International Journal of Recent Engineering Research and Development (IJRERD)
ISSN: 2455-8761
www.ijrerd.com || Volume 04 – Issue 01 || January 2019 || PP. 55-58

PRIs and Finance Commission in Karnataka - A study

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Abstract: Karnataka is often cited as an important example of a pro-decentralisation state. This is mainly due to the earlier legislation passed by the state during 1983 which was regarded as a landmark step. After the 73rd Amendment to the Constitution, Karnataka was the first State to pass the Karnataka Panchayat Raj Act, 1993. 11th Schedule in the Constitution to decentralise power and functions to panchayat raj bodies at all the three levels. This paper based on purely secondary source and the study reveals about source of income PRIs and to study the functions of Finance Commission in Karnataka.
Keywords: PRIs, Tax, Finance Commission.

Introduction

The Articles 243 (I) and (Y) of the Constitution of India read with the section 267 of the Karnataka Grama Swaraj and Panchayat Raj Act 1993 as amended in 2015 and section 503C of the Karnataka Municipal Corporation Act, 1976 and section 302B of Karnataka Municipalities Act, 1964 provided for the formation of SFCs to address the financial issues confronted by the PRIs and ULBs. The SFCs have to look after the fiscal problems of both PRIs and ULBs. Before this mechanism came into existence, the state governments used to transfer funds to local bodies based on state laws and discretion. The Governor of a state, shall as soon as may be within one year from the 73rd (1992) amendment to the Constitution underArticle 243(I), and thereafter at the expiry of every fifth year constitute SFC to review the financial position of panchayats and similarly, the SFC constituted under Article 243 (Y) of the 74thamendment shall also review the financial position of the municipalities and make recommendations to the Governor.

The village Panchayat is the basic local government unit in rural India. Though Panchayats have been in existence for a long period of time, the present system clearly marks off from the past in respect of powers, functions and financial resources. Panchayats have now a major role as instruments of rural reconstruction and development. They have been given wider powers and financial resources not only because they are institutions of political participation but institutions of social and economic development. Sometimes, it becomes the joint responsibility of the centre state and local governments to perform certain important functions. It becomes necessary to combine national conception with local execution for implementing certain programmes.

Thus every Panchayat has its contribution not only to the development of the particular area under its jurisdiction but also to the whole nation. There is a growing need of making use of local interest, local knowledge and local participation for the administration of every nation. "There are some functions which can be best performed by local authorities only. Such functions need local attention and adaptation to circumstances. They cannot be standardised on a state or national level". Hence the consolidation and reorganisation of local bodies have been felt at all times. Scientific consolidation and reorganisation of local bodies calls for not only the provision of more efficient structure for them but also providing them with sufficient finance to discharge their duties efficiently. The 73rd Constitutional Amendment Act 1992 is a big step forward in this direction. Accordingly more powers and functions have been assigned to Panchayats.

Review of Literature

Ahmad Nesar, (1998), in his paper entitled "**A study of Panchayat Finance in India**" attempted to understand the system of Panchayat Finance taking into account the Kerala and Rajasthan states in India. The study has covered the finance of PRIs as well as decentralization of the fiscal process of these two States. He concluded that Kerala PRIs are enjoying a greater level of functional and financial autonomy and also people‟

participation in developmental planning has been given a campaign mode. Whereas Rajasthan is, the first to introduce the modern system of panchayat in the country, but there is a lack of funds, no financial autonomy, also high poverty, drought situation, and people's low participation in the system.

Jayaramaiah N. (2005), in his paper ***"Finances of Gram Panchayats: A Study of Karnataka",*** analyzed the resource position of Gram Panchayats in Karnataka State. Most of the tax items are inelastic and of narrow base. The Gram Panchayats need to earn public confidence before initiating resource mobilization and delivery of services. Maintenance of transparency and accountability are pre-requisites for the success of local initiatives. His analysis is based on quantitative and qualitative information.

The book ***Panchayats and their Finance*** by M.A. Oommen and Abhijit Datta, consists of two parts. The first part by M.A. Oommen deals with Panchayat finance and issues relating to inter governmental transfers. It reviews the structure of Panchayat finance in a historical context. It also throws light on the problems of intergovernmental transfers in the Indian federal system. The recommendations of the tenth Finance Commission have also been discussed.

Mathew George (editor), (2000), The Institute of Social Sciences had published ***"Status of Panchayati Raj in the States and Union Territories of India"*** and George Mathew was the editor of the book. In this book, three special articles, they are Panchayat Raj in India- and overview by George Mathew, Panchayats in a scheduled area by S. K. Singh and Panchayats and Women by Nirmala Buch. In the twenty-five chapters related to twenty-five states written by different author. This study traced the historical and structural evolution of panchayats in each state from the earliest times to 2000.

Aziz Abdul in his article argues that a cardinal principal of the devolution of finance is that the lower level government should enjoy full financial autonomy which should imply financial adequacy as well as freedom to spend (1998). It is pointed out that in a federal system local government have tight resources, and that they should have some comfortable level of free outlays.

Nanjundappa, D.M. (1972) in his work titled ***Local Government as instrument of Development',*** elaborates on planning process and public finance, spatial dimensions of planning in decentralization, institutional innovation for fulfilling the targets of various components of Panchayati Raj Sector such as agriculture, co-operatives, village industries, elementary education, water supply, etc. Locally financed investment, it is felt would preserve the link between individual sacrifice and benefit, and provide the incentive for bringing in new energies necessary to transform the villages

Research Gap

There are a number of research paper related to structure of PRIs and its functions and so forth. But there is no particularly study related to finance of PRIs and state finance commission. Hence, the study is attempted.

Objective of the Study

The present study was undertaken with following objectives:

1. To know the income sources of PRIs
2. To study the functions of Finance Commission in Karnataka

Methodology

The study is based on secondary data gathered from annual report of state finance commission in Karnataka, News Paper and relevant websites etc.

Analysis and Interpretation:

Source of Income PRIs,

The sources of income of the village Panchayat (gram Panchayat) may be divided into some broad headings. Each Gram Panchayat has its own fund. Money comes from different sources and is deposited in this fund.

The taxes imposed by the Village Panchayats are important source of income of Gram Panchayats, such as:

- Taxes on land and houses,
- The custom duty,
- The toll tax,
- License fees on transport and communication etc.

Even taxes are collected from professions, trade and commerce, for lighting the streets, from schools, hospitals, dispensaries, markets, the resting places and like places used by the common people. Money comes also as grants-in-aid from the Central or the State government or from the Zilla Parishad or Panchayat Samiti.

Another source of earning of the Panchayat is the loan collected from the Central government, the State government or other financial agencies. Money collected from gifts also sometimes becomes a source of earning for the Panchayat. Moreover, if the State government enacts necessary laws then the Village Panchayat can impose additional stamp duties on the entry fee of different functions of entertainment and sub-taxes on transfer of unmovable property or on gifts, mortgage or lease out of the same within its territorial jurisdiction. These will be the earning of the Village Panchayat.

The main functions of State Finance Commission are:

1. **Karnataka State Finance Commission functions are:**

1. To look over the financial situation of the various Panchayats that are there in the state
2. To take such measures that help in improving the economic situation of the various Panchayats that are there in the state
3. .To grant funds to the various Panchayats that are there in the state from the Consolidated Fund of the State
4. To distribute the total amount of taxes, tolls, duties, and fees that are charged by the state government among the various Panchayats in the state and the state Government
5. To function as an arbiter with regard to financial matters between the state and the Central government
6. To transfer the funds that are allocated by the central government to the state government
7. To decide the amount of taxes, duties, tolls, and fees that may be levied by the various Panchayats that are there in the state.
8. To set principles and distribute taxes between the state government and Local Bodies and among different government units within each of the Local Body tiers.
9. To consider which additional taxes and non-taxes sources of revenue can be assigned to the Local Bodies to enhance this fiscal empowerment and autonomy.
10. To determine the Grants-in-aid to be given to Local Bodies,
11. To recommend measures needed to improve the financial position of Local Bodies in the state.

The tasks and functions of the State Finance Commission are contained in its terms of reference which are by and large guided by the constitutional provisions and the requirements of the state. The systematic approach of the State Finance Commission has been to initially identify the functional responsibilities of different tiers.

Article 243 (I) and 243 (Y) of the Constitution of India mandate the States to constitute State Finance Commission once in five years to review the financial position of the local bodies and to make recommendations to the Governor of the State. The First State Finance Commission, constituted in 1994, gave its report in 1996 for the award period of 1997-2002. The Second State Finance Commission was constituted in 2000 and submitted report in December 2002, its period is till 2006. Third Karnataka Finance Commission, which was set up in September 2006, it is effective form the period 2006-07 to 2010-11. Forth Finance Commission Constitute from 2011-12 to 2015-16. The First State Finance Commission recommended the transfer of 36% of Non-Loan Gross Own Revenue Receipts (NLGORR) and Second State Finance Commission recorded of the state to local bodies 40% of Non-Loan Gross Own Revenue Receipts. The plan funds are to be distributed to Zilla Panchayat and Taluk Panchayat in the ratio of 65:35. Under the recommendation of the 1st SFC, the relative shares of PRIs and ULBs in the ratios 80:15 respectively. The 2nd Commission changed it to 80:20. The 3rd Commission recommended that the ratios of PRIs and ULBs in the NLNORR should be 70:30. Given the higher rate of growth of urban population, the increase in the share of ULBs is justifiable.

Karnataka is one of the first states in India to extend property tax reforms to all Local Bodies through the introduction of capital value method of property tax assessment and self assessment procedures for property tax. Another innovation in Karnataka has been the introduction of a new solid waste charge to offset the additional costs.

Devolution of financial resources to local bodies has been ensured through SFCs. Karnataka has had three SFCs. The 1st SFC constituted in 1994, gave its report in 1996 for the award period of 1997-2002. The 2nd SFC was constituted in 2000 and submitted the report in 2002 and its period was till 2006 -2011. The 3rdSFC constituted in 2006 submittedits report in December 2008 and its award period was 2011-2016. However, owing to the non constitution of the 4thSFC before the expiry of the award period the state government extended the award period of the 3rd SFC till 2017-18. This SFC being the fourth has its award period applicable from 2018-19 to 2022-23.It is pertinent to note that action taken report (ATR) on the recommendations of the three SFCs has not been presented before the legislature as mandated. The task faced by SFC seems to be more difficult than that of the FCs under Article 280 in that, the SFC is required to assess and evaluate the functions of PRIs and ULBs before making recommendations. The task of the SFC regarding devolution of finances is mentioned in part IX of the Constitution in Schedules eleven and twelve are not helpful as the activity mapping and the quantum of resources do not correspond with each other.

Suggestions

Based on the above, the following suggestions are made.

1. PRIs should be collected tax in a proper way.
2. Maintained good relationship between state and local government.
3. Finance commission should be more effective.
4. Recommendations must implicated in PRIs.

Conclusion

In Karnataka the role finance commission and PRIs was very important for the development aspects its give fund allocation for every stage of developments and Indian constitution will provide the more support to the both government authorities so members of PRIs will active for use of fund in the name of development. Central should be more positive to work with SFC. Finally both are major aspects of in Indian premises.

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