Working Paper 416

Two Decades of Fiscal Decentralization Reforms In Karnataka: Opportunities, Issues and Challenges

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ISBN 978-81-7791-272-2

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Working Paper Series Editor: **Marchang Reimeingam**

TWO DECADES OF FISCAL DECENTRALIZATION REFORMS IN KARNATAKA: OPPORTUNITIES, ISSUES AND CHALLENGES

M Devendra Babu, Farah Zahir, Rajesh Khanna and Prakash M Philip*

Abstract

This paper portrays the fiscal decentralization scenario in the state of Karnataka with specific reference to fiscal transfers and resource availability with rural local governments to make them truly institutions of local self-government. An attempt is being made to review the prevailing system of fiscal decentralization in the state with special reference to the composition of fiscal devolution from the upper tiers of government, trends in devolution from state government, revenue and expenditure assignments, and fiscal autonomy of Panchayat Raj Institutions in Karnataka. Fiscal decentralization in Karnataka is far from complete in terms of increasing own source revenue (OSR) mobilization and making use of increased spending for desired goals. Low resource base, weak accountability mechanisms, lack of monitoring and evaluation of schemes and low utilization rates in centrally sponsored schemes have created a wedge between Karnataka's well-developed and backward regions. In the last twenty years, what Karnataka has so far achieved can be somewhat attributed to 'partial decentralization'. There is a need to create adequate fiscal space for decentralization to thrive in the state whereby rural masses benefit from inclusion in the growth processes and reform efforts are made for more durable, richer and fuller decentralization.

Introduction

Over the past few decades, India underwent significant changes in the local self-government system as a result of federal decisions to deepen the democratic processes at the grassroots level. The central government in the country responded to changing political circumstances with local government reforms to stabilize the vertical balance of power that had become unstable. Considering the need for decentralised governance in a globalised era, the Central Government effected the 73rd and 74th Amendments to the Constitution in the year 1992. The former Amendment relates to rural local governments, i.e. Panchayat Raj Institutions (PRIs), and the latter Urban Local Governments (ULGs). The 73rd Amendment Act made the Panchayats[1] one of the permanent political structures in India.

As a federal country, the constitutional and legal assignment of functions and taxation responsibilities among different levels of government result in vertical fiscal imbalances in India. The Centre has significant responsibilities to raise taxes from more buoyant sources such as income tax. The state and local governments have functions that have a bearing on poverty reduction, service delivery, and those requiring large expenditures on staff. There is a need, therefore, for an effective fiscal transfer system to address the gaps in expenditure and revenue assignments. The Indian Constitution

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The authors thank two anonymous referees for their helpful comments on an earlier draft of this paper.

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provides for an inter-governmental transfer system that mandates the Centre to share resources with the states and local governments to overcome the fiscal imbalance. However, there is a general perception that states' taxation powers are inadequate in relation to their expenditure responsibilities and that this imbalance has been worsening over time. (Bagchi *et al,* 1992).

The initial idea of fiscal federalism argued that the state and local governments should not engage in income redistribution (Oates, 2008). According to this idea, decentralized income distribution creates incentives for the poor to migrate into alternative jurisdictions where more generous redistribution exists, while the rich could move to areas with less tax and transfer schemes. Another school of fiscal federalism suggested that the jurisdictional competition triggered by comprehensive decentralization, which included varying degrees of welfare provisions, could be more effective in reducing regional inequality and centrally mandated distribution. (McKinnon 1995, 1997; Weingast and Qian, 1997). This view challenges the initial idea of fiscal federalism. The recent political economy model by Padovano (2007) shows that redistribution is more efficiently carried out by sub-central entities. According to this model, regions must finance redistributive policies with own resources in decentralized fiscal systems.

The economic rationale for decentralisation is based on the limited geographic extent of the benefits of public goods and the relatively high costs of decision making, if everything is centralised (Oates, 1972). A fair degree of financial autonomy (in the true spirit of decentralisation of power) is a *sine qua non* for local governments to function more effectively as self-governing institutions. By financial autonomy we mean that they should have their own taxation and borrowing powers as well as a share in the state's taxes and duties and grants-in-aid from higher levels of government (Babu, 2009). As fiscal relations are the prickliest issues in intergovernmental relations in countries with a federal structure, frequent changes in fiscal arrangements show up as unsettled vertical intergovernmental relations. The local governments should not only have the power to raise revenues but their own source of revenues should constitute a very significant share in the total revenues. (Bahl, 1999). Further, the opinion is that the extent to which the local governments are self-financing indicates their fiscal autonomy because outside financing may come with conditions that limit local discretion in the use of funds. (World Bank, 1988: 155). Further, grants should not be too large a share of local expenditure because when revenues get tight, higher level governments tend to cut off transfers to local governments. Besides, grants discourage local governments from raising their own revenues. Local grants however should be flexible, transparent, and predictable. In this regard, Bird and Michael Smart (2002: 899-912) are of the view that "if services are to be efficiently provided, transfers must be designed so that those receiving them have a clear mandate, adequate resources, sufficient flexibility to make decisions and are accountable for results". The revenues available from own sources and those devolved should match the functions devolved. In the absence of these, the local governments would become mere spending agencies, always dependent upon the higher-level governments for the transfer of grants. Thus, the responsibility of making local governments fiscally autonomous and stronger lies with the higher-level governments. The Constitution or convention, in general, specifies the tax sources, borrowing powers etc., of different levels of government. Further, it also specifies the agency to deal with the determination of revenues of different levels of the government.

The state of Karnataka in India has been in the forefront of administrative decentralization and devolution of powers to the panchayats as envisaged in the Constitution. It has been observed that the Panchayat Raj institution's structure in Karnataka has now been stabilized and strengthened with four elections. This article portrays the fiscal decentralization scenario in Karnataka with specific reference to fiscal transfers and availability of resources with the rural local governments to make them truly institutions of local self-government. An attempt is being made to review the prevailing system of fiscal decentralization in the state with special reference to composition of fiscal devolution from the upper tiers of government, trends in devolution from state government, revenue and expenditure assignments, and fiscal autonomy of PRIs[2] in Karnataka.

Intergovernmental Transfers

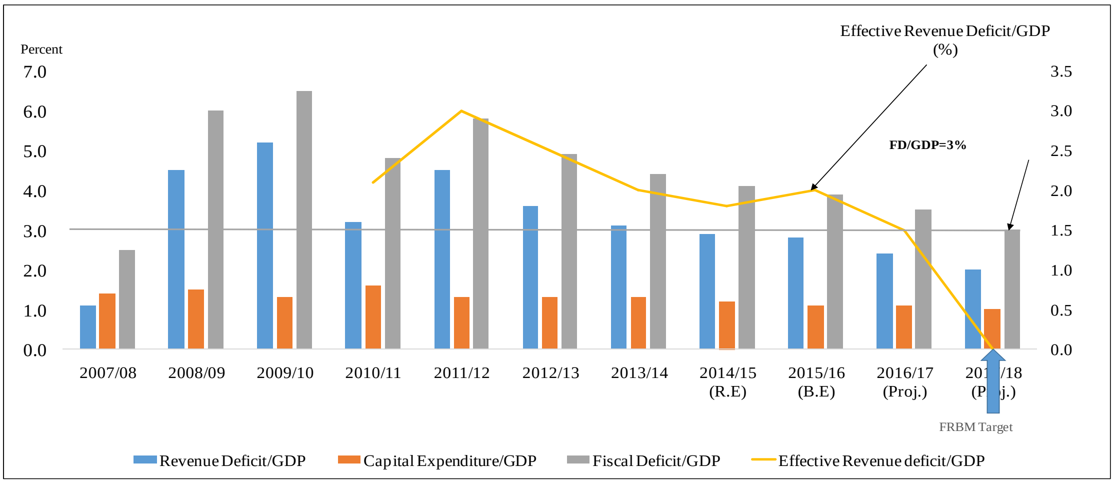
In India, the central government transfers resources to the states and the local governments through tax devolution *(share of central taxes to states)* recommended by the Finance Commission, Plan grants *(to states by way of Centrally Sponsored Schemes, Plan assistance in the form of Block Grants, and additional central assistance*), and Non-plan[3] grants (*to states and local governments)* as recommended by the Central Finance Commission (CFC).

Central Government and the Award of the Fourteenth Finance Commission

The recommendations of 14th Central Finance Commission in 2015 brought ground-breaking changes in intergovernmental finances in the country. The aggregate central transfers to states as a share of GDP (Gross Domestic Product) have increased from 5.4 percent in 2014-15 to 6.0 percent in 2015-16 (Zahir, 2016). The tax devolution has increased from 2.7 percent in 2014-15 to 3.7 percent of GDP in 2015-16. Part of the increase has been offset by a decline in plan grants from 2.1 percent of GDP in 2014-15 to 1.5 percent of GDP in 2015-16. The share of non-plan grants to states has increased from 0.6 percent in 2014-15 to 0.8 percent of GDP in 2015-16.

While the 14th CFC award is not revenue neutral, the central government has been able to contain the fiscal deficit to 3.9 percent of GDP in 2015-16. The declining Centrally Sponsored Schemes transfers have offset some of the impact of increase in shared tax revenues with state governments. The central government's total expenditure is projected to decline from 13.3 percent of GDP in 2014-15 to 12.6 percent in 2015-16 (budget estimate), attributable to a sharp decline in central assistance to state plans recommended by the 14th CFC. The fiscal deficit of the central government is projected to decline from 4.1 percent of GDP in 2014-15 to 3.9 percent in 2015-16[4]. The central government has also recalibrated the Fiscal Responsibility and Budget Management (FRBM) targets to reach a fiscal deficit of 3 percent of GDP in 2017-18, as shown in Figure 1.

Figure 1: Deficit Indicators and Achievement of FRBM during 14th CFC Period



* Revenue Deficit refers to Current Deficit

Source: Government of India, Budget Document 2015-16.

Centrally Sponsored Schemes

The 14th CFC proposed to restructure Centrally Sponsored Schemes (CSSs) to adjust the central government fiscal imbalance. Previously, central government grants to states included capital expenditure accounted solely as recurrent expenditures, which contributed to widening the central government current (revenue) deficit. The FC proposed a structural change progressively reducing the funding of these CSSs to address this question[5]. As illustrated in Table 1, these CSSs or specific purpose grants have been classified in the 2015-16 budget as (i) schemes to be fully financed by the centre; (ii) schemes with an altered sharing pattern between the centre and states; and (iii) schemes that are completely delinked from central support[6].

The restructuring of CSSs also provides a clear message that states are fully responsible for sectors under their constitutional mandate. The central government will have responsibility for financing and implementing plan schemes/CSSs that are of national priority with constitutional obligation and hence protected from the change. While CSSs fully financed by the central government are projected to grow by 12 percent between 2014-15 and 2015-16, CSSs with shared financing (central and state governments) would decline by 21 percent for the same period, as shown in Table 1. In overall terms, the centre would be saving an estimated Rs. 27,100 crores (0.2% of GDP) in 2015-16 by restructuring CSSs.

There is an ongoing debate in India about the likely impact of these changes on schemes such as Sarva Shiksha Abhiyan (SSA; education for all), Mid-Day Meal (MDM), Integrated Child Development Scheme (ICDS), and Pradhan Mantri Awas Yojana (PMAY), which may suffer substantial cuts from the centre and would require matching funding from the states. The changes recommended by the 14th CFC have raised concerns about the reduced spending from the centre on social sector programmes and the ability and willingness of states to finance key social sector programmes under these schemes.

Table 1: Changes in the Financing Pattern of Central Schemes (Rs. Crore)

Type of Schemes	2014-15 (RE)	2015-16 (BE)	% Change over the years
A. Schemes Fully Supported	105815	118592	**12.1**
MGNREGA	32456	33700	3.8
Prarambhik Shiksha Kosh	22249	27575	23.9
Additional Assistance for Externally Aided projects	11900	12500	5.0
Pradhan Mantri Gram Sadak Yojana	6471	5483	-15.3
National Social Assistance Programme	7236	9074	25.4
Others	25502	30260	18.7
B. Schemes with Changed Pattern	100339	79780	**-20.5**
Rashtriya Krishi Vikas Yojana	8444	4500	-46.7
Irrigation benefit (Pradhan Mantri Krishi Sinchai Yojna)	30	1800	-
Swachh Bharat Abhiyan	11942	6005	-49.7
National Health Mission	17628	18295	3.8
Mid Day Meal and Sarva Shiksha Abhiyaan	13051	3525	-73.0
Housing-Rural Indira Awaas Yojana	10990	10004	-9.0
Sardar Patel Urban Housing	0	4000	-
Urban Rejuvenation	2431	6000	146.8
Integrated Child Development Service	16520	8246	-50.1
Others	19303	17405	-9.8
C. Schemes Delinked	6590	0	-
Total (B+C)	212744	198371	**-25.4**
13th Central Finance Commission Grants	106929	79780	-

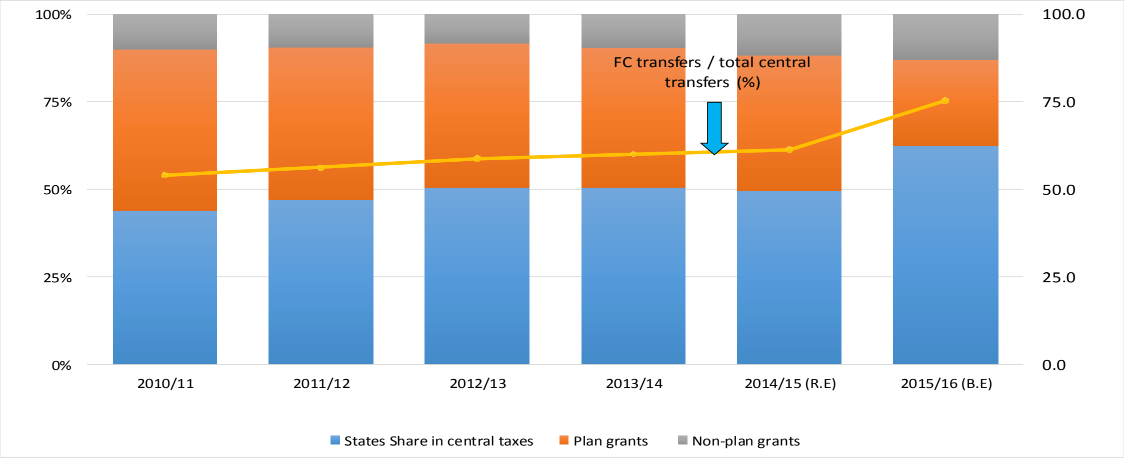
Note: RE – Revised Estimates; BE – Budget Estimates

Source: Government of India, Expenditure Budget Vol.1, 2015-2016, Annexure-8, p.204-206

Implications of 14th CFC on States

States will have greater fiscal autonomy with an additional US$ 30 billion in untied funds compared to 2014-15 as a result of the 14th CFC recommendations. While states received a substantially higher share of the tax devolution, as shown in Figure 2, the amount of plan grants is reduced, particularly for block grants and additional central assistance. This implies shifting the focus of central transfers from "conditional/plan transfers" towards large "unconditional transfers". Estimates show that the net impact is positive for all states with variations among states.

Figure 2: Share of Different Transfers to States in Total Transfers (in %)



Note: FC transfers refer to the tax devolution and non-plan grants

Source: Government of India Budget, 2015-16.

While all states stand to gain in absolute terms due to greater devolution, the sharing pattern among states has been affected by the change in horizontal formula.[7] The 14th CFC transfers have a more favorable impact on the states that are relatively less developed and having low per capita income such as Madhya Pradesh, Odisha, Uttar Pradesh, Bihar, Chhattisgarh, Jharkhand and West Bengal. In all these states, the benefits of 14th CFC transfers[7] are in the range of 3 to 5 percent of state income and the ratio of benefits to states' own tax revenues is also high, with a substantial increase in the spending capacities of these states. With the increased allocation, state governments are expected to play an important role in helping local bodies build their capacity to absorb and manage funds in a more systematic manner.

The State Finance Commission (SFC) is the constitutional counterpart of the Central Finance Commission at the state level. They are entrusted with recommending the state's approach on determining the requirements of local body finances within their respective states. Unfortunately, many states do not constitute SFCs on a regular basis. In other cases, SFC recommendations have not been accepted. The 14th CFC recommendations include timely constitution of SFCs, proper administrative support and adequate resources for smooth functioning, and timely placement of SFC reports before state legislatures with action taken reports. The success of the 14th Finance Commission rests a lot on the willingness of states, and Karnataka being a pioneer in decentralization can be a leader in showing the way to the rest of India. The paper in this context alludes to the current structure and powers of the Panchayat Raj Institutions in Karnataka, the financial position of the PRIs, their revenue raising capacity and spending responsibilities, and the role of various State Finance Commissions in charting the history of Karnataka's efforts in devolution.

Devolution of Funds, Functions and Functionaries in Karnataka

Karnataka adopted a three-tier Panchayat structure as per the 73rd Constitution Amendment Act -- Grama Panchayat (GP) at the village level, Taluk Panchayat (TP) at the intermediate (taluk) level, and

Zilla Panchayat (ZP) at the district level -- through enactment of the Karnataka Panchayat Raj (KPR) Act in 1993. The KPR Act was further amended in 2003 to create community assemblies (Ward Sabhas) and later in 2010 to create the Panchayat Ombudsmen at the district level and the positions of Panchayat Development Officer and Secretary in every GP. The KPR Act (Amendment 2016) strengthens bottom-up planning with Grama Panchayats and Grama Sabhas playing a greater role in delivery of better services to the rural people. At present there are 5,627 GPs, 176 TPs, and 30 ZPs in the state. On an average, a GP serves 6,600 people, a TP 2,13,000 and an ZP 12,49,000. The chairpersons of these governments have been accorded the power to take decisions relating to resource allocation, preparing development plans, and supervising/monitoring implementation of plans.

The state has deputed nearly 3.43 lakh personnel (staff) from various departments to serve in the PRIs (Government of Karnataka, 2010). This excludes the staff appointed by GPs on *ad hoc* (temporary) basis such as Bill (tax) Collector, Watermen (drinking water distributers), Attenders, and Sweepers. At present their number is estimated at 51,673. As the number of schemes under GPs increased, including the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), the state government upgraded the earlier Secretary position to Deputy Tahsildar grade with the designation of Panchayat Development Officer (PDO). Similarly, provision has been made to create Accounts Assistant posts in each GP for better management of finances. The PDOs are yet to be posted to some GPs. Similarly, Accounts Assistants are yet to be provided to some GPs.

The state has transferred a large number of schemes to PRIs as indicated under the 11th Schedule of Indian Constitution. In the initial period, there were 435 plan and 230 non-plan schemes, totalling 665 in about 25 sectors. This number is not only huge but also contained small and unviable schemes, creating crowding out effects while formulating plans by PRIs. In order to give the panchayats greater flexibility to prioritise their needs, the state undertook rationalisation (activity mapping) of schemes in the year 2003-04. This resulted in the reduction of schemes to 434 from the earlier 665. The number of schemes entrusted to PRIs before and after the rationalisation exercise is presented in Table 2.

Table 2: Number of Schemes Entrusted to PRIs in Karnataka Before and After 2006-07

Panchayat Tier	Plan Schemes	Non-plan Schemes	Total Schemes
Before Rationalisation			
Zilla Panchayat	300	188	488
Taluk Panchayat	131	42	173
Grama Panchayat	4	0	4
Total of Three-tiers	435	230	665
After Rationalisation			
Zilla Panchayat	212	87	299
Taluk Panchayat	72	32	104
Grama Panchayat	30	1	31
Total of Three-tiers	314	120	434

Source: Rural Development and Panchayat Raj Department, no date, 'Panchayat Raj Institutions in Karnataka: Empowering Villages', Government of Karnataka.

It can be seen from Table 2 that before rationalisation, the number of development schemes entrusted to GPs was very small, i.e. only four. However, after rationalisation, about 30 plan schemes have been entrusted to them. Some of the schemes relate to productive activities such as watershed, soil conservation, and SGRY/MGNREGS. Though a large number of development and service oriented schemes has been transferred to GPs, they still do not have much control over many of them.

Fiscal Position of PRIs in Karnataka

The PRIs have tax and non-tax powers to generate own resources along with grants-in-aid from the higher level governments. If the panchayats have their own resources, they will be in a position to decide their priorities and needs and spend accordingly. In the absence of this, the panchayats not only lose their independent decision-making power on expenditures but also face severe fiscal imbalances. In Karnataka, it may be noted that except GPs no other tier enjoys taxation powers. The important tax sources assigned to GPs include house/building tax, vacant land (non-agricultural land) tax, vehicle tax (other than those run by engine), entertainment tax (other than cinema houses), tax on advertisements and hoardings, tax on factories (industries), water rate, street light cess, and other cesses. Non-tax sources form another important revenue stream for the PRIs. Non-tax revenue consists of rent from buildings, sale of assets, auction of trees and fruits, sale of garbage, manure, etc. In Karnataka, all the three tiers of the panchayats have been vested with powers to collect non-tax revenue from their own properties and assets. They can also utilise the same for their own needs. However, they have no power to utilise the user fee and charges they collect from various departments, and these have to be credited to the Consolidated Fund of the state. In Karnataka, the Panchayat Raj Act, 1993 empowers all the three tiers to raise loans for development purposes (Government of Karnataka, 1993). Further, the state does not share individual taxes/duties with PRIs (except the surcharge on stamp duty with TPs and local cess on land revenue with GPs). It may be noted that the state does not levy the local cess and hence there is no question of devolving the same to GPs.

The main source of revenues for PRIs in the state comes from transferred resources in the form of grants from the upper levels of government. Broadly, the grants come from the state and the centre. The state government provides grants under plan and non-plan heads[8]. The central government transfers comprise specific and matching plan grants (Planning Commission and various Ministries/Departments till 2014) and non-plan grants on the basis of CFC recommendations. This makes it clear that the two higher level panchayats in the state have no taxation powers, and they entirely depend upon transfers in the form of grants from the state and the centre. The type and extent of grants received by PRIs are discussed in the following paragraphs.

As noted earlier, except GPs the other tiers depend mainly on transferred grants. Even if one includes the own revenue of GPs in the total resources of PRIs, it would constitute a negligible share. Table 3 provides information on the combined transfers (state and centre) made to the PRIs by Karnataka over the years. The total grants (plan and non-plan) of state, centre and CFC devolved to PRIs came to Rs. 4,828.2 crore during 2001-02 and this increased to Rs. 29,558.3 crore in 2016-17, nearly a six-fold increase over a span of sixteen years. However, over the sixteen-year period, the share of GPs increased from a low of 6.4 percent to 16.1 percent in 2016-17. This also shows that while the

Zilla and the Taluk Panchayats received a substantial amount of resources from the centre and the state, the Grama Panchayats, despite being the principal service delivery channels, had a meagre share in the transferred resources. This perhaps became one of the compelling reasons for the 14th CFC to provide direct block grants to Grama Panchayats bypassing both the well-funded district and block levels. This also points to a more conscious shift away from centrally sponsored schemes largely managed at the district level to more untied transfers in the hands of the village panchayats.

Table 3: Estimated Transfers (Plan and Non-plan Grants) to PRIs in Karnataka (Rs. Crore)

Year	Zilla Panchayats	Taluk Panchayats	Grama Panchayats	Total of all Tiers
2001-02	1843.3	2672.7	312.2	4828.2
%	38.1	55.3	6.4	100.0
2005-06	2437.9	3439.8	964.9	6842.6
%	35.6	50.2	14.1	100.0
2006-07	2872.8	3934.1	2130.7	8937.6
%	32.1	44.0	23.8	100.0
2007-08	3421.9	4848	1481.9	9751.8
%	35.0	49.7	15.2	100.0
2008-09	4700.3	5869.7	1438.0	12008.0
%	39.1	48.8	11.9	100.0
2009-10	4841.6	6235	1330.2	12406.8
%	39.0	50.2	10.7	100.0
2010-11	5227.1	7022.8	1214.9	13464.8
%	38.8	52.1	9.0	100.0
2011-12	6430.5	8193.3	1478.9	16102.7
%	39.9	50.8	9.1	100.0
2012-13	7971	9521.7	2083.3	19576
%	40.7	48.6	10.6	100.0
2013-14	9119.5	11579.0	1929.9	22628.4
%	40.3	51.1	8.5	100.0
2014-15	9657.6	13759.7	2925.6	26342.9
%	36.7	52.2	11.1	100.0
2015-16	9568.1	14001.7	3006.0	26575.8
%	36.0	52.7	11.3	100.0
2016-17	9633.1	15177.6	4747.6	29558.3
%	32.6	51.3	16.1	100.0

Source: Government of Karnataka, 'Budget Allotment for Zilla Panchayat – Plan & Non-Plan' 2001-02 to 2016-17 (Link Documents).

It is to be noted here that the share of non-plan grants (largely wages and salaries, fixed costs) in the total grants is higher than that of plan grants (more loosely the development grants). Their ratio is around 60:40. Among the three tiers, the share of non-plan grants of TPs was very high at 65.0 percent in 2013-14. This is because they have high commitments in the education (teachers' salaries), health, and social welfare sectors (students' hostels and scholarships). Since there is not much commitment at the GP level with regard to non-plan expenditure, their share in the total compared to districts and the blocks is lower (Table 4). The GPs do get non-plan grants since 2007-08 and this largely comprises the CFCs grants given for provision/maintenance of basic services. This shows that there is only partial devolution of functionaries to the lowest tier, that the employees of the line departments belong to the state and that their salaries are being paid from the non-plan grants of ZPs/TPs.

Table 4: Share of Plan and Non-plan Grants of different Tiers of Panchayats in Karnataka (%)

Year	Zilla Panchayats			Taluk Panchayats			Grama Panchayats			All Panchayats		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
2001-02	39.3	60.6	100.0	29.8	70.1	100.0	100.0	0.0	100.0	37.9	62.0	100.0
2005-06	47.2	52.7	100.0	22.2	77.8	100.0	100.0	0.0	100.0	42.0	57.9	100.0
2006-07	43.6	56.3	100.0	24.8	75.2	100.0	100.0	0.0	100.0	48.7	51.2	100.0
2007-08	41.9	58.0	100.0	16.0	83.9	100.0	91.4	8.5	100.0	36.6	63.3	100.0
2008-09	49.5	50.4	100.0	13.2	86.7	100.0	91.1	8.8	100.0	36.8	63.1	100.0
2009-10	51.7	48.2	100.0	16.9	83.0	100.0	90.0	9.9	100.0	38.3	61.6	100.0
2010-11	50.0	49.9	100.0	16.7	83.2	100.0	88.9	11.0	100.0	36.1	63.8	100.0
2011-12	52.8	47.1	100.0	18.3	81.6	100.0	76.9	23.0	100.0	37.5	62.4	100.0
2012-13	56.1	43.8	100.0	20.2	79.7	100.0	67.7	32.2	100.0	39.8	60.1	100.0
2013-14	56.5	43.4	100.0	22.7	77.2	100.0	58.6	41.4	100.0	39.4	60.5	100.0
2014-15	52.1	46.6	100.0	24.4	75.5	100.0	67.7	32.2	100.0	39.8	60.2	100.0
2015-16	56.4	43.5	100.0	26.3	73.7	100.0	74.8	25.2	100.0	42.6	57.4	100.0
2016-17	56..2	43.8	100.0.	28.4	71.6	100.0	58.6	41.4	100.0	42.3	57.7	100.0

Source: Basic Data - Government of Karnataka, 'Budget Allotment for Zilla Panchayat – Plan & Non-Plan' 2001-02 to 2016-17 (Link Documents), Government of Karnataka.

Availability of Resources

Broadly, the resource availability to any elected government is gauged in absolute terms. But it does not reveal whether it is keeping pace with the population growth (need based). Hence, the per capita measure is applied to see whether the resources available are keeping pace with the population. The information on the per capita position with regard to government transfers (grants) to PRIs is presented in Table 5. It can be seen from the table that the per capita plan grants available to all the panchayats in the state during 2001-02 was Rs. 526, which increased to Rs. 3,206 in 2016-17. The grants transferred to PRIs had been increasing steadily over the years except during 2007-08 and 2008-09. On the other hand, the total grants (plan and non-plan) devolved is showing an increase year after year. In a nutshell, per capita grants have increased in the last 13 years and increasing amounts of resources (although the increase is not commensurate with the state income) have been transferred to the third tier by Karnataka. However, it needs to be noted that the grants have largely funded wages and salaries of the staff and not enough attention has been accorded to non-wage operation and maintenance of assets. As a result, the conditions at the village level in terms of services provision leave a lot to be desired.

Table 5: Per Capita Grants of PRIs in Karnataka (in Rs.)

Year	Plan Grants				Total Plan and Non-plan Grants			
	ZP	TP	GP	Total	ZP	TP	GP	Total
2001-02	208	228	89	526	528	766	89	1384
2005-06	321	213	269	802	679	958	269	1906
2006-07	347	270	589	1206	795	1088	589	2472
2007-08	395	214	372	981	940	1331	407	2678
2008-09	635	213	357	1205	1282	1600	392	3274
2009-10	678	287	324	1289	1311	1688	360	3359
2010-11	703	316	290	1309	1405	1888	327	3619
2011-12	907	401	304	1612	1716	2187	395	4298
2012-13	1185	510	374	2069	2112	2523	552	5187
2013-14	1358	692	298	2347	2399	3046	508	5954
2014-15	1337	875	516	2728	2513	3581	761	6856
2015-16	1395	950	581	2925	2471	3616	776	6863
2016-17	1387	1106	713	3206	2468	3889	1217	7574

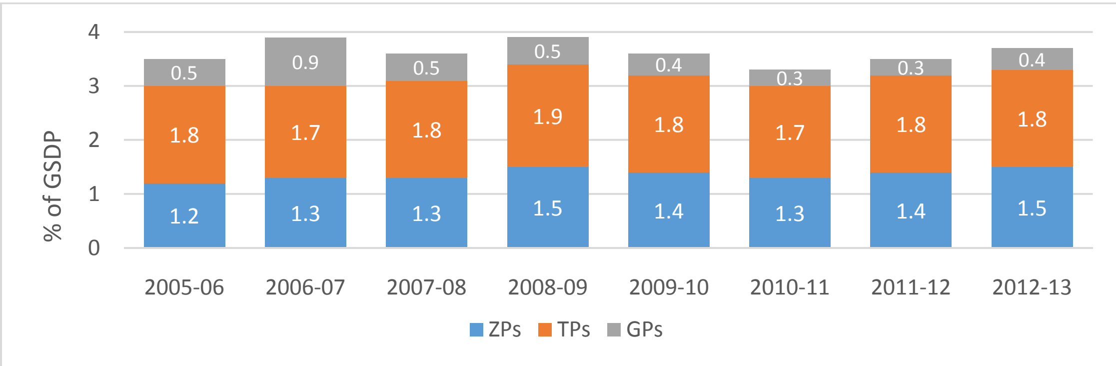
Note: Projected rural population is used from 2005-06 to 2010-11 keeping 2001 Census data and from 2012-13 to 2016-17 based on 2011 Census data

Source: 1) Government of Karnataka, 'Budget Allotment for Zilla Panchayat – Plan & Non-Plan' 2001-02 to 2016-17 (Link Documents), Government of Karnataka

2) Population Census 2001 and 2011, Government of India

Another measure, i.e. the ratio of resource transfers to gross state domestic product (GSDP), also unveils the degree of fiscal decentralisation achieved at the sub-state level. It can be seen from Figure 3 that in 2005-06 the total grants devolved to PRIs as against GSDP was 3.5 percent. In the year 2012-13 it was 3.7 percent. Except during 2006-07 and 2008-09, the share almost remained same at around 3.5 percent. Among the three tiers, the share of GPs as a percent of GSDP was low during the reference period. The highest ratio of 0.9 percent was observed during 2006-07. The trends reveal that a rise in the states' income had not proportionately increased the transfers to PRIs.

Figure 3: PRIs' Grants as Percent of GSDP in Karnataka



Source: Government of Karnataka, 'Budget Allotment for Zilla Panchayat – Plan & Non-Plan' 2001-02 to 2016-17 (Link Documents), Government of Karnataka

Share of PRIs in the State Plan Outlays

As noted earlier, the state has been transferring grants under plan and non-plan heads. Plan grants in general are meant for developmental activities or, in other words, creation of new assets. Hence, it is important to look at the trends over the years. The plan grants provided to PRIs consist of state and central share. The allocation of plan grants to PRIs from the state plan outlay is given in Table 6. It can be seen from the table that the share of PRIs in the state's total plan outlay during 2005-06 was about 20 percent and in the subsequent years it declined. During 2016-17, it stood at 15 percent. Two important observations could be made from the Table. First, of the total share of three-tier panchayats, the state portion on average accounted for 60 percent and centre's 40 percent. Second, of the total central plan grants to the state a large share was being transferred to PRIs. In other words, most of the central government's poverty alleviation and rural development programmes were transferred to PRIs for implementation along with funds.

Table 6: Share of PRIs in State Plan Outlay in Karnataka (Rs. Crore)

Year	State Plan Outlay			Share of PRIs in the State Plan Outlay			% of PRI Share in the State Plan Outlay		
	State	Centre	Total	State	Centre	Total	State	Centre	Total
2005-06	13555	1054	14609	1992	877	2869	15	83	20
2006-07	16166	1640	17806	2176	1256	3432	13	77	19
2007-08	17783	2749	20532	2241	1330	3571	13	48	17
2008-09	25953	2246	28199	2632	1785	4417	10	79	16
2009-10	29500	2931	32431	2880	1857	4737	10	63	15
2010-11	31000	2764	33764	3010	1860	4870	10	67	14
2011-12	38070	2802	40872	3726	2316	6042	10	83	15
2012-13	39764	3208	42972	4055	3754	7809	10	48	16
2013-14	48450	7243	55693	4841	4080	8921	10	40	15
2014-15	61844	1143	62987	9676	804	10480	16	70	17
2015-16	71054	838	71892	10776	552	11328	15	66	16
2016-17	85375	855	86230	11945	567	12512	14	66	15

Source: Economic Survey, 2017-18, Government of Karnataka

Sectoral Share across Three-Tiers

Karnataka is among a very few states which have devolved to PRIs (divided between the three-tier panchayats) a large number of programmes/schemes coming under the 29 subjects listed in the Eleventh Schedule of the Indian Constitution. The allocation of plan grants for different sectors under the PRI structure in Karnataka is provided in Table 7. It can be seen from the table that a large percentage goes to a few sectors at each tier of the Panchayat. For instance, in 2016-17 at the ZP level about 82 percent went to three sectors, namely education, health and rural employment and development. At the TP (block) level, about 92 percent went to social welfare and education. At the GP level, the bulk of the grants (87 per cent) was allocated to three schemes – housing, drinking water supply and others (basic amenities). For a large number of sectors/schemes, the allocations constituted less than 1 percent, particularly at TP and ZP levels, raising the need for taking up a detailed public expenditure review and matching resources with state priorities. Sectorally, at the local level, there is very little one sees in terms of priority-setting in the overall macro-economic framework. Such prioritisation can be triggered at the local level through Fiscal Responsibility Legislation and Medium Term Frameworks. The time has come for a pioneer like Karnataka to think proactively in introducing structural reforms at the local level, and consider revenue augmentation and durable expenditure policies in order to make a sustained impact on overall economic development and inclusive growth.

Table 7: Broad Sectoral Share of Plan Grants of Panchayats in Karnataka (%)

Sectors	2000-01			2016-17		
	ZPs	TPs	GPs	ZPs	TPs	GPs
Primary, Secondary & Adult Education	3.38	45.53	0.00	39.58	36.03	0.21
Public Health & Maternity Welfare	16.82	0.66	0.00	13.18	0.22	0.00
Rural Water Supply	19.39	1.08	10.40	0.00	0.00	22.49
Social Welfare	9.10	33.88	0.00	9.62	55.88	0.15
Agriculture	8.59	3.23	0.00	2.64	3.45	0.03
Rural Employment & Development	37.02	15.07	89.60	29.05	0.00	12.97
Small Scale and Handloom Industry	1.43	0.08	0.00	0.34	0.11	0.00
Roads and Bridges	4.24	0.47	0.00	2.70	0.14	0.00
Housing	-	-	-	0.00	0.00	41.21
Others	0.03	0.00	0.00	2.88	4.26	22.92

Source: Basic data - Government of Karnataka, ‘Budget Allotment for Zilla Panchayat – Plan and Non-Plan’ 2001-02 to 2016-17 (Link Documents), Government of Karnataka.

Revenue and Expenditure of PRIs

The information mentioned on the transfers made to PRIs is estimated allocations and does not reveal the actual transfers. Hence, the following paragraphs bring out the actual position of receipts and expenditure for the three-tier panchayats in the state. A word on the data used in this section. One, the information furnished is not a total for all panchayats; Two, data availability is only up to 2010-11 and 2011-12.

Revenue and Expenditure of Zilla Panchayats

The information on the aggregate receipts and expenditures of ZPs in the state is given in Table 8. It can be seen from the table that the actual receipts (grants) vary from that of estimated allocations. In some years, the actual receipts are more than the allocations and in some years it is the opposite. On an average, total receipts for a ZP during 2011-12 were Rs. 197.6 crore. The table gives information on the actual expenditure of ZPs. The point to note here is that the expenditures are less than the receipts in all but one year (2010-11). The expenditure during this year marginally exceeded receipts under the non-plan head.

Table 8: Actual Receipts and Expenditure of 28 ZPs in Karnataka (Rs. Crore)

Year	Receipts			Expenditure		
	Non-plan	Plan	Total	Non-plan	Plan	Total
2009-10	2317.3	1748.6	4065.9	2096.0	1566.8	3662.8
Average per ZP	82.7	62.4	145.2	74.8	55.9	130.8
2010-11	2489.1	3001.6	5490.7	2635.7	2866.7	5502.4
Average per ZP	88.8	107.2	196.0	94.1	102.3	196.5
2011-12	2939.5	2593.3	5532.9	2543.8	1979.8	4523.7
Average per ZP	104.9	92.6	197.6	90.8	70.7	161.5

Source: Basic data – Decentralisation Analysis Cell, Rural Development and Panchayat Raj Department (RDPRD), Government of Karnataka.

The sector-wise receipts of 22 ZPs (Appendix Table 1) reveal that the largest share is taken by general education (25.6%). This is followed by public health 8.0 percent, roads and bridges 4.9 percent, other social services 4.2 percent, family welfare 3.5 percent, crop husbandry 3.5 percent, and welfare of SCs/STs 2.7 percent. The share of all these seven sectors/activities account for about 50 percent of the total receipts. Coming to the expenditure, the sector-wise information is provided in Appendix Tables 2 and 3. In terms of priorities, general education has received the highest share (25.0%). This is followed by public health (8.0%), welfare of SCs/STs/OBCs (7.7%), roads and bridges (5.1%), family welfare (3.0%), and crop husbandry (2.2%). Of the total expenditure, the share of capital expenditure is very negligible.

Revenues and Expenditure of Taluk Panchayats

The information pertaining to actual receipts and expenditure of TPs is given in Table 9. It can be seen from the table that the average receipts per TP during 2005-06 was Rs. 1,928.4 lakhs and this increased to Rs. 4,542.0 lakhs during 2010-11. The average per year per TP was Rs. 3,242.8 lakhs. On an average, total expenditure per TP/per year was Rs. 2,881.0 lakhs. Revenue account expenditure far exceeded capital account expenditure. In other words, the share of capital expenditure in the total expenditure was very negligible. It may be seen from the table that the expenditure was less than receipts in all the years.

Table 9: Receipts and Expenditure of TPs (average per TP) (Rs. lakhs)

Receipts/Expenditure	2005-06	2006-07	2008-09	2009-10	2010-11	Average per year
	92 TPs	108 TPs	130 TPs	133 TPs	147 TPs	
Total Income/Receipts	1928.4	2357.0	3421.1	3965.4	4542.0	3242.8
Expenditure						
Revenue Exp.	1803.9	2077.8	3001.5	3573.3	3941.3	2879.5
Capital Exp.	0.9	1.0	0.7	0.7	3.6	1.4
Total Expenditure	1804.8	2078.8	3002.2	3574.1	3945.0	2881.0
% of Exp. to total Receipts	93.5	88.1	87.7	90.1	86.8	88.8

Source: Basic data – Decentralisation Analysis Cell, RDPRD, Government of Karnataka.

Revenue and Expenditure of Grama Panchayats

Unlike ZPs and TPs, the GPs in Karnataka have been bestowed with taxation powers. In other words, the GPs have revenue raising powers from tax and non-tax sources. In this, there is fiscal autonomy to a certain extent at the GP level. The information on actual receipts and expenditure of GPs in Karnataka is provided in Table 10. It may be seen from the table that on an average the receipts/income of a GP came to Rs. 20.3 lakhs during 2005-06. It rose to Rs. 88.8 lakhs in 2010-11. This increase was mainly due to MGNREGS grants. Of the total receipts, a large share (nearly 75%) came from grants by higher level governments. The share of own source revenue accounted for about 8 percent in recent years.

Showing a trend similar to receipts, the average expenditure per GP during 2005-06 was Rs. 15.5 lakhs, which rose to Rs. 63.5 lakhs in the year 2010-11. The unspent amount or closing balance had been increasing over the years. It stood at Rs. 25.2 lakhs during 2010-11.

Table 10: Actual Receipts and Expenditure of GPs (average per GP) (Rs. lakhs)

Year	Opening Balance	Grants	Own Revenue	Total Revenue	Total Expenditure	Closing Balance
2005-06	1.9	15.6	2.6	20.3	15.5	4.7
%	9.7	76.9	13.2	100.0		
2006-07	4.5	26.7	3.5	34.9	25.9	8.9
%	13.1	76.6	10.2	100.0		
2007-08	8.6	29.6	3.8	42.1	32.2	9.9
%	20.4	70.4	9.1	100.0		
2008-09	9.5	36.7	4.3	50.6	36.7	13.8
%	18.8	72.6	8.4	100.0		
2009-10	15.3	82.9	5.7	104.0	75.2	28.8
%	14.7	79.7	5.5	100.0		
2010-11	15.9	65.5	7.3	88.8	63.5	25.2
%	17.9	73.7	8.3	100.0		

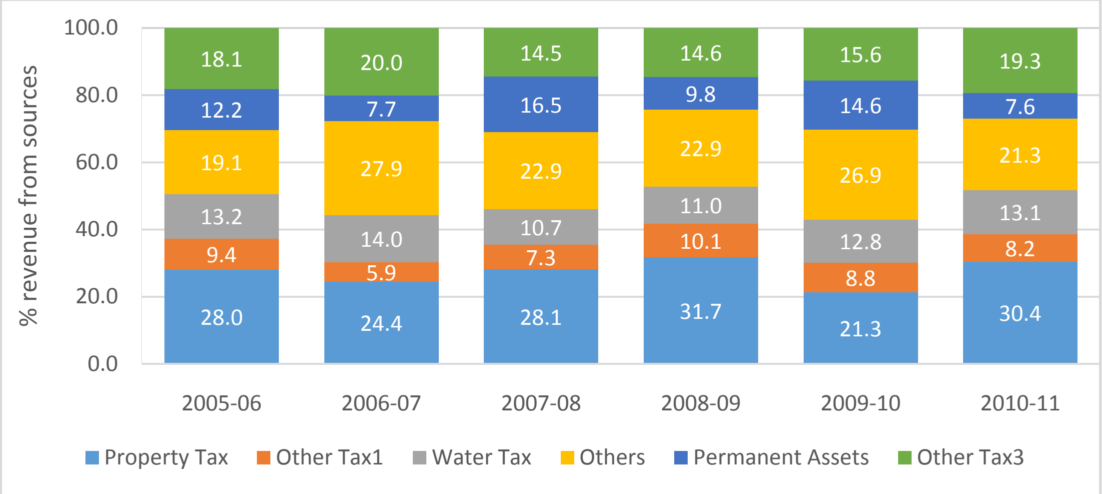
Source: Basic data – Decentralisation Analysis Cell, RDPRD, Government of Karnataka.

Own Revenues of Grama Panchayats

As brought out earlier, the GPs in Karnataka have been bestowed with tax and non-tax sources. It is important here to review the extent of revenue yield from different sources for the GPs in the state. Of their total receipts, own revenue (tax and non-tax) accounted for about 8 percent. A study on the finances of GPs in Karnataka brings out that the share of own revenue during 2008-09 was 10.41 percent (CBPS, 2013). An earlier study (Rao *et al*, 2002) puts this figure at 22 percent in the year 2000-01. The probable reason for the low percentage share of own revenue at present is the larger grants accruing for MGNREGS.

Again, the yield of revenue varies across sources. The details concerning the contribution of various sources are presented in Figure 4. It can be seen from the figure that property/building tax is the major source of revenue among various sources. Of the total own revenue, the share of property tax on an average came to 30 percent. The other major sources were water tax, licence fee, etc.

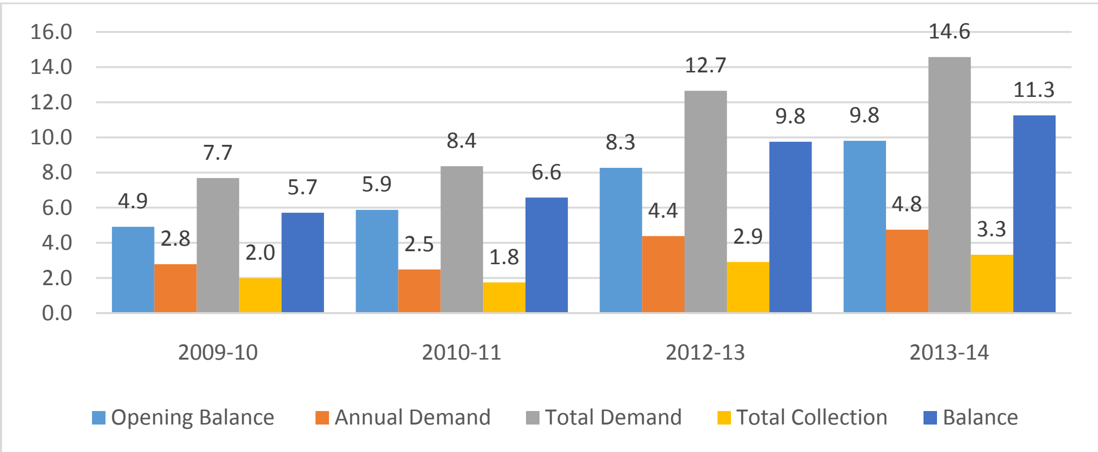
Figure 4: Source-wise Yield of Revenue[9] of Grama Panchayats in Karnataka (%)



Source: Basic data – Decentralisation Analysis Cell, RDPRD, Government of Karnataka.

Another equally important fiscal aspect of GPs is the extent of efforts made to mobilise revenue from the assigned tax sources. The information on tax demand and actual collection is given in Figure 5. It may be seen from the figure that the gap between tax demand and actual tax collection has been increasing over the years. The collection of taxes as against the total demand (current year + arrears) ranged between 21 and 25 percent from 2009-10 to 2013-14. This is a matter for concern.

Figure 5: Details of Tax Demand and Actual Collection by Grama Panchayats (average per GP) (Rs. lakhs)



Source: Basic data – Decentralisation Analysis Cell, RDPRD, Government of Karnataka.

As brought out above, there is laxity among GPs in Karnataka in mobilising own resources. The major reasons for this are: lack of knowledge on financial aspects, low capacities of functionaries, and large share of grants in total revenues. The efforts made in capacity building of functionaries, particularly on budget, accounts maintenance and audit have not yielded desired results. A majority of the personnel heading GPs are locally appointed and not competent to manage the affairs of GPs. There is need to adopt a system where knowledgeable and competent persons are recruited for administration of GPs. Capacity building programme for functionaries should be taken seriously and on a continuous basis by the authorities. Besides, there should be some incentive scheme (matching grant) built into the grant design to encourage the GPs to put in more efforts to mobilise more revenue from their own sources.

Tax Collection Costs

As there is laxity in tax mobilisation by GPs in spite of having so many revenue sources and personnel (Bill Collector) exclusively for collection purposes, the question that arises here is whether the cost of tax collection is a burden for the GPs. The information given in Table 11 provides an answer to this question. It may be noted from the table that the revenue collection, as well as the salary of the tax collector, has been increasing over the years. The percent of tax collection cost has been declining over the years. It was 18.54 percent during 2005-06 and in 2010-11 it stood at 8.7 percent, which is a good trend. However, as brought out earlier, the Bill Collector of a GP is not a permanent employee. It is an *ad hoc* appointment with minimum wages. Further, there are no incentives and no social security benefit of any kind. The PDO/Secretary of the GP extracts all kinds of work from the Bill Collector. The Bill Collector is a local person and usually known to the families residing in the jurisdiction of GP. This familiarity doesn't allow the personnel to exercise their full powers in the collection of house and other taxes.

Table 11: Cost of Tax Collection at the Grama Panchayat Level

Year	Average Own Revenue per GP per Annum (in Rs.)	Salary of Bill Collector per Year per Annum (in Rs.)	Cost of Revenue Collection (%)
2005-06	269435	49964	18.5
2006-07	358176	52593	14.6
2007-08	387276	55361	14.3
2008-09	429746	58275	13.5
2009-10	575993	61342	10.6
2010-11	737423	64571	8.7

Source: Basic data – Decentralisation Analysis Cell, RDPRD, Government of Karnataka.

Nature of Grants Provided to PRIs

Since the PRIs in Karnataka largely depend on grants from higher level governments, it may be asked what these grants are. Generally, the grants given to lower level governments are categorised into tied and untied grants. In India the issue of nature of grants at the local government level has become a hot subject in recent years. The proponents of fiscal decentralisation advocate providing untied grants to the decentralised governments so that they will have freedom in spending according to their priorities/needs. In this context, a study of the nature of plan grants devolved to PRIs in Karnataka, over the years, reveals that they are largely tied to programmes/schemes (Government of Karnataka, 1988, 1996: 129-130; Aziz, 1993).

The state Planning Department issues guidelines for grant utilisation by PRIs. The broad guidelines issued are that the panchayats should earmark grants for committed expenditure on salaries, minimum needs programmes, spill-over works, ongoing schemes relating to scholarships, farms, hospitals, the state's share on centrally sponsored schemes etc. Of the total plan grants, the share of centre accounts for about 40 percent. The central government grants are all tied to the central schemes and programmes. The State Finance Commission of Karnataka (1996), recognising the need for untied grants at the hands of PRIs, recommended that 10 percent of the PRI plan outlays be given without conditions. (Government of Karnataka, 1996: 293). The official and non-official members of panchayats in the state also feel the need for free outlay. In fact, elected representatives from time to time exerted pressure on the state government to provide untied grants to them. The government responded, though belatedly, by making a provision for free outlay, called development grant, in the 2001-02 budget. All the three-tier panchayats in the state have been receiving development grants since 2001-02. Besides this, the GPs have been getting statutory grants (untied) from the state since 1993. In 1993, Rs. 1 lakh per annum per GP was the statutory grant and now it has increased to Rs. 10 lakhs for those GPs whose population is less than 8,000 and Rs. 12 lakhs for those GPs whose population is more than 8,000. The state's rough estimate of untied portion of grants at PRIs level during 1988-89 (pre-73rd Amendment period) was to the tune of 14 percent (Table 12).

Table 12: Total ZPs Plan Outlay during 1988-89 (Rs. Crore)

Committed Expenditure	Outlay	Percent
1. Salaries	48.5	20.3
2. State Share on Centrally Sponsored Schemes	76.9	32.1
3. Spill-over works	30.3	12.6
4. Minimum Needs Programmes	30.0	12.5
5. Committed ongoing Schemes	20.0	8.3
6. Balance of Free Outlay (Estimated)	33.9	14.1
Total	**239.6**	**100.0**

Source: Government of Karnataka, 1988, 'District Governments and Decentralised Planning', Government of Karnataka.

In addition to statutory grants to GPs and the development grants to three-tier panchayats, the state government has made a provision to provide additional untied grants to TPs and ZPs from the year 2011-12. (Circular No. SGAP 127 ZPs 2011, dated 25-5-2011). As per this circular, a sum of Rs. 1 crore and Rs. 2 crores is given to each TP and ZP respectively per year. A rough estimate of the untied portion of plan grants to PRIs is given in Table 13.

Table 13: Extent of availability of Untied Grants at different Panchayats Tiers in Karnataka in 2013-14 (Rs. Crores)

Panchayat Tier	Total Plan Grants	Total Share of Untied Grants	% of Untied Grants in the Total Plan Grants
Zilla Panchayats	3785.0	65.4	1.7
Taluk Panchayats	2630.2	183.7	6.9
Grama Panchayats	2506.1	578.3	23.0

Note: In the Link Document, MGNREGS grant is shown under ZP. In the above Table, MGNREGS grant is included under GPs grants.

Source: Computed from Link Documents data.

As brought out above, the PRIs in Karnataka largely depend on transferred grants from higher level governments and again these are tied to the schemes and programmes. Hence, there is little leeway for the local governments to prioritise their needs and incorporate the same in their plans. On the flipside, if a larger share is given as block grants, then there is likelihood of misusing and distorting the priorities (Aziz, 1994; Aziz *et al*, 2000). A balanced approach is required in the grant design. The First SFC recommended 10 percent of the PRIs' total plan grants to be given as untied grants. An amount between 10 to 20 percent could be given as untied grants to PRIs.

PRIs and Borrowings

Borrowings play an important role in development finance. The Karnataka Panchayat Raj Act, 1993 has provided for borrowing by PRIs. In spite of this statutory power, there is no evidence so far of any panchayat in the state having made any attempt to borrow from financial institutions/agencies. Though the Act provides for raising loans by PRIs, the process involved is not so smooth. The panchayats seeking loans have to fulfill two conditions. The first is that any panchayat seeking loan should obtain prior sanction and guarantee from the state government, and the second is that the panchayat concerned should make arrangements to form a 'sinking fund' for timely repayment of the debt. (Government of Karnataka, 1993). Because of these stiff conditions, the panchayats in the state have not made any attempt to raise loans. The experience shows that the functionaries of PRIs have not reached enough maturity in the use of available resources judiciously (such as preparing proper budgets and plans with vision). Hence till that time when the functionaries acquire sufficient knowledge and capacity in the use of resources, the state should not give its consent to this. Further, the state should think of creating an Apex Corporation at the state level to guide, assist, and monitor borrowings and repayments by the local governments (PRIs and ULBs).

SFCs and Panchayat Finances

Article 243 (I) of 73rd Amendment Act mandates every state to constitute a Finance Commission once in five years. The State Finance Commission (SFC) is expected to study PRIs' financial requirements, bestow revenue-raising powers and determine the quantum of grants-in-aid to be given to them. In Karnataka, three SFCs have submitted reports to the government so far. The main recommendations of each of the SFC reports are as under.

SFCs	Recommended share from state revenue	Criteria for inter-se distribution	Government response on the recommended share	Government response on the criteria
1st SFC	30.6 % of NLGORRs	Suggested Criteria	Accepted	Not accepted
2nd SFC	32%of NLGORRs	Suggested Criteria	Accepted	Not accepted
3rd SFC	23% of NLNORRs	Suggested Criteria	Accepted	Not accepted

Note: NLGORRs – Non-Loan Gross Own Revenue Receipts; NLNORRs – Non-Loan Net Own Revenue Receipts

The respective governments in the state accepted a few important recommendations of the SFCs and notable among these was sharing of total revenues of the state with the PRIs. The criteria suggested for vertical and horizontal distribution of PRI grants within the tiers have not been accepted on the ground that it has already tested the criteria on the ground. There is a provision in the 73rd Amendment Act to prepare an Action Taken Report (ATR) on the SFC recommendations and place it in the legislature for discussion and approval. But the experience so far is that the Finance Department prepares the ATR on the recommendations of SFCs and issues the same through orders/circulars rather than place it in the legislature.

Concluding Observations

According to the World Bank (2004) Report, while planning and implementing reforms during the fiscal decentralization process in Karnataka, important lessons were learnt, falling into four broad areas. These four broad areas include: functional assignment; augmenting revenues; intergovernmental transfers; and public spending at local levels. In Karnataka, over the last twenty years much has been done in terms of the four broad areas. Schemes have been consolidated; fiscal and financial data is being captured from the field in real term through *Panchatantra*[9]; a Panchayat Finance report is published annually; at least more than 50 percent of the 29 functions provided in the KPR Act (1993) have been transferred with adequate finances and functionaries; transfers have been increased from both the centre and state under the Central Finance Commission and the State Finance Commission; and the property tax valuation method has been revised from annual rental value method to capital value method. Besides, the demand-collection–balance of tax in all the Grama Panchayats shows an average growth of 24 percent in the last five years, and the GPs under the new Grama Panchayat Development Plan (GPDP) have started prioritizing expenditures. Digital and ICT innovations have drastically changed the landscape of information sharing, making real-time evidence-based policy making possible. Despite all the excellent innovations in data capturing, and data analysis and reporting, fiscal decentralization in Karnataka at the third tier lacks a medium-term framework with hard budget constraints backed by Fiscal Responsibility Legislation.

The increase in flow of resources to the local governments under the flagship programmes of Government of India since 2008 and the recent large untied transfer as a direct block grant to GPs as part of 14th CFC grants clearly demonstrate the recognition of the fact that the third tier does play an important role in shaping grass root level democracy. It also shows that decentralization is here to stay and states like Karnataka have a role in leading the decentralization in India. However, it is unclear yet whether states like Karnataka have been able to fully utilize the opportunity provided by the wave of reforms and innovations of the last twenty years. Fiscal decentralization in Karnataka is far from complete in terms of increasing own source revenue mobilization and utilizing it to raise spending for the desired goals. Low resource base, weak accountability mechanisms, lack of monitoring and evaluation of schemes and low utilization rates in centrally sponsored schemes have created a wedge between Karnataka's well-developed and backward regions. As a result, the rural citizens in the backward regions have been unable to hold the government accountable for the poor quality of services. Devarajan *et al*, (2007) observes that decentralization has not led to citizens being able to *"hold local governments accountable for budgetary allocations and their outcomes*". The authors call this situation as '*partial decentralization*'. In the last twenty years, what Karnataka has so far achieved can be somewhat attributed to '*partial decentralization'*. There is a need to create adequate fiscal space for decentralization to thrive in the state whereby rural masses benefit from inclusion in growth processes and reform efforts are made for more durable, richer and fuller decentralization.

End Notes

[1] Rural local self-governments.

[2] PRIs refer to the entire Panchayat Raj Institutions which consist of Zilla Panchayats (District level), Taluka Panchayats (Intermediary level), and Grama Panchayats (Village level).

[3] The distinction between Plan and Non-Plan expenditure has been done away with in the Central government budget. The dismantling of Planning Commission in 2014 has also led to streamlining of centrally sponsored schemes and plan assistance to states.

[4] As per Government of India Definition. The World Bank definition excludes disinvestment proceeds from revenues.

[5] In the last five years, grants for creation of capital assets accounted in recurrent expenditures have been on average around 1.2 percent of GDP. Since plan transfers have represented on average 42 percent of total transfers since 2004/05, it became difficult for the centre to meet in a single year the twin targets of the FRBM Act (Fiscal Deficit/GDP = 3%; and Current deficit/GDP=zero). To eliminate effective current deficit, the current deficit should be equal to grants-in-aid for capital creation, which implies recurrent (revenue) spending in excess of revenue receipts must be used for capital expenditure.

[6] There are two parts to the resource transfers that have affected different states differently. An increase in divisible pool has significantly benefited states like UP, Bihar, MP, AP and West Bengal while a change in horizontal formula has benefited states like Chattisgarh, MP, Karnataka, Jharkhand, etc. In a nutshell, the net impact on the states has been positive and some of the negative effects of a change in formula have been offset by the large positive effect of the change in divisible pool.

[7] As estimated by the Economic Survey of India 2014-15.

[8] The Central Government dispensed with the categories of plan and non-plan grants/expenditure in the budget from the year 2017-18. The same is observed at the state and local government levels since then.

[9] Panchatantra is a website created by Rural Development and Panchayat Raj Department, Government of Karnataka wherein the Grama Panchayats have to upload the basic information pertaining to their panchayats such as income and expenditure, schemes and projects taken up, details of panchayat meetings, Grama Sabha etc.

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Appendix Table 1: Sector-wise Receipts of 22 Zilla Panchayats in Karnataka (Rs. lakh)

Sectors	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Average per year	Percent Share
Public Works	8441.97	9375.94	10233.47	11400.74	10778.77	10308.61	12540.13	10439.95	2.06
General Education	95841.19	96624.53	111337.84	128228.14	145820.06	162461.27	172133.66	130349.53	25.67
Sports and Youth Services	141.32	238.94	107.40	82.34	48.24	88.61	91.24	114.01	0.02
Art & Culture and Library	46.55	330.95	10.00	7.10	6.99	4.00	9.00	59.23	0.01
Medical and Health	29684.49	31940.19	39523.24	38779.10	40677.38	46525.04	59319.90	40921.34	8.06
Family Welfare	9104.84	13116.77	15249.91	18212.80	20843.50	22915.71	25677.56	17874.44	3.52
Water &Sanitation	39701.80	12376.83	1864.80	210.17	300.28	54.42	1285.52	7970.55	1.57
Housing	6613.24	3053.26	520.86	0.11	0.00	0.00	1018.69	1600.88	0.32
Welfare of SC/STs/ OBCs	6605.16	8617.37	10811.17	15159.77	3249.05	6767.05	44927.83	13733.92	2.70
Labour and Employment	10.47	141.97	431.52	373.42	343.40	435.27	536.19	324.61	0.06
Women and Child Development	5751.77	5143.96	7269.52	8237.89	14914.79	14257.66	20133.77	10815.62	2.13
Nutrition	342.25	0.00	0.00	0.00	0.00	0.00	0.00	48.89	0.01
Crop Husbandry	12038.58	13156.71	14599.89	14470.96	14949.91	15693.42	15669.72	14368.45	2.83
Soil and Water Conservation	5013.98	3155.32	834.39	522.35	158.99	521.28	657.65	1551.99	0.31
Animal Husbandry	5368.82	5425.75	7096.03	7378.14	8102.61	8507.34	10063.11	7420.26	1.46
Fisheries	909.49	837.64	1363.77	1262.54	1418.49	1401.03	1444.46	1233.92	0.24
Forestry and Wildlife	1560.78	1648.11	2152.76	3804.19	4464.53	4441.27	4726.69	3256.91	0.64
Co-Operative	39.79	183.78	231.38	233.11	250.00	265.28	261.79	209.30	0.04
Special Progs for Rural Development	2003.95	1210.43	524.42	1119.28	690.74	1031.79	564.36	1020.71	0.20
Rural Employment	4821.68	2393.13	2690.81	863.95	4430.76	6745.96	4581.98	3789.75	0.75
Other RD Programmes	36198.49	21586.28	10963.63	6351.57	6934.44	7700.45	10502.30	14319.60	2.82
Minor Irrigation	1744.29	1539.78	1529.23	1702.74	1615.35	1914.21	2004.66	1721.47	0.34
Bio-gas	272.10	162.58	0.00	0.00	0.00	0.00	0.00	62.10	0.01
Village and Small Industries	3819.22	4277.67	5948.02	5640.69	5442.26	6157.16	7040.25	5475.04	1.08
Industries	1439.11	1425.57	179.31	78.98	43.99	87.75	102.22	479.56	0.09

Sericulture	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Roads and Bridges	12373.18	21382.76	24378.90	36620.26	28399.59	19787.54	31464.46	24915.24	4.91
Secretariat Economic Services	330.53	416.27	236.28	161.11	248.74	205.11	310.02	272.58	0.05
Food & Civil Supplies	14.54	18.04	28.69	192.32	247.87	378.70	342.21	174.62	0.03
Other Social Services	13326.75	16808.52	22414.23	20753.43	38061.39	37869.25	0.00	21319.08	4.20
Other General Economic Services	91.10	85.54	219.62	237.99	304.66	278.23	159.65	196.69	0.04
Hill areas	1083.51	297.61	237.46	271.79	251.33	296.35	303.99	391.72	0.08
Other Agricultural programmes	1103.95	974.63	500.11	353.86	0.00	0.00	0.00	418.94	0.08
Other Scientific Research	28.42	20.20	89.99	116.83	179.06	171.16	200.22	115.13	0.02
Other receipts	2032.13	522.41	941.00	956.23	433.16	375.88	2142.81	1057.66	0.21
Suspense account	3970.78	0.00	0.00	0.00	0.00	0.00	0.00	567.25	0.11
Stamps and Registration	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-Total	311870.23	278489.46	294519.67	323783.91	353610.35	377646.81	430216.04	338590.92	66.68
Bank transactions /CSS	49026.75	73882.14	115643.84	137567.86	296431.84	289370.97	220472.20	168913.66	33.27
SGRY Food Grains and Scarcity	295.42	825.94	484.00	214.81	0.00	0.00	0.00	260.03	0.05
Grand Total	361192.40	353197.54	410647.51	461566.58	650042.19	667017.79	650688.24	507764.61	100.00

Note: Data pertains to 22 ZPs

Source: Basic data – Decentralisation Analysis Cell, RDPRD, government of Karnataka.

Appendix Table 2: Sector-wise Expenditure of Zilla Panchayats in Karnataka (Rs. lakh)

Item/Sector	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Average per year	Percent Share
Public Works	8279.08	8055.67	8992.69	9885.45	9496.01	9654.57	10894.37	9322.55	2.04
General Education	84951.17	79209.73	102023.91	108680.76	126593.28	146269.88	152932.32	114380.15	25.02
Sports and Youth Services	465.56	510.20	743.57	775.99	873.56	979.76	154.25	643.27	0.14
Art & Culture and Library	3700.04	5108.79	43.84	47.55	53.22	49.52	953.21	1422.31	0.31
Medical & Health	29012.33	28047.43	30574.75	31867.84	34586.13	39012.19	65132.47	36890.45	8.07
Family Welfare	8162.91	11263.98	13292.62	14905.10	17900.67	18391.34	13258.35	13882.14	3.04
Water & Sanitation	6198.27	2740.52	1723.05	453.46	219.90	118.34	919.56	1767.59	0.39
Housing	7555.72	3500.08	1436.58	461.21	0.00	0.00	0.00	1850.51	0.40
Welfare of SC/STs/OBC	19733.95	24136.33	31131.84	34906.82	44070.37	46749.48	45679.67	35201.21	7.70
Labour and Employment	10.37	452.75	602.56	670.87	334.66	397.95	457.37	418.08	0.09
Women and Child Development	4390.89	4517.94	6407.65	6403.54	9518.47	9681.32	5112.94	6576.11	1.44
Nutrition	941.00	0.00	0.00	0.00	0.00	0.00	0.00	134.43	0.03
Crop Husbandry	10697.69	11693.94	11070.97	10155.86	11451.03	12044.99	3973.66	10155.45	2.22
Soil and Water Conservation	5922.45	6753.68	3545.83	3569.46	3010.50	3600.03	3879.90	4325.98	0.95
Animal Husbandry	5435.19	5330.54	6040.07	6374.81	7797.71	8156.46	9439.78	6939.22	1.52
Fisheries	864.42	805.42	1161.52	1121.67	1310.70	1286.92	1314.59	1123.61	0.25
Forestry and Wildlife	1692.07	1737.88	2071.94	3550.78	4301.92	4186.43	4463.65	3143.52	0.69
Co-operative	11.24	37.54	45.85	47.17	50.17	58.04	63.47	44.78	0.01
Special RD Programmes	5352.55	4130.85	3238.72	1105.48	972.18	1010.55	645.03	2350.77	0.51
Rural Employment	18329.85	11087.34	7259.01	3251.23	5166.70	5189.20	6302.11	8083.64	1.77
Other RD Programs	8055.87	6801.40	9569.27	5403.92	5785.06	6948.64	9178.18	7391.76	1.62
Minor Irrigation	1357.48	1419.13	1528.51	1535.41	1422.88	1725.80	1765.55	1536.39	0.34
Bio-gas	34.28	19.15	0.00	0.00	63.86	0.00	0.00	16.76	0.00
Village and Small Industries	3706.29	3952.53	5123.64	4690.44	4782.05	5318.08	5844.55	4773.94	1.04
Industries	212.20	206.19	228.69	230.63	241.46	252.93	281.67	236.25	0.05

Sericulture	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Roads and Bridges	12165.77	19660.07	22011.82	35246.66	26955.18	18463.22	30363.93	23552.38	5.15
Secretariat Economic Services	428.85	484.13	522.71	594.14	656.46	953.57	838.02	639.70	0.14
Civil Supplies	0.00	0.00	0.00	0.00	0.00	0.00	12.14	1.73	0.00
Other Social Services	1214.73	4.83	0.00	0.00	221.18	0.00	0.00	205.82	0.05
Other General Economic Services	42.45	46.40	102.25	86.52	32.57	5.00	82.34	56.79	0.01
Hill areas	1010.11	260.23	265.41	226.74	307.53	241.97	193.29	357.90	0.08
Other Agricultural programmes	0.00	0.00	47.97	44.05	23.02	72.57	7065.86	1036.21	0.23
Other Scientific Research	27.05	32.32	30.22	73.55	85.79	89.16	113.34	64.49	0.01
Other receipts	6.61	57.82	44.94	44.94	0.00	46.38	1669.00	267.10	0.06
Suspense account	-537.01	0.00	0.00	0.00	19.52	0.00	0.00	-73.93	-0.02
Sub-Total	249431.82	242064.80	270882.40	286412.07	318303.75	340954.32	382984.55	298719.10	65.33
Bank transactions/CSS	39985.48	67465.15	86399.05	115794.72	302544.40	266029.29	230744.64	158423.25	34.65
SGRY Food Grains and Scarcity	0.00	365.94	286.09	11.06	0.00	0.00	0.00	94.73	0.02
Grand Total	289417.30	309895.88	357567.54	402217.86	620848.15	606983.61	613729.19	457237.08	100.00

Note: Data pertains to 22 ZPs

Source: Basic data – Decentralisation Analysis Cell, RDPRD, government of Karnataka.

Appendix Table 3: Item wise Capital Expenditure of Zilla Panchayats in Karnataka (Rs lakh)

Sector	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Average per year	Percent Share
Miscellaneous Capital Outlay	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Outlay on Education	1604.64	490.02	28.65	28.00	6.93	0.00	0.00	307.33	4.05
Capital Outlay on Medical and Public Health	47.66	38.86	113.40	113.82	129.65	152.16	254.51	102.92	1.36
Capital Outlay on Family Welfare	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Outlay on Water supply and sanitation (W.B Assistance)	31058.09	12085.81	1881.83	190.22	19.73	0.00	0.00	6459.42	85.16
Capital Outlay on SC/STs/OBC	114.85	402.04	335.89	229.83	205.43	0.00	0.00	154.66	2.04
Capital outlay on women & Child-RIDF	8.89	4.08	10.08	10.08	0.00	0.00	0.00	4.73	0.06
Capital Outlay on Fisheries	37.91	8.27	13.44	0.00	0.00	0.00	0.00	8.52	0.11
Capital Outlay on Co-operation	20.64	117.80	109.09	109.85	113.50	123.21	127.46	86.86	1.15
Irrigation GP Programme NB	55.81	0.00	0.00	0.00	0.00	0.00	0.00	7.97	0.11
Capital Outlay on Village and Small Industries	12.14	14.69	18.01	17.33	19.84	17.51	19.14	14.12	0.19
Capital Outlay on Roads and Bridges	1545.87	977.38	118.90	0.00	0.00	0.00	0.00	377.45	4.98
Capital Outlay on General Economic Services	0.57	1.20	0.50	0.51	0.00	0.00	0.00	0.40	0.01
Capital outlay Social Security & Welfare	77.61	54.43	26.85	0.00	0.00	0.00	0.00	22.70	0.30
Capital outlay on Minor irrigation	135.11	61.13	68.14	0.00	0.00	0.00	0.00	37.77	0.50
Total	**34719.81**	**14255.70**	**2724.80**	**699.64**	**495.08**	**292.87**	**401.11**	**7584.85**	**100.00**

Note: Data pertains to 22 ZPs

Source: Basic data – Decentralisation Analysis Cell, RDPRD, Government of Karnataka.

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