including storm Water Drainage, solid waste management, Street lighting, Roads, other means of communication, maintenance of community assets
- Trend in expenditure core vs agency; both union agency functions and to State government agency functions.
- Deferred Expenditure – Including Unpaid Bills, Annuity Payments,

Assessment of the Gap in Financial Resources

- To estimate on the basis of the Data received by the 14th Finance Commission from the States, the gap in resources for delivering core services by the local body using benchmarks set by the State and in their absence the Union Government, for the period 2015-2020
- Strategy options for bridging the vertical gap estimated on the basis of the data supplied by the 14th Finance Commission, including the possible tax and non-tax measures.

In doing so, the study also requires the Study team to undertake and keep in mind the following points:

- Analyse the laws that apply to the Schedule-V and VI areas which are rural in character.
- As a part of the study the data sent by the State would have to be received and checked for consistency.
- The data would have to be normalized with reference to population and cost of service delivery per capita for core functions will have to be worked out and reported.

1.2. The study has three parts that follow sequentially. First the status of the functional and financial accountability of Panchayats is to be examined in detail. These provide the framework for governance that applies to the local government system. Second, the financial details pertaining to rural local bodies are to be studied. This includes a critical examination of the data submitted by the States in respect of the local bodies, as submitted by the States. The third part of the study involves an examination of the applicable norms (if any) that outline the quantum and quality of core services assigned to the local governments. Based on these applicable norms, the study is to cover the cost of delivery of these services and then juxtapose these findings with empirical data on how much is actually being spent by the local bodies (and from what sources these funds are derived), for the delivery of these services. Based on this analysis, the study is to examine the various options on how gaps in financing of core services could be attempted by the FFC.

Part A: Governance and Devolution issues

Chapter 1:

Status of Functional Devolution to Rural Local Bodies in India

In this chapter, we examine the first TOR under part A of the assignment, which is to ascertain the status of devolution of basic civic functions indicated by the FFC, namely, water supply, sanitation, solid waste management, drainage, roads, streetlights, community assets such as parks, burial and cremation grounds, and other means of communication such as waterways to rural local bodies.

1. A broad overview of functional assignments to rural local bodies in India:

1.1. Before plunging into an examination of the status of devolution of core functions, this section describes the constitutional and legislative framework through which powers and responsibilities are devolved or delegated to RLBs.

1.2. The constitutional and legislative framework that provides for India's rural local government system is asymmetrical. These may be classified into four categories of arrangements (Table 1):

Table 1:

System	Coverage				Remarks
Category 1: Three levels of Panchayats constituted under Part IX of the Constitution	A: 11 states fully covered		B: 13 States, partly covered		In the partly covered states <ul style="list-style-type: none"> • Sl nos 1 to 9 have areas covered under PESA • Sl nos 10 & 11 have areas covered under 6th Schedule • Sl nos 12 & 13 have areas covered under other arrangements
	1	Arunachal Pradesh	1	Andhra Pradesh	
	2	Bihar	2	Chattisgarh	
	3	Goa	3	Gujarat	
	4	Haryana	4	Himachal Pradesh	
	5	Karnataka	5	Jharkhand	
	6	Kerala	6	Madhya Pradesh	
	7	Punjab	7	Maharashtra	
	8	Sikkim	8	Orissa	
	9	Tamil Nadu	9	Rajasthan	
	10	Uttar Pradesh	10	Assam	
	11	Uttarakhand	11	Tripura	
			12	West Bengal	
		13	Manipur		
Category 2:	9 states, each partly covered;				These refer to States covered partly by the provisions of the 5 th Schedule
	1	Andhra Pradesh			

5th Schedule areas covered under PESA	<table border="1"> <tr><td>2</td><td>Chhattisgarh</td></tr> <tr><td>3</td><td>Gujarat</td></tr> <tr><td>4</td><td>Himachal Pradesh</td></tr> <tr><td>5</td><td>Jharkhand</td></tr> <tr><td>6</td><td>Madhya Pradesh</td></tr> <tr><td>7</td><td>Maharashtra</td></tr> <tr><td>8</td><td>Orissa</td></tr> <tr><td>9</td><td>Rajasthan</td></tr> </table>	2	Chhattisgarh	3	Gujarat	4	Himachal Pradesh	5	Jharkhand	6	Madhya Pradesh	7	Maharashtra	8	Orissa	9	Rajasthan	of the Constitution. Please note; no state is fully comprised of areas that come within the Fifth Schedule of the Constitution.
2	Chhattisgarh																	
3	Gujarat																	
4	Himachal Pradesh																	
5	Jharkhand																	
6	Madhya Pradesh																	
7	Maharashtra																	
8	Orissa																	
9	Rajasthan																	
Category 3: 6th Schedule areas	<table border="1"> <thead> <tr> <th colspan="2">List 1: 1 state fully covered</th> <th colspan="2">List 2: 3 States, partly covered</th> </tr> </thead> <tbody> <tr> <td>1</td><td>Meghalaya</td> <td>1</td><td>Assam</td> </tr> <tr> <td></td><td></td> <td>2</td><td>Tripura</td> </tr> <tr> <td></td><td></td> <td>3</td><td>Mizoram</td> </tr> </tbody> </table>	List 1: 1 state fully covered		List 2: 3 States, partly covered		1	Meghalaya	1	Assam			2	Tripura			3	Mizoram	Assam has three areas that come under the Sixth Schedule of the Constitution, namely, the Bodo Regional Autonomous Council, the North Cachar (Dima Hasao) Hills council and the Karbi Anglong hill council. Tripura has the Tripura Tribal Autonomous District Council Mizoram has 3 autonomous district councils, for Chakma, Lai and Mara areas.
List 1: 1 state fully covered		List 2: 3 States, partly covered																
1	Meghalaya	1	Assam															
		2	Tripura															
		3	Mizoram															
Category 4: Other arrangements	<table border="1"> <thead> <tr> <th colspan="2">List 1: 1 state fully covered</th> <th colspan="2">List 2: 3 States, partly covered</th> </tr> </thead> <tbody> <tr> <td>1</td><td>Nagaland</td> <td>1</td><td>Manipur</td> </tr> <tr> <td>2</td><td>J & K</td> <td>2</td><td>Mizoram</td> </tr> <tr> <td></td><td></td> <td>3</td><td>West Bengal</td> </tr> </tbody> </table>	List 1: 1 state fully covered		List 2: 3 States, partly covered		1	Nagaland	1	Manipur	2	J & K	2	Mizoram			3	West Bengal	In Manipur, the hill districts are covered by the Manipur Hill District local councils Act In Mizoram, the Lushai hills, are covered under the Lushai hills Councils Act Darjeeling District in West Bengal is exempted from District Panchayats under the constitution. The whole state of Nagaland is fully covered by its own system of local government, which comprises of a single tier of village Councils. Jammu and Kashmir is exempted from the application of Part IX of the Constitution and is enabled to enact its own laws to construct the local government system in the State.
List 1: 1 state fully covered		List 2: 3 States, partly covered																
1	Nagaland	1	Manipur															
2	J & K	2	Mizoram															
		3	West Bengal															

1.3. The broad contours of each of these different systems of local government architecture are analysed below:

1.4. The Panchayati Raj system:

1.4.1. The contemporary system of Panchayats has a history of more than a century. However, the more recent evolution of the system dates back to the 73rd Amendment to the Constitution in 1992, through which 24 States were mandated (wholly or partly) to constitute three levels of Panchayats¹ in rural areas and assign functions to them. Article 243G of the Constitution mandates the assignment of functions to the Panchayats. The clause is deconstructed in Box 1 below:

Box 1:

Clause 243G: Powers, authority and responsibilities of Panchayats
Subject to the provisions of this Constitution, the Legislature of a State may, by law, endow
the Panchayats
with such powers and authority as may be necessary to enable them to function as institutions of self-government
and such law may contain provisions for the devolution of powers and responsibilities upon
Panchayats at the appropriate level,
subject to such conditions as may be specified therein, with respect to-
(a) The preparation of plans for economic development and social justice;
(b) the implementation of schemes for economic development and social justice
as may be entrusted to them
including those in relation to the matters listed in the Eleventh Schedule

1.4.2. At first sight, the use of the word ‘*may*’ five times in Article 243G conveys the impression that States have wide latitude to determine the scope of functional decentralization. The discretion given to the States covers the freedom to (a) endow the Panchayats with such powers and authority (b) as the State concerned considers necessary for self-government (c) further devolve powers and responsibilities (d) limited by conditionalities and lastly (d) to entrust schemes for implementation. A close examination of this article however reveals that it enables three separate and distinct operational processes of functional decentralization; albeit at the discretion of the States. The first is the ‘*endowment*’ of ‘*powers and authority*’ on Panchayats and Municipalities, so that they can function as self-governments (which in turn is a term that can be specifically defined by the State concerned). The second is the ‘*devolution*’ of ‘*powers and responsibility*’ to prepare plans for economic development and social schemes and the third – intertwined with the second – is the ‘*entrustment*’ of ‘*schemes for implementation*’.

1.4.3. Thus, a local government’s functional scope could cover ‘*endowed powers and authority*’, ‘*devolved powers and responsibility over planning*’ and ‘*entrusted schemes for*

¹ Except States with a population of less than 20 lakhs, which were required to constitute only two levels of Panchayats at the District and Village levels respectively, with an option to do away with the intermediate Panchayat.

implementation'. Further simplified, it would mean that a local government would have certain functions that constitute the heart of their existence as self-governments, drawn from endowed and devolved powers, coupled with authority and responsibility respectively. In addition they would also have agency functions of scheme implementation.

1.4.4. Not all States express functional decentralization to LGs in the same way; legal provisions are arranged differently in state LG laws. The core functions as listed out by the FFC might be assigned to the Panchayats through clauses that detail out the specific activities that Panchayats ought to perform, or could be assigned through omnibus and broad clauses, which are then detailed through rules or government orders, such as those for Activity Mapping. In doing so, the spirit of all the three operative words in the Constitution, namely, '*endowment*', '*devolution*' and '*entrustment*' might be operationalised.

1.4.5. Instruments of allocation of functions and activities to Panchayats:

Since the Constitution only provides an enabling framework for the allocation of functions to local governments, the actual instruments of allocation of functions to Panchayats are the Panchayati Raj Laws enacted by State legislatures. In addition, many States have issued executive orders elaborating on the provisions of the law, assigning activities under each function to the three levels of Panchayats. Information was obtained from the Ministry of Panchayati Raj regarding the latter. The latest position on Activity mapping by States as reported to the MoPR is detailed in Table 2:

Table 2: Status of devolution of departments/subjects with funds, functions and functionaries to the Panchayati Raj Institutions for Major States/UTs (Source; MoPR).

Sl.	State	No. and names of the Departments/subjects Transferred to Panchayats
1	Andhra Pradesh	22 GOs issued during 1997-2002. Further, 10 line departments have devolved certain powers to PRIs.
2	Arunachal Pradesh	29 subjects have been devolved. GOs covering 20 departments have been issued, but not yet implemented. PRIs can exercise the powers of supervision and monitoring the implementation of plans in respect of all subjects coming under their respective jurisdiction.
3	Assam	Activity-mapping done for 23 subjects. But GOs have been issued only for 7 subjects by 6 departments.
4	Bihar	Activity mapping has been conducted. 20 line depts. have issued GOs.
5	Chhattisgarh	Activity Mapping of 27 matters has been undertaken. GOs not issued.
6	Goa	18 matters are devolved to GPs, while 6 are devolved to ZPs.
7	Gujarat	14 functions have been completely devolved and 5 are partially devolved.
8	Haryana	Panchayati Raj Act devolves 29 functions. GOs have been issued for 10 depts.
9	Himachal Pradesh	27 out of 29 subjects have been devolved to PRIs.

10	Jharkhand	Elections to PRIs were held in November- December 2010 for the first time since 73rd CAA came into force. Three departments, namely, Agriculture, Social Welfare and Primary Education have recently devolved functions to PRIs by Departmental Notification. Activity Mapping has not been done so far.
11	Karnataka	Karnataka has delegated all 29 subjects to PRI by notifying Activity Mapping.
12	Kerala	Activity mapping for all 29 functions done and activities devolved to Panchayats.
13	Madhya Pradesh	GOs containing the Activity Mapping in respect of 25 matters pertaining to 22 depts. have been issued.
14	Maharashtra	11 subjects have been fully devolved. For 18 subjects, schemes are implemented by PRIs.
15	Manipur	GOs have been issued devolving functions related to 22 departments.
16	Orissa	11 departments have devolved 21 subjects.
17	Punjab	The devolution of 7 key departments relating to 13 subjects approved.
18	Rajasthan	Five Departments have transferred all functions up to district level to PRIs. Fresh Activity Mapping of above 5 Departments has been done.
19	Sikkim	All 29 subjects are devolved as per legislation. Activity Mapping has been conducted for 20 subjects covering 16 departments.
20	Tamil Nadu	Government of Tamil Nadu has delegated supervision and monitoring powers of 29 subject to PRIs
21	Tripura	So far GOs have been issued devolving irrigation schemes, primary schools and activities related to adult and non-formal education, women and child development and social welfare.
22	Uttar Pradesh	16 subjects relating to 12 departments have been devolved to PRIs.
23	Uttarakhand	Master GO on transferring financial and administrative powers on 14 subjects has been issued in 2003.
24	West Bengal	State Govt. agrees with transfer of these 28 subjects. 14 departments have so far issued matching GOs transferring 27 subjects.

1.5. The Scheduled Areas (The Fifth Schedule) Areas:

1.5.1. Article 243M of the Constitution details out those areas of the country where the Panchayati Raj system does not ipso facto apply. The first of these are those to which the provisions of the Fifth Schedule apply². With respect to these areas, Parliament may by law extend the provisions of Panchayati Raj³. Accordingly, in 1996, Parliament enacted the Panchayats (Extension to Scheduled Areas) Act (PESA), which extended the constitutional

² Which are referred to as 'Scheduled Areas' in Article 244(1). These comprise of parts of 9 States, namely, (i) Andhra Pradesh (ii) Chattisgarh (iii) Gujarat (iv) Himachal Pradesh (v) Jharkhand (vi) Madhya Pradesh (vii) Maharashtra (viii) Orissa and (ix) Rajasthan.

³ Article 243M(4) (b)

pattern of Panchayati Raj to the Scheduled Areas. PESA incorporates modifications so as to respect and safeguard the customs and traditions of the inhabitants of Scheduled areas. With respect to the issue of functional assignments, the PESA endows Gram Sabhas with a high degree of authority and direct control over certain community assets. While other levels of Panchayats, in particular, Village Panchayat are positioned as primary units entrusted with approving and implementing plans, they are to work under the supervision of Gram Sabhas who have overriding powers to issue utilization certificates of funds spent by the Panchayats on development programmes.

1.5.2. Instruments of allocation of functions and activities to Panchayats and Gram Sabhas in Fifth Schedule Areas:

Apart from the provisions of PESA, State legislatures have also enacted conformity legislations, typically by amending the provisions of their respective Panchayati Raj acts, to endow powers and responsibilities to the Panchayats. Of the several powers directly entrusted by PESA to the Panchayats, two pertain to the core functions. These are (a) the Planning & management of Minor water bodies to be entrusted to Panchayats at appropriate level (Section 4(j)) and the Power to manage village markets (Section 4 (m) (iv))⁴. The State-wise status of the entrustment of these core functions to the Panchayats are detailed in Table 3:

Table 3:

S. No	Core function	Andhra Pradesh	Chhattisgarh	Gujarat	Himachal Pradesh	Jharkhand	Madhya Pradesh	Maharashtra	Orissa	Rajasthan
1	Section 4 (j): Planning & management of Minor water bodies	Either of the three tiers of Panchayats as the case may be.	Gram Sabha. Intermediate and District Panchayat to plan, own and manage	Gram Panchayat.	Planning & management with appropriate Panchayat level	Gram Panchayat.	Gram Sabha to plan, own and manage District and intermediate Panchayat to improve irrigation	Not mentioned	District Panchayats.	Not mentioned

⁴ The other powers are (a) Gram Sabha or Panchayats to be consulted before land acquisition for development projects and before rehabilitating affected individuals, (Section 4(i)), (b) Recommendation of Gram Sabha or Panchayats mandatory before granting prospecting or mining lease for minor minerals (Section 4 (k)), (c) Prior recommendation of Gram Sabha or Panchayats mandatory for grant of concession for minor mineral exploitation, (Section 4(l)), (d) Power to enforce prohibition, or regulate intoxicant sale and consumption, (Section 4 (m)(i)), (e) Ownership of Minor Forest Produce (Section 4 (m)(ii)), (f) Power to prevent land alienation and restore unlawfully alienated land back to STs (Section 4(m)(iii)), Power to exercise control over money lending to STs (Section 4 (m)(v)).

							facilities			
2	Section 4 (m)(iv): Power to manage village markets	Gram Panchayat or Gram Sabha	Gram Sabha through Gram Panchayat	Gram Panchayat.	Gram Panchayat or Gram Sabha	all three levels	Gram Sabha through Gram Panchayat	No provision	GP under Gram Sabha supervision	PRI at appropriate level

1.6. The Sixth Schedule areas (The Tribal Areas):

1.6.1. The Sixth Schedule identifies and designates certain tribal areas as autonomous districts. It provides for the constitution of District Councils and Regional Councils for autonomous areas, consisting of not more than thirty members each, of whom not more than four persons are to be nominated by the Governor and the rest are to be elected on the basis of adult suffrage for a term of five years⁵. The administration of an autonomous district is to be vested in a District Council and of an autonomous region, in a Regional Council. (Para 2). As is the case with the Fifth Schedule Areas, those parts of the country that come under the Sixth Schedule Areas, which are termed as the Tribal Areas, are also exempt from the constitutional provisions of Panchayati Raj under Part IX of the Constitution. The Sixth Schedule contains separate provisions for the administration of Tribal areas in Assam, Meghalaya, Tripura and Mizoram, as defined under Paragraph 20 of the Schedule. These provisions have been made in exercise of the enabling provisions given in Articles 244(2) and 275(1) of the Constitution. The Sixth Schedule directly endows Councils with legislative, judicial, executive and financial powers. These can be amplified and detailed through the provisions of State laws.

1.7. Areas with arrangements other than those described above:

Article 243M of the Constitution also exempts some areas, not being either Schedule or Tribal areas, from the provisions of Panchayati Raj. These are (a) the States of Nagaland, Meghalaya and Mizoram⁶ (b) the hill areas of Manipur for which District Councils exist⁷ and (c), the district of Darjeeling, which is exempt from the constitution of District Panchayats⁸. In addition, the State of Jammu and Kashmir is exempted from the application of the Provisions of Part IX of the Constitution, under Article 370 of the Constitution, and therefore, has created a rural local body architecture through a legislation passed by the State legislature. Nagaland, Meghalaya and Mizoram have been given leeway to extend the provisions of Panchayati Raj to their non-6th Schedule areas, if their respective state assemblies vote for the same with a two thirds

⁵ An exception has been made in respect of the Bodo Territorial Council

⁶ Exempt under Article 243M (2)(a)

⁷ Exempt under Article 243M (2)(b).

⁸ Exempt under Article 243M(3) (a). Instead, it is the Darjeeling Gorkha Hill Council that substitutes for the District Panchayat in this district.

majority. However, so far, these States have not done so and have preferred to design State specific arrangements based upon State laws.

2. Unpacking and analyzing the core functions indicated by the FFC:

2.1. The FFC has clubbed the core functions for analysis as follows:

- (a) Water supply
- (b) Sanitation, solid waste management and drainage,
- (c) Roads,
- (d) Streetlights,
- (e) Community assets such as parks, burial and cremation grounds, waterways and other means of communication:

2.2. Analysis of the legislative provisions and executive orders of States pertaining to these core activities was undertaken to understand their range and depth of action. The wealth of detail in the range of activities assigned under each core function and the depth of involvement of RLBs in the implementation of these, suggests that no 'black or white' analyses can be undertaken. The following insights emerge from this analysis:

- (a) States express the assignment of core functions in diverse ways. Generally speaking, they unpack individual activities underneath the overall umbrella of a 'core function', to various extents. Therefore, based on the pattern of how legislative provisions are articulated, each core function can be unpacked into its component activities prior to analyzing the extent to which these are devolved to RLBs.
- (b) While undertaking the unpacking of activities relating to a core function, some activities clearly stand out as being central to the core activity, while others are not so. The former have been termed 'Main activities' and the latter as 'Ancillary activities' for the purpose of this analysis. 'Main Activities' are those that directly align to the core function and 'Ancillary' activities are enabling one associated with the performance of the 'Main' Activity.

2.3. Keeping these features in mind, each of the core functions indicated by the FFC is analysed below:

2.4. Water supply:

The core function of water supply is wide, because water has multiple uses. The main activities under this core function are (a) drinking water supply and (b) provision of water for irrigation. Since contamination, particularly of drinking water is a serious and growing problem, we have also classified the mitigation of water pollution as a Main activity.

2.5. Sanitation, solid waste management and drainage:

2.5.1. The core function of sanitation includes the Main Activities of solid waste management and drainage, street sweeping and cleaning. However, in order to ensure that the objective of cleanliness and hygiene is achieved and given the larger implications of improving public health, there are Ancillary Activities, which need to be performed in conjunction with the Main Activities. These include matters such as immunization, public health awareness campaigns and regulatory activities.

2.5.2. Connected to the issue of sanitation is whether the management of curative facilities such as hospitals, dispensaries should come within the purview of provision of public health. These have been included within the expanded approach to public health, because at the grassroots level, curative health care institutions such as PHCs and sub-centers play a proactive role in the promotion of public health, going beyond being a reactive institution that only provides curative health facilities. This logic has been extended to cover the implementation of maternity and child health programmes as being connected with the core activity of sanitation. However, family welfare programmes have been excluded from the ambit of the core function of sanitation and public health; this would be to stretch the definition beyond reason.

2.6. Roads:

The Main Activity under this core function is the construction of roads. Levy of tolls and taxes and acquisition of land for roads and the removal of obstructions on public roads has been termed as Ancillary Activities.

2.7. Streetlights:

Wherever streetlights have been mentioned specifically, it has been considered as a Main Activity. The collection of fees for streetlights, promotion of rural electrification and the use of renewable energy are considered as Ancillary sub-Activities.

2.8. Community assets such as parks, burial and cremation grounds and waterways and other modes of communication:

2.8.1. As there is a wide range of services that could be brought within the ambit of the core function of 'community assets', it was proposed to define the term 'community asset' as follows:

"A piece of land, a water body or a building owned, held in trust or assigned to the Rural local body by the government or any other body, in respect of which the Rural Local Body may undertake development activities to satisfy a community purpose. This includes construction of infrastructure or growing of trees, and any other similar development for the community's use. It also includes buildings of frontline service delivery of various departments or of the Rural Local

Body, which are constructed, maintained, owned and/managed by the rural local body. The rural local body concerned may also raise revenues from the use of such community asset.”

2.8.2. Based on this definition, 20 activities pertaining to five broad categories have been identified as pertaining to the maintenance of community assets. The five categories are (a) land related (including primary sector) activities, (b) activities of economic development, (c) health sector, including public health (d) education sector and cultural activities and the provision of public amenities. Within each of these, Main and Ancillary Activities have been identified:

2.8.3. In doing so, the following tests were applied:

- (a) Is this activity considered or perceived to be as a civic function, to be traditionally delivered by a local government? Are these localised activities within the complete jurisdiction and accountability of the local government concerned? If the answer is ‘yes,’ then it is considered to be a Main Activity. (For example, slaughter houses and community ponds)
- (b) Is this activity also delivered by a line department of the government? If the answer is ‘Yes’, then it is considered to be an Ancillary Activity of the local government. (For example, the establishment of granaries for storage of agricultural produce, or the construction of schools is also performed by departments, and the local government plays an enabler role to the department).

2.8.4. A cross cutting ancillary activity is the one of collection of taxes and fees for the core services provided. This has been indicated in each of the matrices for analysis of the unbundled activities.

2.9. Based on the above description and criteria, the Main and Ancillary Activities pertaining to the Core Functions indicated by the FFC for analysis has been unbundled and classified (Table 4):

Table 4:

S	Core function	Activity category	Unbundled activities
1	Water supply	Main Activity	Supply of drinking water
			Construction, maintenance and regulation of water for irrigation.
			Prevention of water pollution
		Ancillary Activity	Levying and collecting taxes and fees for water supply
			Regulation of private drinking water sources
			Watershed development & management, ground water development, water harvesting

2	Streetlights	Main Activity	Provision and maintenance of streetlights	
		Ancillary Activity	Levying and collecting street-lighting fees and charges	
			Renewable energy sources Rural electrification	
3	Roads	Main Activity	Construction and maintenance of roads	
		Ancillary Activity	Levying and collecting taxes, tolls and fees on roads Acquisition and regulation of road use, including removal of obstructions	
4	Sanitation, solid waste management and drainage	Main Activity	Solid waste management, including removal of carcasses, regulation of manure pits	
			Drainage and street cleaning and sweeping	
			Prevention of environment pollution, reclaiming unhealthy localities, providing environmental sanitation	
			Constructing and maintaining of toilets and total sanitation programme implementation	
		Ancillary Activity	Levying and collecting sanitation fees, conservancy charges and other related fees	
			Directing private cleanliness	
			Regulation and licencing of trades, including meat selling and obnoxious trades	
			Immunization and regulatory activities for prevention of epidemics	
			Public health campaigns and medical camps	
			Sanitation at fairs and festivals	
Establishment management of hospitals, PHCs, dispensaries				
Maternity and child health programmes, including school nutrition programmes				
Destruction, licencing and impounding of stray animals				
5	Community assets such as parks, burial and cremation grounds, waterways and	Main Activity	Land related (including primary sector)	Construction and maintenance of waterways and operation of ferries
				Roadside and public land afforestation, social forestry, fuel plantation, fodder and minor forest produce
			Economic development	Markets, fairs, including cattle fairs
				slaughter houses
			Education sector and cultural activities	Construction and maintenance of community halls, cultural facilities,
				Libraries and reading rooms
			Public Amenities	Parks, playgrounds, clubs, gymnasias, stadia
Burial grounds, crematoria				
Community ponds, fisheries, bathing ghats				

other means of communication	Ancillary Activity	Levying and collecting fees for using community assets; earning income through auctions of community assets	
		Land related (including primary sector)	Maintenance of agricultural and horticultural farms, seed production centres etc.
			Development of wasteland and grasslands
		Economic Development	Warehouses, granaries and godowns
			Construction and management of veterinary facilities
			Construction and maintenance of vocational training, rural artisan centres etc.
		Health sector, including public health	Anganwadis and women and child welfare centres, including orphanages
		Education sector and cultural activities	Construction, repair and management of schools
			Construction and management of hostels
			Adult literacy centres
Public Amenities	Rest houses, Dharam shalas,		
	Cart stands, waiting rooms cattle pounds,		

2.9.1. Apart from the above frequently seen functions assigned to RLBs, one also noticed some special and distinct activities that have been assigned to them, in individual states. These were ignored for the purpose of the analysis of assignment of Activities, as being outliers in the pattern of functional assignments. Table 5 gives a sampling of these activities.

Table 5:

Core function	Activity	State/RLB system		Level
Water supply	Reuse waste water	Kerala		District)
Roads Roads	Naming streets	Chattisgarh	Himachal Pradesh	Village
		Karnataka	Madhya Pradesh	
		Tamil Nadu	Uttar Pradesh	
	Maintenance of river banks	Uttar Pradesh	Uttarakhand	District
Sanitation	Ownership over garbage and other waste collected by RLB	Jharkhand	Kerala	Village
		Goa	Tamilnadu	
Community Assets	Establish industrial townships	Gujarat		Intermediate
	Establishment of mini industrial estates	Kerala		
	Establishment & maintenance of wireless receiving sets and community listening	Punjab	Lai, Mara and Chakma ADCs, Mizoram	Village
		Tamil Nadu		Intermediate

	Protection of Monuments	Lai, Mara and Chakma ADCs, Mizoram		Village
	maintenance and development of abadi sites	Uttar Pradesh	Uttarakhand	Village

3. Analysis of State Laws and Activity Maps:

3.1. Step 1: Creation of Master Grids:

3.1.1. Using the unpacked list of Activities listed in Table 4, all systems of rural local governance prevalent across the country as described in Table 1 were examined in order to ascertain their sweep and study the manner in which RLBs have been empowered through them. These laws and activity maps were studied to tease out the details of how they devolve or entrust activities to different levels of RLBs. In doing so, the following steps were followed:

- (a) All provisions pertaining to core functions were extracted from relevant laws and activity maps and entered into a spreadsheet grid, where they were slotted into the relevant Activity Category.
- (b) From each provision of the law and activity mapping (wherever available), core operative words were extracted and examined to assess the extent to which they indicate the depth of devolution. Some of the key operative words used in law are 'plan', 'undertake' 'provide' 'support' and 'promote'. Where the word 'advise' was used, it was considered as being insufficient to comprise an act of devolution.

3.1.2. Using this methodology, Master Grids, one for each core function, showing the extent of devolution was compiled. Each Master Grid contains details of the tier wise devolution (i.e., the details of the devolution to the district, intermediate and village levels, wherever present).

3.2. Step 2: Assignment of weightages to the Core Functions, Main Activities and Ancillary Activities:

For numerical analysis of the qualitative issue of assignment of functions, the question of assigning weightages to the Core Functions, Main Activities and Ancillary Activities was considered. A framework was designed for the analysis. Its features are as follows:

- (a) The grid for calculation is on a scale of 100 points, for easy study and display of data.
- (b) Each core function is assigned 20 points respectively. This is because all these have been termed as 'core' by the FFC. Besides, no single core function can be considered as being more essential than another, from the point of view of the desirability of assigning them to RLBs.

- (c) The analysis has not assigned different weights based on the performance of functions at the district, intermediate or village tiers, as the Constitution permits States to have flexibility as to which level of RLB they will empower. There is no ideal level to which a core function ought to be devolved; it is a state-level context-specific decision that needs to be respected.
- (d) However, keeping the weights of allocations to levels equal, an analysis is done of allocations of functions to levels, State wise, to understand the general trend of whether they tend to prefer one level over the other, when making allocations of Activities.
- (e) While comparing States, summation at the state level, of devolution to the district, intermediate and village levels is not done. This is because concurrency in the assignment of core functions might weaken service provision, rather than strengthen it. Seen from another perspective, a State might empower different levels with different Activities based on an assessment of which level has the comparative advantage, In such circumstances, taking into consideration the highest score for each State, rather than summing the allocation values of all three levels, would give a more accurate picture of the State's commitment and performance on the devolution of core functions.
- (f) Within each core function, there are Main and Ancillary Activities. Two separate analyses have been undertaken initially. In the first (termed Exercise 1) each Activity within a core function is be assigned equal weights. In the second (termed Exercise 2), a weightage of 75 percent is given to the 'Main Activity' category and 25 percent to the 'Ancillary Activity' Category.
- (g) In Exercise 2, within the Main Activity and Ancillary Activity categories, each individual activity is assigned an equal weight with respect to the other Activities within that category.

Taking into consideration these points, the weights to be used for Exercise 2 are calculated as detailed in Table 6a and 6b below:

Table 6a: Weights for core activities

Core functions	Total Weight	Main Activities (75%)	Ancillary Activities 25%
water supply	20	15	5
streetlights	20	15	5
Roads	20	15	5
Sanitation and drainage	20	15	5
Community assets	20	15	5
Total	100	75	25

Table 6b: Assignment of weights to individual activities

S	Core function	Activity category	Unbundled activities	Weights
1	Water supply	Main Activity	Supply of drinking water	5.0
			Construction, maintenance and regulation of water for irrigation.	5.0
			Prevention of water pollution	5.0
		Ancillary Activity	Levying and collecting taxes and fees for water supply	1.67
			Regulation of private drinking water sources	1.67
			Watershed development & management, ground water development, water harvesting	1.67
Total for water supply				20.0
2	Streetlights	Main Activity	Provision and maintenance of streetlights	15.0
			Ancillary Activity	Levying and collecting street-lighting fees and charges
		Renewable energy sources		1.67
		Rural electrification	1.67	
Total for streetlights				20.0
3	Roads	Main Activity	Construction and maintenance of roads	15.0
			Ancillary Activity	Levying and collecting taxes, tolls and fees on roads
		Acquisition and regulation of road use, including removal of obstructions		2.5
Total for Roads				20.0
4	Sanitation, solid waste management and drainage	Main Activity	Solid waste management, including removal of carcasses, regulation of manure pits	3.75
			Drainage and street cleaning and sweeping	3.75
			Prevention of environment pollution, reclaiming unhealthy localities, providing environmental sanitation	3.75
			Constructing and maintaining of toilets and total sanitation programme implementation	3.75
		Ancillary Activity	Levying and collecting sanitation fees, conservancy charges and other related fees	0.56
			Directing private cleanliness	0.56
			Regulation and licencing of trades, including meat selling and obnoxious trades	0.56
			Immunization and regulatory activities for prevention of epidemics	0.56
			Public health campaigns and medical camps	0.56
			Sanitation at fairs and festivals	0.56
Establishment management of hospitals, PHCs, dispensaries	0.56			

		Maternity and child health programmes, including school nutrition programmes	0.56		
		Destruction, licencing and impounding of stray animals	0.56		
Total for Sanitation, solid waste management and drainage			20.0		
5	Community assets such as parks, burial and cremation grounds, waterways and other means of communication	Main Activity	Land related (including primary sector)	Construction and maintenance of waterways and operation of ferries	1.67
				Roadside and public land afforestation, social forestry, fuel plantation, fodder and minor forest produce	1.67
			Economic development	Markets, fairs, including cattle fairs	1.67
				slaughter houses	1.67
			Education sector and cultural activities	Construction and maintenance of community halls, cultural facilities,	1.67
				Libraries and reading rooms	1.67
				Parks, playgrounds, clubs, gymnasias, stadia	1.67
			Public Amenities	Burial grounds, crematoria	1.67
				Community ponds, fisheries, bathing ghats	1.67
			Ancillary Activity	Levying and collecting fees for using community assets; earning income through auctions of community assets	
	Land related (including primary sector)	Maintenance of agricultural and horticultural farms, seed production centres etc.		0.42	
		Development of wasteland and grasslands		0.42	
	Economic Development	Warehouses, granaries and godowns		0.42	
		Construction and management of veterinary facilities		0.42	
		Construction and maintenance of vocational training, rural artisan centres etc.		0.42	
	Health sector, including public health	Anganwadis and women and child welfare centres, including orphanages		0.42	
	Education sector and cultural activities	Construction, repair and management of schools		0.42	
		Construction and management of hostels		0.42	
		Adult literacy centres		0.42	
	Public Amenities	Rest houses, Dharam shalas,	0.42		
Cart stands, waiting rooms, cattle pounds,		0.42			
Total for Community Assets			20.0		

4. Results of Analysis of functional allocation in areas covered by Panchayati Raj (including PESA):

4.1. For the purpose of this exercise, the areas covered under PESA were clubbed together with the areas covered under Panchayati Raj. This was done because the PESA provisions affect the assignment of core functions only marginally. Only two activities, both pertaining to Community Assets, are specifically devolved based on PESA provisions.

4.2. Step 3: Comparison of abstract results from Exercise 1 and Exercise 2:

4.2.1. The results of Exercise 1 (using no weights assigned to the functions), Exercise 2, (with weights assigned to Main and Ancillary functions) and the variations in the ranking of States, is detailed in Table 7a, b, c, d and e.

Table 7a: Exercise 1 (Score of Activities assigned, without assigning weights to each Activity)

	States	Water supply	streetlights	Roads	Sanitation	Community assets		Total	
						Without PESA	Incl. PESA	Without PESA	Incl. PESA
1	Assam	20.00	20.00	13.33	20.00	18.10		91.43	
2	West Bengal	20.00	20.00	20.00	13.85	15.24		89.08	
3	Tripura	18.34	15.00	20.00	16.92	18.10		88.36	
4	Karnataka	18.34	15.00	13.33	20.00	18.10		84.77	
5	Manipur	18.34	15.00	20.00	16.92	13.33		83.60	
6	Kerala	13.34	15.00	13.33	18.46	19.05		79.18	
7	Punjab	16.67	15.00	13.33	18.46	15.24		78.70	
8	Arunachal Pradesh	15.00	15.00	13.33	13.85	16.19		73.37	
9	Orissa	16.67	15.00	20.00	10.77	10.48	0.95	72.92	73.87
10	Maharashtra	18.34	5.00	13.33	15.38	20.00		72.06	72.06
11	Jharkhand	16.67	10.00	13.33	15.38	15.24		70.63	70.63
12	Rajasthan	16.67	10.00	13.33	15.38	15.24		70.63	70.63
13	Uttar Pradesh	16.67	10.00	13.33	12.31	17.14		69.45	
14	Uttarakhand	16.67	10.00	13.33	12.31	17.14		69.45	
15	Gujarat	13.34	10.00	13.33	12.31	18.10		67.08	67.08
16	Himachal Pradesh	16.67	10.00	13.33	15.38	11.43		66.82	66.82
17	Goa	16.67	15.00	6.67	15.38	11.43		65.15	
18	Bihar	15.00	10.00	13.33	10.77	15.24		64.34	
19	Andhra Pradesh	16.67	5.00	6.67	15.38	17.14		60.86	60.86
20	Haryana	16.67	15.00	0.00	12.31	13.33		57.31	
21	Sikkim	10.00	5.00	13.33	12.31	13.33		53.97	
22	Chhattisgarh	15.00	5.00	13.33	9.23	9.52		52.09	52.09
23	Tamil Nadu	11.67	5.00	6.67	12.31	15.24		50.88	
24	Madhya Pradesh	11.67	0.00	13.33	10.77	3.81		39.58	39.58
	Average score	16.05	11.25	13.06	14.42	14.88		69.65	

Table 7b: Exercise 2 (Score of Activities assigned, assigning weights to Main and Ancillary Activities)

Sl	States	water supply	street lights	Roads	Sanitation	Community assets		Total	
						Without PESA	Incl. PESA	Without PESA	Incl. PESA
1	Assam	20.00	20.00	17.50	20.00	19.17		96.67	
2	West Bengal	20.00	20.00	20.00	17.78	16.67		94.44	
3	Tripura	18.34	18.34	20.00	18.89	17.92		93.49	
4	Karnataka	18.34	18.34	17.50	20.00	17.92		92.10	
5	Manipur	18.34	18.34	20.00	18.89	15.83		91.40	
6	Kerala	13.34	18.34	17.50	19.44	19.58		88.21	
7	Punjab	16.67	18.34	17.50	19.44	15.42		87.37	
8	Rajasthan	16.67	16.67	17.50	18.33	17.92		87.09	87.09
9	Andhra Pradesh	16.67	15.00	17.50	18.33	18.75		86.25	86.25
10	Maharashtra	18.34	15.00	17.50	15.14	20.00		85.98	85.98
11	Jharkhand	16.67	16.67	17.50	18.33	15.42		84.59	84.59
12	Uttar Pradesh	16.67	16.67	17.50	14.03	16.25		81.12	
13	Uttarakhand	16.67	16.67	17.50	14.03	16.25		81.12	
14	Gujarat	13.34	16.67	17.50	14.03	19.17		80.70	
15	Orissa	16.67	18.34	20.00	13.47	12.08	+1.67	80.57	82.24
16	Arunachal Pradesh	15.00	18.34	15.00	14.58	17.08		80.01	
17	Himachal Pradesh	16.67	16.67	17.50	15.14	13.75		79.73	79.73
18	Goa	16.67	18.34	15.00	15.14	11.25		76.40	
19	Bihar	15.00	16.67	17.50	10.28	15.42		75.69	
20	Sikkim	10.00	15.00	17.50	17.22	15.83		74.86	
21	Tamil Nadu	11.67	15.00	15.00	14.03	17.92		73.61	
22	Chhattisgarh	15.00	15.00	17.50	12.92	11.67		72.08	72.08
23	Haryana	16.67	18.34	0.00	14.03	14.58		63.62	
24	Madhya Pradesh	11.67	0.00	17.50	13.47	6.67		49.31	49.31
	Average score	16.05	16.57	16.88	16.12	15.94		81.51	

Table 7c: Details of spread of scores

Score Range	Exercise 1	Exercise 2
>90	1	5
>80, <90	4	11
>70, <80	7	6
>60, <70	7	1
>50, <60	4	0
>40, <50	0	1
>30, <40	1	

Table 7d Comparison of the results of Exercise 1 and Exercise 2 showing the States that gained and those that slipped in the inter-se position.

Sl	State	Inter-se position in Exercise 1	Inter-se position in Exercise 2	Upward/downward movement from Exercise 1 to 2
1	Andhra Pradesh	19	9	10
2	Rajasthan	12	8	4
3	Tamil Nadu	23	21	2
4	Uttar Pradesh	13	12	1
5	Uttarakhand	14	13	1
6	Gujarat	15	14	1
7	Sikkim	21	20	1
8	Assam	1	1	0
9	West Bengal	2	2	0
10	Tripura	3	3	0
11	Karnataka	4	4	0
12	Manipur	5	5	0
13	Kerala	6	6	0
14	Punjab	7	7	0
15	Maharashtra	10	10	0
16	Jharkhand	11	11	0
17	Chhattisgarh	22	22	0
18	Madhya Pradesh	24	24	0
19	Himachal Pradesh	16	17	-1
20	Goa	17	18	-1
21	Bihar	18	19	-1
22	Haryana	20	23	-3
23	Orissa	9	15	-6
24	Arunachal Pradesh	8	16	-8

Table 7 e: Increase in score of States from Exercise 1 to Exercise 2

Sl	State	Exercise 1		Exercise 2		Increase in score (%)
		Rank	Score	Rank	Score	
1	Andhra Pradesh	19	60.86	9	86.25	25.39
2	Tamil Nadu	23	50.88	21	73.61	22.73
3	Sikkim	21	53.97	20	74.86	20.89
4	Chhattisgarh	22	52.09	22	72.08	19.99
5	Rajasthan	12	70.63	8	87.09	16.46
6	Jharkhand	11	70.63	11	84.59	13.96
7	Maharashtra	10	72.06	10	85.98	13.92

8	Gujarat	15	67.08	14	80.7	13.62
9	Himachal Pradesh	16	66.82	17	79.73	12.91
10	Uttar Pradesh	13	69.45	12	81.12	11.67
11	Uttarakhand	14	69.45	13	81.12	11.67
12	Bihar	18	64.34	19	75.69	11.35
13	Goa	17	65.15	18	76.4	11.25
14	Madhya Pradesh	24	39.58	24	49.31	9.73
15	Kerala	6	79.18	6	88.21	9.03
16	Punjab	7	78.7	7	87.37	8.67
17	Manipur	5	83.6	5	91.4	7.8
18	Orissa	9	72.92	15	80.57	7.65
19	Karnataka	4	84.77	4	92.1	7.33
20	Arunachal Pradesh	8	73.37	16	80.01	6.64
21	Haryana	20	57.31	23	63.62	6.31
22	West Bengal	2	89.08	2	94.44	5.36
23	Assam	1	91.43	1	96.67	5.24
24	Tripura	3	88.36	3	93.49	5.13

4.2.2. The following conclusions are drawn from this analysis:

- (a) Overall, the high scores obtained by the large number of States in both Exercise 1 and 2 indicates that there is a large congruence in the assignment of core functions to the Panchayats by States. Assam, West Bengal, Tripura, Karnataka, Manipur, Kerala and Punjab appear to have the most robust combination of legislative structure and activity mapping, when it comes to the assignment of core functions to the Panchayats. Bihar, Sikkim, Tamil Nadu, Chhattisgarh, Haryana and Madhya Pradesh seem to have comparatively weaker legislative frameworks and activity maps for the assignment of core functions to the Panchayats. Madhya Pradesh seems to be an outlier, with a particularly weak legislative framework for assignment of core functions to the Panchayats. There may be an explanation for this (Box 2).

Box 2: Madhya Pradesh's approach to Panchayati Raj:

Following the 73rd Amendment, Madhya Pradesh enacted the Panchayat Raj Adhiniyam, 1993 and was the first state to conduct elections to Panchayats following the amendments. However, eight amendments took place between 1994 and 1999, progressively strengthening the Gram Sabhas in the State. MP was probably the first State to extend the provisions of strong Gram Sabhas contained in the PESA to the non-PESA areas. In 2001, the Panchayati Raj Adhiniyam was amended by the Gram Swaraj Adhiniyam, which brought about significant changes in the structure of Panchayati Raj by strengthening Gram Sabhas and directly constituting committees at the Gram Sabha level to plan and implement programmes. Through this law, powers and

responsibilities were removed from the Gram Panchayat and placed with the Gram Sabha. The Gram Swaraj Adhiniyam reduced the scale efficiency of both Panchayats and Gram Sabha committees, though, undeniably, there was a lot of participation. Paradoxically, positioning of the Gram Sabha committees as petitioning bodies also contributed to concentration of powers in the 'Zilla Sarkar' – district government – a concept that was introduced at the same time. In this system, each District was assigned to a 'Prabhari Mantri' 'an in-charge Minister', who headed the Zilla Sarkar. The Collector became the de-facto chief executive of the Zilla Sarkar. Since the Constitution did not allow for any such creature, the Zilla Sarkar functioned under the garb of the DPC, except that it did far more than what was expected from it under the Constitution. From merely being a consolidator of district plans, it became a powerful concentrated centre of executive authority and decision making on plans. In other words, the District sector plan was entirely captured by the Zilla Sarkar as its turf, with the Gram Sabha committees etc. merely positioned on the fringes as generators of demands. Therefore, for these reasons, the legislative structure endowing powers on the 3 levels of Panchayats remains weak in MP.

- (b) There is also comparatively greater spread of scores under Exercise 1 as compared to Exercise 2. (Table 7c). This would indicate that the States tend to assign Main Activities with greater frequency, as compared to Ancillary Activities.
- (c) As stated earlier, States are bunched up closer together in Exercise 2. Even so, Andhra Pradesh, Tamil Nadu, Sikkim, Chhattisgarh and Rajasthan show considerably higher scores when weights are assigned to the Main Activities. This would indicate that in these states, the articulation of the assignment of functions in the law emphasizes more on the main activities than on the ancillary activities. Conversely, in the case of Orissa, Arunachal Pradesh and Haryana, the assignment of Ancillary Activities appears to be more emphasized than the assignment of Main Activities. A comparative statement of the way that the rankings move also shows that in the case of 18 States, there is little inter-se movement (Table 7c). This would indicate that by and large, the assignment of weights to Main and Ancillary activities does not affect the inter-se position of most States.
- (d) There is no material difference in the allocation of core functions in PESA areas. This is because functions mandatorily supposed to be assigned to Panchayats under PESA have already been given in the non PESA areas of the States concerned as well, thereby resulting in PESA driven devolution having no effect on the scores of States. There are just two exceptions. The first is Orissa, where the function of control over water bodies, which has not been given to Panchayats in non-PESA areas, has indeed been assigned to the District Panchayat level in PESA areas. In Madhya Pradesh, the functions of minor water bodies has been assigned to the District Panchayat.
- (e) As regards the inter-se frequency of the assignment of Activities relating to core functions, there is not much difference on an average between one core function and another, though there are differences between States. Madhya Pradesh is the only State that has not given

any activity relating to the provisioning of Streetlights to any level of local government. This considerably reduces MP's overall score as well.

4.2.3. Since there is not much difference in the results on the basis of weights assigned to the Main and Ancillary Activities, the remaining analytical exercises were confined to the weighted approach in Exercise 2.

4.3. Analysis of allocation of Activities Tier wise:

4.3.1. The results from Exercise 2 were further analysed to more clearly understand patterns in the assignment of core functions to the district, intermediate and village Panchayat by States. The Details of this analysis are in Tables 8a, b and c, which deals with the assignment of functions to the District, Village and Local levels respectively. Table 8d displays the inter-se differences in scores between the assignments of activities to each level

Table 8a: Assignment of functions to the District Panchayat level by States

Sl	States	Water supply	streetlights	roads	sanitation	community assets	Incl PESA	Total	
								Without PESA	Incl PESA
1	Manipur	20.00	20.00	20.00	18.89	15.83		94.72	
2	Karnataka	16.67	16.67	17.50	20.00	17.92		88.75	
3	Jharkhand	16.67	16.67	17.50	18.33	15.42		84.58	84.58
4	Uttar Pradesh	16.67	16.67	17.50	14.03	16.25		81.11	
5	Uttarakhand	16.67	16.67	17.50	14.03	16.25		81.11	
6	Kerala	11.67	11.67	15.00	19.44	19.58		77.36	
7	Punjab	11.67	11.67	17.50	19.44	15.42		75.69	
8	Gujarat	11.67	11.67	15.00	14.03	19.17		71.53	
9	Maharashtra	16.67	16.67	0.00	15.14	20.00		68.47	68.47
10	Tripura	6.67	6.67	17.50	18.89	17.92		67.64	
11	Rajasthan	6.67	6.67	17.50	18.33	17.92		67.08	67.08
12	Arunachal Pradesh	10.00	10.00	15.00	14.58	17.08		66.67	
13	Goa	11.67	11.67	15.00	15.14	11.25		64.72	
14	Bihar	10.00	10.00	15.00	10.28	15.42		60.69	
15	Orissa	10.00	10.00	15.00	13.47	12.08		60.56	60.56
16	Assam	8.33	8.33	0.00	20.00	19.17		55.83	
17	West Bengal	10.00	10.00	0.00	17.78	16.67		54.44	
18	Himachal Pradesh	5.00	5.00	15.00	15.14	13.75		53.89	53.89
19	Sikkim	10.00	10.00	0.00	17.22	15.83		53.06	
20	Haryana	11.67	11.67	0.00	14.03	14.58		51.94	
21	Chhattisgarh	5.00	5.00	15.00	12.92	11.67		49.58	49.58

22	Andhra Pradesh	5.00	5.00	0.00	18.33	18.75		47.08	47.08
23	Tamil Nadu	5.00	5.00	0.00	14.03	17.92		41.94	
24	Madhya Pradesh	5.00	5.00	0.00	13.47	6.67	+6.67	30.14	36.81
	Average score	10.76	10.76	10.94	16.12	15.94		64.53	

Table 8b: Assignment of functions to the Intermediate Panchayat level by States⁹

Sl	States	Water supply	streetlights	roads	sanitation	community assets	Incl PESA	Total	
								Without PESA	Incl PESA
1	Tripura	15.00	16.67	17.50	5.97	7.92		63.06	
2	Jharkhand	15.00	16.67	15.00	4.31	6.67		57.64	57.64
3	Assam	16.67	5.00	17.50	2.78	13.75		55.69	
4	Karnataka	15.00	3.33	17.50	9.17	9.58		54.58	
5	Andhra Pradesh	10.00	0.00	15.00	13.47	10.83		49.31	49.31
6	Uttar Pradesh	15.00	0.00	15.00	9.17	9.17		48.33	
7	Uttarakhand	15.00	0.00	15.00	9.17	9.17		48.33	
8	West Bengal	13.33	3.33	20.00	1.11	8.33		46.11	
9	Tamil Nadu	10.00	0.00	15.00	2.22	15.00		42.22	
10	Rajasthan	15.00	1.67	15.00	1.67	8.33		41.67	41.67
11	Arunachal Pradesh	10.00	1.67	17.50	5.97	4.58		39.72	
12	Punjab	15.00	1.67	15.00	0.56	7.08		39.31	
13	Himachal Pradesh	6.67	0.00	15.00	8.06	7.92		37.64	37.64
14	Bihar	10.00	1.67	15.00	5.42	5.42		37.50	
15	Gujarat	11.67	0.00	15.00	1.67	7.92		36.25	36.25
16	Madhya Pradesh	5.00	0.00	17.50	4.86	6.67		34.03	34.03
17	Haryana	10.00	3.33	0.00	10.28	7.92		31.53	
18	Chhattisgarh	5.00	0.00	17.50	0.00	6.67		29.17	29.17
19	Maharashtra	6.67	0.00	0.00	8.06	12.92		27.64	27.64
20	Kerala	6.67	1.67	15.00	1.11	1.67		26.11	
21	Orissa	0.00	1.67	0.00	0.56	0.00		2.22	2.22
	Average score	10.30	2.65	13.18	4.80	7.61		38.55	

Table 8c: Assignment of functions to the Village Panchayat level by States

Sl	States	Water supply	streetlights	roads	sanitation	community assets	Incl PESA	Total	
								Without PESA	Incl PESA
1	West Bengal	20.00	16.67	20.00	17.22	15.00		88.89	
2	Tripura	16.67	18.33	20.00	13.47	15.42		83.89	

⁹ This table does not include Goa, Manipur, and Sikkim, which do not have intermediate Panchayats

3	Kerala	11.67	16.67	17.50	19.44	17.92		83.19	
4	Karnataka	11.67	18.33	17.50	18.89	15.00		81.39	
5	Assam	16.67	18.33	17.50	13.47	14.17		80.14	
6	Manipur	16.67	18.33	15.00	14.58	14.58		79.17	
7	Punjab	10.00	18.33	17.50	18.33	13.33		77.50	
8	Himachal Pradesh	15.00	16.67	17.50	14.58	12.92		76.67	76.67
9	Andhra Pradesh	16.67	15.00	15.00	12.92	16.67		76.25	76.25
10	Gujarat	10.00	15.00	17.50	14.03	17.50		74.03	74.03
11	Jharkhand	15.00	16.67	17.50	13.47	10.83		73.47	73.47
12	Rajasthan	15.00	16.67	15.00	12.36	13.75		72.78	72.78
13	Maharashtra	10.00	15.00	17.50	13.47	15.83		71.81	71.81
14	Arunachal Pradesh	10.00	16.67	17.50	12.92	14.17		71.25	
15	Goa	15.00	18.33	15.00	13.47	9.17		70.97	
16	Uttar Pradesh	16.67	16.67	17.50	9.72	9.58		70.14	
17	Uttarakhand	16.67	16.67	17.50	9.72	9.58		70.14	
18	Bihar	15.00	16.67	17.50	8.06	11.67		68.89	
19	Chhattisgarh	15.00	15.00	15.00	12.92	10.00		67.92	67.92
20	Orissa	16.67	1.67	20.00	12.92	12.08	+1.67	63.33	65.00
21	Tamil Nadu	11.67	15.00	15.00	12.36	3.75		57.78	
22	Sikkim	10.00	0.00	17.50	12.92	7.92		48.33	
23	Haryana	10.00	18.33	0.00	4.86	11.67		44.86	
24	Madhya Pradesh	11.67	0.00	2.50	13.47	5.00		32.64	32.64
	Average score	13.89	14.79	15.83	13.32	12.40		70.23	

Table 8d: Inter-se differences in scores between the assignments of activities to each level

States	Scores for each Panchayat level			Score differences		
	District	Intermediate	Village	Vill - Dist	Vill - Int	Dist - Int
West Bengal	54.44	46.11	88.89	34.44	42.78	8.33
Andhra Pradesh	47.08	49.31	76.25	29.17	26.94	-2.22
Assam	55.83	55.69	80.14	24.31	24.44	0.14
Himachal Pradesh	53.89	37.64	76.67	22.78	39.03	16.25
Chhattisgarh	49.58	29.17	67.92	18.33	38.75	20.42
Tripura	67.64	63.06	83.89	16.25	20.83	4.58
Tamil Nadu	41.94	42.22	57.78	15.83	15.56	-0.28
Bihar	60.69	37.50	68.89	8.19	31.39	23.19
Goa	64.72		70.97	6.25		
Kerala	77.36	26.11	83.19	5.83	57.08	51.25
Rajasthan	67.08	41.67	72.78	5.69	31.11	25.42
Arunachal Pradesh	66.67	39.72	71.25	4.58	31.53	26.94
Maharashtra	68.47	27.64	71.81	3.33	44.17	40.83
Orissa	60.56	2.22	63.33	2.78	61.11	58.33
Madhya Pradesh	30.14	34.03	32.64	2.50	-1.39	-3.89
Gujarat	71.53	36.25	74.03	2.50	37.78	35.28

Punjab	75.69	39.31	77.50	1.81	38.19	36.39
Sikkim	53.06		48.33	-4.72		
Haryana	51.94	31.53	44.86	-7.08	13.33	20.42
Karnataka	88.75	54.58	81.39	-7.36	26.81	34.17
Uttar Pradesh	81.11	48.33	70.14	-10.97	21.81	32.78
Uttarakhand	81.11	48.33	70.14	-10.97	21.81	32.78
Jharkhand	84.58	57.64	73.47	-11.11	15.83	26.94
Manipur	94.72		79.17	-15.56		
Average score	64.53	40.38	70.23	5.70	29.84	24.14

4.3.2. The following trends are drawn from the above analysis:

- (a) In general, States tend to favour a higher degree of assignment of core functions to Village Panchayats as compared to Intermediate Panchayats (comparison of State wise trends and average score for Village Panchayat assignment, as compared to assignment to other levels).
- (b) Similarly, States tend to favour District Panchayats over Intermediate Panchayats in the assignment of Activities relating to core functions.
- (c) When it comes to District Panchayats and Village Panchayats, two distinct trends seem to emerge. Uttar Pradesh, Uttarakhand, Jharkhand and Manipur favour more empowered District Panchayats, as compared to Village Panchayats. On the other hand, West Bengal, Andhra Pradesh, Assam and Himachal Pradesh seem to have strengthened Village Panchayats while preferring to have District Panchayats with considerably lesser functions.
- (d) At the same time, these differences could also be interpreted differently; that they indicate less concurrency and more separation in the powers of the Panchayats at each level. Furthermore, where States that show low levels of difference between the scores of different tiers, this could be due to a high degree of concurrency in the assignment of functions to different Panchayat levels.
- (e) Similarly, where some States have a high score with respect to the assignment of functions to all levels, this might not necessarily mean a high degree of functional assignment. It could also mean concurrency and fuzziness in the assignment of functions to different levels of Panchayats.

5. Results of Analysis of functional allocation in areas covered by the Sixth Schedule of the Constitution:

5.1. The Constitutional provisions under the Sixth Schedule directly lists out the functional sectors where executive powers are devolved upon Autonomous district Councils. These provisions are not as detailed as those contained in municipal law. However, since they are constitutional provisions, these have been interpreted in a wider sense than strictly by the letter of the law, while determining whether an activity has been devolved or otherwise. (For example, the words sanitation and public health have been widely interpreted to construe that Activities such as Solid Waste Management, Drainage and Street Cleaning etc. are devolved). On the other hand, where the Sixth Schedule has omitted the mention of a subject matter totally, (such as the provision of streetlights) no attempt has been made to foist this core function on the Autonomous Councils unless there is a separate enabling provision through State law (or this function is assigned to the Village Councils through laws passed by the Autonomous Councils).

5.2. In addition, while undertaking the analysis, we have only used ‘weighted’ information (as used in Exercise 2 above). We have done so because there is a lack of significant sensitivity of the results towards an un-weighted approach as compared to a weighted one. The analysis of Sixth schedule data throws up the results displayed in Tables 9a, b and c.

Table 9 a: Overall abstract of assignment of core functions in 6th Schedule areas

State	Autonomous councils	water supply	streetlights	roads	sanitation	community assets	Total
Assam	The Bodoland Territorial Areas District.	5.00	0.00	17.50	12.92	12.92	48.33
	The North Cachar Hills District	10.00	2.50	17.50	12.36	14.17	48.33
	The Karbi Anglong District.	10.00	2.50	17.50	12.36	14.17	56.53
Meghalaya	Khasi Hills District	5.00	0.00	17.50	12.36	8.75	56.53
	Jaintia Hills District	5.00	0.00	17.50	12.36	8.75	43.61
	The Garo hills District	5.00	0.00	17.50	12.36	8.75	43.61
Mizoram	The Chakma District	10.00	0.00	17.50	12.36	15.42	43.61
	The Mara District	10.00	0.00	17.50	12.36	15.42	55.28
	The Lai District	10.00	0.00	17.50	12.36	15.42	55.28
Tripura	Tripura Tribal Areas District	10.00	15.00	17.50	12.36	10.42	55.28
	Average	8.00	2.00	17.50	12.42	12.42	50.64

Table 9b: Assignment of core functions to District and Regional Councils in 6th Schedule areas

State	Autonomous councils	water supply	streetlights	roads	sanitation	community assets	Total
Assam	The Bodoland Territorial Areas District.	5.00	0.00	17.50	12.92	12.92	48.33
	The North Cachar Hills District	10.00	2.50	17.50	12.36	14.17	56.53
	The Karbi Anglong District.	10.00	2.50	17.50	12.36	14.17	56.53

Meghalaya	Khasi Hills District	5.00		17.50	12.36	8.75	43.61
	Jaintia Hills District	5.00		17.50	12.36	8.75	43.61
	The Garo hills District	5.00		17.50	12.36	8.75	43.61
Mizoram	The Chakma District	5.00		17.50	12.36	8.75	43.61
	The Mara District	5.00		17.50	12.36	8.75	43.61
	The Lai District	5.00		17.50	12.36	8.75	43.61
Tripura	Tripura Tribal Areas District	5.00	15.00	17.50	12.36	8.75	58.61
	Average	6.00	2.00	17.50	12.42	10.25	48.17

Table 9c: Assignment of core functions to Village Councils in 6th Schedule areas

State	Village councils constituted by Autonomous councils	water supply	streetlights	roads	sanitation	community assets	Total
Assam	The Bodoland Territorial Areas District.	5.00	0.00	0.00	0.00	0.00	0.00
	The North Cachar Hills District	0.00	0.00	0.00	0.00	0.00	5.00
	The Karbi Anglong District.	0.00	0.00	15.00	0.00	0.00	0.00
Meghalaya	Khasi Hills District	0.00	0.00	15.00	9.17	9.58	15.00
	Jaintia Hills District	0.00	0.00	15.00	9.17	0.00	33.75
	The Garo hills District	0.00	0.00	0.00	9.17	0.00	24.17
Mizoram	The Chakma District	5.00	0.00	15.00	8.06	7.08	9.17
	The Mara District	5.00	0.00	15.00	8.06	7.08	35.14
	The Lai District	5.00	0.00	15.00	8.06	7.08	35.14
Tripura	Tripura Tribal Areas District	5.00	0.00	15.00	7.50	3.33	35.14
	Average	2.50	0.00	10.50	5.92	3.42	19.25

5.3. The following trends are drawn from the above analysis:

- (a) There is no significant deviance of the scores of individual ADCs from the mean score, particularly as compared with the deviation seen in the case of Panchayati Raj systems. This is because the devolution parameters in respect of District and Regional Councils are drawn directly from the Constitution, which applies commonly to all ADCs and Regional Councils.
- (b) Powers given to the Bodoland Territorial Areas Council varies from the pattern applicable to other States, due to the insertion of Article 3B in the 6th Schedule, through the Constitution (Amendment) Act, 2003, (44 of 2003). Similarly, the powers of the North Cachar hills and Karbi Anglong Districts were enhanced through the insertion of Article 3A in the Schedule through the Constitution (Amendment) Act, 1995 (42 of 1995). For instance, certain powers relating to the provision of sanitation has not been mentioned in the body of the original Sixth Schedule, but were inserted specifically with respect to North Cachar and Karbi

Anglong Councils. This is the reason for the better scores of these Autonomous Councils as compared to the other Councils.

- (c) In 6th Schedule areas, Village Councils are to be created and endowed with powers through laws enacted by the Autonomous Councils and approved by the Governor of the States concerned. States have taken different approaches to this issue, which shows up in Table 9c. The Autonomous Councils of Tripura and Mizoram have taken more steps in constituting and empowering village councils with powers and responsibilities concerning core functions. With respect to Meghalaya, all the three Councils have passed detailed rules constituting Town councils and endowing them with considerable civic powers and responsibilities. However, no similar rules endowing village Councils with such powers seems to have been enacted. The rules relating to Town Councils have been ignored for this analysis.

7. Results of Analysis of functional allocation in areas covered by Special arrangements, not falling within the provisions of Part IX or the Sixth Schedule of the Constitution:

7.1. The five areas where the provisions of Panchayati Raj, PESA or the Sixth Schedule do not apply represent a varied picture in terms of the pattern of RLB systems. However, two features are shared in common by these systems. First, there are no intermediate levels in these areas. Second, each opts only for a single level. While in the case of Gorkhaland and Manipur hill districts there are only district level councils, in the case of Lushai Hills, Nagaland and Jammu and Kashmir, RLBs comprise only of village or settlement level institutions. Table 10 gives the details of the scores in respect of these areas.

Table 10. Assignment of core functions to RLBs in areas not covered under Part IX, PESA or the Sixth Schedule.

State	Rural Local Body	water supply	streetlights	roads	sanitation	community assets	Total
West Bengal	Gorkhaland District Council	10.00	0.00	15.00	0.63	5.45	31.08
Manipur	Hill District Council	15.00	0.00	15.00	0.00	3.33	33.33
Mizoram	Lushai Hills Village Councils	10.00	0.00		15.63	1.67	27.30
Nagaland	Village Councils	15.00	20.00	15.00	0.63	3.33	53.96
J&K	Halqa Panchayats (Village level)	15.00	15.00	15.00	16.88	9.70	71.58

7.2. The results of this analysis are as follows:

- (a) There is a wide variation between the scores in case of the district councils and of village councils (excepting the Lushai Hills Village Councils). District Council scores are much lower than that in the case of Nagaland and Jammu and Kashmir. In both these States, the

difference is due to the entrustment of the responsibility over streetlights given to the Village Councils.

- (b) There seems to be much less deviance in the allocation of Water supply and Roads to local bodies, as compared to Sanitation and control over community assets.

8. Synthesis of the results and final conclusions:

8.1. A synthesis of the results shows that the allocation of core functions is robustly served through the legal framework and Activity Mapping orders, across the range of RLB structures in the country. While there may be a few outliers in terms of a weak legislative structure for the assignment of functions (for example, Madhya Pradesh in the case of PRIs and Lushai Hills village Councils, in the case of one-off systems) the overall picture that emerges is of a strong legislative framework for assignment of core functions.

8.2. Amongst the five core functions identified by the FFC for analysis, there is not much difference in the inter-se strength of the legislative framework for functional assignment. To some extent, entrustment of the provisioning of Streetlights to RLBs might be less preferred as compared to other core functions. However, there are several other powers with RLBs (such as the promotion of renewable energy or the taking up of rural electrification) which can be construed as enabling provisions for streetlights as well. Of all the core functions, the one of construction, protection and maintenance of Community Assets covers the widest range of individual activities.

8.3. In general, States have tended to empower Village and District levels more under the Panchayati Raj system. In the 6th Schedule areas, power and responsibilities are concentrated in the District and Regional Autonomous Councils.

8.4. However, the existence of a strong legal framework for the assignment of functions to RLBs does not automatically mean that they are empowered and endowed to undertake these functions. In such circumstances, the detailing of the actual functions devolved in the legislative provisions itself, (as in Kerala and Maharashtra) is a better structure as compared to enabling provisions in the law, followed by devolution through Activity maps issued as executive orders. In the case of the latter, there is the danger of these Activity maps being disregarded and powers being withdrawn from RLBs through individual schematic guidelines. There is more than a grain of truth in saying that while devolution is open but rhetorical, centralization is stealthy and real. The issue of how de facto arrangements work, in contrast to the de jure framework in the law, is described more fully while examining subsequent TORs.

8.5. This leads to the need to remember an important caveat. Schematic guidelines, often issued by departments other than the one that administers the framework for RLBs in States

(Such as the Panchayati Raj departments) are rarely made available for study and comparison with the generic Activity maps. Thus, while a State might hold out an activity map as having been issued, the actual implementation of a particular activity might depend upon a specific schematic guideline, which governs how funds are to be used.

8.6. In the ultimate analysis, legislative provisions have little value if the mandates that they declare are un-funded. Since nowhere does legislation prohibit the devolution of funds to entities that are not mandated by law to undertake an activity, States continue to implement programmes that fall within the mandate of RLBs through parallel means. As long as implementation of the letter of the law is not vigilantly enforced, they will remain on paper. The conclusions of this chapter will be revisited when the other TORs are addressed, and details of fiscal devolution become clearer.

Chapter 2

Financial accountability, which covers Accounts, entrustment of technical guidance and supervision to C&AG, audit arrangements in place, status of audit of accounts.

To cover the points of study covering a range of issues relating to Financial accountability, the Topic Notes sent by the States in the formats prescribed by the FFC were considered. Wherever necessary, the data was cross-checked with data collected independently from the Comptroller and Auditor General of India. The results of the study of items listed in the TOR are detailed below.

1. Progress in the maintenance of accounts of the Panchayats in prescribed formats:

1.1. The EFC while considering the issue of devolution of central fund shares to LGs noted the absence of reliable data regarding Panchayat finances. It made pin-pointed recommendations on the creation of databases by the Panchayats, which also covered the issue of maintenance of accounts. Based on these recommendations, the formats for the preparation of budget & accounts and database on finances of PRIs were prescribed by C&AG in 2002. However, these were found to be complicated and therefore, adoption by States was poor. Consequently, these formats were further simplified in 2007 for easier adoption at grass root level. Furthermore, in 2008, a Technical Committee on Budget and Accounting Standards for PRIs was constituted by MoPR, in consultation with the CAG, co-chaired by the Secretary, Ministry of Panchayati Raj, Govt. of India and Deputy Comptroller and Auditor General (LB). The Committee also co-opted State PR department representatives and the NIC into it. A sub-Committee was constituted by the Committee to specifically design and prescribe a simple but robust accounting system for PRIs, comprehensible to elected representatives and PRI grassroots level functionaries and which would facilitate generation of financial reports automatically, including placing them online.¹⁰ Based on the recommendations of the sub-Committee, a simplified format for PRI Accounts was approved by the Technical Committee on 29th January 2009. The NIC then continued work on their ongoing project to develop standardized software for the maintenance of Panchayat accounts in these simplified forms. Named PRIAsoft (Panchayati Raj Institutions Accounting Software), this has been deployed in many states, and customized for use by others as well. Some States have opted for different software that they have developed for themselves. For these reasons, there has been overall progress in the adoption of formats and maintenance of accounts in such software. To the credit of the NIC, real-time details of the data entered by different States, the availability of

¹⁰ The sub Committee was co-chaired by the Director General (LB) in the CAG's office and Principal Secretary, Panchayati Raj Department, Govt. of Gujarat. Members included representatives of MoPR, Planning Commission, Ministry of Finance, Representative from Govt. of West Bengal, Uttar Pradesh, Andhra Pradesh and representatives from Controller General of Accounts (CGA) and National Informatics Centre(NIC).

software versions of PRIASoft, FAQs, explanatory manuals etc., is maintained in an excellently designed website, <https://accountingonline.gov.in/>

1.2. Details of the adoption of accounting software formats and the creation of databases were furnished by the States in their Topic Notes responses given to the FFC. This data was cross checked with information collected from the CAG. Details are given in Table 11.

Table 11

State	Reports to FFC on creation of LB databases and maintenance of account in prescribed formats	Report obtained from CAG	
		Whether formats adopted	Maintenance of data in formats
Category 1: Fully implemented, confirmed by CAG (3 States)			
Himachal Pradesh	Model Accounting System through PRIASoft adopted and process for online maintenance of accounts in the PRIs is in place. All ZPs and PSs and 925 GPs with internet connectivity maintaining accounts through PRIASoft. Remaining GPs being provided connectivity. Coding system made operational and 8 digit based formats adopted through rules amendments and prescribed to PRIs.	Yes	Implemented
Maharashtra	Model Accounting System and 8 Database Formats are in use at the level of all PRIs.	Yes	Implemented
Tripura	10 computers purchased at HQ and dists, using EFC funds. District Council under Sixth Schedule Area. State Panchayat Raj Department has created Data base of Finances of the ADC Village Committees	Yes	Implemented
Category 2: State claims full implementation. CAG report does not agree with state report (6 States)			
Karnataka	TP accounts now being maintained separately by Audit Officers at TP level. Data base of GPs available on Panchamitra webportal http://www.panchamitra.kar.nic.in/ . Every GP has its own home page on portal. Data base covers Village General Information, details of Panchayat Raj members and officials, Bank Re-conciliation Statement, Balance Sheet, Property details and Details pertains to all statutory functions and GP works. From 2013-14, the Panchamitra portal being extended to all TPs and ZPs. Model Panchayat Accounting System is adopted in the State as suggested by C & AG.	Yes	Implemented in ZPs and TPs only not in GPs
Kerala	Saankhya' Software used to create database, comprising of Annual Financial Statement, DCB, Monthly accounts. Budget further updated by AG's new formats. Updated till 2011-12, updation for 2012-13 ongoing. PRIs accounts maintained in CAG format 01-04-2004. 8 CAG data-base formats adopted.	Yes	Not implemented
Madhya Pradesh	Panchayati Raj Department has developed an online monitoring software- "Panchayat Darpan" through which	Yes	Accounts are not maintained

	database will be created and maintained at all the three-tiers of panchayat. Directorate of Panchayat Raj has created its own web portal www.mppanchayat.org on which all the data would be kept. Model accounting system & 8 data base formats prescribed by C&AG adopted and accounting is being done accordingly.		in prescribed formats.
Punjab	Priya Soft adopted. Data base of PRI finances being maintained at State level by Budget Branch in RDPR Department. Eight digit data based formats prescribed by C&AG have adopted in PRIs	Yes	Not implemented
Uttar Pradesh	Model accounting system adopted and introduced in PRIs from 1-4-2010 onwards, facilitated through PRIAsoft. Accounts of GPs maintained by hiring CAs as per EFC recommendation. Eight data base formats introduced and operational	Yes	Not implemented
West Bengal	For P.R.Is 8 data base formats accepted by the Government. And necessary action has been taken for obtaining data from the district authorities for compilation. Existing Accounting frame work in respect of the R.L.B.s has been mapped with the National Accounting Code and consistent with Model Panchayat Accounting System introduced with effect from 2011-12.	Yes	Not implemented , Uses own accounting system 'POURAHISA B'
Category 3: Partially implemented, corroborated by CAG (7 States)			
Andhra Pradesh	Part of grant set apart for database and three applications implemented in 475 GP	Yes	3 out of 8 formats operational
Assam	Funds utilised for database upgradation at hqrs. Constraints of power availability and accommodation hindered progress, only 50% funds of EFC funds utilised. PRIAsoft of MoPR implemented and CAG's 8 database formats adopted and implemented	Yes	Not fully implemented
Bihar	Accounting framework and codification pattern consistent with Model Panchayat Account system prescribed; 8 data base formats prescribed by C&AG compiled.	Yes	Partially implemented in few units.
Haryana	ZPs and PSIs provided with computers and related support facilities. GPs being linked to with priority for GPs with more than 5000 population. Model Accounting system and eight data formats prescribed by C&AG has been implemented in PRIs.	Yes	Not implemented
Gujarat	Accrual based Double Entry Accounting System in all PRIs since April, 2007 using state specific software. Work on to enable interoperability with PRIA Soft. Panchayat accounts will be maintained consistent with CAG Model Accounting System from 1st Aril, 2011. 8 formats of CAG adopted in addition to requirement of PRI Financial Rules (8 data base formats prescribed by C&AG being revised	Yes	Not implemented

Rajasthan	Maintained using PRIAsoft. In 2011-12, all 33 ZP, 248 PSs and 1174 GPs out of 9177 started entry in PRIAsoft. 8 database formats ready for preparing quarterly accounts. Incorporating 8 data base formats in Rajasthan Panchayati Raj Rules 1996 is under way. All ZPs have been directed to maintain model Accounting System and 8 data base formats	Yes	Not maintained in prescribed formats
Sikkim	Computers have been provided to the PRIs. Accounting framework & codification pattern consistent with model Panchayat Account system put in place.	Yes	Yet to be introduced in full
Category 4: State reports partial implementation, CAG reports full implementation (3 States)			
Chattisgarh	Efforts being made.	Yes	Implemented
Manipur	PRI accounts maintained by GPs and ZPs. Steps taken since 2003-04, for database creation database and maintenance of accounts as per the EFC/TFC recommendations. Accounting framework and codification pattern consistent with Model Panchayat Account System not yet adopted due to lack of Trained staff.	Yes	Adoption in process. State Committee is formed to resolve operational issues.
Tamil Nadu	Computers purchased in PRIs, connectivity given and training of staff undertaken. PRIAsoft adopted in 2012-13. Rs.69.80 crores out of which, Rs.60.72 crores was sanctioned under EFC and TwFC grant in 2004-05. In 2012-13 Rs.79.50 crores sanctioned for VP computerisation. Proposed to be completed during 2013. PRI Accounting Software (PRIA Soft) - Model Accounting System will be adopted from 2012-13. 8 data base formats will also be implemented during the implementation of PRIA Soft	Yes	implemented
Category 5: Not implemented or implementation in early stage; corroborated by CAG (6 States)			
Arunachal Pradesh	Adoption of MAS & PRIA Soft notified by State Govt. in 2013-14. (software used only in Upper Subansari, a BRGF district)	Yes	Not implemented
Mizoram	No details furnished on ADC accounts databases Fully complied with the recommendations. Formats adopted officially but not implemented in village councils due to lack of staff.	No PRI	Not implemented
Goa	Government has identified Goa Electronics Ltd, as the Agency for implementing the model accounting system.	Yes	Not implemented
Jammu & Kashmir	Under implementation. Efforts are on for putting in place Accounting framework and codification pattern consistent with the Model Panchayat Account System.	Yes	No account maintained
Meghalaya	KHADC has created an IT Deptt of its own for e-governance from funds for creation of database. ADCs—Under process. ADC accounts and records maintained on basis of existing Fund	No PRI	No PRI

	Rules I.e., United Khasi- Jaintia Hills District Fund Rules, 1952. No systematic classification of receipt and expenditure in place.		
Uttarakhand	Very little progress made as the PRIs are small and remote accounting formats printed and supplied to the Panchayats for keeping account under the new scheme of accounting.	Yes	Accounts not maintained as per MAS
Category 6: Sufficient details not provided (3 States)			
Jharkhand	Topic Notes not received	Yes	Not implemented
Nagaland	No details furnished	No PRI	No PRI
Odisha	Topic Notes not received	Yes	MAS not adopted in GPs and ZPs. In respect of PSs, MAS adopted but not implemented

1.3. A perusal of the data and its comparison with the information collected from the CAG shows that there has been steady progress in the adoption of formats and the creation of databases, except in 4 States where the process is still in the early stages. (This excludes 4 States from where data is not available so far). Special mention needs to be made of 6 States in Category 2, namely, Karnataka, Kerala, Madhya Pradesh, Punjab, Uttar Pradesh and West Bengal, where the states report compliance, but the CAG still holds on to its view that the formats have not been implemented, though it agrees that the States have accepted them. This discrepancy may be because at least 4 of these States, namely, Kerala, Karnataka, Madhya Pradesh and West Bengal have not accepted the use of PRIAsoft and have developed their own customized software for maintenance of PRI accounts.

1.4. However one cannot discount the overall view of the CAG that there is a significant gap between the 'adoption' of formats and its actual maintenance. The CAG reports that this might be so; because States might have officially reported the 'adoption' of the 8 prescribed formats as it is a precondition for the release of performance grants, under the TFC award. The CAG reports that they have taken up the matter with the MoPR, who have written to States on this gap. However, the CAG also reports that since the states have on paper, 'adopted' the formats, the lack of maintenance of accounts in these formats has not been treated as a ground for non-release of performance grants to States.

1.5. Conclusions:

- *There is near-universal acceptance of the simplified formats prepared by the CAG for RLB Accounts maintenance. Most States have confirmed formal acceptance of the same.*

- *There is steady progress in the implementation of the simplified accounting system by States, though there are time over-runs and delays, mainly due to lack of technically qualified staff and infrastructure, particularly at the Village levels.*
- *The NIC has done a commendable job in developing PRIAsoft as a system support that States can use, either off line or online, for the maintenance of accounts of the Panchayats following suitable customization. They have also provided an online help and support facility, which also provides real time information on the progress in the maintenance of accounts in using PRIAsoft.*
- *Some States have also developed their own customized software and IT based disclosure solutions, which include web-portals and non-financial databases as well. While the CAG might still feel that these States have not conformed to the simplified accounting system suggested by it, as long as these States enable interoperability so that data between states can be compared regardless of the software used, it could be considered as acceptable compliance.*

2. Entrustment by States of the Technical Guidance and Supervision of the Audits of PRIs, to the C&AG:

2.1. The latest position with respect to the entrustment of technical guidance and supervision (TGS) to C&AG, audit arrangements in place and status of audit of accounts was collected from two sources, namely, the Topic Notes furnished by the States to the FFC and from the CAG's office. A synthesis of the data reveals the following details (Table) Data has been furnished by the State exclusively, but not been reflected in the CAG's statement has been italicized (Table 12):

Table 12: Status of enabling the C&AG to undertake Technical Guidance and Supervision of the Accounting and Audits of RLBs

SI	Name of State	Date from which TGS applicable	Details
1	Andhra Pradesh	24.08.2004	Covers all PRI levels and ULBs
2	Arunachal Pradesh	No entrustment	General letter issued (23-11-2009) but terms and conditions of TGS not included.
3	Assam	03.05.2011	Covers all PRI levels and ULBs
4	Bihar	19.01.2002 (PRIs)15.11.2007 (ULBs)	
5	Chhattisgarh	29.03.2011	Covers all PRI levels and ULBs
6	Goa	15.11.06	Covers all PRI levels and ULBs. Notification of April 2010 for entrusting audit of ZPs up to 2014.

7	Gujarat	07.04.2011 (ULBs) 18.04.2011 (PRIs)	Covers all PRI levels and ULBs
8	Haryana	2010 and 2011	
9	Himachal Pradesh	18.03.2011	
10	J&K	01-10-2012	
11	Jharkhand	22-10-11 (PRIs)19-10-11 (ULBs)	Covers all PRI levels and ULBs. Notification for TGS dated 31-3-12
12	Karnataka	17.03.2007 (PRIs)18.05.2011 (ULBs)	Covers all PRI levels and ULBs. Amendment in State PR Act for GPs, in May 2011 and for ULBs GO no. UDD 17 SFC 2010 dt 18.05.2011.
13	Kerala	1-10-2002	First GO dated 10/2002 and then Order dt 22.12.2007, from 4/08 to 3/13 (limited period) for all PRIs & ULBs
14	Madhya Pradesh	02.11.2001	Covers all PRI levels and ULBs. Amendment in MP PR Act 1993 on 13-07-12 (for PRIs) and in MP Mun. Corpn. Act, 1956 & MP Municipalities Act,1961 on 04-01-12 (for ULBs)
15	Maharashtra	29.10.2002 (ULBs) 31.03.2011 (PRIs & ULBs)	Covers all PRI levels and ULBs
16	Manipur	21.06.2002	Covers all PRI levels and ULBs
17	Meghalaya	26.03.2012	ADC audit being undertaken by CAG under the 6th Schedule, so TGS does not arise
18	Mizoram	02.06.2011	Mizoram reports entrustment of TGS on 24-6-2011
19	Nagaland	No Entrustment	No Entrustment. But State reports that transaction audit of LB accounts is carried out by AG
20	Odisha	06-02-2014 27-07-2011	Covers all PRI levels and ULBs. DLFA Act amended on 27/07/2011 (both for PRIs and ULBs)
21	Punjab	30.08.2011	Punjab reports that PRI audits have been entrusted to C&AG on 30.08.2011.
22	Rajasthan	02.02.2011	Covers all PRI levels and ULBs. For ULBs U/s 99(A) of Rajasthan Municipalities ACT 2009.
23	Sikkim	27. 08.2001	Covers all PRI levels and ULBs. Sec 60(2) of Sikkim Municipalities Act, 2007 amended.
24	Tamil Nadu	01.07.1997	Covers all PRI levels and ULBs
25	Tripura	01.07.1997 (PRIs) 21.03.2011 (ULBs)	Entrusted by state govt. permanently in 1996.Statutory audit to AG (Audit), Tripura without mentioning Section or TGS. Followed by notification covering all PRI levels and ULBs
26	Uttar Pradesh	10-01-2014 16-05-2011	Covers all PRI levels and ULBs

27	Uttarakhand	20.05.2002 19.03.2013	State reports that CAG entrusted TGS.
28	West Bengal	Sole Auditor, 03.09.80 for ZPs & PSs 28.03.2003 for GPs 0.12.2010 for MCs	CAG is the sole auditor for PRIs.

2.2. It may be noticed that 24 states have accepted the TGS system suggested by the CAG. This excludes Nagaland, Arunachal Pradesh, Meghalaya and West Bengal. In the case of West Bengal, the CAG itself is the primary auditor of PRIs and therefore the question of TGS does not arise. Similar is the case with Meghalaya, which is entirely covered by the provisions of the Sixth Schedule, under which the CAG has been entrusted the task of auditing the ADCs.

2.3. As may be seen, a large number of TGS entrustments have happened recently, probably because this is one of the preconditions for the release of Performance grants recommended by the Thirteenth Finance Commission.

2.4. A related question is whether following the entrustment of Technical Guidance and Supervision to the CAG, the Technical Report of the AG and the Audit report of the DLFA have been placed before the State legislature. Both the Topic Notes sent by States to the FFC and the report obtained from the CAG were studied in this regard. The details extracted from these are tabulated in Table 13a, 13b & 13c.

Table 13: Progress in preparation and tabling of Technical Report and Audit Report before the legislature

Sl	State	Placing of reports before the legislature				Remarks from the CAG
		Annual Technical Inspection Reports (ATIR) of AG		Annual Audit Report of DLFA		
		Latest year	Date of placing	Latest year	Date of placing	
Full details furnished (3 States)						
1	Andhra Pradesh	2010-11	26-03-2013	2009-10	26-03-2013	Audit report under preparation for 2012-13.
2	Maharashtra	2010-2011	21-12-2012	2010-2011	July 2013	Audit Report of 2012-13 under finalisation
3	Sikkim	2010-11	25/02/2013	2011-12	27/04/2013	ATIR of 2012-13 under Progress.
Details partly furnished (8 States)						
4	Assam	2011-12	19-7-2013.	No details furnished		ATIR of 2012-

						13 under Progress.
5	Meghalaya	ADCs Annual Audit Report by CAG(Audit), laid before the Council under provisions of Sixth Schedule		Details not furnished		ATIR of 2012-13 under Progress.
6	Tripura	Not mentioned	13-5- 2013	Not mentioned	13-5- 2013	ATIR of 2012-13 under Progress.
7	Uttar Pradesh	Annual Inspection Report for 2008-09, 2009-10 and 2010-11 published.		Details not furnished		Combined Audit Report for 2011-12 & 2012-13 under finalisation.
8	Himachal Pradesh	No details furnished		2010-11 & 11-12	9-4-2013.	No comments from CAG
9	Karnataka	No details furnished		2010-11	25-07-2012	Audit Report of 2012-13 under finalisation
10	Kerala	No details furnished		2011-12	13-6-2013.	Audit Report of 2012-13 under finalisation
11	Manipur	Placed, details not furnished				No comments of CAG
Details of Annual Technical Reports not received, but DLFA reports tabled (2 States)						
12	Mizoram	Yet to be received.		DLFA report (?)	18-7-2011, 27-3-2012 and 20-3-2013	ATIR of 2012-13 under Progress.
13	Uttarakhand	Annual Technical Inspection Report of C&AG not received. Will be placed before legislature when received		DLFA reports placed before State legislature.		Yet to prepare first ATIR.

Table 13 b: States where AG's Technical Reports and DLFA reports not tabled before legislature:

Sl	State	Details/ Reason furnished for not placing annual and audit reports before legislature	Remarks of CAG
1	Arunachal Pradesh	DCs of districts conduct local audit of all PRIs. Reports not furnished to Legislature	No ATR has been furnished
2	Chattisgarh	Details statement of 72000 Audits pending from March 2003 onwards	Audit Report for 2012-13 under finalisation
3	Goa	Details not furnished	ATIR for 2011-12 under finalisation.

4	Gujarat	Village Panchayat Audit completed upto 2009-10 and 2010-11 is in progress. Act amended, will be placed when received	Audit Report of 2012-13 under finalisation
5	Haryana	Legislature Committee on ULBs & PRIs constituted in 2012-13 for follow up on audit reports.	Combined ATIR for 2011-12 and 2012-13 under preparation.
6	Jammu & Kashmir	CAG's Annual Technical Inspection Report and Annual Report of DLFA for 2013-14 are awaited	Yet to prepare first ATIR.
7	Madhya Pradesh	CAG Annual Technical inspection report & Annual Report of DLFA will be placed when received by government.	Audit Report for 2012-13 under finalisation
8	Nagaland	Transaction audit of LB accounts carried out by AG and Audit Reports placed before State Legislature. No Local Fund Audit Report is generated	ATIR of 2012-13 under Progress.
9	Rajasthan	Reports part completion of Audits from various years upto 2012-13	Audit Report of 2012-13 under finalisation,
10	Tamil Nadu	Enactment of TNLFA Act to place Local Fund Audit reports before the State Legislature is under process.	
11	West Bengal	Certificates issue by Prl AG (Audit) for PRIs c 08.02.2013. The Reports will be placed in the State Legislature in due course.	ELA report for 2012-13 under progress.

Table 13 c: Details of reports not furnished

	State	Details	Remarks of CAG
1	Bihar	No details furnished	Combined Audit Report for 2011-12 & 2012-13 under finalisation.
2	Punjab	No details	Yet to prepare first ATIR.
3	Jharkhand	Topic Notes not received	Audit Report for 2012-13 under finalisation
4	Odisha	Topic notes not received	ATIR for 2011-12 under progress.

2.5. Conclusions:

- *Though there is near-universal acceptance of the TGS system by States, downstream operative actions to make this arrangement meaningful is still work in progress.*
- *Eventually, the TGS system must result in fewer and shorter backlogs of pending audits, improvement of the quality of accounts maintenance and the placement of audit reports and DLFA reports before the State legislature. This is not happening in full measure. There is an inevitable delay of 1 to 1 ½ years in the placement of these reports before the legislature.*
- *With computerization of accounts, (which includes the mandatory preparation of monthly statements), accounts can be finalized quicker and therefore, audits can take place at a*

faster pace. There may be staffing constraints in the DLFA offices that constrain these (though States have not reported this as a constraint).

- *The aim should be to reduce the time for an audited report of RLB to be placed before the legislature to around 9 months' time. In other words, the following processes would need to be completed between 1 April and 31 December, of any particular year:*
 - *Finalising of the preliminary accounts of the RLB*
 - *Handing over of accounts for audit by the DLFA*
 - *Completion of DLFA first audit, communication of preliminary observations to the RLB concerned*
 - *Answering of queries of the DLFA by RLB and its consideration by DLFA*
 - *Preparation of final DLFA report*
 - *Consideration of final DLFA report and formal approval of previous year's account by the full body of the RLB.*
 - *Test audit by the AG under the TGS system of a sample mutually agreed between the State and the AG,*
 - *Communication of preliminary observations of the CAG's technical audit to the RLB concerned*
 - *Answering of queries of AG by RLB and its consideration by AG.*
 - *Final report of the AG prepared.*
 - *Technical Report of AG and Annual Report & Audit Report of DLFA to be placed before State legislature.*

Chapter 3

Role of parastatals in service delivery.

3.1. Parastatals are typically set up as directed by State or Central Governments to plan and/or execute development projects. They have considerable autonomy, flexible procedures and function as independent accounting units. They typically report directly to the State Government, even though, they often receive the bulk of their funds from the union government in the form of schemes¹¹.

3.2. The existence and operation of parastatals has a significant impact on the functional ambit of RLBs, particularly when they function in parallel, operating in areas which are in the functional domain of the latter, using funds provided by the State or Central Governments or donor funds. They are considered 'parallel bodies' because they have a separate system of decision making, resource allocation and execution of projects, which is independent and removed from the Panchayat Raj set up. These parallel bodies could have in them bureaucrats, elected representatives and non-officials and community representatives. Examples of parallel bodies are; DRDAs, FFDAs/BFDAs, Forest Development Agencies (FDAs), District Watershed Development Societies, the District Health Mission, District Education Mission, District Horticultural Missions and District Project Management Units of Externally-assisted Projects. User Group-Based Organizations, Community Based Organizations (CBOs) for water supply, irrigation etc., are not per se parallel bodies; but they could become so if there is no conscious decision to structure their relationship with PRIs.

3.3. The origins of parallel bodies can be traced to one or more of the following reasons:

- To provide professional support, often multi-disciplinary and of supra departmental nature for implementation of a programme,
- To provide for non-official participation in decision making, especially of MPs and MLAs. This was appropriate in the pre-Panchayat Raj era;
- To facilitate easy and accountable fund management through receiving of funds directly from Government of India,
- Enabling parking of funds in interest drawing account in commercial banks outside the government treasury system to avoid risks of ways and means restrictions on fund flow,
- Tracking of utilization of funds through implementing agencies,

¹¹ This section has relied upon a note prepared by Shri S.M. Vijayanand, Now Additional Secretary in the Ministry of Rural Development, Government of India and T.R. Raghunandan, (team leader of the team preparing this consultancy report), on Parallel bodies, their typology and their implications on Panchayats.

- Enabling proper account keeping, providing utilization details and meeting other financial management information requirements
- Provide a flexible organizational system for quick decision making and easy procurement of goods and services.

3.4. Typology:

Parallel structures may be classified as follows:

3.4.1. First Generation Organizations: These include institutions such as the District Rural Development Agencies (DRDAs) and their clones, which have been replicated through other ministries, such as the Fish Farmers Development Agency and the District Watershed Development agencies. DRDAs have pre-dated the Panchayats and evolved in the mid-seventies¹².

3.4.2. Societies and Missions: In order to ensure non-diversion and non-lapsing of funds, important programmes of the Government of India¹³, such as the NRHM and SSA are mandated to be implemented through District level mission offices. These are typically configured as societies which channelize funds and manage and supervise implementation.

3.4.3. Project Management structures: They are usually set up to implement externally assisted projects in areas like Water Supply, Irrigation, and Watershed Management etc. They are temporary in nature, coterminous with the project.

3.4.4. Review or 'Empowered' Committees: Such committees are typically headed at the district level by the District Collector or the CEO of the District Panchayat, with departmental officers as members. Some non-official members may also be included in these Committees. The third type is purely bureaucratic and the fourth type consists of professionals drawn from Government and from outside. Though constituted with the primary function of review and monitoring, they often function as deconcentrated implementing agencies of the State, with a large level of formal and non-formal direction and control, often performing and thereby supplanting RLB decision-making functions. A worse variant of such committees are those that exercise vigilance and control over PRI functions. These bodies can be created easily through Government Orders and once created, they tend to survive and create precedents for more such bodies. Often, in cases where the CEO of the ZP heads the review committee, she functions in an independent capacity and is not expected to report to the District Panchayat, of

¹² DRDAs evolved out of the Small Farmers Development Agency and Marginal Farmers and Agricultural Labour Development Agencies which were set up in the mid 1970's on the directions of the Central government, to channelise Central funds into district level programmes.

¹³ These evolved from societies set up at the district level particularly in the early 1990s, for disease specific programmes such as Control of Blindness, Eradication of TB, Control of AIDS, Eradication of Filariasis etc.

which she is the CEO. The ZP CEO may also function in a dual role, with her second role being that of representing the State at the District level – independent of the ZP (Box 3).

Box 3: Example of parallelism through dual control of Executives posted with the rural local bodies

During discussions held by the authors with the representatives of Jharkhand State on the financial data sent by them, it was revealed that the CEO of the ZP is also designated as the Deputy Development Commissioner of the State Panchayati Raj Department and she disburses salaries to the staff working in the Zilla Parishad in that capacity. Therefore these funds cannot be construed to be ZP funds.

3.5. The Constitutional framework for RLBs envisages that planning for economic development and social justice and implementation of such plans should be the responsibility of such bodies. It also provides for transferring schemes that fall within the functional domain of RLBs to them. This would justify the case to do away with parallel bodies as there is no need for semi-bureaucratic structures with a partial role for non-officials, when elected rural bodies, endowed with powers and responsibilities, have been constituted. It is not merely that the existence of parallel bodies is neutral to that of the local governments. With their typically better resource endowments and stronger bureaucracies, they compete for and usurp the legitimate functional space of RLBs. In these circumstances, there is a need to harmonise the institutional arrangements of parallel structures with those of RLB.

3.6. Extent of Parallelism prevalent in central schematic transfers:

3.6.1. To ascertain whether there have been attempts in this direction, a study of the government of India's Budget was undertaken. The Government of India budget contains a detailed Statement that lists out the Central Plan Assistance transfers made directly to Autonomous Bodies/Implementing Agencies at the District and State level¹⁴. This provides data on the possible transfers made to parallel structures. An examination of the direct transfers of Central Plan Assistance to State/District Level Autonomous Bodies/Implementing agencies throws up some interesting data (Box 4).

Box 4: Features of Direct Transfers of Central Plan Assistance to State and District Level Autonomous Bodies/Implementing agencies

- (a) In the Budget Estimates for 2013-14, there are 60 such transfers being made directly by 14 Ministries, totaling to an outlay of Rs. 1,38,540 crore.
- (b) There is a high level of skewedness in the volume of funds transferred through these schemes. The top 10 schemes account for 90.71 percent of the funds transferred. Seen from the other end, 34 of the smallest schemes together account for 1 percent of the funds transferred.

¹⁴ Expenditure budget, Volume 1, Statement 18, which lists out the Direct transfers of Central Plan Assistance to State/District Level Autonomous Bodies/Implementing agencies.

(c) The Ministries with the largest outlays under such schemes are as follows:

Sl	Ministry	No of schemes	Total outlay B.E. 2013-14 (Rs. Cr)
1	Rural Development	10	80961.35
2	Human Resources Development	6	32815.63
3	Health and Family Welfare	20	16053.01
4	Agriculture	12	6519.97
	Total	48	136349.96

3.6.2. Since the bulk of the transfers pertains to 4 ministries, the design of their schematic transfers has a great bearing upon whether funds are channelized through the PRIs for implementation, or through parallel structures. In each Ministry, there is at least one, if not more, such parallel structures to which funds are channelized, thus leading to the possibility that both the State government and the RLBs may be bypassed in the channelization of these funds. The list of these parallel structures and the funding that is channelized through them is listed below (Table 13):

Table 14: Major Parallel Bodies for transferring Central Plan Assistance

Sl	Name of Parallel body	Ministry	Scheme implemented through parallel structure	Allocation of funds (2013-14 B.E.)	
1	District Rural Development Agency	Rural Development	Indira Awas Yojana	15175.20	
			DRDA Administration	250.00	
2	State Rural Roads Agency		Pradhan Mantri Gram Sadak Yojana	12965.59	
3	District Watershed Development Society		Integrated Watershed Management Programme	5365.88	
4	District Education Mission		Human Resources Development	Sarva Shiksha Abhiyan	27206.90
5	District Health Mission		Health and Family Welfare	National Rural Health Mission	11510.69
6	District Horticultural Society	Agriculture	National Horticultural Mission	1600.00	
	Total			74074.26	

3.7. Integration of Parallel structures with the RLBs:

3.7.1. An examination of the schematic guidelines of Central Ministries indicates that the institutional mechanism of parallel structures is promoted by them. Even though, scheme guidelines allow RLBs to be implementation agencies, in practice, parallel structures are rarely integrated with them. However, there are state specific variations of the approach, which range from full integration of the parallel structure with the RLB concerned, to a full separation of the

two. Half way arrangements that strive to engineer a greater collaboration between the two typically comprise of making the Chairperson of the relevant level of Panchayat, such as the District Panchayat, the ex-officio chair of the Parallel body and designating the CEO of the Panchayat level concerned as its ex-officio Secretary and Convener. However, such arrangements do not mean much, when it comes to estimating the expenditures incurred by the RLBs on the performance of their core functions. As long as the parallel structures remain as separate and distinct accounting entities and their accounts do not form part of the accounts of the RLB concerned, they would need to be considered as separate and distinct from the latter, notwithstanding the ex-officio presence of office bearers of the RLB in the governing structure of the parallel body.

3.7.2. The MGNREGS and its effect on Parallel implementation:

Of the central Plan Schemes, the MGNREGS remains the largest¹⁵. The institutional mechanism of implementing the scheme is prescribed under the National Rural Employment Guarantee Act. The salient features of the de-jure implementation mechanism are detailed in Box 5.

Box 5: Salient features of the Institutional mechanism for the implementation of NREGS under the NREG Act, 2005

Section 13. (1) The Panchayats at district, intermediate and village levels shall be the principal authorities for planning and implementation of the Schemes made under this Act.

(2) The functions of the Panchayats at the district level shall be

- (a) to finalise and approve blockwise shelf of projects to be taken up under the Scheme;
- (b) to supervise and monitor the projects taken up at the Block level and district level; and
- (c) to carry out such other functions as may be assigned to it by the State Council,

(3) The functions of the Panchayat at intermediate level shall be-

- (a) to approve the Block level Plan for forwarding it to the district Panchayat for final approval;
- (b) to supervise and monitor the projects taken up at the Gram Panchayat and Block level; and
- (c) to carry out such other functions as may be assigned to it by the State Council

(4) The District Programme Coordinator shall assist the Panchayat at the district level in discharging its functions under this Act and any Scheme made thereunder.

However, nearly all States have nominated either the District Collector or an officer outside the District Panchayat to function as the District Programme Coordinator. These officers typically also hold charge as the CEOs of the main parallel body for rural development in the District, the DRDA. Using these institutional measures, it is likely that the functioning of the Panchayats as 'Principal Authorities for Planning and Implementation' under the NREGA may be undermined in practice. That the de-Facto position might be different from the de-jure one was also apparent during discussions with State representatives on the filling up of the formats

¹⁵ In the Budget estimates for 2013-14, the allocation for the scheme was Rs. 32463.68 crore

circulated by the FFC, where they expressed doubts whether the funding should be noted in the formats as panchayat level expenditure, particularly when it was not in actuality channelized through the Panchayats. Some state representatives, perhaps in ignorance of the legal position, even went so far as to assert that in their state, the programme was implemented by the DRDA and not by the District Panchayat. It remains to be seen how States will report expenditures under the NREGS in the formats for the same, circulated by the FFC.

3.8. An examination of the DRDA as a pre-eminent Parallel Body:

3.8.1. A corroboration of the view that the DRDA is a parallel structure that works side by side with RLBs, particularly the District Panchayats and Autonomous District Councils, is available in the report of the Committee on the Restructuring of DRDA, dated January 2012¹⁶. This Committee examined the role and relevance of the DRDA. It was clear from the depositions and official information presented before the Committee that DRDAs were continuing to implement schemes that were in the functional domain of RLBs. Table 15, extracted from the report, shows the wide array of schemes that the DRDAs continue to implement.

Table 15:

Sl no	State	Programmes of MoRD	Programmes of other ministries
1	Andhra Pradesh	SGSY, NSAP	
2	Arunachal Pradesh	SGSY, IWMP, MGNREGS IAY, DRDA AdmIn Bima Yojana(RSBY)	Rashtriya Swasthya BADP, MPLAD, Special Plan Assistance
3	Assam,	MGNREGS SGSY, IAY DRDA Admn	BRGF in Sixth Schedule Area
4	Bihar	MGNREGS, SGSY, IAY DRDA Admn. BPL matters	
5	Chattisgarh	MGNREGS, SGSY, IAY, TSC Social Sector Schemes	BRGF, Women & Child Dev. Schemes
6	Goa	SGSY, IAY, NSAP, MGNREGS	Balika Samrudhi Yojana
7	Gujarat	MGNREGS, IAY,, SGSY, TSC	
8	Haryana,	SGSY, MGNREGS, IAY IWMP, DRDA Admn. TSC	BRGF, MP LADs, Mid-day Meal Scheme
9	Himachal Pradesh	MGNREGS, SGSY, IAY, - Watershed Development Projects, TSC	
10	Jharkhand	SGSY, MGNREGS, IAY, MPLAD IWMP, (DPAP/IWDP), DRDA Administration	
11	Karnataka	MGNREGS, SGSY, IAY IWMP, PMGSY, TSC	ARWSP, Bonded Labour Rehabilitation Scheme, National Bio Gas Development Project, DPAP

¹⁶ The Committee had 14 members, which included representatives of the State Governments, the MoRD, MoPR and Civil Society. It was chaired by Mr. V. Ramachandran, Former member of the Second Administrative Reforms Commission.

12	Maharashtra	SGSY, IAY, IWDP	BRGF
13	Madhya Pradesh	SGSY, IAY, MGNREGS	BRGF, Mid-day Meal IWMP, TSC, Swajaldhara
14	Manipur	MGNREGS, IAY, SGSY, TSC IWDP/IWMP, Swajaldhara	NRHM, BADP, MPLADS & MSDP/MODP
15	Meghalaya	MGNREGS, IAY, SGSY NRLM, NSAP	Programmes of M/o Panchayati Raj & Ministry of Minority Affairs. In two districts IFAD Project is implemented
16	Mizoram	MGNREGS, SGSY, IAY, IWDP, IWMP, DRDA Administration Scheme	
17	Nagaland	MGNREGA, SGSY, IAY	BRGF
18	Punjab	SGSY, DRDA Admn. BPL Survey, MGNREGS, IAY, NSAP	
19	Sikkim	SGSY	
20	Uttar Pradesh	SGSY/NRLM, IAY, PMGSYDRDA Administration, MGNREGS, BPL Survey	RSBY, Bio Gas

3.8.2. It is interesting that 17 out of 20 States report that they are implementing the MGNREGA through the DRDAs. The Committee also notes that the DRDAs are being used as fund channelizing agencies in the Districts. In these circumstances, one will have to wait to see how States officially report the expenditure undertaken by the Panchayats, to the FFC. This might depend upon how closely the DRDAs are linked with the RLBs, particularly the District Panchayats and the ADCs in 6th Schedule areas.

3.8.3. Clearly, the presence of the DRDAs and their varying relationship with the PRIs, coupled with the fact the Government of India still utilizes them as the channeling agencies for the implementation of its CSSs, would introduce a measure of uncertainty as to what is the fiscal domain of the RLBs, which they utilise to perform core functions. A range of local arrangements might be possible, from a situation where the DRDA is totally absorbed in the District Panchayats (As reported by Karnataka, Kerala, Madhya Pradesh, Chhattisgarh, Rajasthan and West Bengal) and where they work completely independent of the RLBs.

In conclusion it is relevant to note the recommendation of the Committee, which advocates the integration of the DRDAs with the PRIs and District level ADCs (Box 6).

Box 6: Extract of the recommendations of the Committee on Restructuring of the DRDAs

6.6 *The Constitution envisages harmonisation not only of laws but also of institutional mechanisms with the Panchayati Raj system. The principle of concomitance cannot be limited to just laws but it extends to institutional arrangements as well. Viewed in this sense such institutions have to be harmonised with the PRI set up or else they become ultravires of the Constitution.*

6.7 *This principle had been recognised by the Government of India in 1990s and it was decided that the elected head of the Zila Parishad should be made the Chairperson of DRDA. States like Madhya Pradesh,*

Chhattisgarh, Rajasthan, West Bengal and Kerala went further and abolished DRDAs as separate legal entities and merged them with the Zila Parishads following the example of Karnataka which did so way back in 1987 without any negative effect on the flow of funds from the Government of India, their proper utilisation, and timely submission of accounts.

6.8 *As parallel bodies pose a serious threat to the growth and maturation of PRIs as institutions of Local Self-Government as envisaged in the Constitution, it is necessary that they are fully harmonised with the Panchayat Raj set up. What is required is to distinguish between the professional component and the autonomous-institutional component. The former is absolutely indispensable, particularly taking into account the fact that PRIs have relatively weak professional support; the latter has no relevance or place when democratically elected bodies are in existence. Therefore, it is in the fitness of things that DRDAs are suitably restructured by changing their institutional structure and character as charitable societies and converting them into a high quality professional group, preferably placed in the District Panchayats, but with the specific mandate to service the District Planning Committees. At the same time, alternative arrangements should be put in place to carry on with the work currently being done by DRDAs in several states.*

3.9. Recent Developments that may impact parallel transfers:

The Union budget of 2014-15 has brought in a paradigm shift in the way that CSS scheme funds will henceforth be transferred to implementing agencies. It was announced in the budget that all schematic transfers would now be given to States as plan assistance and not directly to implementing agencies¹⁷. This would mean that one of the justifications for the continuance of parallel bodies – that they insulate scheme funds from the vagaries of the State finances, would no longer be valid. Given these circumstances, it remains to be seen how parallel bodies would be viewed in the future.

¹⁷ This was also reflected in Statement 18 of the Expenditure Budget, Volume 1, which now states that the budget estimates for various schemes is zero, for 2014-15.

Chapter 4:

Structure of transfer from State to Panchayats. (Including the issue whether central Finance Commission grants are included in State level transfers or are treated as additional).

4.1. In the analysis of the Structure of the transfers from the State to the Panchayats, the issue of schematic transfers and revenue transfers on the basis of SFC recommendations has not been considered for the time being, as a clearer picture will emerge following consistency checks and availability of data from States after the preliminary observations made by this team are addressed. Therefore, the analysis of information under this TOR may be considered as an interim one as work is still in progress. What is examined here, based on the information provided by the States, is the data on the flow of Central Finance Commission Transfers to RLBs.

4.2. Flow of Central Finance Commission Transfers to Rural Local Bodies:

4.2.1. A key issue to be considered with respect to the flow of Central Finance Commission recommended transfers to RLBs, is whether they are intercepted and used for other purposes by the State, or subsumed in the grant flows of the State government to the RLBs. Since the possibility of diversion of funds by States was frequently noticed, the Union Ministry of Finance constituted a Committee under the chairpersonship of the Secretary, Ministry of Panchayati Raj¹⁸ to “bring out the points for intervention by Government of India in Ministries of Panchayati Raj and Finance to ensure smooth and uninterrupted flow of funds to PRIs.” A meeting with the Joint Secretary concerned revealed that while meetings of the Committee are held regularly and the progress of smooth transfers of funds is reviewed, it does not seek to know or monitor whether funds are subsumed in the funds that States send to RLBs. The topic notes obtained from States may throw some light on the matter, inasmuch as it provides information on whether there are separate and distinct budget streams through which funds earmarked for RLBs flow. However, even this might not clarify whether the funds received from the centre are subsumed into the State transfers or otherwise. It may also be noted that the TFC does not insist that the funds given by the Centre to the States has to be strictly given as an additionality. In Para 10.100, of the Chapter on Local Bodies, this is what the Commission says:

“A number of State Governments have proposed that local bodies should be provided assistance directly from the divisible pool over and above the share of State Governments. This was also a major recommendation in the Conference of PRIs sponsored by this Commission. While a separate study sponsored by us on this issue proposes that this can indeed be done taking a broader view of the Constitution, a legal opinion obtained by the Commission finds that such a proposal is not consistent with the Constitution.”

¹⁸ Other members of the Committee are the JS (State Finances), Ministry of Finance, Financial Adviser(PR). The Joint Secretary in the MoPR is the Member-secretary. The Committee is expected to meet at least once in a quarter.

Again, it reiterated its stand on the matter in para 10.173, where it stated as follows:

“We have not imposed any stipulation that State Governments maintain their present level of transfers such that FC transfers become an additionality. We believe that funds, functions and functionaries are interdependent. This virtuous circle will get enlarged with increased financial support to local bodies and enhanced devolution of functions and more functionaries will follow. We trust that these issues will be examined carefully by the respective State Finance Commissions and that they will make appropriate recommendations.”

4.2.2. Given the stand taken by the TFC, State do have the leeway at present to not treat the Finance Commission devolution from the Centre as a pass-through to RLBs, but as funds subsumed into its own transfers.

4.3. Counter checks on compliance with TFC mandated conditions:

4.3.1. Even as that may be so, it is possible to undertake counter-checks that may throw some light on whether States tend to send the funds to RLBs after subsuming them or otherwise. Three such counter-checks are possible, with available data sent by States.

The first is to check compliance with the conditionality that States ought to release funds meant for RLBs electronically within 5 to 10 days of the Central share being deposited with them. The details furnished by the States are compiled in Table 16

Table 16: Details of payment of interest for delayed transfer of CFC funds to RLBs

Sl	State	Electronic transfer adopted?	12 th FC				13 th FC			
			times interest paid	Amt paid as interest Rs. lakhs	days delayed	Year	times interest paid	Amt paid as interest Rs. lakhs	days delayed	Year
1	Andhra Pradesh	Yes (treasury)	2	240.02	NO DETAILS	2005-06	1	262.00	10	11-12
2	Arunachal Pradesh	Yes	Nil	NA	NA	NA	2	18.01	No details	10-11 - 2nd inst, 11-12, 1st inst
								44.30		
3	Assam	No (Transfers made to CEOs of	NIL	NA	NA	NA	7	352.09	241	10-11 Basic grant 1 st inst
								18.71		11,18, 23
								133.96	47&49	11-12 Basic grant 2 st inst
								17.71		13, 18,

		ZPs)							21	inst
								19.14	18,28, 29	12-13, Basic Grant 1 st instt
								3.68	29	11-12, Perf grant 2 nd instt
								29.71	48&37, 39	Non-Perf grant transferred
4	Bihar	Yes	No details				4	555.00	68 - PRIs	2010-11
						1	9.47	17 - ULBs	2011-12	
5	Chhattisgarh	Yes	1	63.69	No details	2005-06	Nil	NA	NA	NA
6	Goa	Yes	1	No details						
7	Gujarat	Yes	1	No details			Nil	NA	NA	NA
8	Haryana	Yes	2	No details			1	under consideration	No details	March 2013
9	Himachal Pradesh	Yes	NIL	NA	NA	NA	2	14.11 - ULBs	No details	2010-11
							45.82 - PRIs			
10	Jammu & Kashmir	No	NIL	NA	NA	NA	Nil	NA	NA	NA
11	Jharkhand		Topic notes not received							
12	Karnataka	Yes	No details				1	211.00	4 to 39 days	2011-12,
13	Kerala	Yes (treasury)	1	No details			1	22.20	6 days	July 2013
14	Madhya Pradesh	Yes	3	41.04 - ULBs	No details	2005-06; ULBs;	4	26.29 - ULBs	No details	
				34.12 - ULBs				35.82 - ULBs		
				127.57 - PRIs		2006-07: PRIs	2	741 - PRIs		
15	Maharashtra	Yes	NIL	NA	NA	NA	3	132.46	31	No details
								21.40	24	
								Not paid	16	
16	Manipur	Yes	3	0.73	No details	24-02-07	1	1.89 - PRIs	21	No details
				2.33		24/09/08				
				4.45		23/05/09				
17	Meghalaya	Yes	1	No	No details	No		164 - ADCs	345	No details

7	ya			details		details					
18	Mizoram	No	3	No details	No details	upto 12-13.	2	23.21 - ULBs		2010-11, and 2012-13;	
				5.57 - PRI/SABG					2011-12.		
19	Nagaland	Yes	2	0.62	No details		3	17.99	No details	2010-11, 1st instt.	
				0.41				55.39	No details	2010-11, 1st instt.	
								115.54	1 yr	2010-11, 1st instt.	
20	Orissa		Topic notes not received								
21	Punjab	Yes	2+1 (ULBs)	18.10	No details	08-09	3	179.36	139	No details	
				82.02				09-10	586.13		465
									135.10		85
22	Rajasthan	Yes	1	28.43	No details	2007-08	Nil	NA	NA	NA	
23	Sikkim	No	2 RLB + 1 ULB	No details	No details		2	2.25 - PRIs	16	No details	
								7.07	80		
24	Tamil Nadu	Yes	2	No details	05-6-RLBs & ULBs;	06-7 - ULBs	4	9.19 - PRIs	36	11-12 - Basic grant	
								6.06 - PRIs	32	12-13 - Basic grant	
								14.42 - PRIs	31	12-13 Perf. grant	
								0.94 PRIs	2	12-13 - Basic grant	
25	Tripura	Partly	3 PRI	No details	06-07,		2	4.71 - PRIs		1st instt 2010-11.	
								0.53 - TTAADC			
								08-09	1		0.03 -PRIs
26	Uttar Pradesh	Yes	1 - RLB	No details	07-08 - PRIs	05-06 & 08-09 - ULBs	2	201.73	42 - PRIs	Genl perf grant 11-12	
			2 - ULB						16	forfeited perf grant 12-13	
27	Uttarakhand	No	1	Rs. 24.10 lakhs	No details	No details	Nil	NA	NA	NA	
28	West Bengal	Yes	NIL	NA	NA	NA	4-ULB	110.96 - ULBs	No details		
								7-RLB		739.29 - RLBs	

4.3.2. The second point related to the subsuming of the grants given by the Finance Commission into the Grants of the State, is the practice of deduction of funds from SFC grants toward dues that the RLBs owe to the State, such as towards electricity bills. Seven States have reported such instances and provided details. Karnataka and Himachal Pradesh have not denied that such instances have happened, but do not provide details. The remaining 16 States have reported that no such instances have taken place. Detail. Information furnished by the States has been compiled in this regard (Table 17).

Table 17: Deductions at source towards dues from RLBs to State Entities

State/Entity	Adjustments made by State Governments against the funds to be devolved to local bodies as per SFC recommendations					
Andhra Pradesh	Rs. 50.00 crores in 2008-09 and Rs. 300.00 crores sanctioned by Government to clear outstanding electricity charge dues of RLBs (Water Supply, Street Lighting).					
Chattisgarh	6 instances (no details furnished).					
Gujarat	State Govt. waived electricity bills since 1996. Village Panchayats, directly pay electricity charges to GEB electricity charges for water supply. Expenditure in 2007-08 was around Rs.80 crore.					
Kerala	Yes. Arrears are paid to the State Electricity Board, Kerala Water Authority by way of monthly water/electricity charges from LSGIs Details are as follows: 2007-08: Maintenance Fund and General Purpose Fund: Rs 518.85 lakhs 2008-09: Maintenance Fund and General Purpose Fund: Rs 950.01 lakhs 2009-10: Maintenance Fund: Rs. 1506.10 lakhs 2009-10: General Purpose Fund: Rs. 1779.09 lakhs 2010-11: Maintenance Fund: Rs. 2028.62 lakhs 2010-11: General Purpose Fund: Rs. 2294.66 lakhs 2011-12: Maintenance Fund: Rs. 2021.37 lakhs 2011-12: General Purpose Fund: Rs. 2294.66 lakhs 2012-13: Maintenance Fund : Rs. 2021.37 lakhs 2012-13: General Purpose Fund: Rs. 2294.66 lakhs					
Rajasthan	Yes. Rs. 208 lakhs in 2009-10					
Tamil Nadu	Of 12,524 Village Panchayats, all except 431 have paid Electricity Board dues up to 30.06.2012 in full. Government has sanctioned Rs. 21.84 crore from SFC grant for the remaining 431 Village Panchayats to settle Electricity Board dues as a one-time settlement.					
Uttar Pradesh	Year	Amount to be devolved as per SFC Recommendation	Amount deducted for			Balance devolved to village Panchayats
			O & M of Lamp post	Training	Incentive	
	1	2	4	5	6	7
	2007-08	1096.87	10.91	14.45	84.89	986.62
	2008-09	1001.67	10.91	13.57	93.99	883.20
	2009-10	993.35	10.91	14.14	97.92	870.38
2010-11	1276.79	---	12.77	---	1264.02	
2011-12	1534.47	---	15.34	---	1519.13	

	2012-13	1751.47	---	17.34	---	1734.13
Karnataka	RLB details not furnished					
Himachal Pradesh	No details for RLBs					

4.3.3. The third way that some light may be thrown on whether the Central Finance Commission grants are subsumed in State Grants is to check the compliance with the stipulation that States ought to create a supplement to the Budget documents, showing transfers of funds under distinct heads of accounts. Information received from States on this conditionality based on the recommendations of the TFC, has been compiled and is placed in Table 18.

Table 18: Status in creation of budget supplements indicating transfers to the RLBs

	State/Entity	Whether supplement to budget documents for local bodies, created, showing plan and non-plan transfers.	
States where budget supplements are published			
1	Andhra Pradesh	Yes	Supplements for 2010-11 to 2013-14 placed in Legislative Assembly.
2	Assam	Yes	Budget supplement for PRIs since 2011-12
3	Bihar	Yes	State budget has supplement on PRIs mentioning major head to object head
4	Chattisgarh	Yes	Supplements to the budget adhering to the prescribed accounting systems are prepared and placed.
5	Gujarat	Yes	since FY 2011-12.
6	Haryana	Yes	budget supplement since 2011-12.
7	Himachal Pradesh	Yes	prepared since 2011-12
8	Jammu & Kashmir	Yes	prepared since 2011.
9	Karnataka	Yes	Separate budget (since 2005) has been created known as Panchayat window since 2005 (district sector schemes)
10	Kerala	Yes	Appendix-IV to Budget incorporates details of plan & non-plan wise classification of fund transfers separately for each LSGL.
11	Madhya Pradesh	Yes	Budget supplement for LBS showing details of Plan and Non Plan wise classification of transfers for all PRI tiers.
12	Maharashtra	Yes	Since when, not mentioned
13	Manipur	Yes	Since 2012-13,
14	Meghalaya	Yes	Budgets prepared accordingly are placed before legislature.
15	Nagaland	Yes	Annexure to Budget Documents shows transfer to local bodies district

		s	wise.
16	Rajasthan	Yes	Budget Document, 4-B, shows details of plan & Non plan-wise classifications of transfers separately for all PRI tiers
17	Sikkim	Yes	Budget documents for LBs depicted under Demand no.43 for PRIs
18	Tamil Nadu	Yes	Supplement to Budget on RLBs placed in the Assembly on 05.02.2011 by Finance Department. The details of Plan and Non-Plan wise transfers separately for all tiers of PRIs and funds transferred directly to Local Bodies outside the State Government's budget will form part of Budget Document from 2012-2013.
19	Tripura	Yes	For PRIs, since 2010-11. For District Council supplement to the Budget documents showing transfer of funds to the Local Bodies/ADC Villages along with the PRIs.
20	Uttar Pradesh	Yes	Published since 2011-12.
21	Uttarakhand	Yes,	Prepared since 2011-12 in which details of plan and non-plan wise classification of transfers is being shown separately for PRIs. Allocation for VPs shown district wise.
22	West Bengal	Yes	Supplements to Budget for 2011-12, 2012-13 and 2013-14 published by Finance Department
States where budget supplements are not published			
23	Arunachal Pradesh	No	No, budget supplement for PRIs. Only State and TFC grants transferred to PRI Accounts
24	Goa	No	Supplements of budget not being prepared. (Response given is 'not applicable!')
25	Mizoram	No	Details not furnished
States from where data is not available			
26	Jharkhand		Topic notes not received
27	Orissa		Topic notes not received

4.4. Conclusions:

The conclusions that may be drawn from Tables 16, 17 and 18 are as follows:

- (a) *The conditionality that delayed payments will carry interest that ought to be paid to RLBs seems to be closely monitored and complied with, more so in the period of the TFC, as compared with that of the TwFC. This may be due to the fact that the CAG monitors these transfers closely. In addition, only 4 States are yet to adopt electronic means of transfers of funds to RLBs. Having said that, it is possible that such transfers are electronic up to the first level of transfer, namely, the district, from where transfers might still be on a manual basis. The reason why this approach might continue to be a distinct possibility is because Core banking facilities might not have reached all remote locations. However, there is no doubt that the process of ensuring smooth and timely transfer of funds to RLBs has been set in motion and bottlenecks in the process are likely to be ironed out in the future.*

- (b) *Even as timely transfers are monitored closely some of the States have reported long delays, of even more than a year, in the transfer of funds to RLBs. Punjab, Assam and Meghalaya have reported delays in the transfer of TFC transfers, of 465, 345 and 241 days respectively. The persistence of such long delays (even though interest is indeed paid for the same) is a matter of some concern, particularly as these have occurred even when there has been a close watch on such delays. Moreover, no reasons have been furnished for delays by any State, except in the case of Uttar Pradesh, where the delay in sending funds to PRIs has been attributed due to an election code of conduct being in place.*
- (c) *On the issue of at-source, (or otherwise mandated) deductions from the devolved funds, the availability and disclosure of information by 7 States indicates that this is a regular practice in these. Examination of the data sent by States shows that such deductions are largely towards electricity dues from the RLBs. If the consumption of power is metered and billed regularly, the payment of electricity bills at source from the devolution due to each individual RLB may not be objectionable. However, if the deduction is a bulk one from the overall transfers that RLBs are to obtain, then it would be unjust to those RLBs who are indeed making payments of their bills. If such deductions are made in the absence of metering, then the situation would be even more unjust. However, there is no way of knowing the precise circumstances in which at source deductions are made, as there may be State specific variations. It would be advisable to suggest specific circumstances under which at source deductions can be made. These might include persistent default of metered bills. However, it needs to be ensured that deductions are specific to each RLB and that bulk, single point deductions do not adversely affect any individual RLB that has been diligently paying its bills.*
- (d) *On the issue of preparation of supplements to the budget to indicate the amounts that are earmarked for RLBs (both Plan and non-Plan), 22 States have reported compliance, while 3 have not. This indicates that a good start has been made towards transparency in local government fund allocations and entitlements.*
- (e) *However, there would be some distance to go before these arrangements can be said to be fully transparent. There could be two reasons why indications of a budget supplement might not fully capture the extent of devolution to RLBs. First, in several states the budget supplement indicates only district wise details of amounts due to Village Panchayats (for example, Karnataka, Maharashtra, Madhya Pradesh and Chhattisgarh). Therefore, calculation of village Panchayat wise entitlements is left to the District level and this might cause mistakes in calculation of entitlements and delays in the release of funds to them. The ideal goal would be to put in place a system as in Kerala, where the Appendix to the budget gives details of the funds flowing to each RLB. However, given the large number of RLBs in other States, this might not be a practical possibility. It may be possible to produce district wise supplements for circulation within the district, so that each RLB can know in advance the details of its fund entitlements. Second, the budget supplement might not capture off-budget plan fund transfers, (which are of a considerable size, as detailed in the analysis in*

respect of TOR 3). In that regard, the intention of Tamilnadu to ensure that such transfers also get captured in the budget supplement is a commendable one. Moreover, the fact that these funds also come through the State budget from the current financial year would spur the possibility of capturing these details in the budget supplement.

Overall conclusions

In conclusion, at this stage, it may be stated that while the legal framework for the devolution of core functions is strong, the fiscal backing for enabling RLBs to carry out these functions is still relatively weak. There are persistent data gaps that hamper a full and detailed examination of issues that spill over into the area of financial devolution. For that reason, the conclusions reached may be considered as interim ones, subject to revision on the basis of greater data availability from States, following observations communicated to them.

ANALYSIS OF FINANCES OF RURAL LOCAL BODIES

A study for the Fourteenth Finance Commission By the Centre of Policy
Research, New Delhi

Second Report

Acronyms

ACA	Additional Central Assistance
ADC	Autonomous District Council
AG	Accountant General
ATIR	Annual Technical Inspection Report
ATR	Action Taken Report
BPL	Below the Poverty Line
BRGF	Backward Regions Grant Fund
C&AG	Comptroller and Auditor General
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CFC	Central Finance Commission
CPR	Centre for Policy Research, New Delhi
CSS	Centrally Sponsored Schemes
DC	Deputy Commissioner/District Collector
DLFA	Director of Local Fund Audit
DPC	District Planning Committee
DP	District Panchayat
DRDA	District Rural Development Agency
EFC	Eleventh Finance Commission
FC	Finance Commission
FFC	Fourteenth Finance Commission
GO	Government Order
GP	Gram Panchayat
IAY	Indira Awas Yojana
ICE	Information, Education & Communication
IMF	International Monetary Fund
IP	Intermediate Panchayat
LG	Local Government
lpcd	Litres per capita per day
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MoPR	Ministry of Panchayati Raj, Government of India
MoRD	Ministry of Rural Development, Government of India
MPLADS	Member of Parliament Local Area Development Scheme
NBA	Nirmal Bharat Abhiyaan
NIC	National Informatics Centre
NRHM	National Rural Health Mission
NRLM	National Rural Livelihood Mission
NSAP	National Social Assistance Programme
NSSO	National Sample Survey Organisation

O&M	Operations and Maintenance
OECD	Organisation for Economic Cooperation and Development
PESA	Panchayat Extension to Scheduled Areas Act 1996
PMGSY	Pradhan Mantri Gram Sadak Yojana
PRI	Panchayat Raj Institutions
RLB	Rural Local Bodies
RSBY	Rashtriya Swasthya Bima Yojana
Schedule V	The Fifth Schedule of the Constitution
Schedule VI	The Sixth Schedule of the Constitution
SGSY	Swarna Jayanti Gram Swarozgar Yojana
SFC	State Finance Commission
SSA	Sarva Shiksha Abhiyan
TFC	Thirteenth Finance Commission
TGS	Technical Guidance and Supervision
TOR	Terms of Reference
TP	Taluk Panchayat
TSC/TSP	Total Sanitation Campaign/ Total Sanitation Programme
TwFC	Twelfth Finance Commission
VP	Village Panchayat
ZP	Zila Panchayat, Zila Parishad

List of Annexes

Annexure 1	Revenues of Selected Gram Panchayats (Rs. Lakh)
Annexure 2	Share of Revenues In Total Revenues of GPs in Selected States
Annexure 3	Revenues of Selected Gram Panchayats with Population Data
Annexure 4	Per Capita Revenue of GPs With Population Data
Annexure 5	Revenues of Block Panchayat (In Rs. Lakh)
Annexure 6	Shares in Total Revenues (Per Cent)
Annexure 7	Per Capita Revenues of Block Panchayat (In Rs.)
Annexure 8	Revenues of District Panchayat (in Rs. Lakh)
Annexure 9	Shares in Total Revenues District Panchayat (Per Cent)
Annexure 10	Per Capita Revenues of District Panchayat (in Rs.)
Annexure 11	State wise details of total and per capita revenue transfers
Annexure 12	Revenue Expenditure on Core Services by Gram Panchayats (Rs. Lakh)
Annexure 13	Per Capita Expenditure on Core Services by Gram Panchayats (in Rs.)
Annexure 14	Expenditure on Core Services by Block Panchayats (Rs. Lakh)
Annexure 15	Per Capita Expenditure on Core Services by Block Panchayats (in Rs.)
Annexure 16	Expenditure on Core Services by District Panchayats (Rs. Lakh)
Annexure 17	Per Capita Expenditure on Core Services by District Panchayats (in Rs.)
Annexure 18	Capital Expenditure on Core Services by Gram Panchayats (Rs. Lakh)
Annexure 19	Per Capita Expenditure on Core Services by Gram Panchayats (in Rs.)
Annexure 20	Expenditure on Core Services by Block Panchayats (Rs. Lakh)
Annexure 21	Per Capita Expenditure on Core Services by Block Panchayats (in Rs.)
Annexure 22	Expenditure on Core Services by District Panchayats (Rs. Lakh)
Annexure 23	Per Capita Expenditure on Core Services by District Panchayats (in Rs.)
Annexure 24	Per Capita Total Expenditure on Core Services by Village Panchayats (in Rs.)
Annexure 25	Per Capita Total Expenditure on Core Services by Block Panchayats (in Rs.)
Annexure 26	Per Capita Total Expenditure on Core Services by District Panchayats (in Rs.)

List of Financial models

Financial model 1	Cost calculation for provision Drinking water
Financial model 2	Cost calculation for provision Sanitation, Solid waste and Liquid waste
Financial model 3	Cost calculation for provision School toilets
Financial model 4	Cost calculation for provision of toilets in Anganwadis
Financial model 5	Cost calculation for provision of Roads and gap analysis
Financial model 6	Cost calculation for provision of Street lights
Financial model 7	Cost calculation for provision of Community assets
Financial model 8	Gap assessment for provision of drinking water
Financial model 9	Gap assessment for provision of sanitation and hygiene
Financial model 10	Gap assessment for provision of street lights
Financial model 11	Gap assessment for provision of community assets
Financial model 12	Immovable property tax calculation

Table of Contents

Acronyms.....	2
List of Annexes	4
List of Financial models	4
Table of Contents	5
Part B: Analysis of the finances of rural local bodies.....	8
Chapter 1: Overview of steps taken for analysis of data	8
1.1. Introduction:	8
1.2. Information formats for collection of data from States:	8
1.3. Sample Size and Methodology of analysis:.....	9
1.4. Details of data errors and consistency checks undertaken:	13
1.5. Presentation of State-wise data in the main report:	15
1.6. Pattern of the report :.....	16
Chapter 2: Benchmarks for service delivery, gaps in meeting them and assessment of the gap in Financial Resources	17
2.1. Introduction:	17
2.2. Drinking Water:	17
2.3. Sanitation and Hygiene:	21
2.4. Roads:.....	25
2.5. Streetlights:	27
2.6. Community Assets:.....	30
2.7. Overall costs:.....	33
Chapter 3: Analysis of data on revenues of RLBs provided by States.....	36
3.1. Introduction:	36
3.2. Relative shares of different sources of revenues for RLBs:	36
3.3. Analysis of transfers from the State Government:	39
3.4. Transfers from the Central Government and Central Finance Commission Grants:.....	47
3.5. Analysis of CFC transfers to RLBs:	50
3.6. Analysis of own revenues of RLBs:.....	52
3.7. Immovable Property taxes:.....	57
3.8. Collection of other taxes, apart from immovable property tax, by the local governments:	59

3.9. Collection of user charges and non-tax revenues:.....	61
Chapter 4: Analysis of expenditures of Rural Local Bodies	63
4.1. Introduction:	63
4.2. Comparison of sample and state wise data:	63
4.3. Overall expenditure:	65
4.4. Total Expenditures on Core Services at All Levels:	69
4.5. Comparison of revenues and expenditures:.....	71
Chapter 5: Assessment of the Gap in Financial Resources.....	75
5.1. Determination of Financial Gap	75
5.2. Assessment of the gap in provisioning of drinking water supply:	75
5.3. Assessment of the gap in provisioning of sanitation & hygiene:.....	77
5.4. Assessment of the gap in provisioning of roads:	79
5.5. Assessment of the gap in provisioning of streetlights:	80
5.6. Assessment of the gap in provisioning of community assets:	82
Chapter 6.....	86
Strategic options for bridging the vertical gap in funding service delivery of core functions	86
6.1. Introduction:	86
6.2 Solutions to infirmities in fiscal transfer systems:	88
6.3 Conditionality based transfers options:.....	88
6.4 Fiscal equalisation transfers:	89
6.5 Strategy options for bridging the estimated vertical gap.....	90
6.6 Approach of previous Finance Commissions:	90
6.7 Conditionalities imposed by previous FFCs:	92
6.8 Strategies to fill the gap, providing an impetus to collection of own revenues by RLBs: 95	
6.9 Calculating the revenue potential of Immovable Property Tax.....	96
6.10 Levy of user charges on services rendered.	99
6.11 Options on other means of giving Panchayats access to buoyant revenue sources.....	100
6.12 The continuing problem of bad databases and ways to tackle it.	101
Part 2	102
Consistency Checks Undertaken with the data	102
Note on estimation of population for the purpose of calculating per-capita details:.....	102

Consistency Check 1:.....	104
Comparison of data on assigned, devolved, grant in aid and other transfers from the State to RLBs:.....	104
Consistency check 2	110
Data on State to RLB Fiscal transfers, allocated and actually transferred:.....	110
Consistency check 3	112
Central transfers to RLBs.....	112
Consistency check 4	113
Per capita own revenues of RLBs	114
Consistency check no 5	116
Inconsistency corrections regarding expenditures reported in Schedule 6A.....	116

Part B: Analysis of the finances of rural local bodies

Chapter 1: Overview of steps taken for analysis of data

1.1. Introduction:

1.1.1. The Terms of Reference of the study entrusted to the CPR covered three broad aspects relating to rural local bodies in India. The first part covered a study of the Governance and Devolution issues that related to them. The first report presented by the CPR to the FFC on 30-5-2014, focused upon these issues and provided an assessment of the framework for governance that applies to the rural local government system in India. That report covered the provisions of State Panchayati Raj Acts, the laws that apply to the Schedule-V and VI areas which are rural in character and other provisions applicable specifically only to certain regions of the country.

1.1.2. The current report covers the second, third and final parts of the study. In this report, we continue the examination of the TORs from the conclusions of the first report, where we had concluded that the laws, rules and regulations have well empowered RLBs to perform the 'core functions' indicated by the FFC, namely, Water supply, Sanitation, Roads and other means of communication, Streetlights and maintenance of community assets. This report commences with an examination of the norms applicable, if any, which outline the quantum and quality of core services to be performed by RLBs, we have then attempted to estimate the cost of delivery of these services, to meet these prescribed norms. This lays down at the outset, the financial challenge that lies before the country and its RLBs, in meeting the standards set for performance of core functions. This is followed by an analysis of the revenues and expenditures of RLBs, in accordance with the TORs. This analysis covers trends and performance, based upon the wide range of numerical and descriptive data submitted by States to the Finance Commission in Schedules designed and circulated to them by the latter. Following that exercise, the costs that are to be incurred if core services are to be delivered at the level required to meet normative standards, is compared with the analysis of financial data on income and expenditures of RLBs, to ascertain fiscal gaps, if any. Based on that analysis, the study concludes with an examination of the various options on how gaps in financing of core services could be attempted by the FFC.

1.2. Information formats for collection of data from States:

1.2.1. The information formats sent to States for submitting information fall into three categories, namely, for submission of descriptive information, consolidated numerical data for the entire State and numerical data from a random sample of RLBs selected by the FFC and communicated to States (See Box 1 for details).

Box 1: Details of Schedules in which the FFC sought information from States.

S. No.	Category	Sched ule No.	Subject	
1	Formats for collection of descriptive data		Topic notes questionnaire	
2		1	A	Details of State Finance Commissions (SFC) - Constitution and Submission
3		7	A	Water Supply, Sanitation and Irrigation of PRIs
4		8	A	Status of Accounts/Status of Employees Census of PRIs
5	Formats for consolidated information	2	A	Transfer of Resources to Local Bodies - District Panchayats
6			B	Transfer of Resources to Local Bodies - Block Panchayats
7			C	Transfer of Resources to Local Bodies - Village Panchayats
8		3	A	Functions/Services Transferred to PRIs and Expenditure thereon
9		4	A	Expenditure and Sources of Revenue/Capital of PRIs
10	Formats for consolidated information	4	B	Expenditure and Sources of Revenue of PRIs - District-wise
11		5	A	Own Revenue (Internal Revenue Mobilization) of PRIs
12		5	C	Arrears of Collection (Internal Revenue Mobilization) of PRIs
13		6	A	Expenditure of PRIs

1.3. Sample Size and Methodology of analysis:

1.3.1. The sample was selected through an internal exercise of the FFC in consultation with State governments and communicated by it to 25 States¹. The CPR team was consulted at the time that the formats were prepared by the FFC and circulated to the States². However, in spite of the FFC having repeatedly liaised with the States and insisting on arrangements for assigning responsibilities to identified nodal officers to collect data, the initial responses received from the States were undermined by several errors. As the CPR team was tasked with the responsibility of undertaking consistency checks on the data sent by the States, a series of interactions were arranged with State nodal officers on the one hand and the CPR team and FFC officials on the other. These interactions were conducted in batches, from 12 to 16 of May and on 22nd of May. Further time was given to States to rectify the state specific errors and gaps that were pointed out. Final data sets were obtained from the FFC as late as June 20, 2014.

1.3.2. However, in spite of these interactions, the data sent by the States were still replete with data gaps and errors. These were not limited to, but included

¹ Excluding the States of Nagaland, Meghalaya and Mizoram, which are fully excluded from the application of Part IX of the Constitution pertaining to Panchayats.

² When the formats were circulated, Andhra Pradesh was a single State. Since then, the State of Telangana has been carved out from Andhra Pradesh. In our analysis, we have considered the State of Telangana as separate and distinct from Andhra Pradesh and the data sent by the earlier, unified State of Andhra Pradesh has been separated and presented in respect of Telangana.

- Data insufficiency – Some states did not provide all the data that was required, while a few provided empty spread sheets
- Data inconsistency – Data provided in some formats were inconsistent with the requested format from the commission
- Data inaccuracy – Data provided by the states do not match certain national baselines such as the census, ministry of drinking water supply and sanitation etc., amidst others

Given below are the details of both the data gaps and the data errors, which have considerably reduced the utility of the sample data collected from States.

1.3.3. Details of data gaps:

The details of responses obtained from States are given in Tables 1a and 1b, which throws light on the data gaps.

Table 1A. Sample Size of GPs:

SI	State	Total Selected Sample by FFC			No. of PRIs from which data received			PRIs responding with population details		
		VPs	IPs ³	DPs	VPs	IPs	DPs	VPs	IPs	DPs
1	Andhra Pradesh	529	181	4	523	60	4	476	60	4
2	Arunachal Pradesh	98	14	7	98	-	7	Stated that line dept. undertake the work; so formats are blank		
3	Assam	91	15	8	91	15	8	40	15	8
4	Bihar	338	41	11	Data given only for Buxar and Nalanda districts			GP level information is blank		
5	Chhattisgarh	314	11	5	281	7	2	33	inconsistent	
6	Goa	14	3	2	14	NA	2	14	NA	2
7	Gujarat	496	18	8	495	18	8	493	18	8
8	Haryana	314	14	6	292	Incomplete data				
9	Himachal Pradesh	70	5	4	43	5	4	43	5	4
10	Jammu and Kashmir	110	7	6	110	NA	0	109	NA	0
11	Jharkhand	162	24	7	48	3	9	GP names repeated, do not tally with sample, District and Block names also do not tally. Blank formats in the case of ZPs and IPs		
12	Karnataka	239	16	9	239	16	9	239	16	9
13	Kerala	43	13	4	42	11	4	41	11	4
14	Madhya Pradesh	1111	31	15	333	12	2	Repeated GP names, circular references and		

³ In Goa, Manipur, Sikkim and Jammu and Kashmir intermediate level panchayats do not exist.

								blank formats		
15	Manipur	8	3	4	8	NA	3	8	NA	3
16	Maharashtra	1270	33	10	1286	32	10	1174	32	10
17	Orissa	262	27	9	261	27	9	79	27	9
18	Punjab	834	18	6	634			GPs - with blank expenditures and Receipts, repeated names and circular references		
19	Rajasthan	416	22	10	454	21	10	454	21	10
20	Sikkim	7	7	4	7	NA	4	6	NA	4
21	Tamil Nadu	669	41	9	664	40	9	120	40	9
22	Telangana	439	138	3	425	43	3	310	43	3
23	Tripura	39	12	4	39	6	12	23	6	12
24	Uttarakhand	341	9	4	87	NA	NA	11	NA	NA
25	Uttar Pradesh	2572	82	22	2459	82	22	2264	82	22
26	West Bengal	169	35	6	152	24	5	83	24	5
	Total	11923	604	187	9085	422	146	6020	400	126

Table 1B. Populations covered by selected samples at various levels:

Sl	State	Populations covered		
		Village	Intermediate	District
1	Andhra Pradesh	1561253	3573150	10698845
2	Arunachal Pradesh	No details furnished		
3	Assam	493989	2121793	6263668
4	Bihar	No details furnished	No details furnished	No details furnished
5	Chhattisgarh	130196	No details furnished	No details furnished
6	Goa	94985	NA	1509968
7	Gujarat	1311286	2753924	9200136
8	Haryana	No details furnished	No details furnished	No details furnished
9	Himachal Pradesh	100745	228624	825308
10	Jammu and Kashmir	255421	NA	0
11	Jharkhand	No details furnished	No details furnished	No details furnished
12	Karnataka	1689834	3350584	10848295
13	Kerala	1387898	2069292	9634037
14	Madhya Pradesh	No details furnished	No details furnished	No details furnished
15	Manipur	43735	NA	831712
16	Maharashtra	2624336	6773412	24181913
17	Orissa	503067	3069024	7197721
18	Punjab	No details furnished	No details furnished	No details furnished
19	Rajasthan	2262351	4065050	17537174
20	Sikkim	18177	NA	445343
21	Tamil Nadu	687567	4464214	19427782
22	Telangana	1090333	2189783	8318470
23	Tripura	78799	405595	2084927
24	Uttarakhand	60893	No details furnished	No details furnished

25	Uttar Pradesh	6279890	13891511	49527284
26	West Bengal	1852806	4748480	29276549
	Total	17678728	53704436	207809132

1.3.4. An analysis of the extent of data gaps:

- In respect of the data from the Village Panchayats, of the 11923 GPs selected only 9085 GPs (76.19 %) have responded with the details. However, when population details are also considered, only 6020 GPs (50.49%) responded with full details. Rajasthan has provided information for more Panchayats than those sampled (109%). Goa, Karnataka, Manipur (all 100%), Gujarat and J&K (more than 99%), Kerala (95%), Andhra Pradesh (98%), Telangana (96%), Maharashtra (92%) Uttar Pradesh (88%) and Sikkim (85%) have provided reasonably comprehensive details, including population. However, Himachal Pradesh (61%), Tripura (59%), West Bengal (49%), Orissa (30%) Tamil Nadu (17%) and Uttarakhand (3%). have not provided enough population details for sufficient numbers of GPs. This considerably diminishes the value of the data furnished by these States.
- 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.
- The information provided by the following States could not be considered for our analysis due to serious data gaps and other additional infirmities detailed below in Box 2. This has restricted our analysis to only 19 out of 26 States.

Box 2:

Arunachal Pradesh	Information provided only in Format 4b, relating to transfers from the central government alone. The State informs that with respect to all other functions, those are undertaken by the line departments and Panchayats do not receive any funds with respect to those.
Bihar	Data has been given only for 2 districts, namely, Buxar and Nalanda. These data sets are inconsistent. The numbers are high when you consider these in terms of Rs. Lakhs, but low if considered as absolute numbers. No details are given of own revenues. No population data is provided, which makes the information useless, as per-capita details cannot be calculated.
Haryana	Data is given only for all districts. External links and circular references, Not available are filled in the formats. Therefore not included.
Jharkhand	Most formats are left blank. Details are only provided for transfers from the central government. No labelling of GP names, circular references and blanks noticed in the data . 48 out of 168 GP responded
Madhya Pradesh	Except transfers from 12 th finance commission nothing is given, Form 6A is completely blank and nil for all the GPs 333 GPs responded with 182 GPs either names are repeated and or not given
Punjab	Formats are blank. Except salary no details in expenditure. 634 GPs responded and of which 242 GPs are repetitive with blank formats for 4b and 6a
Uttar Pradesh	Only data given in Forms 4b and 6A have been considered. GP names do not tally with sample in many cases. District names also not given in GPs to identify them.

1.4. Details of data errors and consistency checks undertaken:

1.4.1. In addition to data not being furnished at all, several other shortcomings have persisted, in spite of repeated requests and entreaties to State nodal officers to address these. This has entailed corrective action in order to rescue and use whatever is possible, from the data sets given. (Details are in Box 3):

Box 3:

The following infirmities were noticed in the information sent by the States in the formats provided to them.

Format 4a:

This format was supposed to contain state level aggregates for information on own revenues. However, in the case of a few States, this format has been left blank.

The formats for collecting numerical data from sample RLBs are as follows:

4B	Expenditure and Sources of Revenue of PRIs - District-wise
5A	Own Revenue (Internal Revenue Mobilization) of PRIs
5C	Arrears of Collection (Internal Revenue Mobilization) of PRIs
6A	Expenditure of PRIs

Formats 4b and 6c:

These formats have largely given only data relating to revenues. On expenditures, the total figure of expenditure given in Format 4b does not tally with those given in Format 6A. Many state transfers have been categorised as central transfers and vice versa, thereby introducing a level of inaccuracy in the estimation of these figures.

Format 5a:

Except Karnataka and Kerala, the information given in format 5A on own revenues is either blank or contains no details. Wherever details have been given for own revenue, this has been limited to those items where data has also been provided in Format 4b

The projections on revenue given in format 5A do not seem to have followed any scientific method of prediction.

Format 5c:

This format has been mostly blank for all levels of RLBs, except in the cases of Karnataka and Kerala. Though 25 states responded in giving the information, all the information could not be used for various reasons. Some of the major discrepancies are as follows. With respect to the all formats, there were a number of infirmities that considerably slowed down the process of consistency checking and analysis. Several corrective actions have had to be taken to minimise the effect of these infirmities, either wholly or partly.

Details are as follows:

Infirmities in the data	Details of corrective action taken
States have changed the spellings given in the format. Data headers have been typed differently by States ⁴ . Information has been given in non-English fonts. States have added more rows and not provided sub totals, or totals for specific categories such as expenditure, own revenue, transfers from centre etc. Many States have mixed up State transfers with Central Transfers and Central Transfers with State Transfers. We have tried our best to correct wherever clarity is there.	Spellings corrected, totals made. Manual corrections done to cure these infirmities, including translation and manual re-entry of data.
Only totals provided for these heads, without furnishing any item-wise details.	Such data has had to be rejected for the analysis
Many sample RLBs have not given information on Population. Even those giving information have given data relating to either the 2001 or the 2011 censuses.	All census information given for 2001 has been projected to the 2011 census data, so as to levelise the data for analysis.
In certain cases, States have given information for GPs not selected in the sample list. In other cases, different information has been provided twice over for the same GP, making it impossible to gauge which set of information is accurate. Data has also not been properly labelled for many sample RLBs.	Therefore we have had to drop information relating to such RLB from our analysis.
Many of the RLBs sampled have used different denominations of giving information. In some states, data has been provided in full numbers in a few cells and in Rs. Lakhs in other cells. Data has been formatted as text in some tables.	Data manually corrected to single, uniform denomination
Population data, which is necessary for calculating the per-capita details of revenue and expenditure, is missing in the case of a significant number of States, particularly in respect of the following States (give details)	
RLBs are not clear about the source of revenues. For example some of the transfers from Centre have been classified as grants in aid from State and vice versa. Many of the RLBs could make proper distinction between Assigned revenues and grants in aid from the states. Some of the devolved taxes are classified as grants in aid from the states.	Manually corrected on a case by case basis to bring data to a comparable position.
In the case of data provided from Village Panchayats, only about 40% of them have included the expenditure and receipts relating to MGNREGS. In the case of the rest, details of expenditure and receipts have not been provided. This has diminished the availability of data that is mutually comparable. Similarly, in some sample RLBs, information has been given on finances that do not pertain to them. For example, transfers made by the Central Government for SSA and NRHM, does not go to RLBs. Yet, these have been included in the data.	Data corrected manually on a case by case basis

⁴ For example: MGNREGS has been typed in as 'MGNREGSA', 'NREGA', 'N.RegA', 'M.G.N.R.E.G', 'M.G.N.R.E.G.S.' etc. 16 different ways of mentioning this scheme alone were counted.

1.4.2. Given the absence of good data as detailed in Box 2, all information given by the respondent sample RLBs could not be used. However, considerable efforts were made to rectify the data gaps and errors, in order to obtain to the fullest extent possible to obtain comparable and corrected information of sample RLBs. Wherever consistency checks on data elements indicated that the data provided by States was limited in its quality and comprehensiveness for the team to conduct its analysis and use it as a basis for further suggestions, alternatives were conceptualised to determine reliable data sources and to ensure a reliable, accurate and consistent frame for analysing the data from these sources.

1.4.3. Comparison of sample data and State level data:

Broadly speaking, there are two categories of samples, namely, the entire data set and the sub-set that contains population data. While undertaking the analysis detailed in this report, overall samples have been 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 has been considered. Throughout the report, sample data has been compared with state level data to discover and highlight patterns, or reveal inconsistent results. Our analysis of the data sent by the States, reveals that there are distinct differences between the per capita incomes and expenditures emerging from Sample data (as contained in Schedules 4b and 6b) and from State-wide data (as contained in Schedules 2a, 2b and 2c and 4a). However, we have no reason to believe that the State wise data is ipso facto inaccurate, though in some cases, the inconsistencies are obvious and can be explained. Based on this approach, data has been corrected on a case by case basis. Wherever the data sent by the States to the FFC 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. Our analysis therefore covers both Sample and State wise data, so as to present the FFC with a range of conclusions, based on these two sources of data. This approach is elaborated in subsequent chapters wherever relevant.

1.5. Presentation of State-wise data in the main report:

In the interest of keeping this main report short, all state-wise analyses have not been included in the body of the report. These are included in the third part of the report, namely, Annexes (Please see para 1.6 below for a description of different parts of the report). It may be noted that no information has been provided by States for village level institutions in the Sixth Schedule areas as they may not exist as separate entities. In addition, no intermediate Panchayats exist in Manipur, Sikkim and Goa (even though, in Goa, legislative provisions exist for their constitution). There are no intermediate or District level institutions in J&K and Nagaland, both of which only have Village level bodies (Halqa Panchayats in J&K and Village Councils in Nagaland). Therefore, these States are omitted from the tables concerned, wherever District, Intermediate and Village level data is furnished. In all our calculations, data for the newly formed Telangana state has been taken on an as-is basis wherever available, or has been computed based on geographic segmentation of data from the census on districts in erstwhile Andhra Pradesh that now constitute Telangana State.

1.5.1. Wherever state wise data is presented in the main body of the report or the annexes, they are arranged not in alphabetical order of the state's name, but in the order of the performance on the key parameter that is being analysed. This enables readers to ascertain at a glance which are the best and the worst performers for that parameter.

1.6. Pattern of the report:

This report comprises of four parts. The first is this main body of the report. For brevity's sake, the conclusions of the analysis are stated out in the main body and are illustrated by the consolidated numerical tables abstracted from the analysis undertaken. The second part of the report details the consistency checks and steps undertaken to arrive at the abstracts presented in the report. In order to keep the main report brief, more details pertaining to different parameters have been shifted to the Annexes to this report, which constitutes its third part. The fourth part of the report comprises of excel worksheets of financial models used for various calculations to arrive at the conclusions in this report, particularly with respect to the estimation of the costs of service delivery, gap analysis and calculating the tax capacities of RLBs. These can be used by the FFC for further scenario testing and prediction, as required.

Chapter 2: Benchmarks for service delivery, gaps in meeting them and assessment of the gap in Financial Resources

2.1. Introduction:

2.1.1 To arrive at an estimation of the gap in financial resources with respect to core services delivery by RLBs for 2015-2020, we progress from the ascertaining what are the levels of service that have been envisioned to be achieved, the benchmarks that define the levels of service desired and the cost norms for service provisioning, in order to achieve these service level benchmarks. We have attempted to establish the financial norms for services based on Government prescribed norms if available; failing which, its determination has been attempted through research and study of best practices. Thus, with respect to each of the core services indicated by the FFC, namely, water supply, sanitation, solid waste management and drainage, roads, streetlights and community assets, three analytical exercises are undertaken. The first is an examination of the fixation of benchmarks for the provisioning of core services by RLBs, based on the country's vision of service delivery coverage. The second is an examination of the current status of the provisioning of core services. A comparison of these would reveal the gap in service delivery that is estimated to exist. On that basis, the third stage of the exercise calculates the level of expenditure that is necessary to be met by all levels of government through a combined exercise to achieve these service delivery standards over a stated period of time.

2.1.2 Analysis of each of the core services has been done through service-specific assumptions and related methodologies, in order to arrive at the computations. In addition, the analysis has been carried out at the State levels, to add up to the national level. Based on data available, the gap in core services delivery is established for the five years commencing from 2015-2020 and based on this estimation the volume of financial requirements to bridge this gap is determined.

2.2. Drinking Water:

2.2.1 Methodology & Assumptions

Section 4 of the report provides the financial computation model used for drinking water supply, in which individual computations are undertaken for each State and aggregated to the national level. This financial model enables the obtaining of the costs for delivery of drinking water supply through addressing infrastructural gaps projected between 2015 and 2020 and provision for operations and maintenance of these arrangements during that period. **Box 4**, details the basis on which the model has been built; i.e., the methodology, assumptions and norms used to arrive at the computations for drinking water supply. The sources of data that have gone into the construction of this model are the Census 2011 reports on households and populations, reports of the Ministry of Drinking Water and Sanitation, NSSO survey of the Ministry of Statistics and Programme Implementation and the 12th Five Year Plan.

Box 4: Assumptions and Methodology used for the financial model to compute standards and cost requirements for the provisioning of drinking water supply.

Assumptions and calculations on rural population growth:
<ul style="list-style-type: none">• Based on the Census 2011 reports on households and population, the number of rural households and the corresponding rural population is established on a state wise basis. Thus, the average number of persons per household is established for each state• It is assumed that the rate of population growth in 2001-2011 will continue during 2011-2021 as well. A further assumption is that trends of rural to urban migration and rural population growth will continue in the same manner as from 2001-2011. This assumption stems from the fact that the last decade provided a very clear trend of rural - urban migration which is expected to continue this decade• From the decadal growth rate for each state's rural population, an annualised growth rate is established for each state. This annualised growth rate is then used to compute annual population growth and establish absolute rural population growth for each state from 2011 to 2020.
Assumptions and calculation of drinking water provisioning:
<ul style="list-style-type: none">• The data provided by the States in the format circulated by the FFC in Schedule 7A was examined. However, it was noted that 11 States had not provided data⁵. Therefore, the 2011 census data, which provides specifics on drinking water provision and water quality, was relied upon along with the latest NSSO data. (see below):• The NSSO survey report released in December 2013 and updated on 14th, August 2014 has been used for latest statistics on drinking water.• There have been various studies and recommendations specific to norms and per capita costs for drinking water, which details the physical standards defined for drinking water supply, the agency/source undertaking the said standard definition, and also the cost of drinking water supply and O&M (operations and maintenance) in Rs. per capita. The strategic plan document 2011-2022 of the Ministry of Drinking Water and Sanitation states that only 31.55% of the rural population has access to piped water supply. The strategic plan aspires to increase this to 90% by 2022. It also assumes a raising of the coverage level from 40lpcd to 70lpcd and assumes that this will entail a 40 per cent increase of the current per capita cost. As per the strategic plan document, the amount required to increase service level of population covered with piped water supply at present from 40lpcd to 70lpcd for the present population is estimated at Rs.37,471 cr. The amount required to cover the remaining population with piped water supply at 70lpcd to reach 90% coverage is estimated at Rs. 3,03,457 cr. The consolidated amount for meeting the 70lpcd through piped water supply standard would therefore be Rs. 3,40,928 cr. In addition, the 2013-14 outcome budget of the ministry of drinking water

⁵ These are, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Manipur, Mizoram and Tripura

and sanitation proposes 55lpcd as the norm. Given the choices before us, the current calculation adopts the norm of 40 lpcd (as suggested by the 12th five year plan) for the purposes of computation.

- As this metric is available as a coverage per 1000 household basis in the NSSO survey 2012, it establishes the gap in supply at the point in time that the survey was conducted as the “number of households/1000” that do not have sufficient drinking water.
- The gap is applied over the annual population count by applying the coverage reported as a percentage against the total rural population data in that year⁶. Furthermore, it has been assumed that the gap will grow at a linear rate with the growth in population.
- The ideal is to target that 100% of the gap will be addressed by 2020. As to the annual estimation of how the gap will be filled, it is assumed that 10% of the gap will be addressed in 2016, 15% in 2017 and, 25% apiece in 2018, 2019 and 2020. This is based on the presumption that any plans for closing the gap will take some time to ramp up, following its introduction. It is assumed that the first two years will involve more of planning after which there will be steady rolling out of the plan in years, 3, 4 and 5.

Assumptions and calculations of costs involved:

- As per the 12th five year plan, it will currently take Rs. 2750/- per capita to supply piped water into rural residences⁷.
- An Operations and Maintenance (O&M) cost of Rs. 75/- per capita, as per the 12th Five Year Plan’s norms are factored to compute the annual O&M costs from 2016-2020. These O&M costs factors only the population covered with sufficient drinking water during that year and not the gap being addressed. These per capita costs are escalated by 5% each in 2017 and 2019 respectively, to account for inflation.
- We have made the assumption that the gap will be addressed by the supply of piped drinking water. Since this form of water supply can be expected to be the highest option in terms of expense, it will also set the upper limit, within which actual costs will potentially lie.
- Since the gap is terms of providing access to drinking water supply has been reckoned in terms of an absolute rural population count, the per capita cost of Rs. 2750/- has been applied on this number based on the 12th five year plan’s norms⁸. It is assumed that if the score for water sufficiency is 1000/1000 households then everyone is covered While direct costs will be higher, applying the above order of magnitude on per capita costs looks realistic

⁶ Column "AF" in the spread sheet calculation in the financial model 1 has been populated by computing the total gap as of 2012.

⁷ This includes Rs. 250/- per capita for metering.

⁸ Cells, AA to AE in the financial model relating to drinking water provide the calculations for a plan to address the gap.

2.2.2. Based on these assumptions, the financial resources required between 2016 and 2020 to bridge these gaps in drinking water supply delivery are projected in Table 2.

Table 2: Total costs estimated in closing the gap in supply of drinking water during 2015-2020 (Arranged in decreasing order of State-wise total financial requirements). Detailed calculation in Financial model 1

S.No	State	Total capital cost of addressing gaps 2015-2020 (Rs. Cr.)	Total cost of Operations & Maintenance 2015-2020 (Rs. Cr.)	7.5% allocation for IEC activities (Rs. Cr.)	Grand total (Rs. Cr.)	Total Costs-Per Capita Cost Rs. (2015-2020)
1	Uttar Pradesh	1515.40	6967.10	636.2	9118.7	518.1
2	Maharashtra	5189.30	2492.50	576.1	8257.9	1248.0
3	Bihar	2472.20	4285.20	506.8	7264.2	664.8
4	Rajasthan	4415.50	2219.50	497.6	7132.7	1213.9
5	Madhya Pradesh	4222.40	2263.90	486.5	6972.8	1167.2
6	West Bengal	2327.30	2547.80	365.6	5240.7	798.8
7	Karnataka	2915.40	1490.90	330.5	4736.8	1200.5
8	Jharkhand	2533.30	1074.20	270.6	3878.1	1350.9
9	Orissa	1877.30	1460.00	250.3	3587.7	945.1
10	Gujarat	1500.40	1432.80	220.0	3153.1	851.7
11	Andhra Pradesh	1398.60	1360.10	206.9	2965.6	843.9
12	Tamil Nadu	783.30	1530.40	173.5	2487.2	638.0
13	Chhattisgarh	1291.20	848.40	160.5	2300.0	1036.6
14	Telangana	872.20	848.00	129.0	1849.3	844.1
15	Assam	345.30	1179.30	114.3	1639.0	549.0
16	Jammu & Kashmir	792.80	393.50	89.0	1275.3	1223.4
17	Kerala	593.20	562.00	86.6	1241.9	853.5
18	Punjab	373.40	718.50	81.9	1173.9	641.2
19	Haryana	219.80	697.90	68.8	986.5	557.9
20	Himachal Pradesh	463.60	255.90	54.0	773.5	1146.6
21	Uttarakhand	277.70	296.00	43.0	616.7	808.8
22	Nagaland	312.00	42.00	26.6	380.6	2995.5
23	Meghalaya	229.60	107.80	25.3	362.7	1266.7
24	Tripura	134.90	105.90	18.1	258.9	939.7
25	Manipur	135.20	70.00	15.4	220.6	1191.9
26	Arunachal Pradesh	73.10	47.70	9.1	129.8	1041.0
27	Sikkim	35.00	16.60	3.9	55.5	1257.6
28	Mizoram	27.30	22.90	3.8	53.9	909.2
29	Goa	11.70	18.90	2.3	33.0	680.9
	TOTAL	37338.60	35355.90	5452.10	78146.60	855.36

2.2.2 Based on Table 2, Rs. 37,338.6 crores is expected to be required in order to deliver the standard norm of 40 lpcd and above, between 2016 and 2020, to all rural households. Furthermore, Rs. 35,355.9 crores is required for operational and maintenance expenses of existing arrangements for drinking water supply. This totals to a requirement of Rs. 72,694.5 crore to address drinking water supply gaps as well as for operations and maintenance between 2015 and 2020.

2.2.3 In addition, IEC activities (Information, Education & Communication) activities to persuade citizens to make best use of scarce water and maintain valuable assets for water supply, is critical for the success of the programme. However, as per the report of the working group on rural domestic water and sanitation of the 12th five-year plan, the amounts allocated for IEC activities are not being fully utilised. As per the 12th five-year plan; a budget of 15% of project outlay is allocated to IEC activities for drinking water and sanitation. Given that there is no break up available, it is assumed that 7.5% of this budget is allocated to drinking water and 10% to sanitation and hygiene. This would translate into Rs. 5452.2 crore for IEC activities pertaining to drinking water across the country.

2.2.4 Thus, the gross requirement of funds for the provision of drinking water at the standard of 40 lpcd to all rural households, maintenance of these facilities and investment in IEC to ensure that people use these facilities and water sources responsibly and sustainably, adds up to Rs. 78146.30 crore, from 2015 to 2020.

2.3. Sanitation and Hygiene:

2.3.1 Methodology and Assumptions

The data provided by States was reviewed and found insufficient to perform an analysis and arrive at conclusions on the gaps in the delivery of sanitation and hygiene services. Consequently, reports from the Ministry of Drinking Water and Sanitation and Census 2011 for data on households and population were used for the analysis. A juxtaposition of the data relating to the Total Sanitation Program (TSP) with that of the census revealed that the census reported a much lower degree of sanitation coverage as compared to that of the TSC data. Data from a recent NSSO survey (December, 2013) of the Ministry of Statistics and Programme Implementation was subsequently used to arrive at the latest statistics for each state as the basis for analysis.

In addition, it was decided to frame the components that constitute Sanitation and Hygiene in broader terms to cover both public and more individualised services. Besides independent household latrines, school toilets, Anganwadi toilets and provision of solid and liquid waste management systems were also factored into the analysis. IEC activities as mentioned in the previous section on drinking water supply, were factored in as well.

While finances have been made available for these components of sanitation, two questions arise in that connection, namely, the utilisation of these finances and the effectiveness of such utilisation. For components of a comprehensive approach to sanitation, apart from

latrines, the strategic plan document (2011-2022) of the Ministry of Drinking Water supply and Sanitation, The DISE report (2013-14) of the Department of School Education and Literacy, Ministry of Human Resource Development – Report on Government Schools without toilets, the Nirmal Bharat Abhiyan guidelines, November 2013 were the main sources of information. Reports from the Press Information Bureau and the Ministry of Women and Child Development provided more valuable background information for firming up the assumptions, which underlay the calculations.

Box 5 provides a detailed list of assumptions that have been made to arrive at a financial model for sanitation and hygiene. This model consists of costs projected for separate components for independent household latrines, school toilets, Anganwadis and solid and liquid waste management respectively. Assumptions for each of these components have been categorised separately.

Box 5: Assumptions used for constructing the financial model for provisioning of sanitation and hygiene services:

Independent Household Latrines
<p>The rural population and household specifics are obtained from Census 2011 tables. In addition latrine information by household is obtained from the household and assets table of Census 2011</p> <p>As in the case of computations relating to water supply, the decadal growth rate of population and subsequently the annualised growth rate is applied to household data to arrive at absolute numbers for each year until 2020. The number of people per household is assumed constant and in line with the computations of the 2011 census.</p> <p>Data on the number of households until 2020 in rural areas is computed based on the above logic.</p> <p>Households/1000 not having latrine facility in rural areas for each state is obtained from the NSSO survey of 2013 (Ministry of statistics and programme implementation). This data has been chosen over the Census 2011 data, because the former is more recent. In addition, the coverage numbers in the NSSO survey are significantly lower than that of the census. This means that it can be used as indicating the lowest limits of coverage, on which gaps are estimated.</p> <p>An exception is made in the case of Nagaland. As the NSSO survey could not access hilly areas of the State, the census value is assumed as the basis for consideration of total households/1000 having latrines. More specifically, the value is 308/1000</p> <p>If 750 /1000 households have latrines then the gap to be addressed is treated as 250 households</p> <p>In a similar fashion to calculating the sequencing the closing of the gap with respect to water supply, it has been presumed that the gap will be addressed in the following manner – 10% i.e. 25 households/1000 in 2015-16, 15% in 2016-17, and 25% in 2017-18, 2018-19 and 2019-20 respectively</p> <p>The central contribution for the building of a toilet for each household has been assumed to be Rs. 4,000/-. This is based on data from the 12th five year plan. In doing so, we have also considered the fact that under the NBA, the allocation for the construction of an individual toilet is Rs. 10,000/-, of which Rs. 6000/- is provided by the state. It is also pointed out that in Bangladesh, where there have been rapid gains in the provisioning of household sanitation, the cost of constructing a usable toilet is only INR 3000/-. This emphasises the fact that increases in the cost of construction of toilets does</p>

not automatically lead to their use. This factor has also influenced us to adopt a more conservative presumed allocation for the construction of toilets.

In accordance with the recommendations of the Working Group of the Planning Commission for the 12th five year plan, a provision of 10% of the total cost has been made to cover O&M costs.

Considering inflation forecasts from the Economic Intelligence Unit, World Bank, IMF and OECD long term forecast, a cost inflation of 5% has been factored into the total costs (both capital and O&M). As is the case with water supply, these have been factored to be applied in 2016-2017 and 2018-2019 respectively.

The solution is not only about constructing toilets, but also getting people to use them which requires for a responsive and active IEC component. As mentioned earlier 10% of total funds for sanitation and hygiene are assumed to be used for IEC. This is in line with our previous assumption that overall IEC budgets stand at a combined figure of 15% for drinking water and sanitation since they go together.

Four states – Sikkim, Nagaland, Goa and Kerala have shown a decline in rural population. It was announced recently that Sikkim has 100% latrine coverage for all households. Accordingly, it is assumed that there will be no gap for Sikkim in 2014. For that reason, the model does not allow for Sikkim to obtain finances since the gap is addressed. Since these states would have completed construction of latrines, the model does not provide for allocation of costs. Accordingly, for these states, we have used unit cost structures researched by the WASHCost project of the Bill & Melinda Gates foundation. Assuming an average cost of INR 250 per person per year, and a household to have four persons, the cost per household on O&M is INR 1000.

In the case of Nagaland, it is assumed that the gap will be bridged by 2018. This is so because a few areas were inaccessible for the NSSO survey. For Goa and Kerala, it is assumed that the entire gap will be bridged by 2017.

Details presented in Financial model 2.

School Toilets

Data pertaining to the state of toilets in Government schools on a state wise basis was available at the Department of School Education and Literacy through a report on Government schools without toilets. Details have been presented in Financial model 3.

Rs. 35000/- is the amount required for each new School toilet, as per the Ministry of Drinking Water and Sanitation. Rs. 10,000/- per year has been assumed as the maintenance amount for school toilets. This has been arrived at by using the norm of Rs. 75 per capita as O&M as suggested by Ministry of Drinking Water & Sanitation and applying this to a school of 125-150 students.

Anganwadi toilets

Obtaining accurate information on Anganwadis through secondary research has proven to be difficult. For that reason, reliance has been placed on a report citing the Ministry of Women and Child Development⁹, which estimated that there are 13.4 lakh Anganwadi and mini Anganwadi

⁹ Press Information Bureau release dated 16-12-2013

centres functioning across the country, of the 13.75 lakh that have been sanctioned. This data has been juxtaposed with data from the Ministry of Drinking Water and Sanitation¹⁰, which provides the completion status of Anganwadi toilets.

Rs. 8000/- has been allocated for construction of toilets per Anganwadi, in accordance with the current norms of the Ministry of Drinking Water and Sanitation.

Our computations have not taken into consideration the construction of new Anganwadis or Anganwadis sanctioned but not built. It has addressed the requirements of 13.4 lakh Anganwadi as mentioned above.

Solid waste management

The norm of the Ministry of Drinking Water and Sanitation of a per household cost of Rs. 1920/- has been adopted for our calculations. These expenses are for the purchase of rickshaw van, containers, compost pit preparation, dress for workers, construction of sheds for segregation and provision of tools.

This cost is applied to the total number of households projected in 2020 as an on-time exercise so as to cover all households, on the presumption that no household or community of households have access to solid waste management facilities at present.

Liquid waste management

The assumptions being made for liquid waste management are nearly the same as that for solid waste management. The only noticeable difference is the per capita cost involved. These norms have been taken directly from the Ministry of Drinking Water and Sanitation. As per these norms, an amount of Rs. 1200/- per capita is required for liquid waste management. Most if it involves capital expenditure for the construction of soak pits and stabilisation ponds.

2.3.2. Using these assumptions, the financial resources required to bridge gaps in sanitation provision between 2015 and 2020 has been provided in Table 3 below. Financial model 2, 3 and 4 provides the financial model computations for these components of sanitation and hygiene.

Table 3: Details of the costs required for meeting gaps in provision of sanitation facilities (in Rs. Crores); arranged in decreasing order of total requirements. Details in Financial model 2, 3 and 4

S.No	Area Name	Household toilets	School toilets	Anganwadis toilets @ Rs. 8000/- per toilet	Solid Waste Management @ 1920 per capita	Liquid Waste Management @ 1200 per capita	Grand total	Total Costs- Per Capita Cost INR (2015-2020)
1	Orissa	3,660.45	94.16	39.86	1,867.63	1,167.27	6,829.38	1,799.04
2	Sikkim	47.94	0.18	0.68	18.23	11.39	78.42	1,776.96
3	Tamil Nadu	3,379.47	21.42	22.86	2,094.55	1,309.10	6,827.40	1,751.15

¹⁰ As obtained from the "percentage-wise physical progress report as per information received upto 31-10-2013

4	Chhattisgarh	1,942.97	43.49	33.38	1,060.41	662.76	3,743.00	1,686.85
5	Andhra Pradesh	2,502.96	109.39	68.87	1,882.00	1,176.25	5,739.47	1,633.30
6	Madhya Pradesh	5,101.12	80.39	56.83	2,705.59	1,691.00	9,634.94	1,612.77
7	Jharkhand	2,483.01	41.70	26.59	1,151.62	719.77	4,422.69	1,540.53
8	Telangana	1,467.36	88.75		1,104.43	690.27	3,350.82	1,529.37
9	Karnataka	2,980.31	0.22	30.42	1,734.46	1,084.04	5,829.45	1,477.50
10	Bihar	7,465.80	144.87	71.24	4,334.68	2,709.18	14,725.77	1,347.65
11	Rajasthan	4,037.84	27.06	34.57	2,319.53	1,449.71	7,868.70	1,339.20
12	Maharashtra	3,845.70	11.46	36.35	2,947.77	1,842.36	8,683.63	1,312.36
13	Gujarat	2,155.94	3.46	21.08	1,517.78	948.61	4,646.87	1,255.17
14	West Bengal	2,921.04	109.34	58.02	3,033.00	1,895.62	8,017.02	1,221.97
15	Uttar Pradesh	11,099.59	33.17	74.00	6,172.20	3,857.62	21,236.58	1,206.65
16	Himachal Pradesh	187.42	4.78	8.05	302.91	189.32	692.47	1,026.59
17	J & K	388.06	52.01	24.31	367.59	229.75	1,061.72	1,018.49
18	Nagaland	40.45	1.81	1.89	51.54	32.21	127.89	1,006.62
19	Uttaranchal	152.71	7.52	15.96	321.43	200.90	698.52	916.07
20	Punjab	395.03	4.89	18.85	733.60	458.50	1,610.87	879.84
21	Goa	5.44	0.68	1.04	21.75	13.59	42.51	877.79
22	Assam	418.29	88.58	43.88	1,273.63	796.02	2,620.39	877.72
23	Arunachal Pradesh	14.76	10.41	3.56	49.38	30.86	108.97	873.70
24	Haryana	410.63	3.92	15.31	668.64	417.90	1,516.41	857.54
25	Manipur	2.49	1.70	7.47	85.87	53.67	151.20	817.05
26	Tripura	4.38	2.48	2.47	127.98	79.99	217.30	788.74
27	Kerala	25.70	0.87	24.12	667.59	417.24	1,135.52	780.40
28	Meghalaya	11.76	26.79	2.91	110.92	69.33	221.71	774.36
29	Mizoram	0.42	2.75	0.50	25.28	15.80	44.75	754.67
	TOTAL	57,149.07	1,018.24	745.07	38,752.00	24,220.00	1,21,884.37	1,334.10

2.3.3 From an overall perspective, a financial requirement of Rs. 1,21,884.37 crore is required to bridge the gap in sanitation and hygiene.

2.4. Roads:

2.4.1 In the absence of reliable data from States on rural roads, data from the Ministry of Road Transport and Highways¹¹ was analysed to determine the current position with respect to the provisioning of rural roads. Data pertaining to Panchayati Raj roads (Zilla Panchayat, Taluk Panchayat, Gram Panchayat) and PMGSY (Pradhan Mantri Gram Sadak Yojana) roads were selected for analysis. This included a detailed listing of Panchayat and PMGSY roads across the country, with further details of surfaced and unsurfaced roads in the above two contexts.

¹¹ A December 2013 publication by its transport research wing as also reports of the National Rural Roads Agency, under the Ministry of Rural Development, which implements the Pradhan Mantri Gram Sadak Yojana (PMGSY).

2.4.2 The cost of building and/or surfacing a road can vary widely from region to region and state to state. This extremely large variability in costs makes it impossible to arrive at a uniform standard norm applicable to all States and regions. However, it is possible to arrive at maintenance costs for such roads. Another assumption made is that only existing roads as detailed in the report of the Ministry of Road Transport and Highways have been covered. New roads have not been factored into our calculations, because the PMGSY conditions for construction already factor in maintenance of new roads for a period of five years.

2.4.3 The Indian Roads Congress¹² has undertaken a research based approach to compute maintenance costs for surfaced and unsurfaced roads. According to the report, the cost of maintenance for surfaced roads is determined as Rs. 18650/- per km and that of unsurfaced roads is determined as Rs. 12450/- per km. PMGSY roads are treated as surfaced roads and the appropriate norm has been applied. Table 4 below provides the financial costs associated with maintenance of roads from 2015-2020.

Table 4: Maintenance costs for surfaced and unsurfaced rural roads during 2015-2020. Details in financial model 5.

S.No	State	Grand Total (Roads) 2015-2020 (Rs. Cr)	Costs per capita 2015-2020(Rs.)
1	Andhra Pradesh	752.78	214.22
2	Arunachal Pradesh	31.19	250.10
3	Assam	1427.53	478.16
4	Bihar	809.54	74.09
5	Chattisgarh	181.48	81.79
6	Goa	41.52	857.46
7	Gujarat	476.84	128.80
8	Haryana	41.81	23.65
9	Himachal Pradesh	97.37	144.35
10	Jammu & Kashmir	49.20	47.20
11	Jharkhand	67.93	23.66
12	Karnataka	1289.21	326.76
13	Kerala	1188.24	304.77
14	Madhya Pradesh	770.78	129.02
15	Maharashtra	1100.15	166.27
16	Manipur	50.77	274.35
17	Meghalaya	13.18	46.05
18	Mizoram	19.61	330.68
19	Nagaland	166.42	1309.89
20	Orissa	1332.95	351.13
21	Punjab	554.79	303.02
22	Rajasthan	754.33	128.38
23	Sikkim	22.39	507.35
24	Tamil Nadu	1173.76	301.05

¹² Publication on highways in India (August, 2014)

25	Tripura	127.87	464.13
26	Uttarakhand	37.78	49.54
27	Uttar Pradesh	708.88	40.28
28	West Bengal	1155.82	176.17
29	Telangana	545.12	248.80
	Total	14989.24	164.1

A total amount of Rs. 14989.24 crores is the financial requirement to be fulfilled for maintenance of rural roads (Panchayati Raj and PMGSY) from 2015 to 2020.

2.5. Streetlights:

2.5.1 In the absence of data from States, various sources were explored to ascertain as to whether any standards are prescribed for the provisioning of streetlights. Reports of the Central Electricity Authority provide the latest updates on village electrification, as of 31-May-2014. The gaps are seen to be two fold – electrifying previously un-electrified villages and providing for maintenance of electrified villages. However, there does not seem to be any national guidelines for the number of street lights to be provided in a village.

2.5.2 The Electricity Supply Codes formulated by the Electricity Regulatory Commissions of different States were examined for data on the standards to be applied for streetlight provisioning. The Electricity Supply Codes enjoin Local Bodies and Municipalities to make an application to the licenced distributor of electricity for providing electricity for streetlights. The Fixtures used for the street-lighting are to be cleared by the electricity distribution company. A study of electricity distribution and supply codes of various States revealed that Karnataka¹³ and Kerala¹⁴ lay down procedures specific to streetlights. Other Codes of States such as Andhra Pradesh, Tamil Nadu, Maharashtra, Gujarat and Uttar Pradesh do not make any specific mention of the manner of electricity supply to street lights. The Delhi Electricity Regulatory Commission through Clause 11 of the Delhi Supply Code and Performance Standards Regulations, 2007 mentions that three-phase supply will be given to street lights but does not mention minimum numbers of street lights to be provided.

2.5.3 Some details of the Standards applicable for the provision of streetlights were available in the earlier Karnataka (Electricity Supply & Distribution) Code, 2000-2001, which prohibited more than 10 to 15 street lights for every 100 houses and called for fixing street lights on alternate poles with an average span of 35 meters between them. It also laid down minimum charges for fixing of street lights. This provision does not find a place in the new Code renamed as Conditions of Supply of Electricity of Distribution Licensees in the State of Karnataka, 2006. This Code merely provides for fixing street lights according to ‘schemes’. Generally, in Karnataka the schemes follow the old Code that laid down the number of street lights per household.

¹³ Clause 11.0, Conditions of Supply of Electricity of the Distribution Licensees in the State of Karnataka, 17.6.2006

¹⁴ Clause 102 of the Kerala Supply Code, 2014

2.5.4 Guided by the standards in the 2000-2001 code of Karnataka quoted above, calculations have been made of the standards for the provision of streetlights in villages. To connect service lines, generally one pole is required for every 50 meters. It has been assumed that the ideal level of street-lighting would involve mounting one street light on every pole so that there is adequate and uniform illumination. While extent of villages electrified is known, the length of roads in each village is not known and can vary widely depending upon the habitation patterns in rural areas. We have assumed that internal roads of 2 kms length will be required to be illuminated with streetlights in each village. This is based on the observation that every village has a common core area where services, both public and private are located. This would include community assets and services such as the health centre, school, Panchayat office, veterinary centre etc., the village 'centre', where Gram Sabhas are held and where places of worship are located. This would be the area where the bus stand is also located, as also where public transportation is parked. At one streetlight for every fifty meters, over a distance of 2 kms, 40 street lights will be required for lighting the core area in a village. The cost of fixing a street light is assumed to be Rs. 1,500 at present. At that rate, the total cost for installing 40 streetlights in a village will be around Rs. 60,000.

2.5.5. Street lights will need to be maintained on a regular basis. On an average we have presumed that one streetlight fails every month, unless they are protected through using Miniature circuit breakers (MCBs), at a minimal cost. It is also presumed that the same staff that maintains the electricity lines can also undertake the maintenance of streetlights and replace bulbs, at no additional cost. Ten per cent of capital cost can be taken as maintenance cost.

2.5.6 Street Lights Tariff and other details:

On the issue of electricity consumption by streetlights, a broad review of a sample of tariff regimes for Streetlights was obtained from various States. Details are in Box 6:

Box 6: Comparison of tariff for Streetlights, from various States

Point of detail	State						
	Karnataka	Gujarat	Delhi	Andhra	Tamil Nadu	Uttar Pradesh	Rajasthan
Year & Tariff order	TO/2014 dtd 12.5.14	TO/2014 dtd 29.4.14	TO/2014 dtd 23.7.14		TO/2013 dtd 20.06.13	TO/2013 dtd 31.5.13	TO/2013 dtd 7.6.2013
Fixed Charges (Rs/Kw/PM)	50			30			65-80, max Rs. 650 to 1600
Energy Charges (Rs/unit)	4.85	3.95	7.30	5.37	5.50	6.43	4.90 to 5.30
Normative consumption kWh/kW/local body	Monthly					300	
	Annual	107500				110000	
No of consumers (i.e., Local bodies)						9809	

Consumption in Million Units (Kwh/hour)		860.30	220.00	411.88	2071.87		1082.00	354.00
Details of LB bills	Monthly bill approx.	47812.00					57515.00	
	Annual bill (approx.)	573750					690182	
Revenue of LBs (Rs. Crores)		459.07	98.00	291.26	1127.91		677.00	198.00
Remarks		All distribution companies combined.			Incl water supply		All dist companies combined.	

The following assumptions were made for calculating the tariff payable for streetlights:

- 596780 villages to be provided streetlights
- 40 streetlights per village, burning each night for 12 hours
- Tariff of Rs. 6 per kwh/hour (unit)

Based on these assumptions, the following are the expenditures likely to be incurred as electricity tariff, over five years (Box7).

Box 7: Expenditures likely to be incurred on electricity tariff, during 2015-2020.

Wattage of each streetlight		40
Consumption (kwh/hour; unit)	for 40 streetlight	1600
	for 12 hours	19.2
	for 30 days	576
	for 1 year	6912
No of villages (2011 census)		596780
Total units consumed (million units)		4124.94
Tariff per unit (Rs.)		6
Bill per year (Rs. Crores)		2474.96
Total bill for 5 years (Rs. Crores)		12374.83

2.5.7 Computation of costs for providing streetlights:

Assuming that every village is provided with 40 streetlights, at a capital cost of Rs. 1500/- per street light, and a maintenance cost at 10% of capex cost for each year, the financials have been accordingly computed as per Table 5 below. The financial model that has been used to compute these calculations is in Section 4 of the report.

Table 5: Calculation of cost for providing street lighting in all villages, (40 streetlights in every village, for 2 kms length of core area within the village. Details in financial model 6.

Sl	State	New streetlights for all unelectrified villages (crores)	One time capex @ 60000 per electrified village for 2015-20)	Maintenance @ 10% capex	Tariff for streetlights at Rs. 41472/village/year)	Grand total expenditure (Rs. Cr)	Costs per capita (2015-2020) INR

1	Andhra P	0	101.03	50.51	349.15	500.69	142.48
2	Arunachal	10.032	31.55	15.77	109.03	166.38	1334.07
3	Assam	5.808	152.23	76.12	526.11	760.27	254.66
4	Bihar	10.542	234.44	117.22	810.22	1172.42	107.30
5	Chattisgarh	3.072	117.40	58.70	405.74	584.92	263.60
6	Goa	0	1.92	0.96	6.64	9.52	196.50
7	Gujarat	0	107.06	53.53	369.99	530.58	143.31
8	Haryana	0	39.85	19.93	137.73	197.51	111.69
9	Himachal	0.012	107.29	53.65	370.80	531.75	788.32
10	J& K	0.678	38.02	19.01	131.40	189.12	181.42
11	Jharkhand	14.1	176.95	88.48	611.55	891.07	310.38
12	Karnataka	4.158	164.38	82.19	568.10	818.84	207.54
13	Kerala	0	6.10	3.05	21.09	30.24	20.78
14	MP	9.21	311.57	155.79	1076.80	1553.37	260.01
15	Maharashtra	0.216	245.74	122.87	849.26	1218.08	184.09
16	Manipur	1.908	14.27	7.14	49.33	72.65	392.58
17	Meghalaya	7.962	38.75	19.38	133.93	200.03	698.64
18	Mizoram	0.324	4.22	2.11	14.60	21.26	358.46
19	Nagaland	0.834	8.40	4.20	29.03	42.46	334.23
20	Orissa	52.542	286.06	143.03	988.63	1470.27	387.31
21	Punjab	0	73.01	36.50	252.32	361.83	197.63
22	Rajasthan	25.368	259.58	129.79	897.12	1311.87	223.27
23	Sikkim	0	2.55	1.28	8.81	12.64	286.38
24	Tamil Nadu	0	90.29	45.15	312.06	447.50	114.78
25	Tripura	0.156	5.18	2.59	17.90	25.82	93.71
26	Uttarakhand	0.642	94.47	47.24	326.49	468.84	614.85
27	Uttar Pradesh	7.788	586.88	293.44	2028.25	2916.36	165.71
28	West Bengal	0.012	224.78	112.39	776.83	1114.01	169.80
29	Telangana	0	56.69	28.34	195.91	280.95	128.23
	Total	155.364	3580.68	1790.34	12374.83	17901.21	195.94

The total cost for the provisioning of 40 streetlights for every village for 2015-2020, in accordance with the above assumptions is Rs. 17901.21 crores. (Rs. 5526.38 crore for provisioning and maintenance and Rs. 12374.83 crore as billing for electricity consumption)

2.6. Community Assets:

2.6.1 Methodology & Assumptions

In our first report, a detailed analysis was undertaken of the range of functions devolved to RLBs through the Constitution and relevant laws. This revealed a wide range of functions that could be considered as community assets. However, in fact, many of these assets still continue to exist as assets belonging to the relevant line departments and in most States, have not been transferred formally to the RLBs and entrusted to them for their maintenance.

Keeping this factor in mind, each of the community assets that were shortlisted in the first report was examined from the point of view whether (a) it is feasible in the current situation for such assets to be maintained by RLBs, and (b) if so, whether standards can be established along the same lines as drinking water supply, sanitation and hygiene, roads and streetlights, in order to establish a financing model.

Community assets fall into three broad categories, as follows:

- Buildings, such as community halls, cultural facilities Libraries and reading rooms Warehouses, granaries and godowns, veterinary and health centres, slaughter houses, vocational training, rural artisan centres, Anganwadi and women and child welfare centres, schools, hostels, adult literacy centres, rest houses and Dharamshalas,
- Land based community assets, such as wastelands and grasslands, roadside and public land afforestation, social forestry, fuel plantation,
- Core community assets, such as Construction and maintenance of waterways and operation of ferries, Markets, fairs, including cattle fairs Parks, playgrounds, clubs, gymnasias, stadia Community ponds, fisheries, bathing ghats, cart stands, waiting rooms cattle pounds burial grounds, crematoria.

With respect to buildings, as stated earlier, most of these are constructed and maintained by departments and are only nominally, if at all, in the custody of Panchayats. Many of these buildings are financed by departments, which should provide the funding for their maintenance as well. It is felt that if FFC funds are to be explicitly used by the Panchayats for the maintenance of buildings that are located within the Panchayat's premises, then there would be an incentive for departments not to earmark sufficient funds for their maintenance. It is also not ruled out that departments may pressurise the state government to give directives to the Panchayats to convert their community asset allocations into tied funds meant solely for the maintenance or one or the other departmental asset. Therefore, after due consideration of these implications, it is felt that buildings that re in the nature of community assets which are with the Panchayats, need not be considered while calculating the burden of maintenance.

With respect to land based activities the Panchayats now receive sufficiently large allocations of funds under the national rural employment guarantee programme, which can be used for land based activities, including the creation and maintenance of land based community assets such as roadside tree planting and grasslands, and common grazing grounds

That leaves what we term as the core community assets. With respect to assets such as waterways and other means of communication, these are relevant only to those local governments that are remote or located beside rivers, lakes or the sea coast. It is believed that a combination of departmental funds and user charges would be sufficient to cover the burden of a maintenance cost. Alternatively, a lump sum allocation could be made for each panchayat, for the purpose of provisioning of such facilities.

With respect to parks and playgrounds, sufficient allocation of funds are available from departments and the NREGA to carry out labour intensive tasks such as cleaning, fencing, levelling and watering. Ferries operating in such areas, such as operation of ferries, markets, fairs, parks, burial grounds etc. With respect to these, some of the

Burial grounds on the other hand are truly a community asset that is universally necessary across all panchayats in India along the lines of drinking water, sanitation & hygiene, roads and streetlights. It is a 'must have' core civic activity. Assuming that deaths will happen as per the mortality rate of each state, a key requirement will be expansion of land to provide for burial/cremation of bodies. We have therefore focused on conceptualising a model for the funding of burial grounds in all panchayats in India.

Through a literature survey focusing on norms and standards for burial grounds, valuable details were obtained from the September 2013 Report of the Fourth Finance Commission of Rajasthan¹⁵. The norms prescribe a per capita cost of Rs 46.16 for a burial ground. Based on this per capita cost, a one-time capital cost for provision of burial grounds in each VP. Financial model 7 has used this as a basis to arrive at the costs (Table 6). Land development and burial ground infrastructure is the capital expense. The per capita cost is multiplied with the average rural population for each state to arrive at the capital cost and likewise, O&M cost is computed as 10% of the capex cost, consistent with a similar approach with respect to the other core civic functions.

Table 6: Costs for providing burial/cremation grounds in every RLB at Rs. 46.16 per capita (in Rs. Cr.)

S.No	State	One time Capital Cost for burial grounds	O&M across 5 years as 10% of capex	Total cost	Per capita (incl maint)
1	Andhra Pradesh	162.21	16.22	178.43	50.8
2	Arunachal Pradesh	5.76	0.58	6.34	50.8
3	Assam	137.81	13.78	151.59	50.8
4	Bihar	504.39	50.44	554.83	50.8
5	Chattisgarh	102.43	10.24	112.67	50.8
6	Goa	2.24	0.22	2.46	50.8
7	Gujarat	170.89	17.09	187.98	50.8
8	Haryana	81.63	8.16	89.79	50.8
9	Himachal Pradesh	31.14	3.11	34.25	50.8
10	Jammu & Kashmir	48.12	4.81	52.93	50.8
11	Jharkhand	132.52	13.25	145.77	50.8
12	Karnataka	182.12	18.21	200.33	50.8
13	Kerala	67.17	6.72	73.89	50.8
14	Madhya Pradesh	275.77	27.58	303.35	50.8
15	Maharashtra	305.43	30.54	335.97	50.8
16	Manipur	8.54	0.85	9.39	50.7

¹⁵ These norms were researched for the Fourth State Finance Commission by the SCM Policy Research Institute SPRI (Jaipur)

17	Meghalaya	13.22	1.32	14.54	50.8
18	Mizoram	2.74	0.27	3.01	50.8
19	Nagaland	5.86	0.59	6.45	50.8
20	Orissa	175.23	17.52	192.75	50.8
21	Punjab	84.51	8.45	92.96	50.8
22	Rajasthan	271.22	27.12	298.34	50.8
23	Sikkim	2.04	0.2	2.24	50.8
24	Tamil Nadu	179.97	18	197.97	50.8
25	Telangana	101.14	10.11	111.25	50.8
26	Tripura	12.72	1.27	13.99	50.8
27	Uttar Pradesh	812.4	81.24	893.64	50.8
28	Uttarakhand	35.2	3.52	38.72	50.8
29	West Bengal	302.84	30.28	333.12	50.8
	Total Costs	4217.23	421.72	4638.95	50.8

A combined cost of Rs. 4638.95 crores is required to address the requirements of burial grounds from 2015-2020. Financial model 7 provides the basis of computation as well.

2.7. Overall costs:

A summation of the costs to be incurred for the raising the levels of the service performed to the standards assumed is placed at Table 7.

Table 7: Total financial requirements for the provision of core services by RLBs during 2015-2020:

State	Total costs (Rs. Crore)					
	Drinking Water supply	Sanitation	Roads	Streetlights	Community assets	Total
Andhra Pradesh	2965.60	5,739.47	752.78	500.69	178.43	10136.97
Arunachal Pradesh	129.80	108.97	31.19	166.38	6.34	442.68
Assam	1639.00	2,620.39	1427.53	760.27	151.59	6598.78
Bihar	7264.20	14,725.77	809.54	1172.42	554.83	24526.76
Chattisgarh	2300.00	3,743.00	181.48	584.92	112.67	6922.07
Goa	33.00	42.51	41.52	9.52	2.46	129.01
Gujarat	3153.10	4,646.87	476.84	530.58	187.98	8995.37
Haryana	986.50	1,516.41	41.81	197.51	89.79	2832.02
Himachal Pradesh	773.50	692.47	97.37	531.75	34.25	2129.34
Jammu & Kashmir	1275.30	1,061.72	49.20	189.12	52.93	2628.27
Jharkhand	3878.10	4,422.69	67.93	891.07	145.77	9405.56
Karnataka	4736.80	5,829.45	1289.21	818.84	200.33	12874.63
Kerala	1241.90	1,135.52	1188.24	30.24	73.89	3669.79
Madhya Pradesh	6972.80	9,634.94	770.78	1553.37	303.35	19235.24

Maharashtra	8257.90	8,683.63	1100.15	1218.08	335.97	19595.73
Manipur	220.60	151.2	50.77	72.65	9.39	504.61
Meghalaya	362.70	221.71	13.18	200.03	14.54	812.16
Mizoram	53.90	44.75	19.61	21.26	3.01	142.53
Nagaland	380.60	127.89	166.42	42.46	6.45	723.82
Orissa	3587.70	6,829.38	1332.95	1470.27	192.75	13413.05
Punjab	1173.90	1,610.87	554.79	361.83	92.96	3794.35
Rajasthan	7132.70	7,868.70	754.33	1311.87	298.34	17365.94
Sikkim	55.50	78.42	22.39	12.64	2.24	171.19
Tamil Nadu	2487.20	6,827.40	1173.76	447.50	197.97	11133.83
Telangana	1849.30	3,350.82	545.12	25.82	111.25	5882.31
Tripura	258.90	217.3	127.87	468.84	13.99	1086.9
Uttar Pradesh	9118.70	21,236.58	708.88	2916.36	893.64	34874.16
Uttarakhand	616.70	698.52	37.78	1114.01	38.72	2505.73
West Bengal	5240.70	8,017.02	1155.82	280.95	333.12	15027.61
Total Costs	78146.60	1,21,884.37	14989.24	17901.21	4638.95	237560.4

The per capita costs is as follows (Table 8):

Table 8:

State	Per capita cost (Rs.)					
	Drinking Water supply	Sanitation	Roads	Streetlights	Community assets	Total
Andhra Pradesh	843.9	1,633.30	214.2	142.5	50.8	2884.70
Arunachal Pradesh	1041.0	873.7	250.1	1334.1	50.8	3549.70
Assam	549.0	877.72	478.2	254.7	50.8	2210.42
Bihar	664.8	1,347.65	74.1	107.3	50.8	2244.65
Chattisgarh	1036.6	1,686.85	81.8	263.6	50.8	3119.65
Goa	680.9	877.79	857.5	196.5	50.8	2663.49
Gujarat	851.7	1,255.17	128.8	143.3	50.8	2429.77
Haryana	557.9	857.54	23.7	111.7	50.8	1601.64
Himachal Pradesh	1146.6	1,026.59	144.4	788.3	50.8	3156.69
Jammu & Kashmir	1223.4	1,018.49	47.2	181.4	50.8	2521.29
Jharkhand	1350.9	1,540.53	23.7	310.4	50.8	3276.33
Karnataka	1200.5	1,477.50	326.8	207.5	50.8	3263.10
Kerala	853.5	780.4	304.8	20.8	50.8	2010.30
Madhya Pradesh	1167.2	1,612.77	129.0	260.0	50.8	3219.77
Maharashtra	1248.0	1,312.36	166.3	184.1	50.8	2961.56
Manipur	1191.9	817.05	274.4	392.6	50.7	2726.65
Meghalaya	1266.7	774.36	46.1	698.6	50.8	2836.56
Mizoram	909.2	754.67	330.7	358.5	50.8	2403.87

Nagaland	2995.5	1,006.62	1309.9	334.2	50.8	5697.02
Orissa	945.1	1,799.04	351.1	387.3	50.8	3533.34
Punjab	641.2	879.84	303.0	197.6	50.8	2072.44
Rajasthan	1213.9	1,339.20	128.4	223.3	50.8	2955.60
Sikkim	1257.6	1,776.96	507.4	286.4	50.8	3879.16
Tamil Nadu	638.0	1,751.15	301.1	114.8	50.8	2855.85
Telangana	844.1	1,529.37	248.8	11.8	50.8	2684.87
Tripura	939.7	788.74	464.1	1701.8	50.8	3945.14
Uttar Pradesh	518.1	1,206.65	40.3	165.7	50.8	1981.55
Uttarakhand	808.8	916.07	49.5	1461.0	50.8	3286.17
West Bengal	798.8	1,221.97	176.2	42.8	50.8	2290.57
Total Costs	855.4	1,334.10	164.1	195.9	50.8	2600.30

A total sum of Rs. 2,37,560 crores is required for the provision of core services by the RLBs. This works out to Rs. 2600 per capita, for the period from 2015 to 2020.

Chapter 3: Analysis of data on revenues of RLBs provided by States

3.1. Introduction:

3.1.1. The analysis of data provided by the States has been undertaken keeping in mind the specific questions of enquiry, which have been indicated by the FFC. The analysis comprises 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. The consistency checks undertaken wherever information is available from multiple sources, particularly different formats sent by States as directed by the FFC, have been described separately and do not form part of the main body of the report.

3.2.1. The revenues of the Panchayats comprises of three parts, namely, own revenues (which in turn comprises of tax revenues and non-tax revenues), Transfers from the state government, and transfers from the central government. With respect to the first category of revenues, RLBs have been assigned various revenue raising powers through legal provisions. Such provisions typically empower them to fix, collect and retain for their use various taxes and user charges. Apart from this avenue, many taxes collected by the State government may be assigned to be shared, either wholly or partly, with RLBs. In such circumstances, the amount of money collected and shared depends upon the tax effort expended by the State governments. On the question of transfers from the State and Central governments, these fund transfers are typically classified as revenue transfers and not capital transfers. For that reason, the question of analysis of Capital Account Receipts of RLBs does not arise. Moreover, information has not been furnished on the debt status of RLBs by States.

3.2. Relative shares of different sources of revenues for RLBs:

3.2.1. Table 9 gives details of the inter-se source of revenues of tier-wise, for RLBs. In Table 9, the per-capita details of the own revenues are provided State wise, as derived from the sample RLBs, in Format 4B:

Table 9: Average Per Capita Revenues (Rupees) Tier wise, based on Sample data in Schedule 4B. Details in Annexure 4,7 and 10

	2009-10	2010-11	2011-12	2012-13
Village				
Own Revenues	46.6	54.7	61.3	72.6
Transfers from Centre	420.6	348.9	369.4	372.1
Central Finance Commission	37.6	34.2	64.4	72.4
Assigned and Devolved funds from State	60.8	56.1	89.8	98.7
Grants in Aid from State	36.7	39.9	40.3	42.1

Other Receipts	14.7	13.8	17.4	14.1
Village level; total revenues	617.0	547.6	642.6	672.0
Intermediate				
Own Revenues	2.3	2.0	2.2	3.8
Transfers from Centre	188.4	220.7	206.9	217.4
Central Finance Commission	12.7	12.5	35.2	22.2
Assigned and Devolved funds from State	114.5	132.9	154.3	190.5
Grants in Aid from State	239.9	275.6	310.5	365.6
Other Receipts	22.1	35.7	37.6	50.3
Intermediate level; total revenues	580.0	679.4	746.6	849.7
District				
Own Revenues	8.6	8.0	9.1	9.6
Transfers from Centre	116.2	130.2	128.4	118.2
Central Finance Commission	16.9	13.7	19.1	28.1
Assigned and Devolved funds from State	73.6	79.9	81.2	96.4
Grants in Aid from State	242.8	274.9	312.8	357.5
Other Receipts	5.4	7.5	7.9	10.5
District level; total revenues	463.6	514.1	558.5	620.3

Table 10: Inter-se percentage shares of different sources of revenues tier-wise (derived from Sample data in Schedule 4B) Details in annexure 2,6 and 9

	2009-10	2010-11	2011-12	2012-13
Village				
Own Revenues	8.44	10.40	10.20	11.30
Transfers from Centre	69.90	66.60	60.60	60.70
Central Finance Commission	5.82	5.60	9.00	8.50
Assigned and Devolved funds from State	8.40	8.20	11.50	11.60
Grants in Aid from State	4.76	5.70	5.30	4.70
Other Receipts	2.68	3.40	3.40	3.20
Intermediate				
Own Revenues	0.40	0.30	0.30	0.40
Transfers from Centre	32.48	32.50	27.70	25.60
Central Finance Commission	2.20	1.80	4.70	2.60
Assigned and Devolved funds from State	19.75	19.60	20.70	22.40
Grants in Aid from State	41.37	40.60	41.60	43.00
Other Receipts	3.81	5.30	5.00	5.90
District				
Own Revenues	1.86	1.60	1.60	1.60

Transfers from Centre	25.06	25.30	23.00	19.00
Central Finance Commission	3.65	2.70	3.40	4.50
Assigned and Devolved funds from State	15.87	15.50	14.50	15.50
Grants in Aid from State	52.38	53.50	56.00	57.60
Other Receipts	1.17	1.50	1.40	1.70

The findings from the analysis are detailed below:

- There is a high level of dependency of RLBs at all levels, on fiscal transfers from the State and Central Governments. The dependency is the highest in the case of Intermediate Panchayats, where only 0.4 per cent of revenues are generated internally. District Panchayats are no better; they only rise about 1.6 per cent from internal revenues. It is in the case of VPs that internal revenues amount to a relatively better level, of 11.3 per cent.
- In per capita terms it is seen that 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%.
- Over the past four years the trend seems to be on the part of States to focus on intermediate panchayats on devolving funds. 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. These figures reveal that States tend to fund Intermediate and District Panchayats to a much larger extent as compared to the Centre. This is also reflected in the healthy increase of per capita allocations of State grants to the Intermediate and District level, described above. One possibility for this increase of allocations to Intermediate Panchayats could be the trend of repositioning of State cadres to the intermediate level and fund transfers to pay salaries to them being shown as grants-in-aid to the intermediate levels. What the State refers to as devolution, are often state non-plan allocations for salaries drawn by staff working at the District and sub-district levels. It may be noted that in several States, the main employees working at the Village Panchayat levels are not recruited by the Village Panchayats, but are allocated from the State bureaucracy. For that reason, the sending of non-plan grants to the Village Panchayats is not a frequently seen practice.
- There is a clear inverse relationship between the proportion of Central revenues and State revenues going to the three levels. In the case of Village Panchayats, Central Revenues comprise a higher proportion (61 per cent) of the total revenues. One reason might be that Central grants are predominantly in the form of Centrally Sponsored Schemes such as NREGA, which are largely implemented at the village panchayat level. However, Village and District panchayats receive fewer funds 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

- The central finance commission grants, though they have increased, still comprises relatively only a small amount in terms of per capita, at all levels. In the case of Village Panchayats there has been a modest increase in Central finance commission grants from 2007-8 to 2011-12, which has therefore diminished the proportion of the transfer from the centre as compared to other sources of revenue.
- State wise details in Annexure 11 indicate that the trend for the Village Panchayats to be largely dependent upon Central Grants and for the Intermediate and District levels to be dependent on State sources of revenue is across all States.

3.3. Analysis of transfers from the State Government:

3.3.1. Comparison of sample and state wise data:

The details of assigned, devolved, grant in aid and other transfers from the State, as derived from the Sample data (Table 2) was compared with the State-wide data, furnished by States in Format Schedules 2A, 2B and 2C. The comparison (Table 11) shows differences in the per-capita figures. While data for village level RLBs is not seen to vary significantly from the sample data, in the case of Intermediate and District level, the State data shows considerably lower per capita figures, as compared to sample data.

Table 11¹⁶: Per-capita data from sample RLBs and consolidated information for entire state, on assigned, devolved, grant in aid and other transfers from State (in Rs.)

Data on State transfers collected from sample Panchayats				
	2009-10	2010-11	2011-12	2012-13
Village				
Assigned and Devolved funds from State	60.8	56.1	89.8	98.7
Grants in Aid from State	36.7	39.9	40.3	42.1
Other Receipts	14.7	13.8	17.4	14.1
Village level; total revenues	222.0	257.3	412.3	109.8
Intermediate				
Assigned and Devolved funds from State	114.5	132.9	154.3	190.5
Grants in Aid from State	239.9	275.6	310.5	365.6
Other Receipts	22.1	35.7	37.6	50.3
Intermediate level; total revenues	376.6	444.1	502.4	606.4
District				
Assigned and Devolved funds from State	73.6	79.9	81.2	96.4
Grants in Aid from State	242.8	274.9	312.8	357.5

¹⁶ Please see 'Consistency Check No 1', in Part 3 of the report, for more details.

Other Receipts	5.4	7.5	7.9	10.5
District level; total revenues	321.8	362.3	401.9	464.5
All levels				
Assigned and Devolved funds from State	248.9	268.9	325.4	385.6
Grants in Aid from State	519.4	590.4	663.6	765.3
Other Receipts	42.3	57.0	62.9	74.9
All level; total revenues	920.5	1063.7	1316.6	1180.7
Data on State transfers collected from Schedules 2A, 2B & 2C				
Village level				
Assigned transfers	23.4	23.5	47.7	48.4
Devolution	98.6	119.8	142.5	172.6
Grants in Aid from State	30.8	41.1	44.5	57.1
Other Receipts	19.4	28.7	86	109.6
Village level; total revenues	112.4	132.1	179.2	213.4
Intermediate				
Assigned transfers	5.9	13.4	11.7	20.6
Devolution	139.8	160.7	191.3	222.9
Grants in Aid from State	127.6	189.2	175.2	198.9
Other Receipts	3.1	2.9	12	13.7
Intermediate level; total revenues	166.2	215.2	236.6	279.9
District				
Assigned transfers	14.9	22	25.1	22
Devolution	101.1	109.1	125.9	145.9
Grants in Aid from State	71.8	88.2	111.4	158.6
Other Receipts	6.8	8.6	9.9	10.9
District level; total revenues	118.4	137.2	168.4	211.9
All levels				
Assigned transfers	16.1	20.1	31.6	33.9
Devolution	113.5	130.5	154	181.5
Grants in Aid from State	429.9	539.2	615.7	720.9
Other Receipts	10.8	15.1	41.4	51.7
All levels; total revenues	174.6	214.3	250.6	293.5

- A comparison of these figures shows that there is considerable difference between the state transfers as derived from an analysis of the sample panchayats and the overall State-wide transfers,¹⁷ except in the case of Village level RLBs.

¹⁷ The total per capita figures are also perhaps not comparable, because in the case of sample data, since they pertain to the same denominator, (i.e., the sample population) the total per-capita is equal to the sums of the per-capita figure for each category of transfers. In the case of State-wide data, not all States undertake transfers under all heads; therefore, the transfers are divided in each case by the populations affected by that kind of transfer alone.

- With respect to Village level RLBs, it is seen that per-capita assigned and devolved transfers are nearly twice as more compared to data from sample RLBs.
- In the case of Intermediate level RLBs, while per capita assigned and devolved transfers do not show marked differences between Sample and State-wide data, in the case of Grants-in aid, the Sample per capita amounts are high and nearly double that of the corresponding figure for State-wide data. This difference widens further in the case of Grants in Aid going to the District level RLBs, where Sample per capita is nearly three times that of the State-wide data.

3.3.2. State wise analysis of State transfers:

An analysis of sample data in Schedule 4B was undertaken to compare the performance of States in allocating of funds to RLBs. The overall picture that emerges is in Table 12:

Table 12: Per capita transfers by States under various heads to RLBs (Analysis of sample data in Schedule 4B):

State	2009-10	2010-11	2011-12	2012-13
Andhra Pradesh	494	444	419	374
Assam	90	115	103	106
Bihar	2	2	193	229
Chattisgarh	15	17	19	33
Goa	194	264	520	298
Gujarat	2232	2839	3099	3886
Haryana	0	0	0	0
Himachal Pradesh	176	293	211	342
Jammu and Kashmir	0	0	11	45
Karnataka	3109	3467	3639	4511
Kerala	883	997	1151	1246
Madhya Pradesh	194	259	270	456
Maharashtra	2815	3219	3659	4203
Manipur	219	258	216	308
Orissa	69	264	385	361
Punjab	186	257	316	369
Rajasthan	167	156	250	298
Sikkim	359	400	253	431
Tamil Nadu	230	299	404	449
Telangana	152	137	118	135
Tripura	47	47	46	69
Uttar Pradesh	111	63	168	163
Uttarakhand	0	14	11	3

West Bengal	171	184	190	271
-------------	-----	-----	-----	-----

The States marked in Red show considerably lower values as compared to per-capita figures drawn from State-wide data. The States marked in green did not submit Sample data, so these values have been imported from the State-wide data. States marked in Yellow show considerably higher values as compared to State level data.

Alongside, State-wide data in Schedules 2A, 2B and 2C was undertaken to compare the volumes of fiscal transfers from States to RLBs (Table 13).

Table 13: Transfers from States to RLBs (State-wide data)

S.No	State	09-10	10-11	11-12	12-13	09-10	10-11	11-12	12-13
All levels									
		Total transfers (Rs crore)				Per capita transfers (Rs)			
1	Karnataka	12281	13401	15412	17849	3323	3601	4113	4731
2	Gujarat	7934	10968	11408	14488	2327	3189	3288	4141
3	Tamil Nadu	2368	3093	4081	4855	644	836	1096	1296
4	Kerala	2258	2505	3136	3943	1208	1385	1795	2339
5	Uttar Pradesh	1262	1788	2172	2455	84	117	140	156
6	Madhya Pradesh	988	1342	1419	2434	194	259	270	456
7	Bihar	20	18	1781	2153	2	2	193	229
8	Rajasthan	491	412	1399	1836	98	81	272	351
9	Orissa	474	602	1163	1448	138	174	333	410
10	Maharashtra	527	941	1015	1132	87	154	165	182
11	Chattisgarh	448	592	759	1101	236	307	387	553
12	Punjab	319	443	549	644	186	257	316	369
13	West Bengal	391	402	443	455	64	65	71	73
14	Uttarakhand	168	220	106	187	244	316	150	263
15	Sikkim	93	110	158	144	2008	2386	3451	3163
16	Assam	68	83	228	104	26	32	85	38
17	Andhra Pradesh	50	50	50	100	9	9	9	18
18	Himachal Pradesh	63	69	69	80	105	113	113	128
19	Haryana	0	229	124	77	--	140	75	46
20	Tripura	24	19	18	18	87	70	66	67
	Total	30225	37287	45490	55503	371	453	547	660

- The above analysis shows high volumes of transfers in Karnataka, Gujarat, Tamil Nadu and Kerala, with correspondingly high per capita transfers as well. Sikkim shows a high per capita transfer, but that is because the State has reported that it has classified central transfers through CSSs also as State transfers. Bihar also reports 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 may not be reliable.
- As regards trends over time, in the State-wide data, all States, except Andhra Pradesh, Himachal Pradesh, Haryana and Uttarakhand show a healthy upward trend of increase in State transfers. In the case of Uttarakhand and Haryana, there is a decline in the

volumes of state transfers over the years under review. In the Sample data, though Andhra Pradesh shows a much higher per capita figure of transfers, these seem 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.

However, please see Consistency Check 1 in Section 2 of the report for more details on checks of data. The data in Schedule 4A, pertaining to State transfers also varies from the data presented by the State in Schedules 2A, 2B and 2C. This throws into doubt the veracity of the data in these two schedules, in so far as they pertain to transfers to the RLBs from States. There is no compelling reason to believe that one is more reliable over the other. Therefore, for further calculations in the report, we have relied on extrapolations from Sample data, collected in Schedule 4B.

3.3.3. Do state governments keep the promises they make on transfers to RLBs?

A broad snapshot of the approach of state governments towards revenue sharing, devolution and giving of grants to RLBs can be obtained from the recommendations of SFCs. Table 14 contains an abstract of the latest SFC recommendations being implemented in States¹⁸.

Table 14: Snapshot of SFC reports of States where ATRs submitted (or latest reports, being implemented

Sl. No	States	SFC No	ATR submission date	Report implementati on period	Devolution Recommended
1	Andhra Pradesh	2	March 2003	00-01 to 04-05	Rs.1167.33 Crore
3	Assam	4	July 2011	11-12 to 15-16	Rs 4906.28 Crore
4	Bihar	4		2004 to 2007	Rs. 241 crores
5	Chattisgarh	2	July 2013	2012-2017	8% of Net State Own Tax Revenue
6	Goa	2	Not yet	2006-10	Not reported
7	Gujarat	2	Not reported	2005-06 to 2009-10	50% of prof tax collected by State to PRIs as grant DPs and IPs to be given Rs. 5 lakhs and Rs. 1 lakh respectively towards stationary and printing grant.
8	Haryana	3	Sept 2010	06-07 to 13-14	2006-07 Rs 1308.95 cr , 2011-12 Rs 364.75 cr , 2012-13: Rs 413.51cr 2013-14: Rs 482.14cr
9	Himachal	3	Apr 2008	2007-08 to 2011-12	Rs 451.3 crore

¹⁸ Data sent by States in Schedule 1A was used to compile this table. The latest information of SFCs, where the States have reported that Action Taken Reports (ATR) have been tabled in the legislature, was considered. Wherever ATRs were not submitted, it was assumed that the reports are not being implemented. The full descriptive report of each State SFC is contained in the Consistency Check no 2, in Section 2 of this report.

10	J&K	1	2004-05	2005 onwards	10% of state taxes
12	Karnataka	3	Oct 2011	2011-12-2015-16	32% of Non-Loan Net Own Revenue Receipts (NLNORR) to PRIs
13	Kerala	4	Mar 2012	2011-12 to 2015-16	Development Fund-Rs. 19823 Crore, Maintenance Fund-4.5% of SOTR (2011-12), 5% of SOTR(2012-13) and 5.5%of SOTR (2013-16), General purpose fund-3.5% of SOTR
14	Madhya Pradesh	3	Feb 2010	2006-2011	PRI 4.00 (crore?)
15	Maharashtra	2	Mar2006	2001-02 to 2005-06	40 % of State taxes, duties, fees etc. to PRIs & Municipal Councils.
16	Manipur	2	Feb 2005	01/4/2001 to 31/1/2013	34.38% of 10% of State's Share in Central Taxes + Own Tax + Non-Tax to ULBs, PRIs & ADCs.
19	Nagaland	1	Mar 2012	1st April 2010 to 31st March 2015	Devolution not specified.
20	Orissa	3	Feb 2011	2010-11 to 2014-15	Rs 4480.85 (lakhs/crores ???)
21	Punjab	3	June 2007.	2006-2007 , 2010-2011	4% of State Taxes and 26% Liquor Tax Grant.
22	Rajasthan	4	Oct 2012	10-11 to 12-13	2011-12 Rs.1163.87crore 2012-13 Rs. 1305.55 crore
23	Sikkim	3	Mar 2010	10-11 to 14-15	Rs 18.13 crores
24	Tamil Nadu	4	May.2013	12-13 to 16-17	Rs 49229.04 crore
25	Tripura	3	9.3.2003	10-11 to 14-15	RLB devolution: Rs. 26.80 Cr (10-11), Rs. 29.25 Cr (11-12), Rs. 31.95 Cr (12-13), Rs. 35.00 Cr (13-14), and Rs. 38.30 Cr (14-15).
26	Uttar Pradesh	3	15-02-2010	Not specified	15% of net tax
27	Uttarakhand	3	Not yet	11-16	10.5% Own Tax Revenue. Total devolution in 2012-13 Rs440.41 Crore
28	West Bengal	3	16.07.2009	2009-10 to 2012-13	Rs.800 crore to be allotted to RLBs and progressive increase at 12% p.a cumulative for next four years

The following are the observations of the data in Table 14:

- There is no standardisation in the way that the States reports the devolution recommend by the SFC. Some States report it as amounts (either yearly or the full five years) for eg. Andhra Pradesh, Assam, Bihar, Haryana. Other States indicate the devolution as a percentage of the divisible pool or individual taxes for eg. Karnataka, Uttarakhand and Punjab. Some States have a combination of both for eg. Kerala.
- It may also be noted that above table we have taken account of those States where ATRs have been submitted by the State for implementation of the SFC report. It may be noted

that in many States SFCs have been constituted and their reports have been submitted but ATRs have not been submitted by the State.

An analysis was done of the earmarked allocations and the actual funds released by States to RLBs at all levels ¹⁹. Details are placed below in Table 15:

Table 15: Total amount recommended by SFCs in States (including shares of assigned taxes) compared with total amounts transferred (Rs. Crores), for all levels of LGs:

Sl	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	5 (4-3)
1	Gujarat	1609.51	50962.62	49353.11
2	Karnataka	65613.84	70402.94	4789.10
3	Orissa	472.44	4114.60	3453.86
4	Tamil Nadu	14110.30	17033.36	2923.06
5	Bihar	1314.46	3995.68	2681.22
6	Punjab	0.00	2208.15	2208.15
7	West Bengal	208.91	2008.44	1799.53
8	Sikkim	0.00	523.78	523.78
9	Tripura	2.66	113.44	110.77
10	Himachal Pradesh	305.92	342.94	37.02
11	Uttarakhand	827.73	847.97	20.24
12	Haryana	430.14	430.14	0.00
13	Maharashtra	4326.54	4326.54	0.00
14	Uttar Pradesh	8958.68	8958.68	0.00
15	Rajasthan	4395.56	4317.80	-77.76
16	Kerala	14062.72	13885.61	-177.11
17	Chattisgarh	3896.09	3556.76	-339.33
18	Andhra Pradesh	1200.00	350.00	-850.00
19	Meghalaya	1172.27	289.54	-882.73
20	Madhya Pradesh	6901.67	5923.52	-978.15
21	Assam	3474.70	456.20	-3018.50
	Grand total	133284.14	195048.70	47772.92

Please see Consistency check no 3, in part 3 of the report for Tier wise details

An analysis of table 15 reveals the following:

- Of the allocations of Rs. 133284 crore said to have been made (through revenue assignments and implementation of SFC recommendations) from 2008-09 to 2012-13,

¹⁹ Data compiled from data in Schedules 2A, 2B and 2C. However, please note that this data may not be reliable, as explained in Para 3.3.2 of the report.

States have reporting the transferring of much more funds, namely, Rs. 195049 crore, which is an excess of the recommendation, to an extent of Rs. 47773 crore.

- However, State wise releases show wide variations. At one end of the spectrum one finds states such as Madhya Pradesh, Assam and Meghalaya, where the fiscal transfers promised are of a much higher order than the actual transfers made. The fact that these States have not met the recommendations of their respective Finance Commissions (wherever they are constituted) is also seen in the relatively modest volumes of fiscal transfers made in these States and the consequent modest per-capita volumes.
- On the other hand, there are several States that show a transfer in excess of the recommendations made by their SFCs. Gujarat for example, shows a very high excess of transfer of funds over and above the recommendation by the SFC, but that is because the State reports only the assigned taxes as a recommended amount and states that its SFCs have not made any recommendation on the quantitative value of devolution, grants, or other transfers. Gujarat and Karnataka also show a very large amount of funds transferred to the Panchayats, particularly the district and intermediate levels²⁰.

In this connection, 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 used the formats provided to classify 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.

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.

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

²⁰ These are classified as 'Grants in aid' in Gujarat and as 'Devolution' in the case of Karnataka.

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.

The 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.

3.4. Transfers from the Central Government and Central Finance Commission

Grants:

3.4.1. Central fiscal transfers to RLBs are largely made available in two streams. The first is in the form of Centrally Sponsored Schemes (CSSs) and Additional Central Assistance (ACAs), which are programmatic funds directed towards the poor in rural areas. These could be implemented through RLBs, or supervised and monitored by them. 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. Details of fiscal transfers from the Centre to RLBs was analysed from both sample and State-wide data. Comparison of per-capita values indicated that invariably, States had reported a higher per capita transfer in the Sample data as compared to the State-wide data. Only Kerala (for Village Panchayats), Rajasthan (for Intermediate Panchayats) and Andhra Pradesh, Assam, Maharashtra and Rajasthan (for District Panchayats) show a higher per-capita value for State wise data as compared to sample data. Table 16 provides information on the per-capita Central transfers (excluding CFC transfers). The States highlighted in yellow did not have any data provided through Sample studies; hence the figure shown has been taken from the State-wide data.

Table 16: Per capita Central transfers (Rs.)

State	09-10	10-11	11-12	12-13
Village Panchayat				
Andhra Pradesh	417.5	486.6	401.3	344.9
Assam	453.0	417.0	400.9	424.3
Chattisgarh	84.8	126.1	152.3	195.7
Goa	37.8	99.5	62.8	28.2
Gujarat	58.2	88.6	92.2	94.2
Haryana	17	31	50	55
Himachal Pradesh	1136.4	1385.6	1259.1	1501.2
Jammu and Kashmir	213.3	293.8	764.8	1099.2
Karnataka	726.9	621.4	435.8	504.6

Kerala	151.8	218.7	321.9	454.7
Madhya Pradesh	100	78	96	106
Maharashtra	132.5	179.7	186.8	178.3
Manipur	656.5	897.5	1611.1	1424.4
Nagaland	3761	3435	4297	2971
Orissa	231.6	311.3	333.6	366.2
Punjab	114	111	78	69
Rajasthan	1255.8	1034.7	981.8	1045.2
Sikkim	641.9	868.7	1721.1	540.9
Tamil Nadu	605.8	811.2	1010.4	1220.3
Telangana	703.9	900.3	480.1	576.6
Tripura	2120.9	2065.5	2944.0	3084.9
Uttar Pradesh	366.7	84.7	332.7	231.2
Uttarakhand	136.9	130.3	142.5	224.6
West Bengal	399.6	370.7	413.6	502.8
Intermediate Panchayat				
Andhra Pradesh	548.8	667.0	573.5	640.9
Assam	572.4	488.6	525.2	437.9
Gujarat	243.5	317.4	250.5	254.3
Himachal Pradesh	13.8	43.4	92.5	86.4
Karnataka	237.7	242.6	148.6	188.4
Kerala	235.2	308.9	359.9	484.0
Maharashtra	181.4	183.2	227.1	264.8
Orissa	246.1	382.2	495.6	486.4
Rajasthan	188.2	191.9	162.4	187.5
Tamil Nadu	78.5	76.7	110.3	138.0
Telangana	670.8	703.2	396.1	483.3
Uttar Pradesh	33.7	37.4	97.7	19.6
Uttarakhand	0	0	0	1
West Bengal	129.6	244.7	302.6	268.6
District Panchayat				
Andhra Pradesh	83.5	100.1	124.5	126.3
Assam	104.5	98.9	138.9	128.3
Chattisgarh	1030	1553	1399	1429
Goa	0.0	5.2	0.0	0.0
Gujarat	470.9	589.1	398.2	386.1
Haryana	0	0	1	3
Karnataka	212.4	259.4	222.5	148.1
Kerala	9.6	11.2	0.4	1.6
Madhya Pradesh	0	0	12	23
Maharashtra	386.4	421.8	500.2	551.1

Manipur	44	162	292	325
Orissa	188.7	147.8	174.7	210.2
Rajasthan	89.2	128.3	126.7	107.3
Telangana	64.0	48.7	35.5	58.9
Tripura	42.7	68.1	94.1	213.9
Uttar Pradesh	37.3	34.9	29.7	23.4
Uttarakhand	0	0	1	0

Please see consistency check 3 for details of the comparison.

The total volume of central transfers as obtained from the State-wide data is detailed in Table 17:

Table 17: Total volume of Central transfers to RLBs reported by States (Rs. Crore)

State	2008-09	2009-10	2010-11	2011-12	2012-13
Andhra Pradesh	1534.07	3070.50	2245.85	1913.88	N.A
Assam	779.48	1415.30	1600.96	1290.77	457.51
Chattisgarh	3019.27	1959.58	2998.63	2744.13	2843.85
Gujarat	1567.28	2313.65	2951.15	2044.38	2267.55
Haryana	19.43	42.47	63.89	100.99	107.46
Himachal Pradesh	75.23	98.46	110.37	117.86	137.86
Karnataka	65.71	179.12	421.44	734.79	782.91
Kerala	941.06	1324.77	1765.35	1948.20	2394.13
Madhya Pradesh	332.60	509.85	403.03	645.39	848.92
Maharashtra	3701.10	4111.55	4568.40	5076.10	7597.00
Manipur	4.23	8.46	5.60	5.47	7.09
Nagaland	306.70	601.42	557.59	707.89	496.54
Orissa	362.14	555.80	653.22	705.27	1024.16
Punjab	120.30	194.94	190.43	136.05	120.81
Rajasthan	5033.34	4974.01	3893.28	3775.91	4015.14
Uttar Pradesh	1297.27	1219.50	5948.82	4903.78	2152.97
Uttarakhand	N.A	N.A	0.25	0.82	2.51
West Bengal	1680.72	2530.13	2972.44	3539.34	4293.38
Grand Total	20839.93	25109.52	31350.70	30391.04	29549.79

The yearly percentage share of each State in the Central Transfers is provided in Table 18:

Table 18: Percentage shares of States in total central releases reported

State	2008-09	2009-10	2010-11	2011-12	2012-13
Andhra Pradesh	7.4%	12.2%	7.2%	6.3%	N.A
Assam	3.7%	5.6%	5.1%	4.2%	1.5%
Chattisgarh	14.5%	7.8%	9.6%	9.0%	9.6%
Gujarat	7.5%	9.2%	9.4%	6.7%	7.7%
Haryana	0.1%	0.2%	0.2%	0.3%	0.4%
Himachal Pradesh	0.4%	0.4%	0.4%	0.4%	0.5%
Karnataka	0.3%	0.7%	1.3%	2.4%	2.6%

Kerala	4.5%	5.3%	5.6%	6.4%	8.1%
Madhya Pradesh	1.6%	2.0%	1.3%	2.1%	2.9%
Maharashtra	17.8%	16.4%	14.6%	16.7%	25.7%
Manipur	0.0%	0.0%	0.0%	0.0%	0.0%
Nagaland	1.5%	2.4%	1.8%	2.3%	1.7%
Orissa	1.7%	2.2%	2.1%	2.3%	3.5%
Punjab	0.6%	0.8%	0.6%	0.4%	0.4%
Rajasthan	24.2%	19.8%	12.4%	12.4%	13.6%
Uttar Pradesh	6.2%	4.9%	19.0%	16.1%	7.3%
Uttarakhand	N.A	N.A	0.0%	0.0%	0.0%
West Bengal	8.1%	10.1%	9.5%	11.6%	14.5%
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%

The conclusions emerging from Tables 16, 17 and 18 are as follows:

- States colour coded in green in Table 17 (Karnataka, Kerala, Maharashtra, 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.

When seen in conjunction with the total transfers, there may be an indication here 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.

3.5. Analysis of CFC transfers to RLBs:

3.5.1. A review of the central finance commission transfers presents a very clear insight. The data presented for village panchayats, intermediate panchayats and district panchayats both individually and together, present a clear linear growth trend. This data presented from 2007-08 until 2012-13 shows a linear ramp. There is a predictable pattern/trend that is visible. Fig 1, 2 and 3 below presents the consolidated village panchayat, intermediate and district panchayat trends for the same. Another visible trend is that the quantum of transfers made to states is in direct proportion to the size of rural population. This pattern is visible across village, intermediate and district panchayats. 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 do not have information on the drawals by State of the performance grants in 2013-14 and 2014-15.

3.5.2. Transfers to village panchayats were the highest, followed by intermediate panchayats and finally the district panchayats.

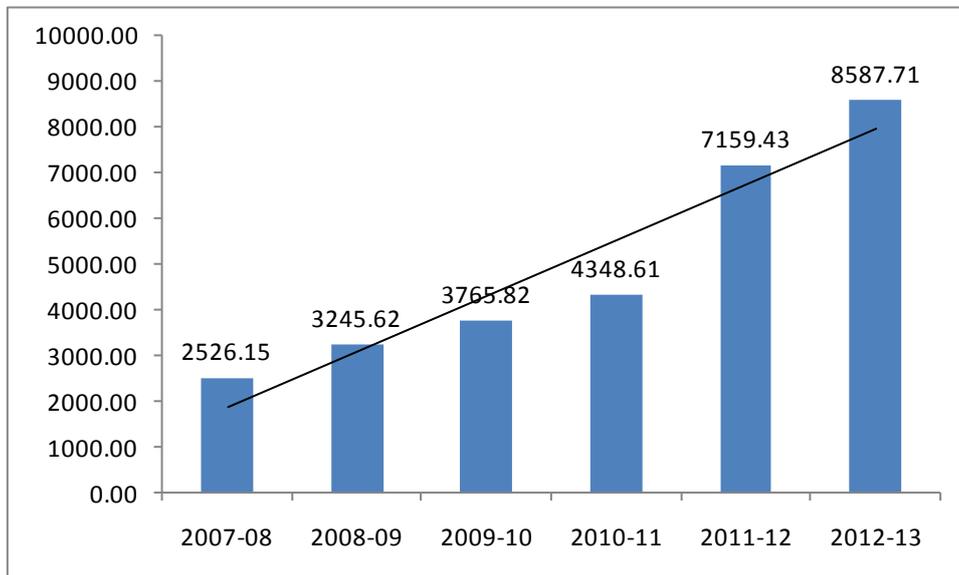


Chart 1 – CFC transfers to village panchayats – 2007-2013

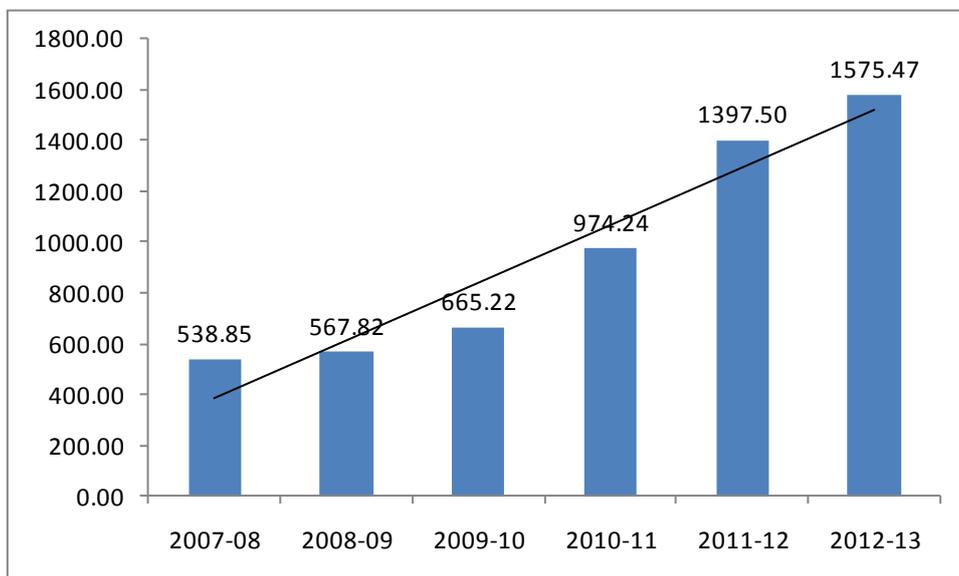


Chart 2 – CFC transfers to Intermediate Panchayats – 2007-2013

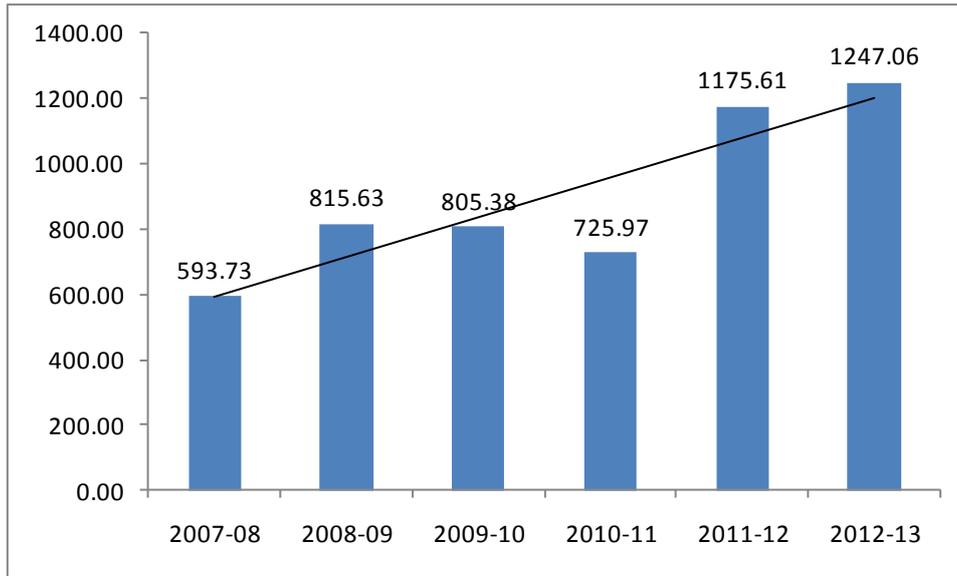


Chart 3 – CFC transfers to District Panchayats – 2007-2013

3.6. Analysis of own revenues of RLBs:

3.6.1. Own revenues of the Panchayats are an important source of finances at the local level. In order to explore in greater detail the performance of Panchayats in collection of own revenues, The details of own revenues as derived from the Sample data (Table 19, derived from Data in Schedule 4B) was compared with the State-wide data, furnished by States in Format Schedule 4A.

Table 19: Comparison of per capita own revenues in Schedule 4B (from Sample RLBs) and 4A (State-wide information)

	2009-10	2010-11	2011-12	2012-13
Village				
Data in Schedule 4B (Sample RLBs)	46.6	54.7	61.3	72.6
Data in Schedule 4A (State as a whole)	35.4	40.3	44.7	22.7
Intermediate				
Data in Schedule 4B (Sample RLBs)	2.3	2.0	2.2	3.8
Data in Schedule 4A (State as a whole)	16.7	21.1	22.3	16.8
District				
Data in Schedule 4B (Sample RLBs)	8.6	8.0	9.1	9.6
Data in Schedule 4A (State as a whole)	81.9	88.6	83.5	49

Please see consistency check no 5 for more details on prior checks undertaken while studying this data:

The details of the comparisons are as follows:

- There are significant differences in the per capita figures of own revenues between sample and State-wide data. While in the case of Village Panchayats the per capita figures derived for the entire state are 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 is true. Data from sample RLBs indicate much lower levels of per-capita own revenues as compared to figures for the entire state. In the case of district Panchayats, State-wide per capita own revenues is nearly 10 times more than that derived from sample data.
- Tables 21 also reveals that own revenues at the Village RLB level has shown a healthy upward trend, except for 2012-13, which may be due to under-reporting.. However at the intermediate levels they show (a) low baseline levels and (b) only modest increases over time, or stagnation. In the case of district Panchayats, while they show the highest per capita value amongst the three tiers, there is stagnation in the amount
- An examination of State wise data shows that there are significant positive and negative differences between the per capita data derived from the Sample RLBs and from the whole State. In the case of village panchayats, the differences are the least. However, they are significant in the case of Kerala, Punjab and Tamil Nadu; (State data shows higher per capita than sample data)

3.6.2. Table 20 provides state wise details of the share of own revenues as a proportion of total revenues, at the VP level. The focus here is at the VP level, because of the fact that at the IP and DP levels, own revenues are negligible. (See Annexures 2 for state wise share).

Table 20: Share of Own Revenues in Total Revenues of Village level RLBs in Selected States (to be considered along with per capita revenues in Table 21)

Sl	State	2009-10	2010-11	2011-12	2012-13
1	Maharashtra	34.4	30.5	30.7	36.6
2	Gujarat	25.1	24.4	27.3	30.1
3	Goa	37.6	26.0	30.5	30.0
4	Andhra Pradesh	17.3	17.4	18.6	23.5
5	Tripura	8.6	11.3	13.0	20.2
6	Telangana	9.1	8.5	16.8	16.9
7	Kerala	15.7	15.4	12.6	14.5
8	Tamil Nadu	16.0	13.1	14.0	12.4
9	Karnataka	5.9	8.2	11.0	10.0
10	West Bengal	5.0	7.5	6.7	5.8
11	Chhattisgarh	4.2	7.0	6.8	5.2
12	Himachal Pradesh	4.1	2.8	3.7	3.8
13	Orissa	4.7	4.0	3.4	3.5
14	Uttar Pradesh	4.2	2.4	0.7	2.7
15	Assam	0.9	0.9	1.1	1.1
16	Rajasthan	0.4	0.6	1.0	1.0

17	Sikkim	0.1	0.6	0.4	0.3
18	Uttarakhand	0.1	0.2	0.2	0.1
19	Jammu and Kashmir	0.0	0.0	0.0	0.0
20	Manipur	0.0	0.0	0.0	0.0
	All States	8.4	10.4	10.1	11.0

- Maharashtra (36%), Karnataka(26%), Andhra Pradesh (23%), Tripura (20%) and Goa (20%) show higher levels of own revenues as percentage of total revenues. Low proportions are seen in West Bengal (6%), Himachal Pradesh (4%), Orissa (3.5%), Manipur and Uttarakhand (2.7%), Kerala (1.5%), Assam and Rajasthan (1%).
- The overall increasing trend is mirrored in the performance of the States that have a higher proportion of own revenues in the total revenues. In terms of own revenue the variation is between Rs. 72 in 2009-10 to Rs. 113 in 2012-13 for the GPs and negligible at less than Rs 10 at district and block level. However, in the case of Tamil Nadu, West Bengal and J & K, there has been a decline in the own revenue percentage.
- Gujarat, Himachal Pradesh, Orissa, Manipur and Kerala seem to have stagnated and shown no variation in the percentage of own revenues in the total revenues

Table 21. State wise Average Per Capita Revenues compared with total revenues (Rupees); States reporting sample data

State	Level of Panchayat	09-10	10-11	11-12	12-13	09-10	10-11	11-12	12-13
		Own Revenues				Total Revenues			
Andhra Pradesh	Village	98	114	126	139	612	729	745	646
	Blocks	1	1	1	2	732	845	703	777
	Districts	6	6	7	10	305	244	205	214
Telangana	Village	71	83	106	125	787	991	595	710
	Blocks	1	0	0	0	784	815	487	590
	Districts	1	7	1	0	67	61	80	NA
Assam	Village	4	4	5	4	465	450	422	429
	Blocks	4	4	4	5	581	507	557	477
	Districts	3	6	14	23	183	178	212	223
Chattisgarh	Village	4	10	13		104	154	184	242
	Blocks								
	Districts								
Goa	Village	93	100	217	103	248	385	711	344
	Districts	0	0	0	0	77	83	88	86
Gujarat	Village	59	77	85	111	234	315	312	370
	Blocks	3	4	4	3	1689	2146	2138	2635
	Districts	14	29	37	25	1157	1481	1516	1754
Himachal Pradesh	Village	53	45	53	67	1296	1642	1452	1763
	Blocks	2	1	2	4	69	109	149	217
	Districts	2	2	4	3	18	19	27	29
Jammu and Kashmir	Village	0	0	0	0	341	245	258	367

Karnataka	Village	193	240	248	325	1007	1067	1009	1252
	Blocks	1	2	1	2	1885	2137	2315	2908
	Districts	7	4	4	3	1321	1512	1411	1617
Kerala	Village	140	164	162	236	894	1067	1304	1615
	Blocks	1	1	1	1	373	452	528	659
	Districts	1	1	1	2	154	182	165	150
Maharashtra	Village	87	103	105	125	259	347	349	357
	Blocks	8	5	4	14	1369	1506	1754	2097
	Districts	45	30	33	39	2028	2289	2612	2922
Manipur	Village	0	0	0	0	856	1139	1799	1694
	Districts	0	0	0	0	67	188	328	370
Orissa	Village	12	14	14	16	244	328	377	423
	Blocks	0	0	0	0	288	614	818	771
	Districts	0	0	0	0	216	178	209	246
Rajasthan	Village	5	7	10	11	1268	1053	1013	1084
	Blocks	2	2	3	2	265	262	261	302
	Districts	2	2	3	4	177	206	262	268
Sikkim	Village	0	4	4	0	682	881	1725	541
	Districts	0	0	0	0	358	432	662	551
Tamil Nadu	Village	191	205	278	297	854	1114	1392	1638
	Blocks	4	3	3	6	237	266	376	432
	Districts	0	0	0	0	18	15	38	40
Tripura	Village	2	5	8	11	2124	2072	2954	3098
	Blocks	0	1	0	4	69	42	47	88
	Districts	2	4	3	2	67	95	125	255
Uttar Pradesh	Village	0.4	0.2	0.8	0.3	446	111	451	345
	Blocks					46	51	116	39
	Districts	6	7	7	8	63	65	69	62
Uttarakhand	Village	1	1	1	1	138	145	155	229
	Blocks								
	Districts								
West Bengal	Village	20	23	27	33	458	431	478	586
	Blocks	4	5	7	8	184	318	382	388
	Districts	2	4	3	3	241	216	232	247
All States	Village	46.6	54.7	61.3	72.6	617.0	547.6	642.6	672.0
	Blocks	2.3	2.0	2.2	3.8	580.0	679.4	746.6	849.7
	Districts	8.6	8.0	9.1	9.6	463.6	514.1	558.5	620.3

- It is visible from Table 21 that in all states except Andhra, Karnataka, Kerala, Gujarat and Tamil Nadu, the per capita own revenues are negligible and very low. Little more than one tenth of revenues are generated at Village level panchayats. Block level and district level panchayats have insignificant own revenue in the form of rents from buildings and interest earned from deposits.

A further analysis of the above data shows that on an average 8 to 10% of total revenues are own revenues across all 18 reporting States. Eight States show a higher percentage of own revenue as compared to total revenue headed by Maharashtra, where RLBs obtain 35.01% of their total 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%). Four 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 (which shows an unusually low per-capita value as well – this is explained in greater detail in subsequent paragraphs) and Rajasthan show hardly any improvement at 1.60% and 1.01% respectively.

3.6.3. Overall figures of own revenues collected:

From an analysis of State-wide data in Schedule 4A, the following details emerge in terms of overall volume of own revenues collected (Table 22).

Table 22: Tier wise and category wise details (in Rs. Cr) of own revenues collected, as abstracted from Schedule 4A (State-wide data)

Level	2007-08	2008-09	2009-10	2010-11	2011-12
Tier wise details (Rs crore)					
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
Category wise details (Rs. Crore)					
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
Total	3710.23	4192.43	4573.77	5483.59	6108.69

The following observations emerge from Table 22:

- Overall volume of own revenues collected has increased from 2007-08 till 2011-12 by a cumulative degree of nearly 65 per cent.
- From a tier-wise perspective, the Village level seems to be the most preferred one at which own revenues are collected (50 to 53 per cent of all own revenue collected, is done so at this level), followed by the District level. The intermediate level collects the least levels of own revenues. Examination of the state level data in Tables 16 to 18 also show that there is a high skewedness in own revenue collections, on a State wise basis.
- From a category wise perspective, collection of user charges and not tax revenues seems to be the preferred route for collection of own revenues. Both other taxes and user charges & non tax revenues have shown increases of 76 and 73 per cent respectively.

They also constitute the bulk of the collections. On the other hand, immovable property tax has shown only a modest increase of 37 per cent over the corresponding period. Having said that, as can be seen in the paragraphs 2.5, 2.6 and 2.7, there is a high degree of skewedness in State-wide performance in the collection of each category of own revenues, and that has a bearing on the overall figures. Further details are elaborated in these paragraphs, which looks more closely at state-wise trends in the collection of each own source of revenues.

3.7. Immovable Property taxes:

3.7.1. Within their own revenues, the study focuses on analysing trends in the collection of immovable property taxes and non-tax revenues by RLBs. While most laws for RLBs assign to them the functions of collecting taxes on immovable property (by whatever name called), the actual collection of such taxes reported by States to the FFC, shows very low levels of collection. From the State-wide data, only 13 States have reported the collection of immovable property tax at any level of RLB (Table 23).

Table 23: Total collection of Immovable property taxes in RLBs²¹

SI	State	2007-08	2008-09	2009-10	2010-11	2011-12
Village Panchayat						
1	Maharashtra	377.61	278.14	348.92	407.12	459.70
2	Andhra Pradesh	146.89	170.84	176.48	194.59	215.72
3	Karnataka	127.19	138.84	143.93	185.56	204.97
4	Kerala	99.85	86.08	110.60	112.02	134.13
5	Tamil Nadu	76.69	85.86	107.06	128.22	121.41
6	Gujarat	34.69	35.48	46.98	50.25	51.89
7	West Bengal	22.60	27.34	36.61	43.16	47.69
8	Haryana	9.31	13.44	12.26	15.28	16.33
9	Madhya Pradesh	0.00				6.29
10	Himachal Pradesh	2.82	2.28	2.87	3.33	4.27
11	Uttarakhand	0.28	0.28	0.28	0.28	0.28
12	Assam	0.00	0.00	0.00	0.00	0.00
13	Chhattisgarh				1.67	
	Total²²	897.93	838.58	985.99	1141.48	1262.68
Intermediate Panchayat						
1	Gujarat	18.18	15.26	12.29	14.05	18.18
2	Maharashtra	6.38	6.11	7.26	11.61	6.5
3	Haryana	0.58	0.31	0.23	0.4	0.57

²¹ Compiled from data submitted by States in Schedule 4A, submitted by States.

²² 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

	Total²³	25.14	21.68	19.78	26.06	25.25
District Panchayat						
1	Gujarat	43.49	46.99	24.68	39.6	29.64
2	Maharashtra	15.02	25.44	31.48	23.78	28.14
3	Uttar Pradesh	10.24	11.45	12.76	13.21	13.39
4	Uttarakhand	1.37	1.48	1.67	1.61	1.84
5	Kerala	0		0.03	0.03	0.14
6	Haryana	0.06	0.07	0	0.08	0.06
	Total²⁴	70.18	85.43	70.62	78.31	73.21
Total Immovable property taxes collected at all levels						
1	Village level	897.93	838.58	985.99	1141.48	1262.68
2	Intermediate level	25.14	21.68	19.78	26.06	25.25
3	District level	70.18	85.43	70.62	78.31	73.21
	Grand total	993.25	945.69	1076.39	1245.85	1361.14

3.7.2. The following observations emerge from a study of Table 23:

- Overall, the potential for the collection of immovable property tax across States is not tapped to the extent possible. Except for a few States, there is hardly any collection of such taxes in States.
- 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. In the case of District Panchayats, 17 States that have constituted these, 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. The least empowered, or the most neglected Panchayat levels in respect of immovable property taxes are the intermediate Panchayats. With respect to this level, 17 out of twenty states that are to constitute intermediate Panchayats, 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 this level.

²³ 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.

²⁴ 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.

- With respect to areas coming under the Sixth Schedule, and arrangements other than the Panchayat system and the Sixth Schedule, no property taxes are reported as being collected at any level. This is an intriguing finding, because the ADCs in Sixth Schedule areas are empowered to fix and collect taxes.

3.8. Collection of other taxes, apart from immovable property tax, by the local governments:

3.8.1. An analysis of the collection of taxes other than immovable property tax by RLBs was undertaken, based on reports in Schedule 4A (Table 24).

Table 24: Total collection of other taxes in RLBs (Rs. Crore)

Sl.	State	2007-08	2008-09	2009-10	2010-11	2011-12
Village level						
1	Punjab	125.10	139.00	154.45	180.07	210.03
2	Maharashtra	112.3	134.73	146.51	156.17	192.78
3	Kerala	77.81	81.91	96.04	89.66	117.64
4	Karnataka	75.69	84.87	77.26	71.39	107.11
5	Andhra Pradesh	68.26	79.97	76.32	83.89	83.35
6	Tamil Nadu	39.85	42.10	26.26	51.07	50.18
7	Gujarat	23.53	25.37	30.84	31.61	40.13
8	Haryana	12.32	15.55	9.03	17.94	26.80
9	Orissa	3.12	5.11	5.9	6.1	6.52
10	Assam	0.63	0.79	1.19	2.26	4.74
11	Rajasthan	0.94	1.46	1.65	2.35	2.46
12	Uttar Pradesh	4.38	3.57	3.14	2.54	2.19
13	Chhattisgarh				6.11	
	Total	543.94	614.43	628.58	701.15	843.93
Intermediate level						
1	Punjab	83.49	92.76	103.07	118.48	136.19
2	Andhra Pradesh	2.05	1.78	22.59	19.71	36.41
3	Gujarat	11.12	12.57	11.35	10.95	11.12
4	Maharashtra	8.4	11.16	7.6	7.61	7.63
5	Rajasthan	1.57	1.19	1.9	1.95	1.97
6	Haryana	0.25	0.32	0.75	0.45	1.36
7	Assam	0.10	0.12	0.18	0.30	0.57
8	Chattisgarh				0.07	
	Total	106.98	119.90	147.44	159.52	195.25
District level						
1	Maharashtra	429.65	495.2	671.05	812.27	964.15
2	Andhra Pradesh	80.09	115.19	50.31	69.57	59.09
3	Gujarat	38.4	50.58	29.19	40.26	54.1
4	Punjab	10.35	11.51	12.78	14.50	16.44

5	Haryana	0.18	0.33	0.92	0.75	1.31
6	Assam	0.07	0.07	0.11	0.30	0.72
7	Kerala					0.36
	Total	558.75	672.88	764.37	937.64	1096.17
	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
	Grand Total	1209.67	1407.21	1540.39	1798.31	2135.35

3.8.2. The following conclusions emerge from this analysis

- 11 States, namely, Arunachal Pradesh, Bihar, Goa, Himachal Pradesh, J&K, Madhya Pradesh, Manipur, Sikkim, Tripura and Uttarakhand and West Bengal report no collection of other taxes (i.e., those other than immovable property taxes) at the village level. In the case of Intermediate Panchayats, 13 out of twenty states that are to constitute intermediate Panchayats, namely, Arunachal Pradesh, Bihar, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Manipur, Orissa, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand and West Bengal, report zero collection of taxes other than immovable property taxes at this level. The least empowered, or the most neglected Panchayat levels in respect of taxes other than immovable property taxes are the District Panchayats. 17 States that have constituted these, namely, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Himachal Pradesh, Karnataka, Madhya Pradesh, Manipur, Orissa, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand and West Bengal report zero collection of taxes other than immovable property taxes.
- 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.
- In the case of Maharashtra as well there is considerable collection of other taxes by the District Panchayat and also a steep increase over the years – in fact in 2012-13, all of 90 per cent of all other taxes collected at the District level happens in Maharashtra, according to the data provided. This seems to be 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. That does not tally with the current 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. It is quite possible that Maharashtra is reporting an assigned tax as other taxes, in its Schedule 4A report.
- 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.

3.9. Collection of user charges and non-tax revenues:

3.9.1. An analysis of user charges collected by RLBs was undertaken, based on reports in Schedule 4A (Table 25).

Table 25: Total collection of user charges in RLBs (Rs. Crore)

State	2007-08	2008-09	2009-10	2010-11	2011-12
Village level					
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	
Total	604.22	726.88	805.33	941.05	1011.97
Intermediate level					
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
Chattisgarh				3.21	
Total	179.62	198.27	214.40	346.13	354.67
District level					
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
Total	723.47	914.38	937.26	1152.26	1245.57
Village level	604.22	726.88	805.33	941.05	1011.97
Intermediate level	179.62	198.27	214.40	346.13	354.67
District level	723.47	914.38	937.26	1152.26	1245.57
Grand Total	1507.31	1839.53	1956.99	2439.43	2612.20

3.9.2. The following observations emerge from Table 25:

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

Chapter 4: Analysis of expenditures of Rural Local Bodies

4.1. Introduction:

It is well known that rural local bodies depend considerably on inter-governmental fiscal transfers from higher levels of government for creation of assets and their maintenance and management for effective service provision. However, a predominant part of these transfers in the Indian context are tied to specific purposes. This drives local governments to function more as implementing agencies of service delivery functions, rather than as institutions devolved with power and endowed with responsibilities for implementation, and accountable for their failure to do so. This study is an effort to understand the spending pattern of PRIs on various activities based on sample PRIs drawn from different states. On the expenditure side, an analysis of expenditure on revenue and capital account has been done. This is in light of the data made available 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.

4.2. Comparison of sample and state wise data:

4.2.1. The details of the total expenditure from the State, as derived from the Sample data in Schedule 4B was compared with the State-wide data, furnished by States in Format Schedules 4A (Table 26).

Table 26: Comparison of per capita expenditure in Schedule 4B and 4A (in Rs)

TOTAL EXPENDITURE						
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Village						
Data in Schedule 4B (Sample RLBs)	175.4	220.5	344.3	337.7	330.4	392.2
Data in Schedule 4A (State as a whole)	260.8	319.8	394.8	522.5	577.9	503.5
Intermediate						
Data in Schedule 4B (Sample RLBs)	132.3	154.3	261.1	274.7	300.4	325.9
Data in Schedule 4A (State as a whole)	237.2	251.6	323.0	1661.8	431.7	384.4
District						
Data in Schedule 4B (Sample RLBs)	165	203	268	309	298	440
Data in Schedule 4A (State as a whole)	417.2	466.6	545.7	588.9	678.0	736.7
CAPITAL EXPENDITURE						

Village						
Data in Schedule 4B (Sample RLBs)	73.2	96.2	161.0	154.0	152.6	181.1
Data in Schedule 4A (State as a whole)	109.9	151.3	164.9	229.2	246.4	191.4
Intermediate						
Data in Schedule 4B (Sample RLBs)	64.8	72.5	106.1	105.8	110.4	122.2
Data in Schedule 4A (State as a whole)	48.4	41.3	58.7	1345.7	84.5	64.6
District						
Data in Schedule 4B (Sample RLBs)	44	59	66	72	81	85
Data in Schedule 4A (State as a whole)	98.7	120.3	121.7	125.8	143.3	141.7
REVENUE EXPENDITURE						
Village						
Data in Schedule 6A (Sample RLBs)	108.5	132.2	193.8	195.7	189.8	223.1
Data in Schedule 4A (State as a whole)	150.9	168.5	229.9	293.3	331.5	312.0
Intermediate						
Data in Schedule 4B (Sample RLBs)	246.4	306.8	430.4	500.0	540.8	605.8
Data in Schedule 4A (State as a whole)	188.9	210.3	264.2	316.1	347.2	319.8
District						
Data in Schedule 4B (Sample RLBs)	233.1	279.3	375.3	456.8	439.6	439.6
Data in Schedule 4A (State as a whole)	318.5	346.2	424.0	463.2	534.7	595.0

4.2.2. The comparison in Table 26 shows considerably higher per capita figures in the case of State data, as compared to sample data for all three levels of RLBs. This difference is much more marked in the case of capital expenditure data for all three levels, with the difference progressively increasing in the case of expenditure at the district level, where it is as high as a two to three times difference, between State-wide and sample data. But in the intermediate level the State data is lower than the sample data except for the year 2010-11. On the other hand, in the case of revenue expenditure, the opposite is seen, with respect to the Village and District level, where the per capita figures of the State data is higher than that of the sample data. However, in the case of the intermediate level, state level data is much lower than the sample data.

4.2.3. The following may be the reasons to explain such wide variations:

In the case of State-wide data, there could be low reporting of expenditures. Moreover, it is not the same States that have provided State-wide data and sample data: therefore the comparison could be of expenditures happening in different circumstances and contexts.

In the case of Sample data, much more detail is available in the expenditure, as compared to the State-wide data. This has enabled some level of reclassification of sample data to conform to a modicum of a common standard of attributing expenditures to different heads. For example, in the case of MGNREGs expenditure, where many works pertaining to roads, plantations, land development, drainage etc. have been undertaken, variations were noted in how this expenditure was noted 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. To compound the confusion further, some GPs have shown these 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. Since there is no standardisation in the number of Bank accounts and their nature, reporting PRIs particularly at village level maintain their accounts based on schemes for which they receive the money.

In the case of some States, for example, Karnataka, Gujarat and Maharashtra, large amounts of expenditure are incurred towards the salaries of functionaries working under RLBs, who are typically deputed from the Government. This drives up the overall expenditure on establishment in these states, as compared to other States. It is quite likely that State-wide expenditure data omits the inclusion of such data.

It is possible that expenditure met out of the funds that are not transferred to RLBs, but are spent by local level line departments and parallel implementing 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. Since these allocations are not separately mentioned in the sample data, they cannot be removed as part of an exercise of detecting and reducing inconsistencies.

Further details of the consistency checks undertaken and the correctives applied may be seen in the Second section of the report, as Consistency Check 5.

4.3. Overall expenditure:

4.3.1. Details of the expenditure undertaken core service wise, and in terms of revenue, capital and total expenditure, may be seen in Tables 27, 28 and 29.

Table 27: Per capita total expenditure by core function (Rs.)

TOTAL EXPENDITURE							
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average per capita

Village							
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
Village level	121.1	152.6	241.1	240.0	240.2	279.1	212.4
Intermediate							
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
Intermediate level	95.5	103.2	175.4	167.6	176.0	191.1	151.5
District							
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
District level	92.6	108.4	124.2	134.2	146.2	161.1	127.8

Table 28: Per capita revenue expenditure by core function (Rs)

REVENUE EXPENDITURE							
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average per capita

Village							
Roads and Bridges	15.6	19.6	30.5	30.6	31.4	33.7	26.9
Water Supply	11.1	15.5	17.7	17.4	20.8	25.0	17.9
Buildings/ Community assets	13.7	15.7	18.8	21.7	24.1	26.7	20.1
Street Lighting	4.7	7.5	8.3	10.6	11.4	12.7	9.2
Sanitation, Storm water drainage and solid waste	6.5	10.5	12.5	14.7	15.9	18.6	13.1
Other means of communication	0.6	1.2	2.0	2.0	2.5	2.9	1.9
Other maintenance Expenditure	6.9	11.2	14.7	17.4	16.7	18.4	14.2
Village level	43.5	53.3	72.5	76.2	80.0	91.7	69.5
Intermediate							
Roads and Bridges	6.9	7.3	30.8	15.3	19.6	19.4	16.5
Water Supply	2.3	3.0	3.5	3.8	4.3	5.0	3.7
Buildings/ Community assets	3.0	3.6	4.9	9.3	9.7	9.5	6.7
Street Lighting	0.0	0.1	0.0	0.1	0.1	0.3	0.1
Sanitation, Storm water drainage and solid waste	0.3	0.5	0.6	1.0	1.5	2.2	1.0
Other means of communication	3.0	4.4	7.4	8.2	6.5	7.0	6.1
Other maintenance Expenditure	5.0	5.7	10.4	13.1	13.6	13.7	10.3
Intermediate level	20.7	24.6	57.6	50.7	55.4	57.1	44.3
District							
Roads and Bridges	13.8	14.4	16.7	16.8	21.6	28.8	18.7
Water Supply	5.0	5.4	5.3	5.3	6.7	6.9	5.7
Buildings/ Community assets	2.9	2.8	4.0	3.5	5.9	6.3	4.2
Street Lighting	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Sanitation, Storm water drainage and solid waste	1.1	2.2	2.3	3.3	3.0	4.7	2.8
Other means of communication	1.0	1.2	2.1	1.3	1.9	1.8	1.5
Other maintenance Expenditure	25.2	25.0	29.6	34.8	29.3	30.3	29.0
District level	49.4	51.1	60.1	65.3	68.6	79.0	62.3

Table 29: Per capita capital expenditure by core function (Rs)

CAPITAL EXPENDITURE							
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average

							per capita
Village							
Roads and Bridges	29.7	57.2	68.7	60.1	67.3	75.5	59.8
Water Supply	12.5	27.5	30.7	27.5	28.2	33.6	26.7
Buildings/ Community assets	37.6	50.7	73.7	78.7	80.2	74.0	65.8
Street Lighting	0.2	0.5	0.5	0.6	0.7	0.7	0.5
Sanitation, Storm water drainage and solid waste	1.0	3.1	3.0	3.7	4.1	4.5	3.2
Other means of communication	7.8	8.8	11.6	10.7	11.3	12.0	10.4
Other capital Expenditure	24.0	35.1	78.2	86.0	64.8	68.2	59.4
Village level	77.7	99.3	168.6	163.7	160.2	187.4	142.8
Intermediate							
Roads and Bridges	23.9	26.2	35.3	40.0	45.0	47.4	36.3
Water Supply	7.8	8.3	9.6	10.0	11.0	11.2	9.6
Buildings/ Community assets	11.1	14.3	18.1	18.8	23.0	30.0	19.2
Street Lighting	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Sanitation, Storm water drainage and solid waste	1.9	2.5	3.1	2.2	3.1	2.9	2.6
Other means of communication	3.1	3.6	5.5	6.2	5.1	5.2	4.8
Other capital Expenditure	27.0	23.5	44.4	39.6	33.4	37.3	34.2
Intermediate level	74.8	78.6	117.8	116.9	120.6	134.0	107.1
District							
Roads and Bridges	20.4	28.5	28.6	33.1	38.6	37.3	31.1
Water Supply	6.5	10.1	8.5	10.5	10.1	12.8	9.7
Buildings/ Community assets	9.0	9.8	15.0	15.3	15.3	20.0	14.1
Street Lighting	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Sanitation, Storm water drainage and solid waste	0.5	0.9	1.1	0.9	1.0	0.9	0.9
Other means of communication	1.4	1.4	2.0	1.4	1.5	1.1	1.5
Other capital Expenditure	5.2	6.6	8.6	7.5	10.7	9.5	8.0
District level	43.1	57.3	64.0	68.9	77.6	82.1	65.5

4.3.2. The following conclusions emerge from a study of these tables

- Much of revenue and capital expenditure is undertaken at the village level as seen in Table 27. 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.
- With respect to revenue expenditure (Table 28) the Intermediate level is seen as spending the lowest, followed by the village and then the district level. The Intermediate level spends the highest under revenue expenditure only in case of other means of communication at Rs.6 per capita.
- With respect to capital expenditure (Table 29) spending is the highest at the Village level. Levels of capital expenditure at the block level match that of the village level, except in the case of water supply where it matches the district level.
- Last the gram panchayats are not able distinguish properly between maintenance expenditure and capital expenditure. Therefore it is better to look at core services expenditure as whole rather than looking at maintenance expenditure separately and capital expenditure separately.

4.4. Total Expenditures on Core Services at All Levels:

4.4.1. 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).

Table 30: Per capita Total expenditure by core function (in Rs.)

TOTAL EXPENDITURE (At all Levels)							
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average per capita
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

Total expenditure	309.2	364.2	540.7	541.7	562.5	631.2	491.6
--------------------------	-------	-------	-------	-------	-------	-------	-------

Chart 4: Per capita expenditure on core function

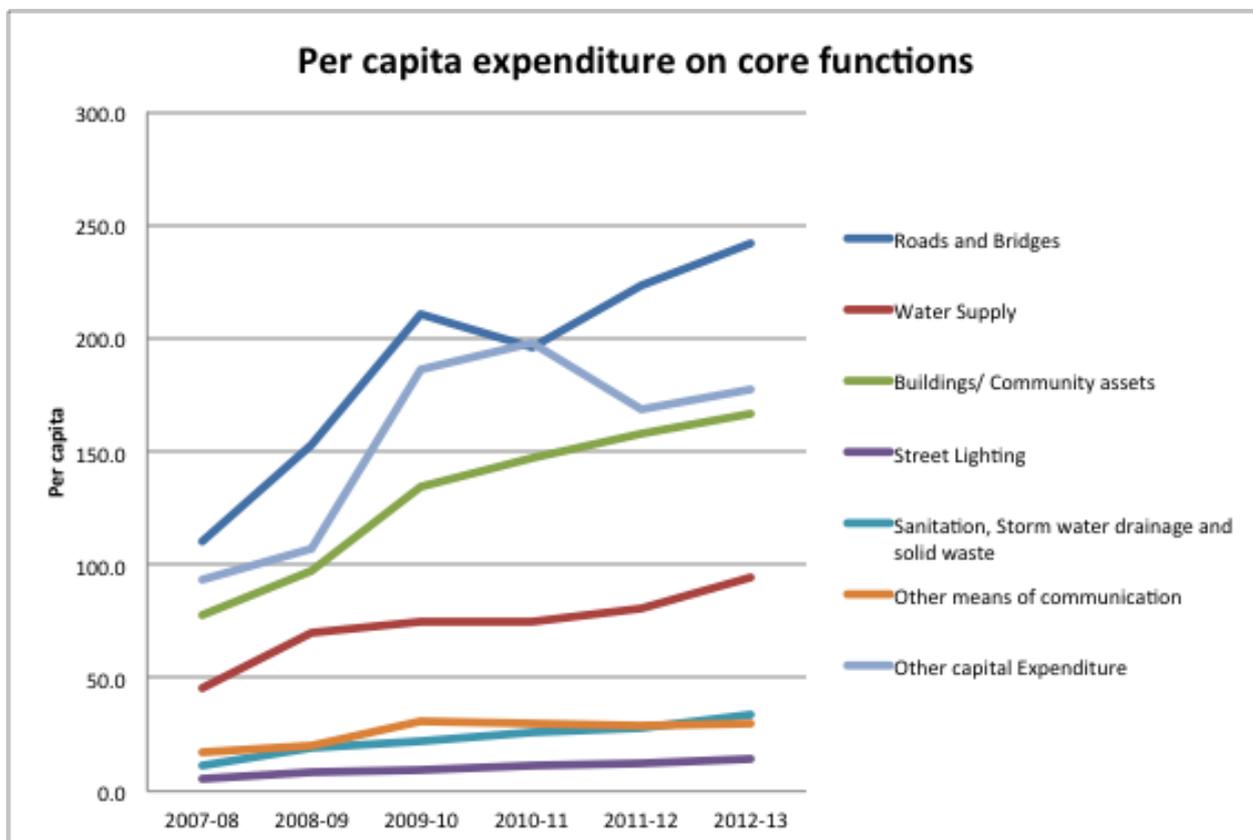


Chart 4 and Table 30 show the trend that the expenditure on water supply and buildings/community assets have increased considerably from 2007-08 to 2012-13, in stark contrast to the expenditure on other core functions, which seems to have only marginally increased in the same time period. Expenditure on roads and bridges has also shown an increasing trend except for 2010-11 when it has dipped.

State-wise expenditure:

4.4.1. The details of State-wise expenditure may be seen in Table 31

Table 31: State-wise per capita total expenditure (Rs)

TOTAL EXPENDITURE							
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
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

4.4.2. The following conclusions emerge from a study of Table 31:

- One can observe from the table 31 that Tripura has the highest per capita spending at Rs. 1048 and the lowest is Uttar Pradesh at Rs. 8.77.
- The trend seems to be similar if one excludes Karnataka, Gujarat and North-Eastern states. Per capita expenditure are high in these states for two reasons. The first one is transferring the salaries of functionaries to PRIs and second being that hilly states do need to spend much more on provision of services with low density of population and hilly terrain.

4.5. Comparison of revenues and expenditures:

4.5.1. 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, the difference ought not to be considerable, or show sudden increases or reductions. Any such tendencies would throw doubt on the data that is compared. 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.

4.5.2. 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 32).

Table 32: 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 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
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

All States	617	548	643	672	344	338	330	392	273	210	312	280
	Intermediate level											
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 activity at block level structure											
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 activity at block level structure											
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
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
All States	580	679	747	850	261	275	300	326	319	405	446	524
	District Panchayats											
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
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

4.5.3. The following are the conclusions that emerge from a study of Table 32:

- Except in the case of the highlighted States, 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.

Chapter 5: Assessment of the Gap in Financial Resources

5.1. Determination of Financial Gap

In this chapter, an assessment of the gap in financial resources required for provisioning of services of the required standards has been made. The approach adopted is to undertake this exercise individually for each sector, followed by the synthesis of information for all sectors. This enables an assessment of the cumulative gaps and the contribution of each sector relative to the other, to this cumulative gap. The financial models developed for undertaking these calculations enable the assumptions to be changed as required, to undertake calculations for various scenarios.

5.2. Assessment of the gap in provisioning of drinking water supply:

5.2.1 Methodology & Assumptions

From the previous chapter the cost of addressing the service delivery gap for drinking water supply was determined. We analysed the expenditure data provided by the states by core function and extrapolated this expenditure for 2015-2020 to arrive at expenditures for core functions for the said period. The principal hypothesis adopted was that income to that extent will be made available based on past trends to address expenditure. The gap is therefore defined as the expenditure, i.e., the cost of service projected in 2020.

- Out of 29 States, we received data from 19 states. The 10 States with missing data are Bihar, Jharkhand, Jammu & Kashmir, Madhya Pradesh, Punjab, Haryana, Mizoram, Meghalaya, Arunachal Pradesh & Nagaland.
- The logic applied to arrive at financial gaps is a workaround in the context of data insufficiency, limited details and consistency that were observed during the course of analysis
- On analysis of the per capita costs for water supply for the 19 states, it was determined that there was no pattern, trend or decipherable logic to explain the quantum of disbursement between 2007 and 2013.
- In this context the average per capita cost was computed for the six year time frame. This number has been used as the baseline for computing the figures for the duration 2015-2020
- The Compounded Annual Growth Rate (CAGR) for the 6 year period has been established and is applied over a five year period on the baseline average per capita figure computed in the previous step.

- The projected cost per capita in 2020 is compared with the cost per capita provided in the previous chapter and the difference is computed as the gap per capita
- This per capita gap is multiplied by the projected average rural population for each state to arrive at the actual financial numbers
- In the absence of data for Bihar and Jharkhand, Uttar Pradesh's data has been allocated to these two states, since they share quite a few similar attributes.
- For Madhya Pradesh, we have applied data from Chhattisgarh on the same principles as that for Bihar and Jharkhand
- For all other states, the national average computed with only the 19 states has been applied uniformly.
- Though the extrapolation of current data for some states projects a surplus instead of a gap, this skewed finding is addressed when we take all 29 states together into the context.

This computation has been used to arrive at a national level figure by working through the details and cannot be seen as representing the projected requirements of each state (Table 33).

Table 33: Computation of costs for meeting service delivery norms for the supply of drinking water. Details in financial model 8

State	Average per capita (Rs) (assumed for computing 2015-2020)	CAGR	Projected per capita expenditure from 2015-20 based on past expenditure	Per capita Cost estimated as per norms for 2015-2020	Per capita Gap/Surplus	Total Gap/Surplus (in Rs. Cr)
Andhra Pradesh	51.5	13%	378.31	843.9	-465.62	-1636.2
Arunachal Pradesh	73.3	13%	539.01	1041.0	-501.99	-62.6
Assam	39.4	25%	406.05	549.0	-142.94	-426.7
Bihar	37.2	19%	321.31	664.8	-343.48	-3753.2
Chhattisgarh	14.7	10%	98.27	1036.6	-938.29	-2082.0
Goa	4.4	13%	32.36	680.9	-648.57	-314.1
Gujarat	40.5	12%	286.51	851.7	-565.18	-2092.4
Haryana	73.3	13%	539.01	557.9	-18.86	-33.3
Himachal Pradesh	33.2	28%	366.89	1146.6	-779.76	-526.0
J&K	73.3	13%	539.01	1223.4	-684.40	-713.5
Jharkhand	37.2	19%	321.31	1350.9	-1029.54	-2955.7
Karnataka	112.2	12%	808.99	1200.5	-391.56	-1544.9
Kerala	44.9	4%	254.97	853.5	-598.52	-870.9

Madhya Pradesh	14.7	10%	98.27	1167.2	-1068.89	-6385.8
Maharashtra	106.8	12%	762.29	1248.0	-485.73	-3214.0
Manipur	172.9	74%	6142.07	1191.9	4950.18	916.1
Meghalaya	73.3	13%	539.01	1266.7	-727.67	-92.5
Mizoram	73.3	13%	539.01	909.2	-370.18	-22.0
Nagaland	73.3	13%	539.01	2995.5	-2456.53	-312.1
Orissa	72.3	15%	567.92	945.1	-377.16	-1431.7
Punjab	73.3	13%	539.01	641.2	-102.16	-187.0
Rajasthan	182.8	11%	1264.63	1213.9	50.70	297.9
Sikkim	497.8	5%	2920.62	1257.6	1663.02	73.4
Tamil Nadu	126.1	17%	1044.92	638.0	406.97	1586.7
Telangana	85.0	0%	429.56	844.1	-414.49	-908.1
Tripura	143.1	28%	1579.89	939.7	640.21	176.4
Uttar Pradesh	37.2	19%	321.31	518.1	-196.81	-3463.8
Uttarakhand	3.1	65%	89.38	808.8	-719.41	-548.6
West Bengal	39.4	24%	394.00	798.8	-404.81	-2655.8
All States						-33182.4

An amount of Rs. 33,182.4 crores is established as the financing gap for drinking water supply, projected for the period 2015-2020 at the national level.

5.3. Assessment of the gap in provisioning of sanitation & hygiene:

5.3.1 Methodology & Assumptions

The same methodology applied for drinking water supply has been used to calculate the financial gap for sanitation and hygiene as well.

- Sanitation and hygiene includes Independent Household Hold Latrines, Solid Waste Management, Liquid Waste Management, School Toilets and Anganwadi Toilets.
- Out of 29 states, data was received from 15 states and was not available for 14 states. Per capita expenditure for sanitation and hygiene in each of these 15 states was computed
- The states for which per capita could not be computed include Haryana, Punjab, Bihar, Madhya Pradesh, Mizoram, Nagaland, Jharkhand, Arunachal Pradesh, Jammu & Kashmir, Chhattisgarh, Goa, Meghalaya, and Uttarakhand

- Bihar and Jharkhand did not provide data and hence UP's data was used to compute the gap for them as a workaround
- For the remaining 12 states, the national average computed for the 15 states was applied directly as a workaround to arrive at the projected expenditure from 2015-2020
- For Sikkim, data for only two years was provided for which a simple average and the linear growth was used as the basis for extrapolating expenditure.
- Manipur was the only state that pointed to a surplus, i.e., expenditure greater than the required costs for the period 2015-2020. As mentioned previously in the case of drinking water supply, the context of 29 states together provides a net of the financial gap for at the national level.

Table 34: Computation of costs for meeting service delivery norms for the Provision of sanitation. Details in financial model 9

State	Average per capita (assumed for computing 2015-2020)	CAGR	Projected per capita expenditure from 2015-20 based on past expenditure	Per capita Cost estimated as per norms for 2015-2020	Per capita Gap/ Surplus	Total Gap/ Surplus in INR
Andhra Pradesh	24.5	9%	161.67	1625.8	-1464.11	-5144.92
Arunachal Pradesh	23.6	20%	209.73	873.7	-663.99	-82.81
Assam	58.1	12%	410.01	877.7	-467.71	-1396.34
Bihar	31.4	33%	398.19	1347.7	-949.47	-10374.87
Chattisgarh	23.6	20%	209.73	1686.9	-1477.13	-3277.64
Goa	23.6	20%	209.73	877.7	-667.97	-32.35
Gujarat	45.2	6%	270.24	1255.2	-984.92	-3646.35
Haryana	23.6	20%	209.73	857.5	-647.82	-1145.56
Himachal Pradesh	1.2	4%	6.65	1026.6	-1019.95	-687.99
Jammu and Kashmir	23.6	20%	209.73	1018.5	-808.76	-843.09
Jharkhand	31.4	33%	398.19	1540.5	-1142.33	-3279.51
Karnataka	46.2	26%	491.01	1477.5	-986.48	-3892.15
Kerala	3.2	1%	16.53	780.4	-763.87	-1111.46
Madhya Pradesh	23.6	20%	209.73	1612.8	-1403.04	-8381.99
Maharashtra	2.1	5%	12.30	1312.4	-1300.06	-8602.24
Manipur	79.4	47%	1445.40	817.0	628.36	116.28
Meghalaya	23.6	20%	209.73	774.4	-564.63	-161.66
Mizoram	23.6	20%	209.73	754.7	-544.99	-32.32
Nagaland	23.6	20%	209.73	1006.6	-796.86	-101.24
Orissa	10.6	4%	59.51	1799.0	-1739.54	-6603.51
Punjab	23.6	20%	209.73	879.9	-670.13	-1226.91
Rajasthan	10.7	-1%	52.26	1339.2	-1286.93	-7561.56

Sikkim	8.2	-41%	0.00	1776.9	-1776.87	-78.41
Tamil Nadu	18.2	22%	169.70	1751.1	-1581.44	-6165.74
Telangana	12.6	0%	63.28	1529.4	-1466.09	-3212.18
Tripura	32.9	12%	236.58	788.7	-552.16	-152.12
Uttar Pradesh	31.4	33%	398.19	1206.6	-808.45	-14228.43
Uttarakhand	23.6	20%	209.73	916.1	-706.35	-538.61
West Bengal	23.2	38%	334.66	1222.0	-887.31	-5821.40
All States						-97667.07

As per Table 34 above, an amount of INR 97,667.07 crores is established as the financial gap for sanitation and hygiene, projected for the period 2015-2020 at the national level.

5.4. Assessment of the gap in provisioning of roads:

5.4.1 Methodology & Assumptions

19 of 29 states provided data on roads. The states for which computations were not possible were Arunachal Pradesh, Bihar, Jharkhand, Punjab, Haryana, Madhya Pradesh, Meghalaya, Mizoram, Nagaland and Jammu & Kashmir. However, after analysing the data, it was determined that it was not possible to obtain specifics on panchayat and village roads, the superintendence and control of which are devolved to the RLBs. In this context, we considered data from the Ministry of Road Transport and Highways which was also adopted for calculating the costs detailed in Chapter 2.

A fundamental assumption being made is that the entire cost projected for 2015-2020 for rural roads (Panchayat and PMGSY) roads is taken as a gap. Another secondary assumption is that we would look only at maintenance of panchayat roads and PMGSY roads. This is so because, norms for road construction vary drastically across and within states and it is impossible to factor road projects and associated capital costs given the multiple variables involved. However, given that we know the length of existing roads (panchayat and rural roads), whether they are surfaced or not, we have norms to provide maintenance for these roads. These norms have been factored while arriving at the projected costs for 2015-2020 which is also the financial gap as assumed above.

Based on these assumptions, Table 35 below provides the relevant particulars for roads.

Table 35: Computation of costs for meeting service delivery norms for the maintenance of rural roads. Details in financial model 5

S.No	State	Surfaced Roads Maintenance cost @ 18650 per km - 2015-2020	Unsurfaced Roads Maintenance cost @ 12450 per km - 2015-2020	PMGSY Roads – Maintenance cost @ 18650 per km - 2015-2020	Grand Total (Roads) 2015-2020 (Gap)
------	-------	--	--	---	-------------------------------------

1	Andhra Pradesh	374.24	269.79	108.75	752.78
2	Arunachal Pradesh			31.19	31.19
3	Assam	102.85	1210.54	114.13	1427.53
4	Bihar	214.20	410.92	184.41	809.54
5	Chattisgarh			181.48	181.48
6	Goa	25.19	14.85	1.48	41.52
7	Gujarat	389.48	16.60	70.76	476.84
8	Haryana			41.81	41.81
9	Himachal Pradesh	1.20	2.68	93.48	97.37
10	Jammu & Kashmir	15.79	6.52	26.89	49.20
11	Jharkhand			67.93	67.93
12	Karnataka	685.53	458.76	144.92	1289.21
13	Kerala	652.68	521.68	13.88	1188.24
14	Madhya Pradesh	48.14	261.47	461.17	770.78
15	Maharashtra	797.74	103.34	199.07	1100.15
16	Manipur		23.13	27.64	50.77
17	Meghalaya	0.05	3.73	9.41	13.18
18	Mizoram			19.61	19.61
19	Nagaland	61.56	80.01	24.85	166.42
20	Orissa	158.85	958.87	215.23	1332.95
21	Punjab	513.44	0.00	41.35	554.79
22	Rajasthan	76.08	224.90	453.35	754.33
23	Sikkim			22.39	22.39
24	Tamil Nadu	852.39	228.96	92.41	1173.76
25	Tripura	48.86	57.20	21.80	127.87
26	Uttarakhand			37.78	37.78
27	Uttar Pradesh	125.22	212.18	371.48	708.88
28	West Bengal	136.93	908.43	110.46	1155.82
29	Telangana	271.00	195.37	78.75	545.12
	All States				-14989.24

5.4.1. As per table 35 above, an amount of INR 14,989.2 crores is established as the financial gap for maintenance of Panchayati raj and village roads as projected for the period 2015-2020 at the national level.

5.5. Assessment of the gap in provisioning of streetlights:

5.5.1 Methodology & Assumptions

The same methodology as applied to drinking water as well as sanitation has been applied to arrive at the financial gap for Streetlights.

- Data from 14 states was used to establish projections for expenditure for 2015-2020 by using the average per capita expenditure and applying the six year CAGR to the corresponding 5 year period of 2015-2020
- For states where data was not available, the national average as computed for the remaining 14 states was directly used as the basis to determine expenditure projections
- Data of Uttar Pradesh was not used for Jharkhand and Bihar respectively which however was the case for drinking water supply and sanitation, where it was previously assumed that similar conditions and attributes prevail in the said states.
- From the previous chapter on projected costs for service delivery, the per capita cost projections were then subtracted from the projected expenditure to arrive at the financial gap.

Table 36 below provides relevant particulars for streetlight computations.

Table 36: Computation of costs for meeting service delivery norms for the provisioning of streetlights. Details in financial model 10

State	Compounded Annual growth rate	Projected per capita expenditure from 2015-20 based on past expenditure	Per capita Cost estimated as per norms for 2015-2020	Per capita Gap/ Surplus	Total Gap/Surplus in INR
Andhra Pradesh	12%	229.72	142.48	87.24	306.56
Arunachal Pradesh	17%	154.98	1334.07	-1179.09	-147.05
Assam	17%	154.98	254.66	-99.68	-297.59
Bihar	17%	154.98	165.71	-10.73	-117.21
Chhattisgarh	32%	18.15	263.60	-245.45	-544.64
Goa	10%	151.82	196.50	-44.68	-2.16
Gujarat	12%	102.69	143.31	-40.63	-150.42
Haryana	17%	154.98	111.69	43.29	76.55
Himachal Pradesh	17%	154.98	788.32	-633.34	-427.21
Jammu and Kashmir	17%	154.98	181.42	-26.44	-27.56
Jharkhand	17%	154.98	165.71	-10.73	-30.80
Karnataka	17%	309.39	207.54	101.85	401.86
Kerala	9%	190.08	20.78	169.30	246.33
Madhya Pradesh	17%	154.98	260.01	-105.04	-627.50
Maharashtra	8%	25.91	184.09	-158.18	-1046.64
Manipur	17%	154.98	392.58	-237.60	-43.97
Meghalaya	17%	154.98	698.64	-543.66	-155.66
Mizoram	17%	154.98	358.46	-203.48	-12.07
Nagaland	17%	154.98	334.23	-179.25	-22.77
Orissa	9%	73.38	387.31	-313.93	-1191.71

Punjab	17%	154.98	197.63	-42.65	-78.08
Rajasthan	28%	23.98	223.27	-199.29	-1170.99
Sikkim	17%	154.98	286.38	-131.40	-5.80
Tamil Nadu	10%	506.78	114.78	392.01	1528.36
Telangana	3%	34.34	128.23	-93.89	-205.70
Tripura	16%	33.97	93.71	-59.75	-16.46
Uttar Pradesh	42%	426.08	165.71	260.38	4582.56
Uttarakhand	17%	154.98	614.85	-459.87	-350.66
West Bengal	34%	7.47	169.80	-162.34	-1065.03
All States					-595.48

5.5.1. As per table 36 above, an amount of INR 595.48 crores is established as the financial gap for maintenance of streetlights as projected for the period 2015-2020 at the national level.

5.6. Assessment of the gap in provisioning of community assets:

5.6.1 Methodology & Assumptions

Community Assets have been dealt with in a slightly different manner as compared to other core services. As mentioned in the previous chapter that provided us the cost projections for 2015-2020, we have considered only those community assets that are a part of the core civic responsibility of a panchayat. These include among others, markets, fairs, parks, playgrounds, community ponds, fisheries, bathing ghats, cart stands, cattle pounds, burial grounds and crematoria etc. As mentioned in the previous chapter, there are other funding options available to create Panchayat assets such as buildings or those that need infrastructure creation at a capital cost. For the current purpose only the above mentioned core civic responsibilities have been factored.

Burial grounds are one of the most important community assets in a Panchayat. It is assumed that one Panchayat has one burial ground to cater to all the wards within the Panchayat. Though each village might have its own burial ground, the concept of a consolidated burial ground to cater to the needs to a set of villages under a Panchayat has been used as a prime assumption. These need constant maintenance and there is also the ever growing demand for space as more bodies need to be cremated/buried. Hence there is significant capital and maintenance cost involved in the upkeep of this asset.

As per secondary research, it is extremely difficult to arrive at norms for the other community assets mentioned above, besides burial grounds. We therefore have created a model – a flexible structure that provides for computing expenditure for burial grounds as well as for other community assets.

- 19 states furnished expenditure information on community assets. The same methodology of using the average per capita expenditure and 6 year CAGR to project growth in expenditure for 2015-2020 was adopted.

- The per capita expenditure furnished by states includes expenses incurred on buildings and other cost intensive asset construction, acquisition or maintenance
- We have therefore created a model that assumes a certain percentage of the per capita expenditure to have been spent on the community assets mentioned above and which includes burial grounds as well
- Being a model the number mentioned above can be changed to arrive at suitable figures based on changed assumptions
- It is assumed that the current allocation for community assets as a % of total allocation per capita is 5%. As mentioned this can be changed
- Using the above assumption the per capita amount is determined. This amount is then translated into absolute expenditure by multiplying the same with the average rural population projected (state wise) for 2015-2020
- Similarly on the cost side, we have absolute costs (not per capita) available for burial grounds. We applied a uniform per capita of 46.16 to arrive at absolute costs for each state.
- We have made another variable provision of 20% on the projected costs for burial grounds. This can also be varied/changed. This provision factors for the costs of the other community assets mentioned above.
- The gap therefore is the difference between the projected expenditure for core services computed above and the projected costs of burial grounds and other community assets that have been factored at 20% of the cost of burial grounds.

Table 37 below provides the relevant computations for community assets.

Table 37: Computation of costs for meeting service delivery norms for the provisioning of community assets (in Rs. Crores). Details in financial model 11

State	Current allocation to core civic responsibilities (community assets)	Projected expenditure 2015-2020	Cost estimated as per norms for 2015-2020 Burial Grounds	Cost estimated for 2015-2020 (Other community Assets) INR	Total Costs 2015-2020 (Community Assets) Rs.	Gap in Rs. crores
Andhra Pradesh	8.66	30.44	178.43	35.69	214.12	-183.67
Arunachal Pradesh	48.48	6.05	6.33	1.27	7.60	-1.55
Assam	69.79	8.70	151.59	30.32	181.91	-173.20
Bihar	48.48	529.73	554.83	110.97	665.80	-136.07

Chattisgarh	12.01	26.64	112.67	22.53	135.20	-108.56
Goa	18.18	0.88	2.46	0.49	2.95	-2.07
Gujarat	83.74	310.02	187.98	37.60	225.58	84.45
Haryana	48.48	85.73	89.79	17.96	107.75	-22.02
Himachal Pradesh	9.08	6.13	34.25	6.85	41.10	-34.97
Jammu and Kashmir	48.48	50.54	52.93	10.59	63.52	-12.98
Jharkhand	48.48	139.18	145.77	29.15	174.92	-35.75
Karnataka	20.54	81.03	200.34	40.07	240.41	-159.38
Kerala	28.59	41.60	73.88	14.78	88.66	-47.06
Madhya Pradesh	48.48	289.62	303.34	60.67	364.01	-74.39
Maharashtra	41.99	277.84	335.98	67.20	403.18	-125.33
Manipur	152.12	28.15	9.40	1.88	11.28	16.87
Meghalaya	48.48	13.88	14.54	2.91	17.45	-3.57
Mizoram	48.48	2.88	3.01	0.60	3.61	-0.74
Nagaland	48.48	6.16	6.45	1.29	7.74	-1.58
Orissa	77.24	293.22	192.75	38.55	231.30	61.92
Punjab	48.48	88.76	92.96	18.59	111.55	-22.79
Rajasthan	60.33	354.48	298.34	59.67	358.01	-3.53
Sikkim	33.52	1.48	2.24	0.45	2.69	-1.21
Tamil Nadu	23.50	91.63	197.97	39.59	237.56	-145.93
Telangana	22.58	49.48	111.25	22.25	133.50	-84.02
Tripura	71.65	19.74	13.99	2.80	16.79	2.95
Uttar Pradesh	69.98	1231.69	893.64	178.73	1072.37	159.32
Uttarakhand	0.71	0.54	38.72	7.74	46.46	-45.92
West Bengal	39.18	257.03	333.13	66.63	399.76	-142.72
All States						-1243.51

As per table 37, an amount of INR 1243.51 crores is established as the financial gap for the maintenance of community assets as projected for the period 2015-2020 at the national level.

Table 38 provides the summary of the total financial gaps that have been computed in the context of core functions.

Table 38:

Core Service	Gap (2015-2020) in INR crores
Water Supply	-33182.37
Sanitation & Hygiene	-97667.07
Community Assets	-1243.51
Roads	-14989.24
Streetlights	-595.48
Total	-147677.67

The total consolidated financial gap for the provision of core services and close the service delivery gap by RLBs from 2015 to 2020 is Rs. 1,47,677.67 crore.

Chapter 6

Strategic options for bridging the vertical gap in funding service delivery of core functions

6.1. Introduction:

6.1.1. The necessity for an inter-governmental fiscal transfer system is well known and needs no elaboration. Suffice to say that at the broadest level, inter-governmental fiscal transfers are necessary so as to prevent fiscal inequity between jurisdictions, reduce fiscal inefficiency, tackle inter-jurisdictional spill overs and address the need for expenditure harmonisation. Theoretical literature²⁵ points out that fiscal inefficiency arises if some level of equalisation is not provided, leading to the tendency for people to migrate, which in turn results in the unequal allocation of labour across jurisdictions. There is an element of redistribution inherent in the response to tackle inter-jurisdictional spill overs as also the need to ensure expenditure harmonisation through influencing local priorities, which tackles the differential cost of delivery of services and dealing with infrastructure deficiencies in different locations.

6.1.1 An inter-governmental fiscal transfer system comprises broadly of tax assignments, which enable jurisdictions to mitigate their fiscal gaps by collection of assigned taxes, through revenue sharing mechanisms and/or a system of grants, both general purpose and specific purpose. While designing a system of grants or revenue sharing, the following considerations are relevant (Box 8):

Box 8: Considerations relevant for designing a system of grants or revenue sharing

- Sub-national governments must have autonomy in setting priorities. This is important from the perspective of efficiency. Revenue shares, or grants must be neutral to subnational governmental choices of resource allocation to different sectors or types of activity, unless there are clear efficiency and equity based rationales for introducing conditionalities into how these fiscal transfers are to be used and where they are to be applied.
- With respect to grants, there must be clarity in the objectives desired to be achieved. A related matter is that the grant should have both depth and reach. Generally speaking, in terms of depth, revenue shares and grants should be adequate to discharge designated responsibilities. It is better to have a small number of such transfers, rather than vice versa. In terms of reach, and particularly in respect of specific purpose grants, there must be a clear understanding of who the beneficiaries are and who are likely to be adversely affected.

²⁵ This section is not intended to be a literature review of the enormous volume of research into the subject of inter-governmental transfers. It has therefore drawn largely from a volume on the subject, namely, *Fiscal Federalism, Principles and Practice of Multi-order Governance*, by Robin Boadway and Anwar Shah (Cambridge University Press, 2009), which itself abridges and presents a large body of literature on the subject.

- At the same time, a fiscal transfer system must safeguard the transferor's (or grantor's) objectives as much as that of grantees. In the first instance, they must be affordable by the grantor. For example, open ended matching grants, where the grantor commits to an open ended commitment to match the contributions (large or small) by the grantee, can strain the grantor's budget. Thus matching grants are always better as close ended grants. Similarly, incentives in grants should aim for sound fiscal management and ought to discourage inefficient practices. For example, specific transfers to finance deficits should not be made, as it encourages local governments to run up deficits by neglecting its own tax bases.
- In this direction, even if flexibility and autonomy is inherent in the grant programme, there must be a clear understanding on both sides of each other's duties and responsibilities. For example, the Grantee could be held accountable for the design of a revenue sharing arrangement or a grant system and its operation. However, the recipient should be accountable for financial integrity and delivery of the expected results, such as improvements in service delivery performance. This would mean that transfers design should also encompass the accountability design, including providing space for citizens voices and social accountability practices. A simple way of reinforcing downward accountability is to attempt to match, as far as possible, the local revenue means to local expenditure needs. This will hopefully, trigger citizens and voters holding governments accountable for their performance.
- There must be transparency; both the formulae involved and the actual allocations should be disseminated widely. A related issue is simplicity of the formulae that govern a system of grants. Rough justice is better than precise justice. If a grant is based on complex formulae, or depends upon indicators that require complex operations to be identified and calculated, then it defeats its purpose of transparency, which is a desirable end in itself.
- In order to address equity, in ideal circumstances, the grants must vary directly with fiscal need factors and inversely with the tax capacity of each jurisdiction.
- The fiscal transfer system should be responsive; it should be flexible enough to accommodate unforeseen changes. Predictability over a period of time is desirable for ensuring long term planning, by both the transferor/grantor and the recipient.

6.1.2 In the absence of a predominant influence of these design considerations, it is likely that revenue sharing and grant design might be flawed. Typically, these flaws result in the following kinds of transfers, which have their own individual characteristics (Box 9):

Box 9: Various flawed practices in fiscal transfer systems

“Passing the buck transfers” that are general revenue-sharing programs that employ multiple factors, which end up as comprising of several single tax revenue sharing arrangements that in the overall analysis, works at cross purposes;

“Asking for more trouble grants”, which finance subnational deficits, encouraging higher and higher deficits;

“Pork barrel transfers”, which are politically opportunistic grants designed to drive and encourage political patronage arrangements;

“Command and control transfers”, which are grants with conditions on inputs, used to micromanage and interfere in local decision making.

6.2 Solutions to infirmities in fiscal transfer systems:

6.2.1 The broad solutions to the infirmities related in the previous paragraphs would be to take steps in the following direction:

- Reassignment of responsibilities between the centre, state and local levels,
- Tax decentralisation through the assignment of tax bases to different levels of government;
- Tax base sharing through which supplementary taxes are permitted to be raised on a national tax base.
- Revenue sharing mechanisms, of the kind that the FFC is mandated to suggest.

6.2.2 Revenue sharing mechanisms, in turn throw up their own specific challenges in design and implementation. For instance, sharing of tax collected on individual tax bases, can lead to donors to exert less effort in collecting taxes that are shared than they would in collecting taxes that are fully retained. Besides, unconditional formula based transfers may have the undesirable effect of weaken accountability to local tax payers. This drives thinking in the direction of designing fiscal transfers that are based on conditionalities.

6.3 Conditionality based transfers options:

6.3.1 If the strategy of conditionality based transfers is adopted, there are further challenges to be met. The first is to determine to which extent conditions could be restrictive. There are a wide range of options. On the one hand, one can have completely unconditional transfers, which do not constrain RLBs in their domain. On the other, there can be focused specific purpose grants, with conditions that restrict the manner in which funds may be applied. Conditions could be, say, on the levels of subsidies to be provided, restrictions on beneficiaries, the need for matching contribution by the recipient, phasing of expenditure and reporting, the manner of planning, etc. An intermediate approach could be to provide block transfers that; while specifying a sector to which they may be applied, such as education, health or sanitation; allow for freedom of application within that sector in the manner as determined by the local government.

6.3.2 Conditionalities that may be applied to fiscal transfers could assume many forms. The traditional approach has been to impose input based conditionalities, which might be in the form of restrictions on end use or the provisioning of matching contributions (which in turn could be either open ended, or close ended, where it is restricted to an absolute limit. Matching contributions can also be tailored to suit the affordability by the recipient)

6.3.3 However, output based conditionalities are being increasingly used as a positive way of achieving desirable ends, without infringing considerably on the autonomy of the grantee. Performance based transfers are a new approach that is based on the concept of results based accountability. Based on the foundation of the New Public Management framework, which believes that the relationship between governments is best guided by contract for performance, such approaches attempt to link grant finance with service delivery performance. The conditions are on the results to be achieved but grantees are given full flexibility in the design and implementation of strategies to achieve the objective of the grant. Typically, such grants also introduce measures that strengthen accountability at the local level, such as procedures for participative planning or social accountability. Windows for incentives that aim at efficiency and promoting innovation are also part of such designs. Design of such programmes requires attention to detail. Typically, institutions seeking to receive transfers will need to develop a results chain will emerge as a result of the programme objectives. A result chain lists out the inputs that lead to action points, which in turn, leads to outputs, outcomes and impacts. Other matters that will need to be determined would be the milestones, the periodicity of measures and what measure is to be chosen.

6.4 Fiscal equalisation transfers:

6.4.1 Fiscal equalisation transfers can aim to equalise fiscal capacities or balance out on fiscal needs. There are various means of measuring fiscal capacity as also of fiscal need, but generally speaking, it is believed that fiscal capacity equalisation is straightforward and feasible, as compared to fiscal need equalisation, which requires making subjective judgements, being dependent upon unreliable data sources and using imprecise analytical methods. Difficulties in defining equalisation standards would arise due to differences in demographics, service areas, population, local needs and policies, understanding strategic behaviour of recipient states and inaccuracies in the approach to measuring expenditure needs.

6.4.2 Even if fiscal needs are to be compensated, a relatively easier approach would be to attempt it on a service-by-service basis. This will require an explicit standard of equalisation to be determined, which would be the level to which each jurisdiction is entitled to be raised with respect to the service concerned, so that benefits received per household are comparable to that received by households in other jurisdictions. The objective of such an approach could be that fiscal transfers enables local governments to provide a standard package of public services, assuming that all local governments impose a standard level of taxes on the bases at its disposal. Of course, it goes without saying that if a local government prefers to opt for a lower standard of services, it is free to impose rates of

taxation lower than the standard expected.

6.4.3 Setting national minimum standards is a good way to proceed as well. Such standards contribute to the free flow of goods, services, labour and capital and reduce wasteful inter jurisdictional expenditure competition. They also serve national equity objectives through the strategy of providing conditional grants, to attain standards in quality, access and level of services. Properly designed conditional non-matching output based transfers can create incentives for innovative and competitive approaches to improved service delivery. Output based grants can strengthen the accountability of implementing institutions.

6.5 Strategy options for bridging the estimated vertical gap

6.5.1 We now come to the core of this research effort, which is to provide various strategy options for bridging the estimated vertical gap in funding the services performed by RLBs. We are to also include the possible tax and non-tax measures that could be undertaken in order to bridge the gap. Our study of the data furnished by the States to the FFC, which is synthesised and comprehensively analysed in Chapter 5, provides the details of the gap that needs to be bridged, for providing services of the standards that are detailed in Chapter 2.

6.5.2 In the context of the task of the FFC, the theory and the options described in the previous section will need to be considered within the overall framework of India's constitutional mechanism. Though there are several options in how a fiscal transfer mechanism might be designed, the legacy of past practice and the constitutional framework narrows these down, in the context of the FFC. The ambit of the FFC, as elaborated in Article 280(3) (bb) of the Constitution is restricted to the recommending of measures to augment the finances of the States so that the latter can supplement the funding that goes to the local governments. The question is to what extent the FFC can recommend precise conditionalities to States and local governments, when Article 280(3) (bb) places it at a position that is twice removed from the RLBs. In this connection, it is relevant to recollect how previous Finance Commissions have gone about examining this issue.

6.6 Approach of previous Finance Commissions:

6.6.1 In the case of the Eleventh Finance Commission (EFC), its TOR sought it to take into account the recommendations of SFCs, in order to make its own recommendations on the measures needed to augment State consolidated funds in order to supplement the resources of panchayats. This was because the constitutional mandate in Article 280 (3) (bb) is that the augmentation and supplementation of Panchayat resources has also to be in accordance with the recommendations of the SFCs. The TORs also states that in the absence of SFC recommendations, the EFC could make its own assessment about the manner and extent of augmenting the consolidated fund required. In that case, the EFC was to take into account the provisions for emoluments and terminal benefits of employees (including teachers); the ability of local bodies to raise financial resources and the powers, authority and responsibilities transferred to them under article 243(W) of the Constitution. The EFC,

after noting (a) the lack of synchronicity in the periods covered by SFC reports with that of the EFC, (b) the wide diversity in the approach, content and quality of SFC report and (c) delays by States in finalising Action Taken Reports (ATRs) and placing them in the state legislatures, concluded that it was unable to consider these reports as reliable guides for coming to its own conclusions. It therefore, recommended ad hoc grants Rs. 8000 crore to RLBs, which was estimated as representing 0.78 per cent of the divisible pool.

6.6.2 Similarly, the Twelfth FC also noted that both the data furnished by the States and the SFCA reports failed to provide a sound basis for estimation of the augmentation required. It again recommended an ad hoc transfer of Rs. 20,000 crore for PRIs, which represented about 1 per cent of the divisible pool.

6.6.3 The Thirteenth Finance Commission (TFC) broadened its scope of examination, but on a reading of its report, there is no real underlying rationale expressed by it, to arrive at the specific amounts recommended to be shared with the States, to augment the accounts of the RLBs. The amount recommended, amounted to about 2.28 per cent of the total divisible revenue pool. The relevant paragraphs in the report are quoted verbatim in Box 10.

Box 10: Recommendations on the Grants to local bodies, in the report of the Thirteenth Finance Commission

“10.141 A feature observed uniformly across states is that all local bodies indicated their inability to meet the basic needs of their constituents and urged this Commission to increase the volume of grants to them. They particularly cited the need to provide core services—drinking water, sewerage, solid waste management, and street lights at acceptable levels of service. They also requested support for enhancing their operational infrastructure including office buildings and skeleton staffing for maintaining accounts and data bases.

10.142 The Ministry of Panchayati Raj has urged this Commission to substantially support PRIs to enable them to effectively provide basic services to their constituents. Only 52 per cent of the rural population has access to basic sanitation. The Department of Drinking Water has underlined the large investments required to be made in rehabilitation and maintenance as well as for new schemes to ensure full coverage of drinking water and sanitation to the entire rural population. The Ministry of Urban Development highlighted the major challenges currently being faced by the urban sector. On the one hand, the urban population of the country is projected to increase from 28 per cent of the total population to about 38 per cent by 2026. Urban growth will account for two-thirds of the projected population increase. On the other hand, the current state of supply of core services in the urban areas is below norms. Only 70 per cent of urban households have access to piped water, only 74 per cent of urban households have access to latrines, only 23 per cent of sewage is treated, only 30 per cent of solid waste generated is treated prior to disposal. In addition to core services, other responsibilities like roads and citizen facilities also require investment.

10.143 There is, thus, an undisputed need to bolster the finances of the rural as well as urban local bodies. All local bodies need to be supported through a predictable and buoyant source of revenue, substantially higher than the present levels, in addition to their own tax

revenues and other flows from State and Central Governments. Simultaneously, local bodies should also be made more accountable in the discharge of their functions. Their accounts and audit must be up-to-date.

10.144 We have examined the Constitutional imperatives on transfers to local bodies earlier in paras 10.100 to 10.102. Taking into account the demand of local bodies that they be allowed to benefit from the buoyancy of central taxes and the Constitutional design of supplementing the resources of panchayats and municipalities through grants-in-aid, **we recommend that local bodies be transferred a percentage of the divisible pool of taxes (over and above the share of the states), as stipulated by us, after converting this share to grant-in-aid under Article 275.** The value of the grant must be commensurable at the start of the year, since the grant would have to be included in the Union Budget. We, therefore recommend that the volume of the divisible pool for the previous year (t-1) be used as a basis for computing the grant eligibility of local bodies for a particular year (t). For example, the grants-in-aid for local bodies in 2010-11 would be based on a percentage of the divisible pool of 2009-10 (Revised Estimates). After the 'actuals' of that year are determined, adjustments may be made in the second tranche of the two-tranche system that we recommend.

10.145 Keeping these factors in mind, we recommend that grants be given to local bodies as detailed”

However, even if there is was no rationale expressed in the body of their report linking the needs of RLBs with the actual amounts transferred to States, there was a paradigm shift in the way that the TFC construed these transfers, as a percentage of the divisible poor of taxes over and above State shares. This was in the face of a legal opinion obtained by the TFC that recommended otherwise. In order to overcome the constitutional hitches highlighted in the legal opinion, the TFC suggested the conversion of this revenue share into a grant in aid under Article 275, before its transference. This strategy adopted enabled the RLBs to benefit from the buoyancy of a tax transfer, while conforming to the constitutional position (as elaborated in the legal opinion) that transfers to the RLBs cannot be construed as shares that flow to States without entering the consolidated fund of the Union government.

6.7 Conditionalities imposed by previous FFCs:

6.7.1 The other issue relevant from past practice is the question of the conditionalities imposed by FFCs on grants/revenue shared recommended. Box 11 lists out these conditionalities:

Box 11: Conditionalities imposed by the 10th, to the 12th Finance Commissions.

Finance Commission	Conditionality
10 th FC	Grant not to be applied to establishment costs.
	Local bodies to provide matching contributions for the schemes drawn up to utilise these grants.

	Amount provided is additional to the normal devolution by State Governments. Grant be made available in four equal instalments from 1996-97, when it expected that the local bodies would be in place.
11 th FC	Only operation and maintenance of core civic services to be supported, including primary education, health, drinking water, street lighting and sanitation. But funds should not be used for payment of salaries and wages.
	Specific state-wise amounts earmarked for maintenance of accounts (Rs. 98.60 crore) and creation of a LB finances data base (Rs. 200 crore) as first charge
12 th FC	PRI grants to be utilised to improve water supply and sanitation scheme service delivery subject to recovery of at least 50 per cent of recurring cost through user charges.
	Part of support to be earmarked by State Governments for data bases and maintenance of accounts by local bodies.
	Conditionalities needed to be discouraged. No additional conditionality be imposed over and above the conditions suggested by the Commission.

6.7.2 Conditionalities imposed by the 13th FC:

The 13th FC, commenting on the use of conditionalities by previous Finance Commissions, observed that these have 'directed expenditure away from establishment costs and towards provision of core services, and have focussed on setting up of data bases and maintenance of accounts. It stated that such attempts have met with limited success.

However, having said that, it structured its grant as a two component one, comprising of a basic component and a performance-based component. The basic grant was to be equivalent to 1.50 per cent of the divisible pool and was to be provided to all States on the basis of specified criteria and weights. The performance grant was to take effect from 2011-12 and was to increase in size from 0.50 per cent of the divisible pool for the first year, to 1 per cent thereafter, upto 2014-15.

Conditionalities were imposed on the use of the drawing of performance grants by States, as follows (Box 12). These were typically to be met by 31st March of a fiscal year, to enable drawal of performance grants in the next fiscal year. If any state was unable to draw down the performance component of the grants allocated to it, its share was to be distributed in the manner specified by the Finance Commission.

Box 12: Conditionalities recommended by the 13th FC on drawal of performance grants by States, for RLBs

Conditionality imposed on States	Manner of demonstrating compliance
Put in place a supplement to the budget documents for local bodies which shows the details of plan- and non-plan-wise classification of transfers separately for all categories of ULBs and all tiers of PRIs, from major head to object head, which have been depicted in the main budget under the minor heads 191, 192 and 193; and 196, 197 and 198 respectively. This supplement could also incorporate details of funds transferred directly to the local bodies outside the State Government's budget. The supplement should aim to provide details of spatial distribution of transfers—at	State to (a) submit the relevant budget document supplement and (b) certify that accounting systems as recommended have been introduced in all RLBs & ULBs

<p>least upto district level. Parallel to this, the finance accounts should also reflect such a distinction. A separate statement needs to be included in the finance accounts showing the detailed plan- and non-plan-wise classification of transfers separately for all categories of ULBs and all tiers of PRIs, from major head to object head, which have been depicted in the finance accounts under the minor heads 191, 192 and 193; and 196, 197 and 198 respectively. In addition, States will have to allot specific codes to each zilla parishad, block panchayat and gram panchayat. Similarly, arrangements need to be put in place for consolidation of accounts of PRIs at the national level. Further, the eight data base formats prescribed by the C&AG for local bodies have to be compiled.</p>	
<p>Put in place an audit system for all local bodies. The C&AG to be given TG&S over audit of all LBs and his Annual Technical Inspection Report and Annual Report of the Director of Local Fund Audit to be placed before state legislature.</p>	<p>Certification from C&AG that this condition has been complied.</p>
<p>Put in place an independent local body ombudsmen to look into complaints of corruption and maladministration against LB functionaries both elected and officials, (at least up to ZP level in rural areas) and recommend suitable action. If these functionaries fall under Lok Ayukta jurisdiction, the State can continue with such arrangements.</p>	<p>Passage of relevant legislation and its notification and/or self-certification by State Governments</p>
<p>Put in place system for electronic transfer of CFC grants to LBs within five days of their receipt from the Central Government. Where this is not possible due to lack of easily accessible banking infrastructure, the State Governments must put in place alternative channels of transmission such that funds are transferred within ten days of their receipt.</p>	<p>Self-certification by State Governments with description of the arrangements in place.</p>
<p>Prescribe through an Act qualifications of persons eligible for appointment as members of SFC consistent with Article 243I (2) of the Constitution.</p>	<p>Passage of relevant legislation and its notification.</p>
<p>All LBs to be fully enabled to levy property tax (including tax for all types of residential and commercial properties) and remove any hindrances in this regard.</p>	<p>Self-certification by the State Government</p>
<p>Put in place state level Property Tax Board, to assist all municipalities and municipal corporations in the state to put in place an independent and transparent procedure for assessing property tax, before 31-3-2015 and the Board to prepare a work plan.</p>	<p>Passage of relevant legislation or issue of executive instructions and publication of its work plan</p>
<p>Notify by end of a fiscal year service standards for four service sectors-water supply, sewerage, storm water drainage, and solid waste management proposed to be achieved by end of succeeding fiscal year.</p>	<p>Publication of notification in State Government gazette</p>
<p>Municipal corporations with more than 1 million population to put in place a fire hazard response and mitigation plan for their respective jurisdictions.</p>	<p>Publication of plan in State Government gazette</p>

As can be seen, the pattern and scope of conditionalities imposed by the Finance Commissions in the past have undergone a change. From the rigid and prescriptive stance of the 10th Finance Commission, to the much more liberal approach of the 12th FC and the two-

stage operation of output based conditionalities recommended by the 13th FC, there has been an evolution of the approach.

6.7.3 Do conditionalities work?

An examination of the conditionalities show that in many cases, they do not work to fully achieve the purpose for which they are meant, within the envisaged time frame. A good example of the failure of conditionalities to achieve the intended results is the ones on the development of good databases for the RLBs. This is examined in greater detail in subsequent paragraphs. The efficacy of performance based conditionalities remains to be seen. The 13th FC has recommended a very detailed approach, which not only describes the features of the conditionality, but also prescribes the manner in which compliance is to be identified. However, even here, the question still remains as to whether the outcome intended will be achieved. For example, the conditionality of constituting Property tax boards might have been complied with by States, mindful of the fact that if they do not so, they stand to lose the performance grant. However, whether this has resulted in an increase in the quantum of Immovable Property Taxes, still remains to be estimated. The moot point is that the more elaborate the conditionality, the more will be the necessity for a good monitoring mechanism to ensure that States are not going through the motions of meeting the conditionality in word, but not in spirit. This issue has also been discussed briefly in our first report. Given the fact that the evidence on conditionalities affecting outcomes is doubtful, we suggest that the FFC should continue to stick to the conditionalities imposed by the 13th FC. By this strategy State's and RLBs will realise that there is a continued emphasis on the need to maintain accounts, adopt budgeting practices that make fiscal transfer system, the incomes and expenditures of the RLBs transparent and open to the public. The 13th FC's recommendation on improving and streamlining the budgeting and accounting practices are critical for bringing stability and predictability in the fiscal transfer system. The absence of such stability and predictability is the root cause for ad-hoc expenditures and delays and inconsistencies in reporting. For that reason, we suggest that the FFC stays the course and continues to emphasise the importance of the conditionalities recommended by the 13th FC.

6.8 Strategies to fill the gap, providing an impetus to collection of own revenues by RLBs:

6.8.1 One of the key means for addressing the gap in financing is to explore the possibility of improving the own sources of revenue of RLBs. As can be seen from our analysis in Chapter 3, in the overall analysis, incomes of RLBs from own revenues are not significant enough to make a considerable difference to their overall financial position. While there is growth in these, the fact that reports from many States indicates very little collection of own revenues and that very few states have reported their collection, also indicates that not much action is being taken by States in concrete terms to ensure that local taxes and user charges are collected by local governments. States seem to be more focused on fiscal transfers to local governments (or reporting increases in such revenues), most of them tied, rather than to encourage, facilitate or persuade RLBs to collect taxes.

6.8.2 Exploiting the untapped potential of immovable property taxes

As indicated in Chapter 3, the potential to raise property taxes is underutilised. Per-capita property taxes are low in States and the growth has also not been commensurate with growth of other revenues. There is the possibility for the FFC to make suggestions on what can be done to improve the tax base of RLBs. A financial model, which reveals the potential of immovable property tax as a significant source of revenues for RLBs, is detailed below. This has also been included in the financial models prepared in Section 3 of the report.

6.9 Calculating the revenue potential of Immovable Property Tax

6.9.1 Methodology & Assumptions

A detailed financial model has been designed to calculate the tax base that can be exploited for the levy of immovable property tax collections across all states of India. The methodology and assumptions that have been factored in arriving at this model are as below:

- The count of various census properties, by state (rural) and the use to which they are put have been derived from the Census 2011 tables on households, household amenities and assets
- The rural population has been divided by the number of households to provide the average number of people per household for each state
- Based on the details of the type of construction of houses listed in the Census, these have been divided into two categories, for the purpose of taxation, namely, indigenous structures and/ or those used by poor households and Modern/used by other households respectively
- Data for Andhra Pradesh and Telangana have been separately arrived at by factoring the specific district wise data for each state
- A per month tax of Rs. 5 per person has been used to calculate the annual tax per indigenous/ poor households' residence. Twelve times this, multiplied by the average number of persons per household times the number of indigenous/used by poor household constructions gives the total tax potential for these structures.
- Similarly, Rs. 10 per person per month has been assumed for calculating the tax potential of modern houses/used by other household constructions
- With respect to shops and offices, an amount of Rs. 360 has been applied as a flat minimum amount (@ INR 30 per month) to arrive at the tax potential computation

- With respect to hotels, guest houses and lodges an annual tax amount of INR 600 per year (@ INR 50 per month) has been assumed to arrive at potential tax calculations for each state
- Factories, workshops and work sheds have been factored in the potential tax ambit, but assuming a tax amount of INR 1200 (@ INR 100 per month)
- Other non-residential property has been assumed to have a tax potential computed at a unit rate of INR 240 (@ INR 20 per month)
- The baseline costs have been computed based on the 2011 census data. The costs computed based on this data have been multiplied by the annualised growth rate of rural population across each state (assuming decadal rate to be the same for 2011-2021 and 2001-2011)
- The annualised growth rate projection on costs has been extrapolated all the way until 2019-20.
- Based on the above model, an amount of INR 55,500.7 crores can be raised across all states (assuming 100% efficiency in collection).

6.9.2 However, this is a model where all the variables can be changed, including the unit rates for property tax applied and the collection efficiency. Suffice to say that even at very modest rates applicable to the existing tax base, the potential of immovable property taxes is immense, and in any case, far above the current collections of less than Rs. 1500 crore per annum.

6.9.3 However, while immovable property tax has immense potential, there are cogent reasons apart from neglect and indifference on the part of the State and reluctance on the part of RLBs, why the potential has not been fully actualised. The main reason is that if one looks at the dynamics of local tax collection and particularly immovable property taxes more carefully, because the way they are structured at the moment, there is no incentive at all for RLBs to collect property taxes. Local politicians do not want to be identified with the decision of raising taxes. Such decisions are likely to trigger a backlash from citizens, who are dissatisfied with the low quality of services delivered. Moreover, the flood of revenue transfers from higher level governments provide ample opportunity for local politicians and elected representative to diligently perform agency functions, or in a worst case scenario, seek opportunities to secure individual contracts for self, friends or relatives. Large implementation mandates to run centrally sponsored schemes like MGNREGS, IAY keep PRI elected representatives and officials busy and leave them little time to focus on improving local tax collections. This leaves little time for them to pursue the path of raising local taxes, particularly when initiatives in that direction have little political value and does little to strengthen the voter base of such politicians. Since there is often a time lag between the raising of taxes and the improvement in the delivery of services, local politicians intending to raise taxes are hard put to explain the eventual benefits that will accrue, to potential tax payers.

6.9.4 In addition, strengthening tax administration at the local level can be time consuming and expensive. Collection of taxes from a large number of small tax payers is expensive in terms of the administrative arrangements. The shortage of manpower at the PRI level for administering a taxation system also inhibits the collection of user charges. Investments in appointing tax accountants and collectors will again need to be funded by States and that is hardly a priority for them, considering their past records.

6.9.5 In such cases, further unbundling the activities relating to taxation and distancing the local government from tax setting responsibilities, can divert dissatisfaction over the taking of the tough decision to impose immovable property taxes, away from the local politicians. The 13th FC did recognise the value of this strategy, without explicitly saying so. It recommended the setting up of property tax boards, albeit in urban areas, based on the good practice of West Bengal. The role of the property tax boards was to be as follows (Box 13).

Box 13: Roles and Responsibilities of the Property tax board, recommended by the 13th FC:

- Enumerate all properties within the jurisdiction of the municipalities and corporations;
- Review the present property tax system and make suggestions for a suitable basis for assessment and valuation of properties;
- Make recommendations on modalities for periodic revisions.
- Findings, suggestions and recommendations of the board is to be communicated to the respective urban local bodies for necessary action. The exact model to be adopted is left to the respective state.
- Board to be staffed and equipped so as to be able to make recommendations relating to at least 25 per cent of the aggregate number of estimated properties across all municipal corporations and municipalities in the state by 31 March 2015.
- Board to prepare a work plan indicating how it proposes to achieve this coverage target and the human and financial resources it proposes to deploy.
- Passage of the relevant legislation or issue of the necessary executive instructions by the State Government for creation of the Property Tax Board as well as publication of the work plan by the Board in the State Government gazette demonstrates compliance with this condition.

6.9.6 Since the setting up of Property Tax Boards was a condition for the obtaining of performance grants by the States, these have been formally notified in several States, for urban areas, though it is not known whether they have begun to perform effectively. The FFC could recommend that the Property Tax Boards set up by States can be also entrusted to perform their tasks of facilitation, rate setting and coordination with respect to RLBs as well. which can not only set up tables of rates based on rational criteria, which RLBs can use to fix their individual tax rates, but which also acts as a specialised agency that assists and

facilitates RLBs to collect taxes. It must be remembered that tax administration at the local level calls for more staff and can be expensive.

6.9.7 For a start, the Property Tax Boards could study and document existing good practices of RLBs increasing their local taxation potential through better estimation of the tax base and greater enforcement of compliance and of States efforts in facilitating this process. Such documentation could be used to inspire RLBs and give a kick start to a process of dispelling the often held myth that local taxation is next to impossible. One way to set incentives in place for augmenting local tax collection is to link the benefits given to citizens to taxes paid in Panchayats. This can be piloted in a few panchayats to show demonstrable results and evolve some good practices. It would be particularly useful in peri-urban Panchayats, where the capacity to pay would be almost as good as in an urban area.

6.10 Levy of user charges on services rendered.

6.10.1 RLBs particularly at the village level can benefit by raising revenues by levying user charges for the public services that they directly provide. Some of the sources that lend themselves well to user charges and the raising of non-tax revenues are, a) Water Charges, b) charges on solid waste clearance, c) levy on trade and hawkers, d) entry fee or user charges in weekly or annual trade fairs or markets, f) sale of forest produce in habitation area, g) tolls and fees on commercial vehicles (transporting mining material, sand and marketable goods) using panchayat roads, and fee on certification or clearances.

6.10.2 User charges on civic services such as the levy of water rate, streetlight and sanitation and conservancy fees for street and drain cleaning are the most feasible. For this purpose, some institutional reforms will be required, to ensure close coordination between the activities of user organisations such as water users associations, which are often promoted and authorised in certain States to collect and retain such user charges. It is suggested that such user groups should be configured as sub-committees of village level RLBs and not as entirely private institutions as they are conceived of now. Making these sub-committees of village level RLBs would ensure that user charges on water supply and sanitation are formalised and brought within the accounts of the RLBs. This will ensure standardisation of rates, introduction of more sophisticated systems such as metering and charging on the basis of differential slab rates on consumption.

6.10.3 In addition, charging fees on trade or shops and charging for documentation services provided by the Panchayats could also be adopted as sources for improving their revenues.

6.10.4 With respect to sanitation, there is scope in raising user charges from the provision of clean public toilets, with adequate water. It will be well worth the while even if the revenue raised only covers the cost of the service provided, because of the environmental, health and social benefits.

6.10.5 Weekly and annual markets are a common feature in the rural areas. Though PRIs spend huge money from the untied funds and schemes like MGNREGS on cleaning up of these places and on other organisational issues, one rarely sees any revenue being raised from such services. PRIs need to levy user charges, at least from the perspective of covering the costs of cleaning, lighting and water supply services to such markets.

6.11 Options on other means of giving Panchayats access to buoyant revenue sources

6.11.1 One of the ways of giving sub-national governments access to buoyant tax bases is to enable them to 'piggy back' on central tax bases. By this means, sub-national governments are given the option to levy an additional piggy backed charge on the national tax base. According to this piggy backed charge, national tax collecting agencies collect these taxes and pass them down to the sub-national government concerned²⁶. The question is whether such an approach is possible in India, and in particular, for RLBs. It is felt that currently such an approach is futuristic, because of weaknesses and gaps in the databases of tax-paying entities, and administration of such systems. This may be feasible in the long term, but not now.

6.11.2 However, in the current context, it may be worthwhile to consider whether States that have imposed VAT could charge an additional amount, say, 1% or 2% more by way of a local government surcharge. In a recent paper²⁷, it has been suggested that levying a surcharge on a consumption tax could yield significant revenues for both the Centre and the State (through a dual GST arrangement). This paper also points out that at least one State, namely, Gujarat, has already decided to impose an additional one percent on the sales tax and earmarked the same for the Municipal corporations, to compensate for the loss resulting due to the abolition of Octroi. While this paper suggests the adoption of such an approach from the point of view of improving the finances of ULBs, it would be conceivable to divide the receipts from such a surcharge vertically between urban and rural areas on the basis of consumption (which is the basis of levying the tax) and then distributing it horizontally between RLBs on the basis of a simple to understand formula, such as on a per-capita basis. Such an approach could give access to substantial buoyant tax revenues, which would go a long way in strengthening the finances of all levels of RLBs. The moot point is whether a venturesome approach can be taken by the FFC to kick start this process by attempting a similar approach with respect to GST as well. We leave this suggestion at this point, because it would also be tied up to the strategies that the FFC adopts with respect to how to close the financing gap for ULBs, where such an approach might be more feasible at the moment.

²⁶ This has been elaborated in "Urban Governance and Finance in India, M. Govinda Rao, Richard M. Bird, Working Paper No. 2010/68 April 2010 National Institute of Public Finance and Policy, New Delhi, India"

²⁷ Urban Governance and Finance in India, M. Govinda Rao, Richard M. Bird, Working Paper No. 2010/68 April 2010 National Institute of Public Finance and Policy, New Delhi, India

6.11.3 On the issue of tax assignments, there is a strong case for suggesting that entertainment tax is entirely levied locally. (Currently except for Kerala, this is not done anywhere else). Moreover, the tax base for entertainment tax can also be expanded, to cover other forms of entertainment, such as taxes on cable TV, ownership of television sets. etc., which could be left to the RLBs to levy. Alternatively, if it is felt that there is no willingness on the part of RLBs to levy such taxes, considering their current laxity in exploiting the tax handles that they already have, such taxes could be levied and collected at the state level and shared locally.

6.11.4 The approach of levying a surcharge on Stamp duty exclusively for being passed on to local governments, or even that a substantial part of stamp duty should go to local governments, has been adopted in the past in some States. It is felt that even if this approach is taken, the benefits that accrue to RLBs would be substantially lower than that would go to ULBs, because of the vast difference in property values between urban and rural areas. Still, it may be worthwhile to recommend this approach to States, as a way of providing a source of assigned revenues, particularly to Intermediate and District Panchayats that are currently hampered by not having a local direct tax base.

6.11.5 In conclusion, it is felt that a strategy that comprises of both direct taxation methods, such as levy of immovable property taxes and collection of user charges and that of enhanced tax assignments, such as through the levy of a surcharge and its transfer to the RLBs, needs to be adopted. While immovable property taxes has its own deficiencies, such as the fact that it is not buoyant enough, nothing can build a framework of accountability better than a set of vigilant tax payers, to keep watch over the RLBs. Thus, of equal importance to the moneys collected by way of immovable property tax, is the fact that it can trigger and foster a better relationship of accountability between the RLB and the tax paying citizen. Better tax assignments through the levy of surcharges and their transfer to the local level, on the other hand, give RLBs more access to more buoyant taxes.

6.12 The continuing problem of bad databases and ways to tackle it.

6.12.1. One of the recurrent themes in the reports of Finance Commissions, commencing with the Eleventh Finance Commission, has been the issue of the lack of good quality databases at the RLB levels. The Eleventh Finance Commission earmarked funds for this purpose. The Twelfth did not, but highlighted the need for accurate databases. The Thirteenth Finance Commission followed the Twelfth in not earmarking funds for this purpose, but dwelt at great length on the framework conditions for ensuring transparency of fiscal transfers to RLBs. It used the incentive of proposing conditions precedent to the release of the performance grant, which included certain conditions that pertained to the adoption of formats for maintenance of accounts and better transparency in the fiscal transfers between the States and the RLBs.

6.12.2 However, the proof of the pudding is in the eating of it. If the evidence of the quality of data submitted by the States to the FFC is anything to go by, it must be concluded that

these efforts have not entirely successful. While a few states seem to have provided fairly detailed statements that throw light on RLB accounts, many more have regrettably, not done so.

6.12.3 Though the formats circulated by the FFC to States are undoubtedly comprehensive, they have still not been able to capture all the nuances and complexities of a multi-tiered inter-governmental fiscal transfer system. This clearly reinforces the need to keep up the pressure on all RLBs to create and maintain accurate and up-to-date data bases that describe their resources and operations, and enable them to be evaluated on standard financial performance indicators. It is hoped that with increasing e-governance, standardization of accounting formats and greater investments into capacity development on the maintenance of accounts in future, local government accounts information will readily reveal the above noted points of information. The aspiration for the next Finance Commission, at least, should be not to circulate formats that need manual intervention to be filled up, with all its prone-ness to inaccuracies, but to be able to have direct access to online data on the RLB accounts in the public domain, machine read and analyse them. This should be the standard that the FFC will need to set, for RLBs and States to meet.

Part 2

Consistency Checks Undertaken with the data

Note on estimation of population for the purpose of calculating per-capita details:

In the case of Sample data, actual population details pertaining to the RLB sampled has been taken into consideration.

In the case of State-wide data, Census figures of rural populations have been taken and applied,

Tables CC-1 and CC-2 detail how yearly population figures have been calculated for this purpose. These numbers of population have been calculated on the assumption of uniform yearly growth rate, based on the decadal growth rate from 2001 to 2011.

Table CC-1. Calculation of yearly increase/decrease in rural population based on straight line average yearly growth rate, based on decadal growth rate.

State	Rural population		Decadal growth rate	Yearly growth rate	Yearly increase/decrease in pop
	2001 Census	2011 Census			
Andhra Pradesh	34266583	34776389	1.49	0.148776	50981

Arunachal	870087	1066358	22.56	2.255763	19627
Assam	23216288	26807034	15.47	1.546649	359075
Bihar	74316709	92341436	24.25	2.425394	1802473
Chhattisgarh	16648056	19607961	17.78	1.777928	295991
Goa	677091	551731	-18.51	-1.85145	-12536
Gujarat	31740767	34694609	9.31	0.930615	295384
Haryana	15029260	16509359	9.85	0.984812	148010
Himachal Pradesh	5482319	6176050	12.65	1.265397	69373
Jammu & Kashmir	7627062	9108060	19.42	1.941767	148100
Jharkhand	20952088	25055073	19.58	1.95827	410299
Karnataka	34889033	37469335	7.40	0.739574	258030
Kerala	23574449	17471135	-25.89	-2.58895	-610331
Madhya Pradesh	44380878	52557404	18.42	1.842353	817653
Maharashtra	55777647	61556074	10.36	1.035975	577843
Manipur	1590820	1736236	9.14	0.914095	14542
Meghalaya	1864711	2371439	27.17	2.717461	50673
Mizoram	447567	525435	17.40	1.739807	7787
Nagaland	1407536	1647249	17.03	1.703068	23971
Orissa	31287422	34970562	11.77	1.177195	368314
Punjab	16096488	17344192	7.75	0.775141	124770
Rajasthan	43292813	51500352	18.96	1.89582	820754
Sikkim	480981	456999	-4.99	-0.49861	-2398
Tamil Nadu	34921681	37229590	6.61	0.660881	230791
Telangana	21134484	21585313	2.13	0.213314	45083
Tripura	2653453	2712464	2.22	0.222393	5901
Uttar Pradesh	131658339	155317278	17.97	1.796995	2365894
Uttaranchal	6310275	7036954	11.52	1.151581	72668
West Bengal	57748946	62183113	7.68	0.767835	443417
Total	740343833	832365184			
Andhra Pradesh	34266583	34776389	1.49	0.148776	50981
Telangana	21134484	21585313	2.13	0.213314	45083
Combined undivided Andhra	55401067	56361702	4	0	96064

Table CC-2: State wise, year wise projected rural populations used for calculation of per capita details

State	2007	2008	2009	2010	2011	2012	2013
Andhra Pradesh	34572467	34623447	34674428	34725408	34776389	34827370	34878350
Arunachal	987850	1007477	1027104	1046731	1066358	1085985	1105612
Assam	25370736	25729810	26088885	26447959	26807034	27166109	27525183
Bihar	85131545	86934018	88736491	90538963	92341436	94143909	95946381
Chhattisgarh	18423999	18719990	19015980	19311971	19607961	19903952	20199942
Goa	601875	589339	576803	564267	551731	539195	526659
Gujarat	33513072	33808456	34103841	34399225	34694609	34989993	35285377

Haryana	15917319	16065329	16213339	16361349	16509359	16657369	16805379
Himachal Pradesh	5898558	5967931	6037304	6106677	6176050	6245423	6314796
Jammu & Kashmir	8515661	8663761	8811860	8959960	9108060	9256160	9404260
Jharkhand	23413879	23824178	24234476	24644775	25055073	25465372	25875670
Karnataka	36437214	36695244	36953275	37211305	37469335	37727365	37985395
Kerala	19912461	19302129	18691798	18081466	17471135	16860804	16250472
Madhya Pradesh	49286794	50104446	50922099	51739751	52557404	53375057	54192709
Maharashtra	59244703	59822546	60400389	60978231	61556074	62133917	62711759
Manipur	1678070	1692611	1707153	1721694	1736236	1750778	1765319
Meghalaya	2168748	2219421	2270093	2320766	2371439	2422112	2472785
Mizoram	494288	502075	509861	517648	525435	533222	541009
Nagaland	1551364	1575335	1599306	1623278	1647249	1671220	1695192
Orissa	33497306	33865620	34233934	34602248	34970562	35338876	35707190
Punjab	16845110	16969881	17094651	17219422	17344192	17468962	17593733
Rajasthan	48217336	49038090	49858844	50679598	51500352	52321106	53141860
Sikkim	466592	464194	461795	459397	456999	454601	452203
Tamil Nadu	36306426	36537217	36768008	36998799	37229590	37460381	37691172
Telangana	21404981	21450064	21495147	21540230	21585313	21630396	21675479
Tripura	2688860	2694761	2700662	2706563	2712464	2718365	2724266
Uttar Pradesh	145853702	148219596	150585490	152951384	155317278	157683172	160049066
Uttaranchal	6746282	6818950	6891618	6964286	7036954	7109622	7182290
West Bengal	60409446	60852863	61296280	61739696	62183113	62626530	63069946
Total	795556644	804758779	813960914	823163049	832365184	841567319	850769454
Andhra Pradesh	34572467	34623447	34674428	34725408	34776389	34827370	34878350
Telangana	21404981	21450064	21495147	21540230	21585313	21630396	21675479
Combined undivided Andhra	55977448	56073512	56169575	56265639	56361702	56457766	56553829

Consistency Check 1:

Comparison of data on assigned, devolved, grant in aid and other transfers from the State to RLBs:

(Please see Para 2.2.2 of the main report, page 12)

As a prior exercise on the reliability of State-wide data on State transfers, a comparison was done of the State transfers reported in Schedules 2A, 2B and 2C and in Schedule 4A. The comparison is detailed in Table CC-3 below:

Table CC-3: Comparison of total state transfers (assigned, devolved, grants in aid and others) reported in Schedules 2A, 2B & 2C and Schedule 4A:

Sl	State	Data in Schedule 2A, 2B and 2C						Data in Schedule 4A					
		07-08	08-09	09-10	10-11	11-12	12-13	07-08	08-09	2009-10	10-11	11-12	12-13
1	AP	190	100	50	50	50	100	1111	1312	1586	1424	1863	0

3	Ass	44	49	68	83	228	104	109	172	163	156	323	155
4	Bih	24	23	20	18	1781	2153	24	23	20	18	580	673
5	Cha	367	657	448	592	759	1101	983	1429	1557	2167	2641	3520
7	Guj	5716	6163	7934	10968	11408	14488	5716	6163	7934	10968	11408	14488
8	Har	100	0	0	229	124	77	123	177	184	400	511	325
9	HP	33	62	63	69	69	80	50	83	86	83	102	107
12	Kar	9525	11460	12281	13401	15412	17849	0	0	0	0	0	0
13	Ker	1883	2044	2258	2505	3136	3943	1665	1801	2120	2290	2871	2971
14	MP	946	445	988	1342	1419	2434	478	1	1	158	60	139
15	Mah	474	712	527	941	1015	1132	10053	11713	13538	18141	21253	23403
16	Mani	0	0	0	0	0	0	48	57	74	102	131	59
19	Nag	0	0	0	0	0	0	24	24	25	25	28	28
20	Odi	374	427	474	602	1163	1448	182	242	580	480	920	933
21	Punj	226	254	319	443	549	644	777	863	959	1065	1183	1309
22	Rajas	180	180	491	412	1399	1836	1145	1284	1578	1760	2660	3091
23	Sik	25	20	93	110	158	144	23	17	18	22	15	24
24	TN	2018	2636	2368	3093	4081	4855	1802	2177	2148	2939	3707	4462
25	Trip	32	35	24	19	18	18	208	222	291	258	233	334
26	UP	1441	1282	1262	1788	2172	2455	1441	1282	1262	1788	2172	2455
27	Uttara	167	167	168	220	106	187	195	192	192	249	134	195
28	WB	261	318	391	402	443	455	2558	2463	3981	4611	5434	7467
	Total	24027	27034	30225	37287	45490	55503	28715	31698	38297	49103	58230	66144

It is seen that the State-wide data on exactly the same parameters, (except for Gujarat and Uttar Pradesh) do not tally. Since there is no compelling reason to choose data in 2A, 2B and 2C, over 4A, or vice versa, resort was had to another round of consistency checks. This revealed the following further inconsistencies:

When data on assigned, devolved and Grant in aid in respect of all the States, in Formats 2A (for the District Panchayats), 2B (Intermediate level) and 2C (village level) was compiled. **This showed that the following States did not provide any information at all (Table CC-4):**

CC-4

Item	Level	States that did not provide data/ report no transfer
Assigned transfers	Village ²⁸	(15 States): Andhra Pradesh, Arunachal Pradesh, Assam, Goa, Haryana, J&K, Jharkhand, Karnataka, Kerala, Manipur, Nagaland, Punjab, Sikkim, UP, Uttarakhand
	Intermediate ²⁹	(14 States): Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Nagaland, Punjab, UP, Uttarakhand, West Bengal
	District ³⁰	(20 States): Andhra Pradesh, Arunachal Pradesh, Assam, Bihar,

²⁸ Excluding Meghalaya, Mizoram, Manipur, which do not have village level institutions

²⁹ Excluding Goa, Meghalaya, Mizoram, Manipur, Sikkim, Nagaland, J&K, which do not have intermediate level institutions,

³⁰ Excluding Nagaland and J&K, which do not have district level institutions

		Chhattisgarh, Goa, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Manipur, Mizoram, Punjab, Rajasthan, Sikkim, UP, Uttarakhand, West Bengal
Devolution	Village	(11 States): Andhra Pradesh, Arunachal Pradesh, Goa, Haryana, J&K Jharkhand, Maharashtra, Manipur, Nagaland, Punjab, Rajasthan.
	Intermediate	(7 States): Andhra Pradesh, Arunachal Pradesh, Haryana, Jharkhand, Maharashtra, Punjab, Rajasthan.
	District	(12 States): Andhra Pradesh, Arunachal Pradesh, Goa, Haryana, J&K Jharkhand, Madhya Pradesh, Maharashtra, Meghalaya, Mizoram, Punjab, Rajasthan.
Grant in Aid	Village	(14 States): Arunachal Pradesh, Assam, Chhattisgarh, Goa, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, Maharashtra, Nagaland, Tamil Nadu, UP, Uttarakhand.
	Intermediate	(13 States): Arunachal Pradesh, Assam, Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Maharashtra, Tamil Nadu, UP, Uttarakhand, West Bengal
	District	(13 States): Arunachal Pradesh, Goa, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Maharashtra, Meghalaya, Mizoram, Tamil Nadu, UP, Uttarakhand.
Other transfers	Village	(21 States): Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra Manipur, Nagaland, Punjab, Tamil Nadu, Tripura, UP, West Bengal
	Intermediate	(18 States): Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Tamil Nadu, Tripura, UP, West Bengal
	District	(21 States): Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Mizoram, Orissa, Punjab, Tamil Nadu, Tripura, UP, West Bengal

In addition, examination of the data showed that in some States, the funds transferred was shown to be repeated for each level. These were deleted and assigned only to one level, as follows:

Assigned transfers: In Bihar, the same amount was repeated for the District, Intermediate and Village levels. This figure was corrected as only in respect of Village Panchayats.

Grants in aid: For West Bengal, the same amount was repeated for District and Intermediate levels. This figure was corrected and shown only with respect to District Panchayats.

Furthermore, abstract details of the transfers made by the State government were compiled from the data provided by States in Schedules 2A, 2B and 2C, which pertain to the transfers relating to District, Intermediate and Village Panchayats respectively. In this table, data was

sought for two distinct kinds of transfer. These are (a) revenues shared by the State with the Panchayats, and (b) those transfers recommended by the State Finance Commissions to the Panchayats. With respect to the latter, data was sought in three categories, namely (i) 'Devolution', 'grants' and 'any other transfers'. As regards the time frames for which data was sought, actual data from 2007-08 to 2013-14 was sought as also projections from 2014-15 to 2019-20. Unfortunately, 6 states³¹ did not submit any data whatsoever and therefore have been excluded from our analysis. The data in Schedules 2A, 2B and 2C, pertaining to transfers from States to the RLBs was compared with the corresponding data in Format 4B, received from sample Panchayats (Table CC-5):

Table CC-5: Comparison of per capita transfers from the States to RLBs reported in Schedules 2A, 2B and 2C with per capita data for Sample RLBs, (Schedule 4B)

State	Sample data (Rs)				State-wide data (Rs)			
	09-10	10-11	11-12	12-13	09-10	10-11	11-12	12-13
All levels								
Andhra Pradesh	494	444	419	374	9	9	9	18
Assam	90	115	103	106	26	32	85	38
Bihar	2	2	193	229	2	2	193	229
Chattisgarh	15	17	19	33	236	307	387	553
Goa	194	264	520	298				
Gujarat	2232	2839	3099	3886	2327	3189	3288	4141
Haryana	0	0	0	0	--	140	75	46
Himachal Pradesh	176	293	211	342	105	113	113	128
Jammu and Kashmir	0	0	11	45				
Karnataka	3109	3467	3639	4511	3323	3601	4113	4731
Kerala	883	997	1151	1246	1208	1385	1795	2339
Madhya Pradesh	194	259	270	456	194	259	270	456
Maharashtra	2815	3219	3659	4203	87	154	165	182
Manipur	219	258	216	308				
Orissa	69	264	385	361	138	174	333	410
Punjab	186	257	316	369	186	257	316	369
Rajasthan	167	156	250	298	98	81	272	351
Sikkim	359	400	253	431	2008	2386	3451	3163
Tamil Nadu	230	299	404	449	644	836	1096	1296
Telangana	152	137	118	135				
Tripura	47	47	46	69	87	70	66	67
Uttar Pradesh	111	63	168	163	84	117	140	156
Uttarakhand	0	14	11	3	244	316	150	263
West Bengal	171	184	190	271	64	65	71	73
Village Level								
Andhra Pradesh	96	129	218	162	6	6	6	6
Assam	9	29	17	0	21	25	30	28

³¹ Arunachal Pradesh, Goa, Jammu and Kashmir, Jharkhand, Mizoram and Nagaland

Bihar					--	--	92	107
Chattisgarh	15	17	19	33	223	293	365	430
Goa	117	186	432	213				
Gujarat	117	151	135	165	121	143	140	137
Haryana					--	140	75	46
Himachal Pradesh	107	211	140	195	78	76	75	78
Jammu and Kashmir	0	0	11	45				
Karnataka	361	325	290	327	358	341	271	292
Kerala	603	686	820	925	854	959	1277	1737
Madhya Pradesh					194	171	250	323
Maharashtra	39	64	57	53	34	57	61	65
Manipur	200	242	187	269				
Orissa	0	3	29	40	72	101	205	279
Punjab					149	217	271	319
Rajasthan	7	12	22	28	84	69	232	298
Sikkim	40	9	0	0	1663	1967	2805	2624
Tamil Nadu	58	98	104	121	383	504	685	806
Telangana	12	8	8	9				
Tripura	1	2	2	3	49	39	32	36
Uttar Pradesh	79	26	117	113	58	83	98	109
Uttarakhand	0	14	11	3	127	163	56	89
West Bengal	38	38	38	50	38	39	43	44
Intermediate level								
Andhra Pradesh	182	177	128	134	1	1	1	--
Assam	5	14	27	34	4	5	5	4
Bihar					--	--	53	63
Chattisgarh					13	14	21	97
Gujarat	1442	1825	1883	2377	1256	1865	1695	1930
Himachal Pradesh	53	65	55	126	21	33	34	40
Karnataka	1646	1893	2165	2718	1808	2014	2433	2800
Kerala	137	142	167	174	165	203	230	262
Madhya Pradesh					--	88	19	132
Maharashtra	1180	1317	1522	1818	4	4	4	4
Orissa	42	232	322	285	58	66	112	112
Punjab					31	34	37	40
Rajasthan	75	69	96	112	12	10	32	42
Tamil Nadu	154	186	262	288	178	268	340	403
Telangana	113	112	91	106				
Tripura	24	22	17	28	21	17	19	17
Uttar Pradesh	12	14	18	20	9	12	14	16
Uttarakhand					70	92	34	65
West Bengal	51	68	73	111	11	11	12	12
District level								

Andhra Pradesh	139	91	70	70	2	2	2	12
Assam	2	2	8	2	1	2	50	6
Bihar					2	2	48	58
Chattisgarh					0	0	1	26
Goa	4	4	4	9				
Gujarat	18	38	38	25	950	1180	1453	2073
Haryana								
Himachal Pradesh	0	0	0	0	6	4	4	9
Karnataka	1096	1245	1184	1465	1158	1246	1409	1639
Kerala	12	13	16	12	189	224	288	340
Madhya Pradesh					0	1	1	1
Maharashtra	0	0	0	0	50	93	100	113
Orissa	0	0	0	0	7	7	16	18
Punjab					6	7	9	9
Rajasthan	9	3	2	4	3	2	8	10
Sikkim	0	16	16	27	345	420	645	539
Tamil Nadu	15	13	32	33	83	64	72	87
Telangana	12	10	12	12				
Tripura	0	4	13	13	17	14	14	14
Uttar Pradesh	15	18	24	26	17	22	28	31
Uttarakhand					46	61	60	109
West Bengal	11	11	26	31	15	15	17	17

Data comparisons showed high degree of variance in the Sample and state level data with respect to some States. Andhra Pradesh shows high per capita transfers at all levels in the sample data. Maharashtra similarly shows high fiscal transfers in the case of Sample intermediate Panchayats.

On the other hand, State-wide data shows high levels of fiscal transfers from the State in the case of Chhattisgarh, Gujarat, Kerala, Sikkim and Tamil Nadu. In the case of Sikkim the reason is that it has classified all CSS transfers from the centre, as State transfers. In the case of Chhattisgarh, the discrepancy arises because of an increase in fiscal transfers to the Village Panchayats, as reported in the State-wide data. In the case of Kerala, there is a steep increase in the fiscal transfers to VPs and District Panchayats, as compared to sample data. In the case of Gujarat, both sample and state data show a high level of fiscal transfers, even though the latter is higher. In the case of Intermediate Panchayats, the sample shows a higher figure, while the figure in the case of District Panchayats is higher for the State-wide data. In the case of Tamil Nadu, the increased amounts are across all levels, but marked in the case of Village Panchayats.

For these reasons, the data on State transfers in Schedules 4A and 2A, 2B and 2C could not be considered as reliable and was not taken into account for further analysis. However, data from 2A, 2B and 2C has been used for comparisons in the section in the main report in which the analysis of whether States keep the promises they make on devolution, is undertaken.

Consistency check 2

Data on State to RLB Fiscal transfers allocated and actually transferred:

Analysis of Data was taken from Schedule 4A, for 2009-10 to 2012-13.

State wise examination of data showed that some in some States³² the States had repeated the same allocation figure separately for each level of Panchayat. Wherever states have repeated the recommended allocations in the relevant columns for each level of Panchayat, these duplications were removed, in order to create the table in the main body of the report. **The tables below give the variations for each level of Panchayat as an elaboration of the combined table in the body of the report:**

Table CC-6

S.No	State	Recommended devolution and collection of assigned taxes	Grand total of amounts transferred	Difference between 4 and 3
1	2	3	4	5 (4-3)
Village level³³				
1	Orissa	284.14	2549.71	2265.57
2	Tamil Nadu	8466.18	10480.40	2014.22
3	Punjab	0.00	1856.91	1856.91
4	Bihar	962.58	1856.32	893.74
5	Gujarat	464.81	2125.37	1660.57
6	West Bengal	208.91	1191.90	982.99
7	Sikkim	0.00	425.91	425.91
8	Himachal Pradesh	213.50	232.51	19.01
9	Tripura	1.32	62.11	60.78
10	Karnataka	5718.31	6256.92	538.61
11	Haryana	430.14	430.14	0.00
12	Maharashtra	1590.61	1590.61	0.00
13	Rajasthan	3740.91	3674.81	-66.10
14	Uttar Pradesh	6253.51	6253.51	0.00
15	Uttarakhand	391.16	391.16	0.00
16	Kerala	9985.03	9947.78	-37.25
17	Chattisgarh	3614.82	3193.93	-420.89
18	Andhra Pradesh	810.00	220.00	-590.00
19	Assam	1621.26	240.78	-1380.48

³² Madhya Pradesh and Orissa

³³ No information provided by Arunachal Pradesh, Manipur, Goa & Jharkhand (in respect of Village Panchayats), by J&K (Halqa Panchayats) and Nagaland (Village Councils).

20	Madhya Pradesh	6901.67	5352.89	-1548.78
	Total	51658.85	58333.67	6674.81
Intermediate level³⁴				
1	Gujarat	431.25	26476.54	26045.29
2	Bihar	189.37	1083.11	893.74
3	Orissa	188.30	1375.48	1187.19
4	Tamil Nadu	4515.29	5221.67	706.38
5	West Bengal	0.00	340.95	340.95
6	Punjab	0.00	290.83	290.83
7	Chattisgarh	241.29	307.37	66.08
8	Karnataka	37088.56	39654.37	2565.81
9	Uttarakhand	209.84	230.84	21.00
10	Tripura	0.72	28.87	28.15
11	Andhra Pradesh	0.00	0.00	0.00
12	Maharashtra	110.55	110.55	0.00
13	Rajasthan	523.72	514.41	-9.31
14	Uttar Pradesh	931.52	931.52	0.00
15	Himachal Pradesh	80.42	93.24	12.82
16	Kerala	1834.78	1798.32	-36.46
17	Andhra Pradesh	150.00	25.00	-125.00
18	Assam	893.58	53.08	-840.49
19	Madhya Pradesh	6901.67	554.20	-6347.47
	Total	54290.85	79090.36	24799.51
District level³⁵				
1	Gujarat	713.46	22360.71	21647.25
2	Bihar	162.51	1056.25	893.74
3	West Bengal	0.00	475.59	475.59
4	Sikkim	0.00	97.87	97.87
5	Orissa	188.30	189.40	1.10
6	Punjab	0.00	60.41	60.41
7	Karnataka	22806.97	24491.65	1684.68
8	Chattisgarh	39.98	55.46	15.48
9	Tamil Nadu	1128.83	1331.29	202.46
10	Tripura	0.62	22.46	21.84
11	Himachal Pradesh	12.00	17.19	5.19
12	Maharashtra	2625.38	2625.38	0.00
13	Rajasthan	130.93	128.58	-2.35
14	Uttar Pradesh	1773.65	1773.65	0.00
15	Uttarakhand	226.73	225.97	-0.76
16	Andhra Pradesh	240.00	105.00	-135.00

³⁴ No information provided by Arunachal Pradesh, Haryana and Jharkhand

³⁵ No information provided by Arunachal Pradesh, Haryana, Jharkhand and Manipur for District Panchayats and Mizoram for Autonomous District Councils.

17	Assam	959.87	162.34	-797.53
18	Kerala	2242.91	2139.51	-103.40
19	Meghalaya	1172.27	289.54	-882.73
20	Madhya Pradesh	6901.67	16.43	-6885.24
	Total	41326.08	57624.67	16298.60

It is seen that there is a wide variation in the amounts transferred, as compared to the allocations and recommendations made by SFCs. The likely reasons for these variations have been explained in detail in the main body of the report.

Consistency check 3

Central transfers to RLBs

Table CC-7 gives the details of the Per Capita Central transfers as seen in the sample and total data.

Table CC-7:

State	Sample data				Total data			
	09-10	10-11	11-12	12-13	09-10	10-11	11-12	12-13
Village Panchayat								
Andhra Pradesh	372	450	334	337	14	16	16	0
Assam	443	396	370	406	47	105	97	93
Chattisgarh	66	92	93	120				
Goa	35	76	60	28				
Gujarat	23	38	30	38	5	6	6	2
Haryana					17	31	50	55
Himachal Pradesh	1025	1363	1215	1461	163	181	191	221
Jammu and Kashmir	213	294	765	1020				
Karnataka	671	542	343	367	34	77	140	145
Kerala	152	219	233	336	421	657	683	856
Madhya Pradesh					100	78	96	106
Maharashtra	85	138	138	116	68	75	82	122
Manipur	599	834	1549	1400	42	28	27	34
Nagaland					3761	3435	4297	2971
Orissa	207	289	293	323	65	94	96	117
Punjab					114	111	78	69
Rajasthan	1191	958	875	894	627	455	414	448
Sikkim	626	691	1505	346				
Tamil Nadu	568	752	942	1143				
Telangana	683	865	439	572				
Tripura	2062	1998	2857	2988				
Uttar Pradesh	330	74	272	160	58	374	299	134
Uttarakhand	124	115	123	204	0	0	0	3

West Bengal	376	350	373	471	385	343	418	542
Intermediate Panchayat								
Andhra Pradesh	545	665	570	640	284	281	264	0
Assam	562	476	511	415	283	279	192	0
Gujarat	207	287	206	223	261	301	238	296
Himachal Pradesh	8	9	40	47				
Haryana					9	8	11	9
Karnataka	212	213	114	143	10	22	40	42
Kerala	213	271	329	459	279	313	432	563
Madhya Pradesh					0	0	15	29
Maharashtra	162	174	206	230	136	150	165	245
Orissa	230	347	430	404	83	81	82	126
Rajasthan	170	176	141	155	202	160	169	178
Tamil Nadu	78	77	110	136				
Telangana	667	700	392	481				
Tripura	0	0	0	0				
Uttar Pradesh	28	31	22	9	4	4	4	1
Uttarakhand					0	0	0	1
West Bengal	120	239	294	260	5	110	127	122
District Panchayat								
Andhra Pradesh	54	86	98	124	248	103	59	0
Assam	95	93	113	59	212	221	192	75
Chattisgarh					1030	1553	1399	1429
Goa	0	5	0	0				
Gujarat	441	568	374	356	412	551	346	350
Haryana	0	0	1	3	0	0	1	1
Karnataka	207	246	206	128	5	14	16	21
Kerala	4	3	0	2	9	6	1	2
Madhya Pradesh					0	0	12	23
Maharashtra	321	378	438	416	477	524	577	856
Manipur	44	162	292	325	7	5	5	6
Orissa	176	139	158	194	14	15	24	46
Rajasthan	87	124	123	102	169	154	151	141
Telangana	40	38	20	51				
Tripura	33	49	77	195				
Uttar Pradesh	27	23	14	4	19	10	13	2
Uttarakhand					0	0	1	0
West Bengal	147	124	139	125	23	29	24	21

As may be seen, except in the highlighted instances, in almost all States the figures shown in the sample study are higher than the per-capita figures in the State-wide tables.

Consistency check 4

Per capita own revenues of RLBs

Data Adjustments and corrections carried out in sample data pertaining to own revenues, in Schedule 4B.

- Other than property tax, RLBs levy water tax, tax on hawkers in some states and levy user charges on shops, sale of forest produce, auctioning of sand, user charges on vehicles using GP roads for commercial purposes like transportation of mining material etc. Some of the RLBs have accounted for these revenues under 'other revenues'. These have been reassigned to either 'own tax revenue' or 'non-tax revenue' depending on the nature of the revenue.
- Certain assigned taxes like profession tax, stamps and registration fee and entertainment tax are levied and collected by the state and devolved to RLBs. Some RLBs had included these in other revenues or tax revenues. Therefore these have been reclassified into the respective category of assigned + devolution or Grants in aid.
- 'Other revenues' also include those revenues where it is unclear whether these are either 'own revenues' or 'transfers'. States where such adjustments have been done are Orissa, Chhattisgarh, Uttarakhand, Maharashtra, Andhra Pradesh, Karnataka and Kerala.

Per capita revenues were derived from Sample RLBs (in Format 4B) and as reported for the entire state in Format 4A. A comparison of these details is in Table CC-8 below:

Table CC-8: Comparison of State wise Average Per Capita Revenues from Sample RLBs (in Format 4B) and as reported for the entire State (Format 4A)

State	Sample RLBs				RLBs (State-wide data)				Difference			
	09-10	10-11	11-12	12-13	09-10	10-11	11-12	12-13	09-10	10-11	11-12	12-13
Village												
Andhra P	98	114	126	139	67.2	74.3	76.9	0.0	30.6	39.4	48.9	139.4
Assam	4	4	5	4	3.4	6.4	13.3	28.9	0.2	-2.2	-8.6	-24.6
Chhattisgarh	4	10	13		0.0	12.1	0.0	0.0	5.7	1.8	16.2	16.2
Goa	93	100	217	103					93.4	100.0	216.9	103.0
Gujarat	59	77	85	59	31.3	32.5	35.3	27.8	27.5	44.3	50.0	83.5
Haryana					64.6	51.9	63.0	39.4	-64.6	-51.9	-63.0	-39.4
Himachal	53	45	53	67	14.9	19.1	26.4	31.7	38.1	26.1	26.9	35.4
J&K	0.0	0.0	0.0	0.0					0.0	0.0	0.0	0.0
Jharkhand									0.0	0.0	0.0	0.0
Karnataka	193	240	248	325	59.9	69.1	83.3	71.3	7.8	15.1	6.1	21.5
Kerala	140	164	162	236	224.1	257.2	316.4	353.9	-84.2	-93.7	-154.0	-117.6
MP					0.0	0.0	1.2	0.8	0.0	0.0	-1.2	-0.8
Maharashtra	87	103	105	125	102.1	119.2	131.5	0.0	-15.0	-16.3	-26.8	125.3
Manipur	0.0	0.0	0.0	0.0					0.0	0.0	0.0	0.0
Orissa	12	14	14	16	5.7	5.8	6.2	6.4	6.5	8.2	8.0	9.7
Punjab					90.3	104.6	121.1	137.4	-90.3	-104.6	-121.1	-137.4

Rajasthan	5	7	10	11	7.4	9.2	9.3	10.1	-2.1	-2.5	0.6	0.6
Sikkim	0	4	4	0	1.0	1.2	3.0	3.0	-0.9	2.6	1.1	-2.6
Tamil Nadu	191	205	278	297	64.4	80.7	83.9	0.0	126.1	124.3	193.7	296.7
Telangana	71	83	106	125					70.7	82.9	106.0	125.0
Tripura	2	5	8	11	2.4	2.1	2.9	5.1	-0.5	2.9	4.7	5.5
Uttar Pradesh	0.4	0.2	0.8	0.3	0.8	0.7	0.7	0.6	-0.4	-0.5	0.1	-0.3
Uttarakhand	1	1	1	1	0.4	0.4	0.4	0.4	0.8	0.8	0.8	0.8
West Bengal	20	23	27	33	15.7	17.9	19.7	22.2	4.1	4.9	6.8	11.2
All States	46.6	54.7	61.3	72.6	35.4	40.3	44.7	22.7	11.2	14.4	16.6	49.9
Intermediate												
Andhra P	1	1	1	2	6.3	5.9	12.0	0.0	-5.1	-5.3	-10.6	2.3
Assam	4	4	4	5	3.6	6.0	11.2	22.0	0.4	-1.6	-7.0	-17.4
Chhattisgarh					0.0	1.7	0.0	0.0	0.0	-1.7	0.0	0.0
Goa									0.0	0.0	0.0	0.0
Gujarat	3	4	4	3	11.1	12.0	13.2	14.5	-8.0	-8.4	-9.5	-11.2
Haryana					4.9	3.8	4.7	3.0	-4.9	-3.8	-4.7	-3.0
Himachal Pradesh	2	1	2	4	5.0	5.1	6.0	5.3	-3.3	-4.3	-3.8	-1.1
J&K									0.0	0.0	0.0	0.0
Jharkhand									0.0	0.0	0.0	0.0
Karnataka	1	2	1	2					1.0	1.8	1.4	1.5
Kerala	1	1	1	1	3.0	3.3	3.8	2.8	-2.5	-2.5	-3.0	-1.8
MP									0.0	0.0	0.0	0.0
Maharashtra	8	5	4	14	11.6	22.0	12.8	0.0	-3.8	-17.0	-8.8	14.0
Manipur									0.0	0.0	0.0	0.0
Orissa	0	0	0	0					0.0	0.3	0.0	0.0
Punjab					60.3	68.8	78.5	89.7	-60.3	-68.8	-78.5	-89.7
Rajasthan	2	2	3	2	3.7	5.3	3.9	3.7	-1.8	-3.6	-1.1	-1.9
Sikkim									0.0	0.0	0.0	0.0
Tamil Nadu	4	3	3	6	19.9	28.3	36.6	0.0	-15.5	-25.1	-33.3	5.6
Telangana	1	0	0	0					0.5	0.2	0.1	0.3
Tripura	0	1	0	4	1.2	2.0	1.7	3.0	-1.1	-1.4	-1.4	0.6
Uttar Pradesh	0.0	0.0	0.0	0.0					0.0	0.0	0.0	0.0
Uttarakhand									0.0	0.0	0.0	0.0
West Bengal	4	5	7	8	3.3	6.6	7.1	7.8	0.3	-1.5	-0.6	0.5
All States	2.3	2.0	2.2	3.8	16.7	21.1	22.3	16.8	-14.4	-19.0	-20.1	-13.0
District												
Andhra P	6	6	7	10	32.5	27.0	20.8	0.0	-26.9	-21.4	-13.9	9.9
Assam	3	6	14	23	1.4	3.5	8.3	13.9	1.2	2.7	5.3	8.8
Chhattisgarh									0.0	0.0	0.0	0.0
Goa	0.0	0.0	0.0	0.0					0.0	0.0	0.0	0.0
Gujarat	14	29	37	25	24.9	37.8	37.8	37.9	-11.2	-9.0	-1.3	-13.3
Haryana					1.3	1.6	2.2	2.9	-1.3	-1.6	-2.2	-2.9

Himachal P	2	2	4	3	4.1	3.3	3.4	4.3	-2.6	-1.6	0.7	-0.9
J&K									0.0	0.0	0.0	0.0
Jharkhand									0.0	0.0	0.0	0.0
Karnataka	7	4	4	3					6.6	3.9	4.2	3.2
Kerala	1	1	1	2	3.5	9.9	6.8	16.0	-2.3	-8.7	-5.4	-14.4
MP									0.0	0.0	0.0	0.0
Maharashtra	45	30	33	39	217.2	268.0	309.2	0.0	-172.3	-237.9	-276.4	39.3
Manipur	0.0	0.0	0.0	0.0					0.0	0.0	0.0	0.0
Orissa	0.0	0.0	0.0	0.0					0.0	0.0	0.0	0.0
Punjab					7.5	8.4	9.5	10.7	-7.5	-8.4	-9.5	-10.7
Rajasthan	2	2	3	4	1.2	1.5	1.8	3.0	1.0	0.4	0.9	0.8
Sikkim	0.1	0.0	0.0	0.0	0.6	0.2	0.3	0.3	-0.5	-0.1	-0.2	-0.2
Tamil Nadu	0.0	0.0	0.0	0.0					0.0	0.0	0.0	0.0
Telangana	1	7	1	0					4.6	0.7	7.0	0.5
Tripura	2	4	3	2	3.6	10.3	6.2	8.9	-1.4	-6.4	-3.4	-6.7
Uttar Pradesh	6	7	7	8	6.7	8.5	8.2	10.2	-1.1	-1.2	-1.1	-2.7
Uttarakhand					22.1	25.8	23.6	0.0	-22.1	-25.8	-23.6	0.0
West Bengal	2	4	3	3	7.0	7.7	8.4	9.3	-4.7	-4.1	-5.6	-6.7
All States	8.6	8.0	9.1	9.6	35.0	42.4	46.8	8.8	-26.3	-34.4	-37.7	0.8

The highlighted States show a significant level of discrepancies between the sample survey and State-wide data. As a general rule, we have taken the information that has emerged through the sample studies as more representative of the State. In the case of Haryana (Village Panchayats) and Punjab (Village and intermediate Panchayats, both States show in the State-wide data a high income through 'other sources and user charges'. This could be because of the leasing of 'Shamlat' lands owned by the Panchayats, which is a significant source of income in these two states alone. Therefore, with respect to these States, the figure furnished in the State-wide Schedule has been used for the trend analysis.

Consistency check no 5

Inconsistency corrections regarding expenditures reported in Schedule 6A

The following States did not provide details of expenditures (Table CC-9).

Table CC-9

Item	Level	States that did not provide data/ report no transfer
Total capita l	Village ³⁶	(8 States): Arunachal Pradesh, Bihar, Chhattisgarh, Goa, Jharkhand, Manipur, Nagaland, Sikkim.
	Intermediate ³⁷	(8 States): Arunachal Pradesh, Bihar, Chhattisgarh, Himachal

³⁶ Excluding Meghalaya, Mizoram, Manipur, which do not have village level institutions

expenditure		Pradesh, Jharkhand, Madhya Pradesh, Punjab, Tripura
	District ³⁸	(8 States): Arunachal Pradesh, Bihar, Goa, Himachal Pradesh, Jharkhand, Madhya Pradesh, Manipur, Mizoram,
Total revenue expenditure	Village	(11 States): Arunachal Pradesh, Bihar, Goa, J&K Jharkhand, Madhya Pradesh, Manipur, Uttar Pradesh.
	Intermediate	(7 States): Arunachal Pradesh, Bihar, Chhattisgarh Jharkhand, Maharashtra, Uttar Pradesh
	District	(4 States): Arunachal Pradesh, Bihar, Jharkhand, Mizoram,
Total expenditure	Village	(14 States): Arunachal Pradesh, Bihar, Chhattisgarh, Goa, J&K, Jharkhand, Manipur
	Intermediate	(4 States): Arunachal Pradesh, Bihar, Chhattisgarh, Jharkhand,
	District	(4 States): Arunachal Pradesh, Bihar, Goa, Jharkhand, Mizoram

Expenditures in Schedule 6A are broadly classified in to Establishment, Maintenance, Capital expenditure, Welfare and other Expenditure. The following correctives were applied when arranging and analysing expenditure data:

Any expenditure that could be reasonably presumed to pertain to expenditures on specific services was shifted to the respective heads of expenditure. For example, expenditures on maintenance of buildings, community assets and own buildings of PRIs, which were listed as 'other expenditures', were listed as maintenance expenditure of respective head. Nearly 30% of GPs have included many of these expenditures under other expenditures.

Similarly on water supply and roads, any huge expenditure on these in one year was reclassified into capital expenditure of that core services. Other expenditures which were regrouped are as follows:

- Office expenditures like Travel, telephone etc. were added to other establishment expenditure.
- Expenditure on electricity was clubbed into maintenance expenditure on street lights.
- Honorarium paid to members was added to salaries and wages.
- Expenditure under sanitation including expenditure on TSC, drainage and Nirmal Bharat Abhiyan were clubbed under sanitation.
- Expenditure on Midday Meals in schools was added to Education welfare expenditure,
- Village Health and Sanitation Committee expenditure and NRHM expenditure was clubbed in to Health welfare expenditure.

³⁷ Excluding Goa, Meghalaya, Mizoram, Manipur, Sikkim, Nagaland, J&K, which do not have intermediate level institutions,

³⁸ Excluding Nagaland and J&K, which do not have district level institutions

- Pensions to employees were shifted from other expenditure to establishment expenditure.
- Expenditure under NREGA, PMGSY which is not classified by few PRIs was added to other capital expenditure.
- Some of the PRIs have given closing balance and opening balance as expenditure in addition to return of the money to ZPs or BPs. This type of expenditure has not been included in our analysis.
- Misclassification of statements like some welfare expenditure shown under capital expenditure and or otherwise have been corrected and kept in the respective heads.