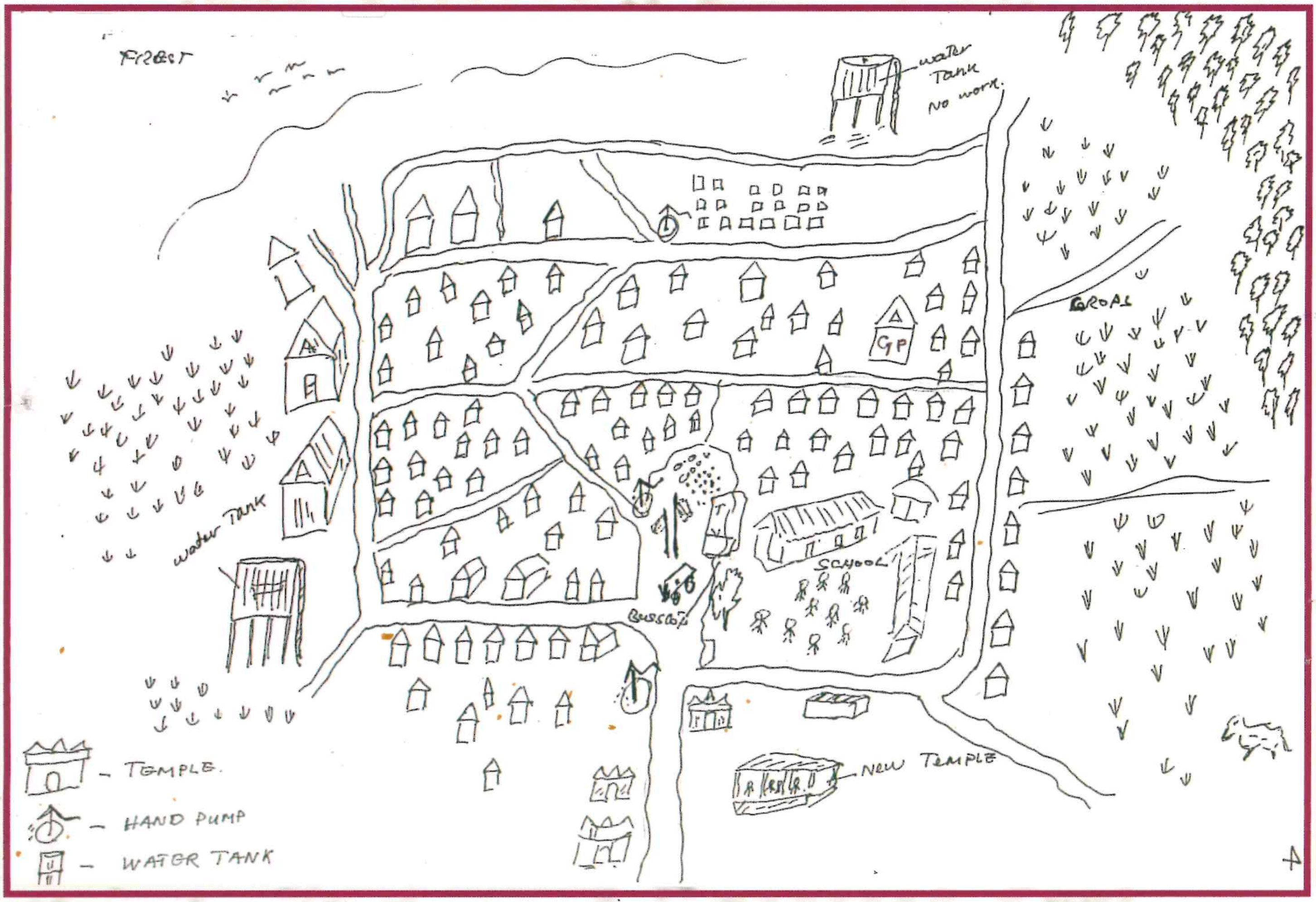
# A View From Below

## Mapping Functions, Finances and Functionaries in Rural India

[A Report for the Tamil Nadu 5th State Finance Commission]

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October 2016

MADRAS INSTITUTE OF DEVELOPMENT STUDIES

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## Executive Summary

### Introduction:

With the historic 73rd and 74th amendments to the constitution, India officially instituted a three tier government at the sub-state level in 1992. The third tier of government is the Panchayati Raj Institutions (PRIs), subdivided into District, Block and Village or Gram Panchayat. In order to ensure the financial sustainability of the PRIs, the Constitution also mandated the creation of State Finance Commissions (SFCs). These institutions have the stated purpose of recommending the amount of fiscal devolution that should take place from the states to the PRIs, as well as recommending mechanisms to effectively enact these fiscal transfers.

Between October and December 2015, a team of researchers from the Madras Institute of Development Studies carried out research concerning fiscal devolution in the Indian rural context. The emphasis was on mapping functions, finances, and functionaries through the three basic services of water, drainage, and roads. Further the issue of service delivery was explored from the perspective of local resource mobilization since these two aspects have become inextricably linked at the local level. This summary presents the main take-aways from the research project.

### Context:

The literature on fiscal devolution in India presents a number of conversations that are relevant to the State Finance Commissions, or SFCs. Following the provisions stated in the constitutional amendment, SFCs are supposed to be convened every five year at a minimum. The scholarly literature suggests that not all states have convened SFC during the allotted timeframe. The number and timing of SFCs constituted varies significantly across states, thereby complicating their proper functioning and making inter-state comparisons challenging. Even when SFCs are constituted their reports are often not considered in most states and where they are considered, important recommendations are often disregarded. SFCs have also come under criticism for merely focusing on revenue sharing and not using their mandate to improve service provisioning at the local level and strengthening local democracy.

One of the recurring themes in the decentralization literature is the debate around the relative merits of tied vs. untied grants. Given that the Union Finance Commission and the State Finance Commissions have to decide on the best way to devolve revenue to the panchayats, this distinction is particularly important. In fact, tied and untied grants account for most of the revenue for panchayats. Advocates of tied grants point out that these foster compliance and accountability, and are in line with national priorities. Untied grants, on the other hand, better reflect local priorities, and have the potential to crowd-in local tax and non-tax income. They are also likely to be related to better service delivery. However the inefficiency of Panchayats in raising their own local resources limits their resource base and hinders their ability to provide services effectively.

While there are numerous studies dealing with fiscal devolution, fiscal federalism, and so on most of the literature focuses on different aspects of devolution independently. There is a lack of explicit analysis on the ways in which functions and finances get interlinked at the local level.

A comparative study of 5 states namely Kerala, Tamil Nadu, Telangana, Karnataka and Rajasthan was carried out to understand this gap by explicitly mapping functions, finances and functionaries at the local level. By linking mapping with local tax collection the study explores challenges and opportunities to strengthen local resource mobilization.

**Tamil Nadu in a comparative perspective:**
The macro analysis of the five states mentioned above give us an insight into the performance of each state and how Tamil Nadu fares in comparison. However there exists a huge gap between the performance of some states in these rankings and the ground reality. Although Rajastan is ranked higher than Tamilnadu, we found that Gram Panchayats in Tamilandu was more vibrant, active and citizens and elected representatives had higher levels of awareness compared to Rajastan.

Upon inspecting the various State Panchayati Raj Acts we find that Kerala and Karnataka are the front runners in the **devolution of functions**. In Tamil Nadu, clear and definite powers and responsibilities have been given for only 13 of the 29 functions to the Gram Panchayats. In the remaining matters, powers pertaining to planning, promotion and supervision have been given while the responsibility for implementation lies elsewhere. . In Andhra Pradesh of the 29 matters listed in the 11th Schedule, functions have been devolved for 12 matters whereas in the case of Rajasthan 25 have been devolved to the GPs

Regarding **devolution of finances**, Karnataka and Kerala have empowered their panchayats to collect a high number of taxes and fees, Rajasthan and Andhra Pradesh lag behind. Tamil Nadu has consistently done well in devolving finances to the local bodies. However it has not sufficiently exploited the potential for tapping local resources.

Tamil Nadu in comparison to the other four states does not fare well in the **devolution of functionaries,** thus adversely impacting its composite devolution ranking.

**Research Findings:**
For the micro analysis we focused on a sub sample of three southern states of Karnataka, Tamil Nadu and Telangana. The attempt was to map functionaries, and finances with three key functions water, drainage, and roads at the gram panchayat level and link them to local resource mobilsation efforts.

The reality of lack of data at the local level was acutely felt during our research. Panchayats across different states do not keep proper records and it is often difficult to find the right information. The research team found that Karnataka has a sophisticated Management Information System. Telangana is starting to implement a new system, while the one in Tamil Nadu seems quite rudimentary in comparison.

Our research also found that different states tend to highlight different problems for their panchayats but they all predominantly deal with basic service provisioning. In Tamil Nadu, for instance, water, roads and electricity were the main concerns. In terms of using un-used revenue from one year to another, elected officials were aware that they could use money in their accounts. However they also reported that they needed the permission from higher tiers of government and that the funds could only be used for the purpose for which it was originally allocated.

With respect to water, states are mostly dependent on devolved grants to fund water-related functions. The president, the vice-president and the secretary have a significant burden to ensure that water-related functions are carried out. With respect to drainage, contract laborers are hired and overseen by the president, the vice president, and the secretary. There appears to be a lack of funds specifically ear marked for provision of drains. Elected representatives and GP functionaries felt a need for greater powers in dealing with issues related to road construction and maintenance.

In terms of planning for the fiscal year, panchayats make development plans based on projections of tax revenue and not on actual revenue collected. These projections, however, are seldom realized due to poor tax collection efforts by the Gram Panchayats. A significant amount of money for service delivery comes from fungible accounts, where revenue from tax collection is also deposited. Soon, the 14th Union Finance Commission is scheduled to devolve even more untied grants to panchayats. While this might partially solve the problem of service delivery and might even encourage panchayat to mobilize more of their own resources, it can also generate lack of accountability and transparency. The 5th SFC might be well-positioned to encourage panchayat spending on long-term social targets like health and education by providing incentives for better performers..

**Local Resource Mobilization:**

While mobilizing tax revenue encourages transparency and accountability, this activity is nevertheless beset with political-economy problems such as lack of political will and mistrust of the local government. Some members of the community, such as Scheduled Castes, felt that they should be exempted from taxes because they are poor. In general, people were more willing to pay taxes if the service provision improved and the process became more regular and transparent.

The main barriers to tax collection from the citizens' perspective were found to be an acute lack of clear information about tax collection; high taxes; timing of tax collection; and most importantly a lack of uniform, formal procedures/process of tax collection.

From the collectors point of view the absence of dedicated functionaries; weak authority to enforce collection and ignorance of citizens towards their tax obligations were seen as the main obstacles hindering effective tax collection. Finally, the proximity of the tax collectors to the electorate might make it difficult for officials to enforce tax collection.

Our research highlighted that there is a degree of formalization around temples and religious festivals that encourage community buy-in. People across states seem to demand this type of formalization when thinking about tax collection. It is interesting to note that while informal institutions are using formal mechanisms to raise revenue, formal institutions are often using informal procedures often ineffectively.

**Policy Recommendations:**

1. **Awareness building** – Special funds to be allocated for IEC programme for Panchayats. Egs. SMS reminders, posters, flex charts
2. **Management Information Systems** – Dedicated fund to create a Panchayat e-portal.
3. **Functions** - Increase power and authority of GP in drainage and roads construction
4. **Functionaries** - Devolve specific funds exclusively assigned towards hiring additional staff at the VP level.

5. **Technical support** to VPs for formulating village development plans.

5. **Breaking the Tax-delivery Impasse**:


- Link tax collection to service provisioning at the ward/habitation level.
- Use social pressures to induce behavioral change.
- Link up with Self Help Groups (SFG) to strengthen local tax collection.
- Incentivize tax payers by instituting rewards such as "early-bird" discounts and installment payment.
- Formalize the process of tax collection through strict deadlines mandated by the State Finance Commission.

## Introduction

In 1992 the historic amendment to the Constitution (73rd and 74th) that conferred constitutional status to local governments was enacted leading to a three tiered democratic local government structure in India. These amendments did not happen in a vacuum but emerged in response to a series of debates and initiatives that occurred over a period of four decades after Independence. The period that ranged from 1957 to 1978 saw the emergence of two influential committee reports that had a significant bearing on the way rural and urban local bodies evolved under 73rd and 74th amendments that were extensive and detailed with both mandatory and discretionary provisions.

In order to make these panchayats institutions of self-government, the 73rd amendment mandates that subject to the provisions of the Constitution, the legislature may devolve powers and responsibilities to panchayats at the appropriate level to enable them to prepare plans and implement schemes for economic development and social justice including those listed in the Eleventh Schedule. Further keeping with its commitment to fiscal decentralization, the following provisions were made - panchayats were to be given authority to levy, collect and appropriate taxes, duties, tolls etc.; the state could also make assignments to panchayats of taxes collected by the state; grants-in-aid to panchayats from the Consolidated Fund of the state could also be made. To ensure that these provisions were carried out and adequate financial provisions were made to both panchayats and ULBs, it also mandated the constitution of a State Finance Commission once in five years (Ananthpur, 2004). According to Srivastava (2002) such detailed arrangement for governance in rural and urban areas is unique to India and does not exist in the Constitution of any functioning democracies in the world.

However, nearly a quarter century later, panchayats in India still have not emerged as institutions of self- government. The issue of fiscal devolution continues to be a contested and problematic issue in most states. Often fiscal devolution is not commensurate with functional devolution. The literature indicates that the guidelines to constitute SFCs are not clearly delineated and the lack of data at the lower level continues to be a problem hampering the process of fiscal devolution (Rao et al, 2011). Further even when SFCs are constituted, their reports are often not considered in most states and where they are considered, important recommendations are often disregarded. SFCs have also come under criticism for merely focusing on revenue sharing and not using their mandate to improve service provisioning at the local level and strengthening local democracy (Oommen, 2010).

Even where funds and functions have been devolved, since the devolution of functionaries to carry out functions assigned to the panchayats is left to the discretion of the states, the gap between the assigned functions and the abilities of the panchayats to carry them out remains wide.

There is enough evidence in the literature to indicate that taxation plays a critical role in entrenching the powers of the state. Own resource mobilization by local governments, particularly in the form of tax revenue, is important as it shapes and defines the way in which citizens and local state interact with each other (Brautigam, 2008). Dependency on tax revenues ensures that local governments are more responsive and accommodating to the needs of its citizens and willingness to pay taxes on the part of the citizens provides them with a voice to demand better service provisioning and accountability (Moore, 2008). In addition, it is expected that the issue of taxation is likely to drive the international development agenda post 2015 (DLGN, 2014).

Despite being vested with powers of taxation, a persistent problem since the inception of the Panchayati Raj system has been the issue of poor resource mobilization at the local level rendering the panchayats largely dependent upon state and central finances. Given that local service provisioning is strongly linked to local resource mobilization, breaking the gridlock of poor tax collection in rural India is essential.

Further the context within which the SFCs operate today is vastly different from the scenario within which they were originally envisaged. In the last twenty-five years, PRIs have become much more institutionalized; there has been a steady rise in the level of urbanization; and a vast increase in the tied grants devolved from the center to local bodies particularly through flagship programs such as MNREGS and JNNURM.

Given this interlace of continuity and change in the trajectory of decentralization in India – of persistent problems and emerging new challenges- a question arises as to whether SFCs are useful institutions in their current form to ensure sustainable financing of local governments? Has the time come for SFCs to play a greater role in strengthening participatory democracy as Oomen suggests? Addressing these questions requires a critical look not only at the current challenges that confront them but also identify ways of overcoming some of the persistent problems of decentralization highlighted above.

While there are numerous studies dealing with fiscal devolution, fiscal federalism, and so on most of the literature focuses on different aspects of devolution independently. There is a lack of explicit analysis on the ways in which functions and finances get interlinked at the local level.

The proposed study was designed to address this gap by explicitly unpacking and mapping functions to finances and functionaries at the local level; identifying potential gaps and problems and explore opportunities to link it with local tax collection.

**The major objectives of the study were to:**

1. Map finances to functions by taking three key functions that are important to rural citizens
2. Unpack the issue of local tax collection from the point of view of collectors (LG) as well as tax payers (citizens).
3. Investigate the possibility of linking the process of tax collection with the delivery of key services/functions
4. Document the best and innovative practices adopted by other states and countries towards local resource mobilization.

**Area of study:**

The study was carried out in five selected states namely Karnataka, Kerala, Rajasthan, Tamil Nadu and Telangana between 15th of October to 30th Of November 2015.

**Research Design:**

The research study was designed in two parts.

1. Part 1 consisted of a macro analysis of the ways in which functions, finances and functionaries matched in five selected states – Karnataka, Kerala, Rajasthan, Tamil Nadu and Telangana using secondary data sources.

2. Part 2 involved a rapid survey of 6 Gram Panchayats ( 2 from each state) from a sub sample of three states – Karnataka, Tamil Nadu and Telangana – to map 3 key services such as water, drainage and roads with finances and functionaries at the local level. The structured interview with Panchayat officials was followed by a qualitative study using Focus Group Discussions and interviews to assess the problems associated with local taxation both from the perspective of the citizens as well as panchayats. The rationale for selecting these three key services was that in general payment of taxes at the local level is linked to the quality of basic service provisioning.

**Study Limitations:**

Given the paucity of time the study had to rely on rapid survey techniques to gather information. The inclement weather also delayed the field work in S. India. Consequently the findings emerging from the study are to be seen as indicators of emerging patterns that merit further detailed inquiry.

**Format of the Report:**

The report is arranged as follows. Section 1 sets the context by giving a detailed analysis of the extant literature on fiscal devolution. Section 2 focuses on the macro analysis of the functions, finances and functionaries of five selected states using secondary data sources. Section 3 critically analyses the existing gaps in mapping of key services with associated functions and functionaries based on quantitative data from a sub sample of three states. A qualitative analysis of the problems associated with local taxation both from citizens as well as local government perspective is given in section 4. Finally, section 5 offers a set of possible recommendations for the 5$^{th}$ SFC and also some best practices from around the globe that may have relevance to Tamil Nadu.

## Part 1. Current Thinking on Fiscal Decentralization in India

Continuing the earlier tradition of decentralization, in 1992 the Government of India instituted the 73rd and 74th constitutional amendments, which would create a three-layered system of government within the federal system. These amendments formalized the Panchayati Raj Institutions (PIR), or institutions of self-government that had been traditionally operating at the local level in some parts of India. The PRIs, which operate one level below the State governments, would be in charge of numerous functions related primarily to service delivery and governance. As numerous scholars have stated, the aim of a third tier of government is to "bring the government closer to the people (Oommen et al., 2010; Rajaraman, 2002; Sahasranaman, 2012; Unnikrishnan et al., 2015)." Based on the idea that local governments would be more responsive and accountable to local needs and preferences, the Panchayati Raj Institutions have already been operating for almost 25 years and have become an integral part of the Indian system of government.

Within the Indian context, one aspect of decentralization is "devolution" or assigning functions to the PRIs that were formerly carried out by the states. Along with this devolution of functions, the State government is also responsible for devolving the corresponding funds and a number of State functionaries. Besides devolved funds from the States, the PIRs also have the power to raise their own resources through tax and non-tax revenue (Natraj et al., 2014; Sahasranaman, 2012). This allows the PIRs to carry out their governance and service delivery duties as envisioned by the constitutional amendments. The third tier of government is further subdivided in three tiers: the Block, District, and Village Panchayats, and can be designated as either Urban Local Bodies or Rural Local Bodies depending on the classification given by the State (Oommen et al., 2010). To ensure the fiscal sustainability of the PRIs, the constitution mandates each state to create a State Finance Commission, whose main duty is to advice States on how to devolve tax and grant revenues to the local bodies (Rao et al., 2011).

While the constitutional amendments that formalized Panchayati Raj Institutions provide general guidance to the states on how to carry out the decentralization process, the parameters stated in the constitution are still very broad. In fact, this feature of the amendments has allowed States and their corresponding Finance Commissions to carry out decentralization in different ways to varying levels of success. Since the PRIs and the SFCs have existed for nearly 25 years, it is necessary to rethink the way in which these institution of governance work, recognizing their successes, challenges, and potential for change. This section will explore some of the major conversations in the literature regarding fiscal decentralization in the Indian context. It will place particular emphasis on the opportunities and challenges for Gram (village) Panchayats to raise their own revenue and the role the State Finance Commission can play in improving panchayats' finances.

### *State Finance Commission: Then and Now*

The State Finance Commissions have the stated purpose of recommending the amount of fiscal devolution that should take place from the states to the PRI (Gulati, 1994). They are responsible for coming up with systematic ways for the state government to evaluate the SFC's suggestions; designating an amount or percentage of state funds to be transferred to the PRIs; and envisioning ways to make these transfers as efficient and impactful as possible (Gulati, 1994; Rani, 1999). In the true spirit of decentralization, the ultimate goal of the SFCs is to ensure that the PRIs are well-equipped in terms of funds and functionaries to deliver the services that best reflect the preferences and needs of their constituents.

According to the constitution, the SFCs should be formed at least every five years and write a report with their recommendations to be reviewed by the state government (Rao et al., 2011). Despite this requirement, the literature suggests that some State governments have taken the constitutional mandate fairly liberally: Not all states have convened SFC at regular intervals in the last two decades, with some states getting ready to begin their 5$^{th}$ SFC and some lagging behind in the 3$^{rd}$ one. (Oommen et al., 2010). Furthermore, while the constitution makes provisions for SFCs to be constituted at least every five years, it does not preclude states from constituting SFCs at more regular intervals (Rao et al., 2011). The time frame to constitute an SFC has been problematic, since the lack of uniformity makes is difficult to do an inter-state comparison. This also creates significant delays in submitting the recommendations to the State government and in creating a subsequent SFC (ibid.).

Beyond the timeframe for operations, scholars in the field of decentralization have identified other challenges in constituting the State Finance Commissions. First of all, the functionaries involved in the SFC differ from state to state. In Tamil Nadu, for example, the head of the finance commission is a civil servant (Natraj et al., 2014). In other states, the SFC is made up of ex-politicians, experts, or functionaries that might or might not have any experience related to the tasks at hand (Rao et al., 2011). The disparity across states potentially leads to inefficiencies and lack of credibility for these institutions (ibid.).

In terms of the SFC reports that the State government needs to consider and act upon, the literature also suggests a number of pitfalls that need to be addressed. For instance, while states are required to submit an Action Taken Report, only some of them do, often outside of the allotted time frame (Rao et. al, 2011). A particularly problematic feature of the SFCs is that the State is not bound to accept all (or any, for that matter) of the recommendations made. This has led to some states failing to take concrete steps toward financial devolution to the Panchayats, even in those instances where SFCs have suggested concrete policy actions. (Oommen et al., 2010; Nagarajan et al., 2014). In many instances, the Action Taken Reports that often follow the SFC recommendations do not provide any concrete reasons for not accepting the SFCs' suggestions, thereby putting into question the ultimate usefulness of these institutions (Rao et al, 2011). This is highly problematic given that the states are expected to give clear reasons for not accepting SFC recommendations.

In terms of concrete suggestions for fiscal devolution, the SFCs often base their decisions on devolution indexes created to rate the success of different States' devolution efforts (Sahasranaman, 2012). While States often simply provide a target number or percentage of State resources to be devolved, some make more concrete suggestions on how the state should carry out the devolution process. (ibid.). Some scholars have called into question the veracity with which an index can capture the nuances of a State's devolution and validity of the subsequent revenue allocation (Oommen, 2009). This notwithstanding, SFCs continue to rely on yearly indices developed regularly by different research institutions like the Ministry of Panchayati Raj in 2015. Recognizing that no index is methodologically infallible, these indices nevertheless continue to provide useful information for SFCs and other interested parties on different aspects of the decentralization process across all Indian states.

## *State Finance Commission in the Current Environment*

> The task of the proposed state finance commissions is to make sure that given the allocation of functions and responsibilities by a state government to its local bodies, matching financial powers or funds are put at their disposal and that too without too many constricting conditions (Gulati, 1994).

Considering the fact that the SFCs have been a part of India's three-tiered federalist system for nearly 25 years, the question of these institutions' role in the current process of decentralization naturally arises. Scholars have wondered if the SFCs have fulfilled their constitutional mandate (Oommen et al., 2010), generally arriving at conclusions that suggest that SFCs are most effective in States with an already strong decentralization record, like Kerala and Karnataka (Rajaraman, 2002). State Finance Commissions are tasked with ensuring the financial viability of the Indian decentralization project as per the articles of the constitution. And while most SFCs have been continuously offering target percentages of state taxes and amounts of funds to be devolved to local bodies, it is perhaps in the latter part of Gulati's quote that the role of the SFCs can become ever more prominent.

In essence, SFCs should ensure that the formulas are effectively implemented and that the revenue is ultimately "at the disposal" of Panchayats, even accounting for procedural, logistical, and behavioral barriers. The literature gives an example of potential logistical barriers when it talks about data collection. A centralized and easily accessible way to track Panchayat expenses seems to be missing, which makes it hard to accurately monitor funds devolved from the central government (Rao et al., 2011). Another example is the timing of disbursements from the State to the local bodies' accounts, which in many cases cause delays in service delivery or halt projects altogether (Natraj, 2014; Sahasranaman, 2012). Finally, there is an issue of incentives, economic, political, behavioral, and otherwise. These have been cited as roadblocks that prevent Panchayati Raj Institutions from delving deeper into local resource mobilization, thereby underusing a potentially significant amount of untapped revenue (ibid.).

Even though creating an easily digestible target for fiscal devolution to the PRIs is a central task of the SFCs, the numerous challenges that have arisen over the past 25 years signal the need for a renewal in the way SFCs conduct their operations. In this new, rapidly changing context SFCs can focus some of their effort (and certainly a number of resources) on addressing the barriers that stand between PRIs and a satisfactory, sustainable fiscal future. The following section will detail the conversations around some of these barriers, and potential steps for SFCs can take in their coming terms.

## *Devolution of Functionaries: A Gap in the Literature*

Current scholarly work has a strong focus on the fiscal health of the Panchayats. It explores at length the different sources of funds available to local bodies, the effectiveness of SFC recommendations in the fiscal realm, and possible mechanisms to improve local resource mobilization. The literature, however, does not extensively explore the devolution of functionaries and the way fiscal and functionary devolution interact. Beyond reports that create devolution indices to rank states and union territories like Alok's (2013), the literature has only marginally approach this topic by emphasizing the PRIs' need for better data collection and physical infrastructure.

There are a few observations about devolution of functionaries that do come up. Rao et Al (2011), for example, mention that the ill-defined responsibilities of functionaries undermine the effectiveness of local governments. In the same vein, Natraj et al. (2014) offers the idea that lack of information among functionaries and elected officials at the GP level on the importance of local resource mobilization might also decrease panchayat productivity. Relatedly, there is a need to carry out capacity building programs so that functionaries know how to properly execute their assigned responsibilities, especially those related to tax collection (ibid.). Kumar et al.'s (2013) echoes this point of view when he suggests that tax collection-related functionaries like bill collectors need to face better economic and non-economic incentives. For instance, their salaries should come on time, they should be equipped with better information about tax collection, and the physical infrastructure for tax collection that the functionaries operate should be improve.

The broad topics in the literature suggests that acquiring a better understanding of how functionaries relate to service delivery and local resource mobilization efforts is key in improving panchayats' performance. While broad themes do exist, future research should aim to address the gap and suggest ways in which the devolution of functionaries can further empower Panchayati Raj Institutions.

## *Devolved Revenue: Tied and Untied Grants*

Broadly speaking, the Panchayati Raj Institutions rely on two main sources of funding for their operations: those funds provided by the State and the Central government, and the revenue raised at the local level. The first kind is composed of tied and untied grants. The former require PRIs to spend funds in a particular priority area, and the latter allows PRIs to treat funds as "fungible" and allocate resources as they see fit. Tied grants are generally used to fund Centrally and State-Sponsored schemes, such as the employment guarantee scheme NREGA (Oommen et al., 2010). Funds devolved from the Central and State governments constitute the majority of revenue available to PRIs, even though in theory the village or Gram Panchayats have the ability to raise funds from tax and non-tax sources (Binswanger-MkHize, 2013).

Much of the current debate regarding devolution of funds revolves around the relative merits of untied and tied grants. Some scholars have pointed out, for instance, that tied government grants foster compliance with national priorities (Nagarajan et al, 2014). Giving tied grants to the PRIs ensures that these institutions will be more responsible in addressing some of the most pressing needs of local constituents. Moreover, the one to one mapping between funds and functions in the context of tied funds generates more transparency and accountability, allowing different stakeholders to better evaluate the performance of the PRIs.

A number of arguments have been put forth in favor of untied grants, however. The most common one explains that tied grants do not necessarily reflect the priorities or the preferences of local bodies, thereby running counter to the very spirit of decentralization (Rani, 1999). This line of thought suggests that the autonomy of PRIs is somewhat disregarded, which misses the point of having these institutions in the first place. After all, the freedom associated with untied grants allows

PRIs to allocate funds to the services and functions that generate the most utility (Binswanger-MkHize, 2013; Nagarajan et al, 2014). Another argument states that tied funds, which are normally handled at higher levels of government, might be associated with greater corruption and ultimately reduces the funds available to local bodies (Binswanger-MkHize, 2013).

In the recent past, a body of literature has also started to emerge around the relation between whether grants are tied or not and the revenue collection efforts carried out at the local level. Some scholars point out that having tied grants encourage local governments to focus on the implementation of centrally and state-sponsored schemes at the expense of raising their own revenue (Nagarajan, 2014; Rajaraman, 2002). Others have found empirical evidence that converting tied grants into untied grants is directly associated with an increase in tax collection efforts. Empirical evidence approximates that a 1 rupee reallocation of tied funds into fungible, untied grants can raise 0.65 rupees in taxes (Nagarajan, 2014). This evidence also seems to indicate that untied grants are related to better service delivery, as opposed to their untied counterparts (Binswanger-MkHize, 2013), without necessarily specifying the mechanism that makes this true.

Taken together, the literature largely remains inconclusive with respect to which one is a more effective way to devolve funds, through untied or tied grants. But it is nevertheless clear in specifying that each avenue has different merits, and can be jointly implemented in different contexts. Some scholars do seem to come close to concluding that untied grants have the ability to crowd-in local tax revenue. In other words, untied grants might create economic incentives for PRIs to enhance their local resource mobilization efforts. This is pivotal in maintaining the fiscal and functional autonomy of local bodies.

### *Local Resource Mobilization*

Generating their own revenue is a key function for the long-term sustainability of the Panchayats. According to the constitutional amendments that formalized these institutions, PRIs have the power to collect their own funds through tax and non-tax revenue. While the constitution does not explicitly place the tax collection powers on any of the three subdivisions of PRIs (district, block, or village panchayats), all states have given de facto taxation powers to Village or Gram Panchayats (Natraj et al., 2014). In terms of tax collection, most Gram Panchayats levy house and property taxes, which comprise over 50% of their tax-revenue (Sahasranaman, 2012). They also routinely collect water and professional taxes, together making up most of the funds raised by the Panchayats themselves (ibid.). Fees and other non-tax revenue make up a negligible portion of the locally-raised resources, and often include renting out government buildings and charging fees for setting up shop at local markets.

Given that local resource mobilization has the potential to decrease PRIs' dependency on higher tiers of government, tax levying and collection has been a markedly contentious issue in the fiscal devolution literature. In general, Gram Panchayats are the third-tier institutions endowed with tax-collection powers, often times passing on some tax revenue to higher levels of panchayats (Alok, 2013). The debate that comes up relates to the legitimacy of assigning tax-collection powers to the lowest level of government. For instance, Natraj et al. (2014) strongly argue that the lowest level of government should not be in charge of collecting taxes. They point out that the strong, personal relationships between local governments and the constituents can impede tax collection efforts.

Furthermore, in order to maintain the political support of the local community, functionaries of the Gram Panchayats might choose to provide missing funds themselves rather than alienate supporters by instituting more taxes (Natraj et al, 2014; Sahasranaman. 2012). On the other hand, Binswanger-MkHize (2013) explains that local bodies are better equipped to reflect directly the wishes of the community. Even though this particular debate is still ongoing, Gram Panchayats remain the main local body in charge of collecting local taxes.

Then, there is the issue of how taxes should be levied and what the barriers to tax collection are. For some scholars, own resource generation is so important that local institutions can only be said to enjoy fiscal autonomy if it can raise on its own at least 50% of its revenue (Rani, 1999). This is presumably the very reason that the literature has paid particular attention to how taxes are structured and collected. A common opinion against levying and collecting taxes is that the tax base is simply not there: people just don't have the money. Yet, scholars like Sahasranaman (2012) contend that the tax base is so large that there is the potential for Panchayats to be significantly less reliant on devolved funds. Nagarajan et al. (2014) on their part, suggest that "it is not the lack of tax bases that holds revenue-raising back, but lack of willingness to tax." This sentiment is echoed by Kumar (2013) who highlights that local governments, especially those that are particularly close to the voters, are highly reluctant to collect local taxes. Furthermore, there is a degree of informal resource mobilization that occurs at the village level, most notably through temples for events such as festivals and community celebrations. Often, community members are able and willing to donate a nominal part of their income to ensure that temple activities continue.

These last points are of particular importance given that according to some, low-tax collection creates inefficiencies that do not allow local governments to provide key services (ibid.). Some of the main issues associated with poor tax collection efforts among the panchayats also include: outdated physical and digital infrastructure;' low administrative capabilities at the local levels; skewed incentives that encourage functionaries to focus on implementing centrally and state-sponsored schemes instead or raising their own revenue; and reluctance from the State to part with tax-levying powers even when the SFCs have made clear suggestions on how to improve the Panchayats' tax collection performance (Kumar 2013; Natraj et al, 2014; Oommen et al., 2010; Rao et al., 2011; Sahasranaman, 2012). The existing literature, in essence, has focused on those obstacles that exist from the collectors' points of view. This hints at the fact that, while there might be many challenges in getting people to pay existing taxes in practice, there is also the need to solve some political, administrative, and behavioral bottlenecks at the local government level.

Facing so many challenges in terms of local resource generation, the literature has also suggested a few key steps to improve the existing situation. Scholars have argued that matching grants should provide a monetary incentive to Panchayats to raise some of their revenue on their own (Binswanger-MkHize 2013; Nagarajan et al, 2014). While similar economic incentives have been tested in States like Tamil Nadu (Natraj et al., 2014; Rani, 2009), Nagarajan et al. (2014) emphasize the importance for States to actually follow through in their matching grants obligations. They point out that State governments have in the past offered grants that accompany tax collection targets, only to backtrack in the end and foster lack of credibility for these kinds of incentives (ibid.). Other incentives have also been tried in the past, especially targeting State governments. Alok (2013) points out, for instance, that in 2005 -2006 the Ministry of Panchayati Raj introduced the Panchayats Empowerment and Accountability Incentive Scheme (PEAIS). The purpose of this scheme was to create an accountability framework for the Panchayats and to provide Union funds for States with strong performance on devolution indexes. Some other key recommendations in order to improve tax collection at the Gram Panchayat level include having higher-level panchayats supervise the tax performance of GPs; increase the number of functionaries associated with tax-collection and build their capacity through training, economics incentives, and associated physical infrastructure; and motivating elected representatives to take more leadership in mobilizing resources through economic and non-economic incentives (Kumar, 2013).

The importance of local resource mobilization for local bodies cannot be overstated. Based on the challenges and potential solutions identified in the literature, State Finance Commissions are uniquely positioned to address these challenges by suggesting policy action. The SFCs should focus on providing concrete steps to State governments in order to address political, administrative, and behavioral bottlenecks from both the perspective of the tax collector and the perspective of the taxpayer. The following sections will detail some important findings in this respect, detailing a process map that links tax-collection and tax-paying behaviors, identifying their respective synergies and points of divergence. Based on the existing works on fiscal devolution in India and the emerging literature on behavioral sciences applied in the public sector, the report will describe concrete avenues that the SFC can use to increase tax collection and increase the fiscal independence of panchayats.

## *Decentralization in Tamil Nadu*

Tamil Nadu was ranked high on some decentralization indices in the last report. For instance, in Alok's (2013) index of decentralization Tamil Nadu ranks 5th overall and 2nd in terms of how closely it follows the mandate of the constitution compared to other states. It also ranks amongst the highest in terms of finances devolved. Interestingly, Alok points out that Tamil Nadu is particularly strong in incentivizing and assessing the performance of its local bodies, giving it a high score in terms of accountability (ibid.). In a more recent report, however, Tamil Nadu has been identified as a poor performer in terms of functional devolution, although the author suggest that this is likely due to the lack of relevant data for analysis. (Unnikrishnan, 2015).While Tamil Nadu performs well on most categories under Alok's index, it nevertheless lags behind other states in terms of functionaries. This would seem to go against a more recent report on decentralization, at least at the Gram Panchayat level.

Other studies also point toward the idea that panchayats in Tamil Nadu are well equipped to significantly finance their operations and decrease reliance on revenues from the State. Nagarajan et al. (2014) points out that in Tamil Nadu panchayats tax revenue makes up only between 0.15 and 0.2 percent of total village income, indicating that there is much scope to raise this number and multiply the amount of tax-generated income. In Tamil Nadu, the main sources of tax revenue for the Gram Panchayats are the house tax, the water charges and the professional tax. Some researches like Sahasranaman (2012) suggest that activities like undervaluing houses and keeping tax rates static from year to year might hinder local revenue mobilization in the state. One way to counteract this static tax rate is for the SFC to recommend that panchayats revise their tax rates every five years, thereby ensuring a constant and regular revision that reflects local conditions.

# Part 2. A Comparison of Functions, Finances, and Functionaries across States

This section examines the various laws and rules enacted in the 5 states of Rajasthan, Karnataka, Telangana, Kerala and Tamil Nadu for the devolution of functions, finances and functionaries. By using a variety of secondary sources in addition to the Acts, an attempt has been made to understand the legal framework within which the Gram Panchayats of these states operate. For Telangana, the Andhra Pradesh PRI Act and reports are used as it was originally part of Andhra Pradesh. Next, the actual practices that have been observed from our field work in select states are evaluated against this legal framework.

## *Devolution Indices and Rankings Used for Comparison*

The preparation of a composite index of devolution, to assess the extent to which states have provided a conducive environment for implementation of the 73rd amendment to the constitution and adhered to its provisions, has been undertaken by Ministry of Panchayat Raj, Government of India since 2006. This task was entrusted to NCAER and Indian Institute of Public Administration (IIPA) from 2006-2014 and in 2015 Tata Institute of Social Sciences(TISS) was identified to undertake this task.

This section on analysing the devolution index (DI) for the purpose of comparing the performance of states over time with regard to devolution of functions, finances, and functionaries relies mainly on two reports. These are the (i) Devolution across States 2012-2013 Report (compiled by VN Alok, Indian Institute of Public Administration) and (ii) Devolution of States report, Tata Institute for Social Sciences 2014-2015.

**1. Devolution across States 2012-2013 Report:**
This comprehensive rank evaluates each state on six dimensions with 23 indicators. These six dimensions along with their weightage to the total rankings are functions (15%), finances (30%), functionaries (15%), framework (10%), capacity building (15%), and accountability (15%). For our purpose only the performance of states along the dimensions of functions, finances and functionaries have been discussed (Alok, 2013) (Pg 94).

**Ranking based on devolution of functions:**
The list of 29 functions mentioned under article 243G have been expanded to include a total of 56 functions and the primary functions were given more weights than the secondary functions. The scores for the states regarding functions were arrived by formulating a detailed score sheet with different weights to empowerment, enablement and facilitation and preferring legislative action to executive action, for each of the indicators within the dimension (Alok, 2013) (Pg91).

**Ranking based on devolution of finances:**
A score sheet was used with descending importance to empowerment, enablement and facilitation and preference for legislative action over executive action, for various possible taxes and non-taxes. Other parameters such as fiscal transfers to panchayats in the form of shared taxes and grants, and the availability of funds with panchayats and the expenditures incurred by them are considered as a substitute for empowerment (Alok, 2013) (Pg 93).

**Ranking based on devolution of functionaries:**
The extent to which the government employees are deployed to panchayats and have been made accountable to panchayats' political executives and whether panchayats have their own employees, the powers and functions of panchayats are the factors that are captured in this dimension (Pg 93).

The framework dimension, tries to capture, whether the basic provisions mentioned in the constitution are adhered to by the States. For the capacity building dimension aspects such as the institutions involved in training, content and method of training, curriculum of training, people trained, etc. were the parameters used. For the accountability dimension, two distinct components of 'accountability' viz. accountability of panchayats to people and accountability of functionaries to panchayats have been used (Alok, 2013).

**2. Devolution of States report, Tata Institute for Social Sciences 2014-2015:**
The composite index of devolution for each state is based on four dimensions which are functions, finances, functionaries and IGT (Infrastructure, Governance and Transparency).

**Ranking based on devolution of functions:**
The ranking of States on the devolution of functions will be based on two indicators. The first set of indicators tries to capture the detailed activities under each function transferred to the PRIs. The list of functions included in the analysis covers the 29 sectoral functions mandated by the Constitution of India as well as some general and administrative functions. The second set of indicators is the institutions transferred to PRIs. The institutions transferred to PRIs were graded into three as institutions under Substantive Functional Control (SFC) of the PRI, Limited Functional Control of the PRI (LFC) and institutions Reporting to and only Receiving Recommendations from PRIs (RRR). Institutions receiving more than 50% of their budgetary allocations from the PRIs on a regular basis and whose fund releases and / or expenditure are controlled by the PRI are treated as under SFC. Institutions receiving at least part of their budgetary allocations from the PRIs on a regular basis are treated as under LFC. Other institutions which regularly report details of their functioning to the PRIs and may receive recommendations (which may or may not be considered) are treated as RRR (Tata Institute of Social Sciences, 2015: 48 – Ranking of States pdf).

**Ranking based on devolution of functionaries:**
Devolution of functionaries was based on two indicators viz., the number of functionaries at the disposal of PRIs and the composition of the functionaries. The first indicator measures the actual number of functionaries including both own functionaries and transferred, available at the panchayat. The second component covers the composition of the functionaries based on their categorization as Professional, Technical, Administrative and Ministerial. The ratio of the sum of professional and technical functionaries out of the total was considered as an indicator to assess the role of the functionaries in the development and welfare functions of the PRIs (Tata Institute of Social Sciences, 2015) (Pg 49 – Ranking of states pdf).

**Ranking based on devolution of finances:**
It measures the quantum of funds that the panchayat spent autonomously. It also measures the composition of receipts and utilization of funds from the field data receive. Based on field data two indicators were developed. They are per capita share of Union Finance Commission award in PRI receipts and per capita share of State Finance Commission award in PRI receipts (Tata Institute of Social Sciences, 2015) (Pg 50 – Ranking of states pdf).

Based on the indicators covered three indices of devolution were constructed – Devolution in Policy (DPo), Devolution in Practice (DPr) and Devolution in Policy adjusted against Practice (DPa). The Index of Devolution in Policy (DPo) uses information collected from the State Governments of every State. The Index of Devolution in Practice (DPr) uses field data from sample District, Block and Gram panchayats. The dimensions of the adjusted index are computed by taking the arithmetic mean of the respective indices of the devolution in policy and the devolution in practice (Pg 51 – Ranking of States pdf).

**Gap between the ranking of the states and field reality:**

On analysing the field results we found that there exists a huge gap between the performance of some states in these rankings and the ground reality. For instance TISS report scores Rajasthan (7) higher than Tamil Nadu (8) in overall devolution index as seen in table no.1. However, field research and our previous research experience in these two states reveal a completely different picture. Due to lack of awareness, absence of institutionalised practices, and poorly trained functionaries the state of decentralisation was poor in Rajasthan. In comparison, the level of awareness of both elected representatives and electorate was very high in Tamil Nadu.

To further illustrate, the Tata Institute of Social Sciences Devolution Report for 2014-15, it has been given a high rank in the devolution of functionaries. On the other hand, Tamil Nadu scores low on functionaries. However field research in these two states indicates that despite having adequate functionaries at the GP level, Rajasthan scores very low in tax performance and overall local development. The awareness of citizens and elected representatives regarding PRIs and their functions was poor at the GP level. In contrast Tamil Nadu despite scoring low on functionaries had better tax collection (compared to Rajasthan. Overall tax collection was low even in Tamil Nadu compared to Karnataka) and much higher in terms of local development. Knowledge and participation of both men and women in Gram Sabha was high in Tamil Nadu. Service delivery was more efficient in Tamil Nadu. Elected representatives were keen on exploring new avenues of tax collections. Further despite coming under criticism for entrusting ultimate authority over PRIs with the District Collectors, most programmes related to local development are routed through Village Panchayats in Tamil Nadu. Thus in reality Village Panchayats in Tamil Nadu are much more vibrant and active institutions compared to Rajasthan.

In the same table, we can see that despite being part of the same state, Telangana and A.P show different scores just a few months after bifurcation. The TISS report attributes these differences to the regional imbalances within the erstwhile state of Andhra Pradesh. Inter and intra-regional variation within a state is a stark reality. Peristence of pockets of backwardness within more developed districts has puzzled researchers and policy makers alike. However in this context, citing only regional variation as a posible explanatory factor for this discrepancy without exploring other factors is misleading. Further, given this finding, the report has not tried to analyse the aspect of regional imbalances further or investigate the same in other states. The report has also not tried to factor in the intra-regional variation in the constructiopn of the devolution index. This raises questions on the extent to which these measures used to determine devolution index reflect ground realities.

## *Overall Devolution Ranking of States*

| State | Devolution Across States 2012-2013 Report | Devolution in Policy, Tata Institute for Social Sciences 2014-15 | Devolution in Practice, Tata Institute for Social Sciences 2014-15 | Ranking of States in the Aggregate Index of Policy adjusted against Practice |
|---|---|---|---|---|
| Tamil Nadu | 5 | 6 | 15 | 8 |
| **Kerala** | 3 | 1 | 1 | 1 |
| **Karnataka** | 2 | 2 | 3 | 3 |
| **Rajastan** | 4 | 7 | 14 | 7 |
| **Andhra Pradesh** | Not covered in this report | 14 | 20 | 18 |
| **Telangana** | | 13 | 17 | 15 |

**Table 1.** Overall Devolution Ranking of States

A look at different reports from 2012-2013 and 2014-2015 shows the relative ranking of the different states selected for this study. Among these states, Kerala and Karnataka come out consistently at the top of the ranking, suggesting a high level of decentralization both at the policy level and in practice. While there is no information for Andhra Pradesh and Telangana in the *Devolution Across States* report, the TISS report shows these two states underperforming in devolution. This is particularly noteworthy given that overall, the rest of the states in this study are closer together in ranking than they are to Andhra Pradesh and Telangana. Tamil Nadu has a similar ranking in both reports when it comes to devolution in the policy area. According to TISS, however, this relatively high ranking does not play out in practice, showing a drop in ranking from 6$^{th}$ to 15$^{th}$. The implication is that, while Tamil Nadu is engaging the its policy apparatus in order to carry out the constitutional mandate of devolution, the implementation of associated policies has not attained its full potential. This suggests that administrative barriers, more so than policy, present a significant challenge to the success of devolution.

In order to understand which aspect of devolution that Tamil Nadu was lagging behind, we further compared the three Fs – Functions, finances and functionaries across the selected five states.

## *Functions*

Various functions can be devolved through the law, but specific activities can be devolved only through activity mapping. Due to the limited scope of the research project the analysis here pertains only to the list of functions devolved to the Gram Panchayats and does not delve into the issues of activity mapping. Govinda Rao et al. have noted that most states have enacted Conformity Acts for decentralization without giving much thought to the relevant function for the appropriate level of local governance. Hence functional devolution mostly tends to be vague with less clarity and more overlap in jurisdiction between the different tiers of the government (Rao et al., 2011).

On comparing the various State Panchayati Raj Acts we find that functions have been devolved in the most detailed manner in Kerala. Rather than restricting itself to the 29 basic functions mentioned in Article 243G of the constitution, the Kerala Panchayati Raj Act makes an exhaustive list of functions that the Gram Panchayats are responsible for. Karnataka has not only devolved all 29 functions at the Gram Panchayat level but also gone ahead and completed activity mapping for all these functions at Gram Panchayat, Block Panchayat and Zilla Parishad levels. For Andhra Pradesh of the 29 matters listed in the 11th Schedule, functions have been devolved for 12 matters whereas funds and functionaries have been devolved for 8 and 10 matters respectively at Gram Panchayat level (Rao et al., 2011).

Tamil Nadu has claimed that it has devolved all 29 functions through legislation to its Gram Panchayats, but by paying a closer attention to the nature of devolution we get a different picture. Clear and definite powers and responsibilities have been given for only 13 of the 29 functions to the Gram Panchayats. In the remaining matters, powers pertaining to planning, promotion and supervision have been given while the responsibility of implementation lies elsewhere (Annexure 1a). It has also been noted that in the case of Tamil Nadu, the Block Panchayat has a wider range of functions as compared to Gram Panchayats (Rao et al., 2011). The case of Tamil Nadu is being analyzed separately in the latter half of this section. For Rajasthan, 25 of the 29 functions have been devolved to the GPs with powers given for planning and implementation or supervision and maintenance (Rajasthan Panchayati Raj Act 1994). The four functions that have not been transferred are Khadi village and cottage industries, rural housing, poverty alleviation and adult non formal education. Through a series of circulars and executive orders activity mapping has been carried out and functions devolved. However since these are executive orders they stand the risk of being withdrawn at any time.

The following table shows the position of our selected states in the States Devolution Reports of 2012-13 (by V N Alok) and 2014-15 (by Tata Institute of Social Sciences). This gives us a picture of where the states stand over time in the aspect of devolution of functions.

| State | Ranking in terms of functions according to different sources | | |
|---|---|---|---|
| | Devolution Across States 2012-2013 Report | Devolution in Policy, Tata Institute for Social Sciences 2014-15 | Devolution in Practice, Tata Institute for Social Sciences 2014-15 |
| Tamil Nadu | 6 | 6 | 20 |
| **Kerala** | 4 | 1 | 1 |
| **Karnataka** | 1 | 8 | 2 |
| **Rajastan** | 3 | 7 | 21 |
| **Andhra Pradesh** | Not covered in this report | 9 | 12 |
| **Telangana** | | 9 | 13 |

**Table 2:** Ranking in terms of functionaries.

## *Finances*

Each state has empowered its panchayats to improve their own resource mobilization through assigning a variety of tax and non-tax sources of revenue to be collected by them. States are empowered under Article 243-H to authorize panchayats to levy, collect and appropriate taxes, duties, tolls and fees apart from giving them grants-in-aid from the Consolidated Fund of the State. Another provision, that of Article 243-I, provides for the constitution of a State Finance Commission (SFC) every five years to review the financial position of panchayats and to recommend ways of implementing the provisions of Article 243-H so as to improve the financial position of the latter. A study of over 27 different types of taxes and fees reveals that some states have assigned a wide range of taxes for their panchayats while others haven't. Among the 5 states under comparison, Karnataka tops the list with panchayats in Karnataka being empowered to levy 24 of the 27 types of the taxes and fees (Alok, 2006). This is followed by Kerala which has assigned 15 types of taxes. Panchayats in Andhra and Rajasthan have an equal share of 11 types of taxes and fees that they can levy. Panchayats in Tamil Nadu are however empowered to levy only 9 types of taxes and fees. House tax is the tax levied in all 5 states while all others are levied in a combination of 4 or lesser number of states. This analysis does not reflect the actual state of finances of the panchayats or the actual number of taxes levied on the ground. It only explains the range of taxes and fees that the panchayats are empowered to levy on their citizens.

As a result, there exists a divergence between the provisions within law regarding finances and the actual financial position of the Gram Panchayats on the ground. Across Panchayats both taxpayers and tax collectors reported that the taxes collected were limited to house tax, water tax, professional tax and shop license fee. Panchayats are however empowered to levy other taxes like advertisement tax, entertainment tax, surcharge on additional stamp duty etc. Despite reporting a financial constraint for the purpose of delivering services, the Gram Panchayats had not resorted to levying of these other taxes. This could be attributed to the reluctance of elected leaders to increase taxes as it may erode their voter base. In some cases industries and production units fall within the jurisdiction of the Gram Panchayat and they are liable to pay taxes to it. As observed from field work, units such as wind mills had defaulted on their tax payment to the Panchayats and the cases were embroiled in litigation. Such experiences can be attributed to the lack of executive order and clarity in the statute regarding tax collection in these areas.

In the sphere of finances, according to the different reports, the states rank in the following manner:

| | Ranking in terms of finances according to different sources | | |
|---|---|---|---|
| State | Devolution Across States 2012-2013 Report | Devolution in Policy, Tata Institute for Social Sciences 2014-15 | Devolution in Practice, Tata Institute for Social Sciences 2014-15 |
| Tamil Nadu | 4 | 7 | 5 |
| **Kerala** | 3 | 3 | 1 |
| **Karnataka** | 2 | 1 | 11 |
| **Rajastan** | 6 | 16 | 23 |
| **Andhra Pradesh** | Not covered in this report | 24 | 14 |
| **Telangana** | | 12 | 16 |

**Table 3.** Ranking in terms of finances.

### *Functionaries*

Although a wide range of literature exists regarding the devolution of functions and finances, there has been very little research or documentation in the area of devolution of functionaries. In the case of Kerala, a Gram Panchayat would have permanent staff in the range of 15-22 depending on size (secretary, assistant secretary, junior superintendent/head clerk, accountant, 4 Senior Clerks and 4 Lower Division clerks, peons and sweepers) The officials of other Line Departments transferred to the Local Governments include agricultural officers, veterinary doctors, medical officers, village extension officers, etc. Karnataka has created specific posts in GPs for the implementation of its various functions. In addition to the post of Gram Panchayat Secretary, a Manager or Superintendent Grade post by designating "Panchayat Development Officer" for each Gram Panchayat has been created. Furthermore, a second division grade Accounts Assistant post for the Gram Panchayats where administrative and financial responsibilities are more, have also been created (Govt. of Karnataka, 2015).

Apart from these provisions it was observed from the field work that the Gram Panchayats in Karnataka employed daily wage laborers to carry out their functions regarding water, drainage and sewage. This provided a form of flexibility and the freedom to work independently of the Block Panchayat and District Panchayat. Such a trend was not observed in any of the other states. This was because most of them had to rely on the functionaries from higher levels such as Block or District Panchayat.

Existing literature projects Kerala as the consistent leader in the aspect of devolution of functionaries among the 5 states. V N Alok's report on devolution for 2012-13 and the Tata Institute of Social Sciences report for 2014-15 have ranked Kerala 2nd and 1st respectively in the devolution of functionaries. Rajasthan was ranked 4th in Devolution in Policy and 7th in Devolution in Practice while Andhra lagged behind in both by recording a 17th in Devolution in Policy and a 19th in Devolution in Practice.

In the sphere of functionaries, according to the different reports, the states rank in the following manner:

| State | Ranking in terms of functionaries according to different sources | | |
|---|---|---|---|
| | Devolution Across States 2012-2013 Report | Devolution in Policy, Tata Institute for Social Sciences 2014-15 | Devolution in Practice, Tata Institute for Social Sciences 2014-15 |
| Tamil Nadu | 11 | 7 | 17 |
| **Kerala** | 2 | 1 | 1 |
| **Karnataka** | 3 | 12 | 6 |
| **Rajastan** | 8 | 4 | 7 |
| **Andhra Pradesh** | Not covered in this report | 17 | 19 |
| **Telangana** | | 24 | 16 |

**Table 4.** Ranking in terms of functionaries.

## *Status of Devolution in Tamil Nadu - A Closer Look*

Based on the existing literature on devolution and the insights from our fieldwork, we find that Tamil Nadu although not a laggard state, is certainly not the model state either. This section outlines the gaps or areas of concern in the devolution of functions, finances and functionaries. Possible solutions are suggested for strengthening the role of Gram Panchayats.

### Functions

As pointed out earlier, Tamil Nadu has transferred all 29 subjects through legislation to Panchayati Raj institutions. However in the case of Gram Panchayats, in 16 of these 29 functions only powers of planning, promotion and supervision have been given while the authority of implementation lies elsewhere. Some of these functions include rural electrification, health and sanitation, watershed development, roads, culverts, bridges etc. (Rao et al., 2011). Concrete powers of implementation have been given only in the rest of the 13 functions. These include poverty alleviation programs, women and child development, welfare of weaker sections in particular Scheduled caste and Scheduled Tribe, public distribution system etc. (Annexure 1.a.)

This gap in devolution of functions to Gram Panchayats (between the 29 devolved through legislation and the actual devolution on ground) has been aptly captured by the TISS report with a 6th rank in Devolution in Policy, and an abysmal 20th in Devolution in Practice. *However the extent to which this reflects reality is debatable as the set of tables indicating the devolution of functions according to primary, secondary and tertiary sectors show Tamil Nadu scoring 0 in all three categories* (Tables 3-1 to 3-3, TISS Report, 2015 :88-90). Even the data on functional control has not been provided by Tamil Nadu giving it a score of 0, although in this category even Karnataka, Telangana and A.P score 0 while Rajasthan has provided some data for block and district level and Kerala has provided data for all three tiers thus scoring high (ibid.,pp91, Table 3-4). This clearly indicates that the state has been amiss in providing appropriate data in a timely manner thus resulting in a misleading depiction of its devolution efforts.

In this context, it is useful to examine the role that the State Finance Commission can play in strengthening not only the devolution of functions to Gram Panchayats but also to set up a dedicated e-portal with up-to-date data that is easily accessible for research purposes. This aspect is covered in greater detail later in the report. . Considering that a mere strengthening of finances will not let Panchayats to function independently, a larger question of the scope and ambit of the State Finance Commission needs to be explored to address the issue of functional devolution in its recommendations.

### Finances

Past experiences in devolution of finances show that Tamil Nadu has been performing consistently well in the devolution of finances. For the 2012-13 period Tamil Nadu ranked 4th, while during the 2014-15 period it ranked 7th and 5th in Devolution in Policy and Devolution in Practice respectively. Although the Gram Panchayats have reported a lack of funds, it seems to be due to the presence of a soft budget constraint and the lack of political will on the part of panchayats to increase the share of own resource mobilization. This is made evident from the responses of both the taxpayers and tax collectors that there exist no stringent measures to ensure tax collection. The tax base is also relatively small when compared to the wide range of taxes that the panchayats could potentially levy.

In the case of Tamil Nadu, panchayats are empowered to levy a wide range of taxes such as entertainment tax, advertisement tax, tax on agricultural land, surcharge on additional stamp duty etc. (Alok, 2006). However it was observed from our field work that only a few of these taxes such as house tax, water tax and professional tax are levied. Hence in the realm of finances, the State Finance Commission could recommend measures to increase the amount of own resource mobilization either through incentives for taxpayers or by ensuring a transparent mechanism for collection and utilization of funds. This could instill faith in the tax collection process in the people and ensure greater compliance.

**Functionaries**

Although Tamil Nadu ranks 7th in Devolution in Policy for 2014-15, the on-the-ground experience is that the Gram Panchayats do not have adequate functionaries to carry out their functions. Field research in Tamil Nadu showed that for activities such as tax collection there are only a small number of functionaries for the entire Panchayat leading to overburdening of work. The rank for Devolution in Practice for functionaries reflects this by assigning Tamil Nadu a dismal 17$^{th}$ for 2014-15.

The comparison table 3-5 showing distribution of functionaries per 1000 population across tiers in the TISS report ( pp. 92) shows T.N scoring higher than Karnataka in the devolution of functionaries per 1000 population. While Karnataka's scores are 1.64(own)+ 0.04(transferred) giving it a total score of 1.68, Tamil Nadu scores 1.9(own) + 1.9(transferred) giving it a total of 3.8. This is misleading as the size of the GPs in these two states differs significantly. In Tamil Nadu GPs were created for single village whereas in Karnataka the GP size is around 5-7000 population making it a group of villages. Thus calculating the number of GP level functionaries per 1000 population is likely to depict a distorted picture in such situations.

Summing up, given these glaring gaps, the extent to which the devolution index is then a true indicator of the degree of decentralisation becomes debatable. Further the data problem, both in terms of availability of local level data and also tardiness of state governments in furnishing available data, makes the construction of a solid devolution index difficult. In addition self- reporting by states adds another layer of complexity to the process. It is noteworthy that the TISS report makes an attempt to bridge the gap between policy and practice, but it still fails to capture the complex nuances of the process of devolution at the field level. For instance, even though normatively Village Panchayats in Tamil Nadu might not score high on devolution index and may not be true institutions of self- governance, but substantively they can be considered as an important third tier of governance that have emerged as efficient institutions for service delivery and other welfare schemes. The general criticism that local bodies function as mere extension of the bureaucracy by focussing only on service delivery is belied by the intense debates in the gram sabha between citizens( both men and women) and the elected representatives that are a constant feature of decentralised governance in Tamil Nadu.

# Part 3. Field Work Results and Analysis

In order to better understand the linkages between finances, functionaries, and functions, the research team carried out field work of limited scope in a number of panchayats across different states. The team focused on a sub sample of three states, namely Karnataka, Tamil Nadu, and Telangana, choosing two Gram Panchayats from each state. Field investigators talked directly to panchayat functionaries using a structured questionnaire related to bank accounts, devolved funds, own-resource generation, and problems in service delivery.

Because of limited amount of time and the difficulty in obtaining uniform data on panchayat across states, the research team focused on three key functions: water delivery, drainages, and roads. Another reason for choosing these three basic services was that these functions largely depend upon untied grants, a proportion of which is derived from tax collection. Since the amount of tax collection is linked to the quality of service delivery, by understanding the existing gaps it is possible for the SFC to explore policy interventions in order to break this deadlock. Through these three functions the research team aimed to map functionaries and finances, and tried to highlight common trends among panchayats from different geographical locations.

A similar attempt to map functions and funds by TISS report (2015) was not successful given the fuzzy nature of the data. We also faced similar problems. However, we have attempted to map the three services with associated funds and functionaries with the data collected from field research.

A caveat is in order here. Given that there is a wide variation in size, composition and powers of GPs across states, an accurate cross comparison of GPs was not possible. In addition the sample size was too small to make useful comparisons. This exercise was undertaken mainly to provide a rough understanding of - a) the extent to which basic functions match with funds and functionaries at the local level and b) to assess the level of awareness regarding this among GP staff and representatives and to understand the associated problems from their perspectives.

## *Field Impressions*

The general complaint that there is lack of reliable data at the lower level was reinforced during our field work. The process of trying to match functions with finances for the three basic services identified above was quite a difficult task mainly because to a large extent these services rely on untied grants funded through SFC grants and own resource mobilization. It was not only the field investigators who found it arduous but even for the panchayats this task was challenging. Lack of clarity and unstructured, inconsistent data at the lower level as identified by Govind Rao et al. (2010) was clearly visible in the field.

An assessment of the top three development problems facing GPs in three states indicated that in general with the exception of Karnataka GPs, the other two states still faced problems related to water provision. In Tamil Nadu roads and electricity were the other two problems highlighted by the GPs. Water sanitation, roads and housing topped the list in Telangana. On the contrary, in Karnataka connectivity seems to be a major problem, with the GP indicating problems related to transport and roads as the top two problems followed by sanitation and housing. Basic services such as water and electricity did not feature here. However, it is not possible to generalize from this given that we were collecting this information from only two GPs. The comparative analysis here is limited to the six GPs studied and does claim not reflect the State-wide realities.

Across states own resource mobilization has been spent for the provision of basic services and not for social sector spending like long term investment in health and education infrastructure. Hence making the link between local resource mobilization and expenditure on service provisioning more explicit and public would increase the transparency and accountability of the Panchayati Raj Institutions. This in turn could lead to greater faith in these institutions resulting in greater tax collection and resource mobilization. Tax revenue is mostly used for activities related to drainage, repair works, and road construction with occasional maintenance. In the majority of cases, taxes are deposited in the same account as devolved untied grants and fund common activities. This might support the idea in the literature that untied grants can crowd-in extra tax revenue for functions that better reflect local priorities and preferences.

One of the criticisms against GPs has been their inability to fully absorb devolved funds leading to unutilized funds in their accounts every year. The GP staff and presidents we spoke to were aware of this lacuna. They were also aware that they were allowed to utilize the balance funds during the next fiscal year. However the fact that the unutilized funds from the previous year could only be used for the purpose for which it was earmarked seemed to act as a deterrent. It was generally felt that the unutilized funds should become part of untied grants allowing GPs much broader scope for expanding it. In almost all panchayats, the officials stated that the funds were not enough, especially for functions related to sanitation (including drainage), electricity, and housing. In order to use unutilized funds, most panchayats generally need to get approval either from the Gram Sabha or higher levels of government, like Zilla Panchayats.

Our attempt to map three basic services like water, drainage and roads to finances and functionaries revealed the existing gaps particularly for Tamil Nadu. We found that in general GPs do not have enough functionaries to carry out all the functions assigned to them. In the absence of devolution of more functionaries, the burden on the GP secretary is likely to increase and lead to inefficient governance. This was particularly true in case of Tamil Nadu.

| Services | States | Karnataka | Telangana | Tamilnadu |
|---|---|---|---|---|
| Water | | - President , PDO Secy, JE & waterman take care of most functions related to supply and maintenance. Construction – higher tiers – ZP etc<br>- Funded through OSR, 14th FC, state Dinking water scheme | - Panchayat secretary is in charge and the works approved by Village level committee of ERs and President. Supervised by block level engineering dept<br>- Functions funded mainly through SFC grants , OSR and Mandal Praja Parishad. | President and secretary in charge of supply and maintenance. Overhead tank and new connections. – engineering dept<br>- Functions financed through SFC and UFC grants as well as water taxes. |
| Drainage | | PDO, and JE responsible for construction of drains. Cleaning using daily wager or sweepers...President, and Secretary.<br>- Funded through tax revenue and UFC grants and Swatch Barat Mission grants | Panchayat secretary in charge but construction works taken up by Mandal Parishad Development Officer, and engineering works. Only cleaning down at GP level.<br>- Funded through Mandal Parishad and SFC grants. | President and secretary in charge of drainage construction, & monitoring . Engineering dept takes care of other works.<br>- Functions funded by a combination of tax and non-tax sources as well as SFC grants. |
| Roads | | All road info entered into MIS and can only be taken up if it matches the list. Only pot holes are taken care of with GP funds.<br><br>All other works done by higher levels using MNREGS funds<br>. | Secretary and contractor handle the functions with the support of the Assistant and Assistant Executive Engineers.<br>- Funded through MLA, MP, SFC grants and Panchayat funds. | - President, & Secretary in charge of fixing pot holes. Area Development Project Officer , engineering dept in charge of laying creation and supervision of roads.<br>- Funded through taxes, MLA, and SFC grants. |

**Table 5.** Combined mapping of finances, functions, and functionaries for three states.

## Water

Of the three states, only Tamil Nadu seems to have a separate bank account to deposit water tax collected from its citizens. The money deposited into this account (through water tax and grants from TN Water board) could be used only towards water related projects/schemes. Similar arrangement was not visible in other two states. In Telangana where water was cited as one of the major problems facing the rural citizens, GPs are completely dependent upon SFC grants to deal with issues related to water supply and maintenance. In fact, SFC grant forms the major source funding for water related activities across all three states, especially as the tax collection is generally poor in these GPs.

While dedicated watermen carried out basic functions related to water supply in Karnataka and Telangana, a similar position is not available in Tamil Nadu. Here only the overhead tank operator was appointed to take care of issues related to water tanks. In Tamil Nadu, lack of adequate functionaries was visible in the way Village Panchayat president and secretary seem to be the main functionaries named as being responsible for all issues related to basic services. Both in Tamil Nadu and Telangana, block level officials and the engineering department seem to deal with technical works such as construction of overhead tanks or laying bore wells etc. In Karnataka, Panchayat Development Officer and the President supervise most works. However, even in Karnataka certain engineering works, beyond a permissible budgetary limit, have to be implemented through block or district level engineering department.

Trying to map water related functions with finances and functionaries indicates that excessive reliance on untied grants from SFC and own resource mobilization makes it difficult to track the flow of funds because of the fungible nature of these accounts. The mapping process of water related functions also shows the inadequacy of functionaries in Tamil Nadu compared to other two states.

**Drainage**

Drains were funded through own resources, UFC, and SFC grants in Tamil Nadu; SFC grants and Mandal parishad grants in Telangana and own resources and UFC grants in Karnataka. In Karnataka and Telangana contract laborers were hired on daily wages to deal with the problems related to drainages and maintenance work was carried out under the supervision of PDO and GP president in Karnataka. In Tamil Nadu it was mentioned that president, vice president and secretary oversee the work. A sweeper is appointed to do maintenance work. Major works were undertaken by the Block level officials. Lack of committed funds for drainage works and exclusive dependence upon SFC grants and own resources (over which there are competing claims) imposes certain limitations on the extent of works that can be undertaken. The mapping process once again exposes the staff shortfall in Tamil Nadu GPs.

**Roads**

In Karnataka the responsibility of fixing potholes in roads within the Panchayat area rests with the GP. Contract workers are hired for this purpose and the quality of work is monitored by the PDO and the president. UFC and other scheme like MNERGS funds are used for this purpose. In Karnataka, all road information has been entered into the MIS system making it centralized. GPs have to take up road works based on the prioritization as entered in the MIS. However, in Tamil Nadu and Telangana, higher tiers of governance particularly the block level officials seem to be more involved in laying of new roads and are supervised by the assistant engineers. MLA Area Development fund and SFC grants are used for this purpose. In Telangana, in addition to MLA Area Development fund, MP Area Development Fund, and Mandal Parishad funds are the major sources of funding for projects related to roads and their maintenance. Maintenance is taken care of by the GP and SFC fund and is monitored by the GP secretary. Other activities are carried out by the engineering staff from Block panchayat office.

Although GP has control over carrying out road works within the Panchayat area in Karnataka, it was in these GPs that problems of roads and transportation were prioritized as being important. Possibly the problem was related to connecting roads that are under the purview of the Taluk Panchayats and not GPs. The field research indicates that in Tamil Nadu devolving more powers over road construction/maintenance to GPs might be a more efficient option.

**Comparison of Functionaries Employed at the Gram/Village Panchayat Level**

| Functionaries | States | Karnataka | Telangana | Tamilnadu |
|---|---|---|---|---|
| 1. **Panchayat Development Officer** | | **1** | **0** | 0 |
| 2. Secretary | | 1 | 1 | 1 |
| 3. Asst. Secretary | | 0 | 1(or) | 0 |
| 4. Bill Collector | | 1 | 1 | 0 |
| 5. Computer/Data Entry Operator | | 1 | 0 | 0 |
| 6. Water man | | 1 | 0 | 0 |
| 7. Cleaner/Sweeper | | 1 | 1 | 0 |
| 8. Office attender | | 1 | 1 | 0 |
| 9. Junior Superindent/head clerk | | 0 | 0 | 0 |
| 10. **Accountant/ Second Division Accounts assistant** | | 1 | 0 | 0 |
| 11. Clerks - Senior and LD | | 0 | 0 | 0 |
| 12. Pump Operator/Overhead tank Operator | | 0 | 1 | 1 |
| 13. Peon | | 0 | 0 | 1 |
| 14. Electrician | | 0 | 1 | 0 |
| 15. Plumber | | 0 | 1 | 0 |
| 16. **Junior Engineer** | | **1** | **0** | 0 |
| **TOTAL** | | **9/16** | **8/16** | 3/16 |

**Table 6.** Potential vs. actual number of functionaries at the GP level.

We collected data on the number of potential functionaries vs. the number of functionaries that actually exist at the Gram Panchayat level for three states: Karnataka, Telangana, and Tamil Nadu. The data suggest that out of the potential 16 functionaries for the GP, Tamil Nadu on average only has three, namely the Panchayat Secretary, a Pump Operator or Tank Operator and a Peon. This is less than half the number of functionaries in the other two states and less than a fifth of the total potential functionaries. In Karnataka, JE is a new recruit and s/he are in charge on 3-4 GPs. Except Tamilnadu, the secretary, PDO, JE and Accounts Assistant in Karnataka and Telangana( secretary ) were state government employees. All other functionaries were employed and paid by the GP. In Tamilandu , all three functionaries were employed by the Village Panchayat.

The subject of devolution of functionaries in Tamil Nadu is a political issue. Several village panchayat presidents that we spoke to were against any functionaries being deputed by the state government to the village panchayat. This was seen as interference from the state government and a potential bureaucratization of the process. Such sentiments were unique to Tamil Nadu. In Karnataka and Telangana, the village panchayat presidents wanted more staff to be devolved by the state. Some bureaucrats argue that the absence of deputed state level employees at the village panchayat may also be viewed as a highly decentralized practice. However, this argument would gain strength if it was accompanied by the devolution of additional grant for hiring local staff by the Panchayats. The fifth SFC should seriously consider devolving special or additional grants for hiring functionaries at the local level.

### *Panchayat Data Sources*

Of the three states, Karnataka has a sophisticated Management Information Systems (MIS) with a special Panchathanthra portal which is a dedicated data bank on panchayats which is publicly available (http://www.panchatantra.kar.nic.in/stat ). Telangana also has made an attempt to introduce e-panchayat MIS portal to modernize its Panchayat database. This is still at a nascent stage. For instance, the link on house tax is still outdated and data entry is patchy with different GPs showing entries for different years.(http://epmis.telangana.nic.in/). In contrast the Tamil Nadu Rural Development and Panchayat Raj department website seems rudimentary (http://www.tnrd.gov.in/) . While there is a strong administrative data base in Tamil Nadu, this has not been made available publicly leading to large data gaps. There is an urgent need to modernize the database to ensure more cohesion in linking devolution of funds with functions. Further, to an extent, the poor ranking that Tamil Nadu gets in the TISS report compared to Rajasthan, can be attributed to the poor data base and the blank entries for certain indicators in the TISS report. The SFC may consider allocating dedicated funds for the upgrading of MIS for the Department of rural Development and Panchayat Raj and also ensuring that adequate staff support is provided to ensure that such lapses are not repeated.

### *Existing Gaps and the Implication of 14th UFC recommendations*

Across these three states, GPs were excessively reliant on SFC grants and own resources for service provisioning. Untied grants were predominantly spent on taking care of basic service delivery. In some states, staff salaries are paid out of this budget. In Karnataka, the state government deducts the electricity charges due from the GP before releasing the grant amount. This further shrinks the already limited funds available for service delivery. Further, GPs have been constrained to prepare budget estimates and prepare village development plans based on the tax demand projections and not the actual amounts collected. More often than not, these demand projections are not realized leading to deficits in budgets earmarked for service delivery. One of the reasons for this shortfall is the poor and inefficient tax collection by the panchayats across states that are far below the estimated projections.

Consequently, competing claims on an already limited budget has resulted in uneven and inefficient basic service provisioning. Ironically, this further leads to poor tax collection as citizens' willingness to pay taxes is strongly linked to efficient service delivery leading to a vicious cycle. Further: even within the untied grants separate budgets are not strictly allocated for provisioning of different services. Hence, untied grants end up as fungible budgets that gets expended based on demands ( of all types) rather than felt needs or actual service deficits. While fungible budgets provide panchayats with some flexibility to adapt to the local needs on the one hand, on the other, the same flexibility can also potentially lead to lack of accountability and patronage. All these problems have produced the existing gap between basic functions and finances in rural panchayats.

Although limiting, to an extent this has also forced GPs to ensure some basic tax revenues. However 14th UFC's plan to devolve untied grants to the panchayats is likely to mitigate this problem of scarcity of untied grants for basic service provisioning. But the implications of such a measure on social sector development in rural areas are worth debating. Specially as without mandated guidelines from above, the extent to which Panchayats will voluntarily spend untied grants on politically unattractive domains such as health and education is a cause for concern. The

5th SFC might have to bring in some measures of control to ensure that social sector investments are not compromised at the local level. A mid-term assessment of the ways in which GPs are utilizing UFC funds might be needed. According to the literature access to united grants is likely to crowd-in tax revenues as mentioned elsewhere. However, access to untied funds also ensures that GPs will no longer be dependent upon their citizens for tax revenues. This has the potential of damaging the process of accountability that the tax system fosters between citizens and the state. The next section deals with the issue of problems of tax collection in greater detail.

# Part 4. Local Resource mobilization – Challenges and Opportunities

Local resource mobilization, particularly tax revenue, is essential for the legitimacy and sustainability of local governments. According to the literature, the process of mobilizing tax revenues through social contract between citizens and the local state leads to increased transparency and accountability in local governance. Dependency on tax revenues ensures that local governments are more responsive and accommodating to the needs of its citizens and willingness to pay taxes on the part of the citizens provides them with a voice to demand better service provisioning and accountability (Moore et al., 2008). While in theory this proposition sounds ideal, the political economy of mobilizing local tax revenues is complex and beset with several problems. Global accounts of experiences related to local tax mobilization indicate a series of common, recurring barriers such as lack of trust due to lack of transparency and fairness in the process, lack of political will and so on (DLGN, 2014).

The quick and dirty qualitative research undertaken as part of the SFC study to assess various problems related to local resource mobilization in five states echoes all of the above difficulties seen in other developing nations. The qualitative research, through a series of Focus Group Discussions (FGDs) with different sections of the rural society, tried to assess the various concerns associated with local tax payment both from the tax payer's perspective as well as understanding it from the tax collector's viewpoint.

## *Tax Collection–Service Delivery Conundrum*

House tax, water tax and tax on streetlights are the most commonly paid taxes by the rural citizens across Karnataka, Tamil Nadu and Telangana. In Tamil Nadu villages some sections of the population paid professional tax, and others who owned land and shops paid land tax and shop license fee. Generally, the GP does not serve any notice to the citizens to pay taxes and there is no specific time during which the taxes are expected to be paid.

In Telangana and Tamil Nadu GP secretary/clerk visits each house and collects the taxes. In Tamil Nadu at times the GP clerk sits at a designated place and the sweeper/peon working for the GP goes door to door informing villagers to pay taxes to the clerk. In Karnataka the bill collector has the specific job of collecting taxes.

While the taxes are expected to be paid annually, there are instances where some people have defaulted and paid 2 to 3 years tax backlog at a time. Nobody pays taxes on their own volition. In Telangana, Tamil Nadu and Karnataka some members of the SC community felt that they should get exemption from paying taxes as they are poor. Across the three states, in general, women's groups did not have much information about taxes.

Across all three states studied, the issue of tax payment was inexorably linked to the quality (and quantity) of service delivery conforming to the global trend. Citizens were willing to pay taxes ( at times even higher taxes) if service delivery is improved, regular and transparent. In Karnataka villagers were aware that the village infrastructure development and maintenance can be done only if taxes are combined with the grants that come from the government for such purposes. But it was generally felt that if the work undertaken is done transparently and without any corruption then citizens would not mind paying taxes even if it is increased a little more. People default on their payment if they do not have adequate street lighting, road connectivity and drainage services. For instance, in one of the study villages in Tamil Nadu villagers were not paying water taxes as the water supply was irregular and inadequate.

## *Main Barriers to Tax Payment – Citizens' Grievances*

In all three states, rural citizens expressed an ***acute lack of clear information*** with regards to tax payment. People wanted concise information regarding the types of taxes being levied, mode of calculating the taxes, time of payment and so on. Some felt that the Gram Sabha should inform people regarding the need to pay taxes and increased awareness would lead to increase in tax payment. In Telangana, ***timing*** was cited as one of the main reason for non- payment of taxes. But even in other states people thought that since there was no specific time period within which the taxes need to be paid, when the functionaries came to collect taxes, people did not have surplus cash at home to pay taxes and when they do have the money, they often forget to pay the taxes as there is no culture of tax payment in the villages. It was proposed that if the collection was done after the harvest season then people would pay more promptly. In Karnataka villagers felt that they should not be asked to pay taxes suddenly. Instead GP should announce through street plays, wall writings etc. so that citizens are aware and ready to pay when the bill collector visits.

In Tamil Nadu, the poor payment was attributed to ***high taxes***. Revised house tax rates were steep compared to earlier rates and this high amount acted as a deterrent for paying taxes. While a number of reasons were cited for defaulting by the citizens towards tax payment, a common complaint that emerged across the states was that there was a lack of uniform, formal procedures/process of tax collection. People felt that lack of a stipulated time period for paying taxes; collection was done arbitrarily by the GP functionary when he had time giving little choice to the citizens to apportion a part of their income towards tax payment. Further the absence of strict punitive measures for defaulting on tax payment has resulted in citizens not treating this matter seriously. This is an interesting aspect of tax behavior that has not merited the attention that it deserves. Lack of formal procedures and flexibility in processes related to tax collection was cited as one of the main reasons for poor tax collection by the citizens. In contrast, rural citizens in Karnataka, Tamil Nadu and Telangana pointed out that the contributions to the local temple related activities initiated by informal/traditional panchayats were paid more scrupulously as they were time bound activities with formal protocols for payments which were strictly enforced. There was also more trust between the village elders/traditional leaders and citizens and the decision regarding the amount to be levied and the process of collection was transparent as these were taken in consultation with the villagers.

This is an interesting contradiction. While formal institutions through their informal and flexible processes of tax collection were being ineffectual, in contrast, their informal counterparts - the traditional panchayats, through formal and strict process of raising contributory funds for temple related activities, had become more effective in raising local resources.

**Informal resource mobilization**

The role played by informal/traditional panchayats in local resource mobilization has remained under-explored in most rural research. In general, in four of the states studied, informal panchayats were involved in some form of resource mobilization for religious purposes. These may include organizing religious festivals, repairs to old temples or building new temples in the village. However, earlier research in Karnataka indicates that a number of informal panchayats have used the surplus funds from religious activities, festivals and fines for development or "social" activities such as cleaning the roads/drainages, or donating stationery to the local school. Some informal panchayats had contributed to village development by donating or soliciting donations of land from villagers for building schools, anganwadis (pre-schools), or community halls. Informal panchayats are not always successful in mobilizing resources for development purposes.. However, a few informal panchayats in Karnataka have managed to raise resources for development projects initiated both by informal panchayats and GPs (Ananthpur, 2004).

Given the current focus on the use of behavioral sciences as a tool to understand and serve people better (The World Development Report, 2015;White House Press release, 2015), the demand for formal and strict procedures for tax payment by rural citizens provides interesting insights and pointers for designing appropriate interventions.

## *The Other Side of the Coin – Tax Collectors' Travails*

The demand for more formal mechanisms for enforcing tax payments was also articulated by the GP functionaries who are entrusted with the task of collecting taxes. Top three barriers to tax mobilization according to the GP functionaries were – a) lack of adequate staff dedicated to the collection of taxes; b) inability to enforce tax collection measures strictly due to political pressure and lack of authority; and c) lack of awareness among citizens regarding the importance of tax payment & the need to pay taxes for better service provisioning.

Across all three states, the GP members and staff linked poor service provisioning to low tax collection. It was generally felt that since the untied grants to provide services were limited, there was a need to augment the budget through local tax collection. However poor response to tax collection processes has led to a low resource base which in turn has resulted in inadequate service provisioning in the panchayats.

The lack of adequate number of ***dedicated functionaries*** to collect taxes/raise awareness/ follow up visits etc. is a major constraint for effective tax mobilization. Among the three states, Karnataka had a dedicated staff, the bill collector, to collect taxes. However, in states like Telangana and Tamil Nadu there was no special/dedicated staff to collect taxes. The GP secretary or clerk, in addition to all other duties and responsibilities, were entrusted with the task of collecting taxes. This has put an inordinate pressure on these staff resulting in inefficient tax collection

The need for ***more authority*** to strictly enforce tax measures and levy penalties on defaulters was felt in Telangana, Karnataka and Tamil Nadu. In both Telangana and Tamil Nadu, it was felt that the welfare schemes of the state and benefits such as BPL cards, subsidies and other facilities should be linked to tax payments and benefits should be withdrawn if there is default. However in

Karnataka the GP functionaries were already using this tactic. Access to welfare schemes, subsidies and/or authentication of papers by citizens in these GPs was conditional upon payment of their tax dues and obtaining a no due certificate from the GP. Citizens in Karnataka seemed resigned to this even though they complained about the use of such coercive measures of tax collection.

In Karnataka it was felt that if the SFC came out with stringent measures/guidelines regarding tax collection process, it would help the GPs. It was felt that GP functionaries should have more authority to ensure tax payment such as cutting off water supply where water tax was not paid and so on. Strict enforcement of penal measures would help increase tax collection. In Tamil Nadu the poor households do not pay taxes regularly. The GP functionaries feel that the availing of the welfare benefits and schemes by the government should be linked to increase tax collection. This strategy had successfully been used earlier when in order to avail free televisions that was announced by the government the villagers had to pay all their taxes and dues. This had helped in increasing tax collection. Like Karnataka the TN GPs want the authority to cut off the water supply in case of non-payment of water tax. They fee that since water is a necessity, cutting off water supply will ensure that people will pay their taxes on time.

The need for more ***awareness creation*** to citizens regarding tax payment was felt in all the states. Both GP staff and members also spoke about the need for creating more awareness regarding tax payment using various audio-visual tools including street plays etc. Awareness could be created using advertisements as well. It was felt that the government should help in organizing a monthly meeting to inform the people about the importance of tax, its uses and the need for them to pay it regularly. As of now the awareness regarding the need for tax is low. If the awareness is increased, tax collection would also increase.

However, the need for awareness is not limited to citizens alone. On the contrary there is a need to give more awareness and training even to the GP staff in various aspects related local resource mobilization, particularly tax revenues.

The problem of poor-tax payment is further exacerbated by the ***lack of political will*** to strictly enforce tax collection measures by local politicians. Given the proximity to the electorate, the elected representatives are often reluctant to enforce punitive measures to defaulters. Consequently, even those paying have little incentive to pay taxes regularly. Some rural citizens also bring in political pressure from higher tiers to prevent GP from enforcing tax collection measures strictly.

***Direct Presidential election - a deterrent to effective tax collection?***

The qualitative FGDs with citizens as well as service providers indicate that the willing ness to use strong measures to collect taxes seems absent in Telangana, Tamil Nadu and Rajasthan where the GP president post is directly elected. GPs in Karnataka and Kerala, where the president is indirectly elected, by linking access to government benefits and services to tax payment, had ensured a better tax collection compared to other states. It would be interesting to quantitatively test this hypothesis by testing the correlation between tax collection and the nature of election to president's post.

## *Comparison of House Tax Collection across Three States*

In order to understand the process of tax collection in detail, we chose house tax collection as a proxy and compared the entire process of calculation, levying and collection across three states. While other taxes like water or street lights are linked to the quality of the service, house tax is a mandatory tax that all rural citizens are expected to pay. House tax was one of the taxes that had been levied and paid by rural citizens across all three states allowing for comparison.

### House Tax Calculation

**Karnataka** – House tax is one of the local taxes collected by the GPs in Karnataka. Although the G.O mandates calculation of taxes based on a prescribed rate per sq.ft according to the house type, in the villages studied, the GP continued to levy house tax based on a fixed rate.

| House type | Fixed rate being collected | Prescribed rate by the govt. |
|---|---|---|
| Hut | Rs. 25/- & 80/- | Rs.1/sq.ft |
| Ashraya/Janata house | Rs. 100/- | Rs.1.25/sq.ft |
| Red Tiled kacha house | Rs. 150/- & 175/- | Rs.2/sq.ft |
| Red Tiled pucca house | Rs.175/- & 250/- | Rs.3.20/sq.ft |
| Tiled house | Rs. 200/- & 300/- | Rs.4/sq.ft |
| RCC house | Rs.250/- & 500/- | Rs.4.75/sq.ft |

**Table 7.** House tax in Karnataka.

Despite the prescribed rate by the state government, the GPs studied continued to levy a flat fixed rate based on house type. The reason attributed to this was that the region had been facing drought conditions and people were already burdened by crop losses and hence would not be able to afford higher taxes. The two villages studied belong to two different GPs located in two different blocks( talukas) within the same district. However, there was a slight variation in the tax (fixed rate) being levied in these two villages. Ramanakoppa GP levied slightly higher house taxes across all categories except houses built under government schemes compared to Mukkal GP. According to the GP secretary, the house tax was revised in 2012-13 by the government. The GPs have increased tax by a flat 5% instead of the revised rate prescribed by the government.

**Tamil Nadu** – In Tamil Nadu GPs the house tax levied is much less systematic compared to Karnataka. Unlike Karnataka, in Tamil Nadu only 2 to 3 categories of houses are identified for taxation. Even this system is not uniformly followed. Variation in the format used for calculation of house taxes was seen within a district. While a flat fixed rate is being levied both for thatched huts and tiled houses, the assessment of pucca houses are done on the basis of land values fixed by the government. There are instances where calculations were done based on plinth area.Only in the case of pucca houses the taxes are calculated strictly.

| House type | Fixed rate being collected | Prescribed rate by the govt. |
|---|---|---|
| Thatched house | Rs. 50/- & 55/- | Rs.50 |
| Tiled kachcha house | Rs. 50/- & 55/- | Rs. 50 |
| House with asbestos sheet | Rs.55/- | Rs. 55 |
| Pucca house | Rs. 70/- to 80/-& 110 to 150/- | Rs. 200 |

**Table 8.** House tax in Tamil Nadu.

The house tax levied is much less in Tamil Nadu compared to Karnataka - except for taxes on huts which are fixed at a slightly higher rate, the other slabs are fixed at a lesser rate than Karnataka GPs. House Tax has not been revised in this district since 2013 and is expected to get revised in 2106 -17 according to the Panchayat clerk.

**Telangana** – Telangana presents an interesting case. According to the GP secretary interviewed, two years back when it was still part of Andhra Pradesh, the house tax collection was almost negligible. People would refuse to pay house tax. But since it has become part of Telangana state, there has been strict instructions from the state government which has led to an increase in house tax collection. Telangana Government has fixed values per sq. ft for various categories of houses based on the house type. 0.15% of the total value of the house is calculated as the house tax. The tax revision was carried out in 2013.

| House type | Prescribed rate by the govt. |
|---|---|
| Hut | 0.15% of Rs.40/sq.ft |
| Tin shed house | 0.15% of Rs.180/sq.ft |
| Mud house | 0.15% of Rs. 120/sq.ft |
| RCC house | 0.15% of Rs.410/sq.ft |

**Table 9.** House tax in Telangana.

## House Tax Demand and Compliance

Across three states, only Telangana seems to have a higher rate of compliance compared to the other two states. In the Karnataka GPs studied, the compliance was barely 10% of the total demand. In Ramankoppa for the year 2014-15, GP the demand was Rs.11,10,300 and the compliance was only Rs.1,92,300. Similarly for Mukkal GP the demand was the demand was Rs.10,13,000 and the compliance was only Rs.1,43,793. In contrast, the house tax collection is Telangana seems to have improved drastically from almost negligent amount to nearly 50%. In Kuchnerla GP the demand for 2014-15 was 1.5 lakhs and compliance was Rs. 74,700.00 and in Mudmala GP the demand was 1.25 lakhs and the compliance was Rs. 98,600/- While the compliance rate seems impressive, it is worth noting that the total demand in both Telangana GPs is the same as compliance amount reported in Karnataka. The demand reported in Karnataka is almost 10 times more than that reported in Telangana. However such comparisons are misleading as they conceal an important difference between these GPs. Unlike its neighboring states where the size of the gram /village panchayats[1] varies widely based on the population( as it is based on one village-one panchayat system), in Karnataka[2] a single GP( as per the original is constituted for a population of 5-7000 people. This invariably means that each GP has a minimum of 3 to 4 revenue villages under its jurisdiction rendering it much larger than GPs in either Tamil Nadu or Telangana. This makes comparison difficult.

Despite these differences, in Tamil Nadu the figures reported under house tax seem to be problematic. House tax collection was poor with only Rs. 57,600/- per year in Jangalpatti and Rs. 48,090/- per year collected in Ehakovil for 2014-15. The demand-compliance comparison was not possible as the demand figures provided were the same as compliance. The low proportion of house tax collection in Tamil Nadu, much lower than Telangana, is indeed a cause for concern.

A number of reasons were cited by the higher level bureaucrats for the poor tax collections. Main among them were – a) Lack of a robust, scientific method of calculation; b) lack of dedicated functionaries for tax collection; c) reluctance on the part of Presidents to raise taxes or strictly enforce tax collection; d) poor collection mechanism and delayed remittance and so on. What is urgently needed in the case of Tamil Nadu is to formalize and standardize the process calculation of house tax. Plinth area calculations seem to be favored over the fixed rate by the Panchayat functionaries and bureaucrats. Additional functionaries, earmarked for the purpose of helping the Panchayat secretary in the process of tax collection, are needed. House taxes must be revised regularly, at least once in five years. Data should to be computerized and made available publicly in order to avoid any ambiguity.

A study by Centre for Budget and Policy Studies on "Understanding the Determinants of own Source Revenue" (2013) in Karnataka shows that the potential to collect greater taxes is higher when –a) it is used for local development activity rather than paying staff salaries and utility bills; and b) the tax collection led to citizens receiving direct benefit from it. The report also compares poor performing and well performing GPs in tax collection and comes out with interesting findings. For instance, poor performing GPs felt that they did not have capacity to collect taxes compared to well performing GPs who felt that this was not a constraint. Similarly, increasing taxes was not seen as risky in well performing GPs and while poor performing GPs felt otherwise. Interestingly, well performing GPs felt that there was a lack of awareness among GP members and officials regarding

[1] In Tamil Nadu as per the as per the Tamil Nadu Panchayats Act 1994, the population of a village Panchayat may range from 500 to 25,00.(http://www.tnrd.gov.in/panchayatraj_inst/village_panchayats.html). In Andhra Pradesh( the GP size ranges from 300 to 30,000( information for Telangana taken from Centre for Good Governance report on erstwhile Andhra Pradesh, 2004)

[2] As per the Karnataka Panchayat Raj Act of 1993, each GP was constituted for a population of 5 to 7000. In 2014 this was amended to 10-15000 thus making the size of each GP even larger. (http://www.concernedforworkingchildren.org/wp-content/uploads/KARNATAKA_BILL_No_Autosaved_2014-1-1.pdf)

the importance of own source revenue compared to poor performing GPs. This report highlights the need to provide better awareness to GP members to ensure better tax collection.

The 5th SFC has an opportunity to usher in change by bringing in measures to increase awareness, and make the process of collection more systematic so that not only the compliance rate goes up but also the rate of taxation is in tune with the market values.

## *New Insights –*

The comparative field research on problems associated with local resource mobilization, particularly tax revenues, reflect most of the concerns raised in the literature elaborated in section 2. Viability of Grama/village panchayats as units of substantial tax revenue and the lack of willingness to tax on the part of panchayat members both came up during field research. But what this study discovered that has not been found in the extant literature is the demand for ***'formalization'*** of tax processes – from calculation to collection - from the citizens. While such a request is anticipated from tax collectors as it makes the process of collection simpler, a uniform demand for a more structured and formalized process of tax collection with prior information about designated dates and places for collection from the citizens is surprising. This challenges the orthodox views on tax paying behavior of rural citizens. Further the paradox of ***Informal local institutions*** successfully using ***formal processes*** for social tax contribution ( for temples) co-existing with the weak and ***informal mechanisms*** unsuccessfully employed by ***formal institutions*** for tax collection is an area worth exploring in depth as it offers rich behavioral insights regarding local resource mobilization.

# Part 5. Recommendations and Final Reflections

The macro and micro analysis of the status of Panchayats across five states – Karnataka, Kerala, Rajasthan, Tamil Nadu and dissonance Telangana- suggests that there is a wide variance between what is prescribed in the Act from above and what is practiced by panchayats below. Even in Karnataka, although the government has prescribed detailed guidelines for fixing property taxes, the GPs have not adopted the same. Although Rajasthan has been ranked higher than Tamil Nadu (even when adjusted between policy and practice in TISS report), we found that the level of knowledge about Panchayats among the GP functionaries, members and rural citizens and also own resource mobilization was much higher in Tamil Nadu compared to Rajasthan. Panchayats in Tamil Nadu were also effectively used by the government to implement state-sponsored schemes. This divergence not only points to the difficulty in assessing the performance of local governments but also points to the local compulsions that constrain these panchayats in discharging their duties. Panchayats in India (possibly with the exception of Kerala) are still a long way from becoming institutions of self- governance and require further support and direction from the state governments.

Panchayats in Tamil Nadu lag behind both in functions and functionaries. It is essential that the SFC makes provisions to redress these imbalances. Given below are a set of possible suggestions to help SFC in its task of strengthening Panchayats.

**Awareness building**

Both the Panchayats and the citizens felt that they need for more information on panchayats in general and tax collection procedures in particular. A range of audio-visual tools that could be used for awareness creation such as wall posters, street plays and so on were suggested by them as possible ways of creating awareness. Both citizens and GP staff feel that lack of information on taxation is a major problem. Citizens in particular want information about the whys and how of tax payment. They also feel that they need reminders about tax payment due dates. **Local SHGs may also be used for the purpose of raising awareness. This would also help increase fiscal literacy among rural women.**

***Best Practices tried elsewhere:*** Efforts to create awareness using reminder letters for improved tax collection have been tried elsewhere (Ariel, 2012). These letters generally provide timely information regarding tax payment deadlines and amounts. Likewise, well-timed SMS reminders have been tried in other contexts such as increasing people's adherence to drug regimens and increasing take up of fertilizer for improved efficiency in rural areas (World Development Report, 2015). For instance, researchers in Venezuela are carrying out interventions that use letters to disseminate specific tax-related information in a well-timed manner. Preliminary data from this experiment suggest that "both improving enforcement and making a better connection between taxes and quantity and quality of public service delivery could help to enhance tax collection" (Ortega and Sanguinetti, 2013).

***Recommendation:*** The SFC should allocate special fund for IEC (Information Communication and Education) program for Panchayats. Given the effectiveness of these interventions, we believe that using boards, postcards, street plays and/or wall posters could bridge the information gap. In the same vein, SMS reminders could be tried on experimental basis.

**Management Information System**

***Recommendation:*** Lack of reliable grassroots level data hampers the process of evidence based policy making. Tamil Nadu RDPR needs a modernized MIS with real time data updates. Karnataka has a sophisticated MIS in place and Telangana is also attempting to upgrade its MIS program. The 5th SFC should consider earmarking a dedicated fund for this purpose.

**Functional Devolution**

***Recommendation:*** Tamil Nadu has come under criticism for not devolving all the functions listed under the Eleventh Schedule in practice. On the other hand it has also been reported that Village Panchayats in Tamil Nadu are not able to fully utilize the funds devolved to them in a financial year. In order to rectify this mismatch, we feel that more powers and authority maybe devolved to GPs to construct and maintain **roads and drainages** within and in between the Panchayats. In addition, GPs maybe given more control (not just monitoring powers) over some of the social sector programs being implemented at the local level related to **Health, Education and ICDS** programs.

**Functionaries**

***Recommendation:***

1. A major gap in the mapping of functions, finances and functionaries is seen in the lack of adequate staff to carry out Panchayat functions at the village level in Tamil Nadu. The state has also scored low on devolution of functionaries. However, unlike other states, in Tamil Nadu the issue of devolution of functionaries seems to be a sensitive, political issue with GP presidents feeling that the devolution of functionaries is an attempt to bureaucratize and retain control over local governments by the administration. In order to address this sensitive issue we suggest that the SFC may consider **devolving specific funds exclusively assigned towards hiring additional staff at the GP level**. Currently since the salaries of the staff have to be paid out of untied grants, the GP Presidents hesitate to expand their staff base.

2. The functionaries involved in collecting tax are embedded in the politics of tax collection. Hence there is a need to create an independent set of functionaries to collect taxes. **We recommend that local SHGs may be used for creating awareness as well assist with tax collection thus relieving the burden on the GP secretary**. This is elaborated below on in more detail under the tax section.

**Finances**

Tamil Nadu has consistently scored high in devolution of finances. According to TISS report 2015, Tamil Nadu (5) scores higher than Karnataka (11) while assessing devolution is practice. The lack of funds that the panchayats complain about seems more related to united grants that are used for providing basic services especially since this fund that includes both SFC grants and own resource mobilization has multiple, competing claims. Own resource mobilization, particularly tax revenues, is not only poor in Tamil Nadu but also intrinsically linked to service delivery. Panchayats complain about their inability to provide better services due to poor tax collection and citizens are reluctant to pay taxes due to the poor quality of service provisioning.

## General Comments on Behavioral Barriers to Tax Collection

A growing body of literature based both on field and lab experiments suggests that timely interventions and the power of social norms can influence tax-paying behavior. Traditionally, taxation has been understood through the rational-agent model, in which people comply if the expected cost of compliance is lower than the costs of refusing to pay. Yet, factors that are not normally associated with economic behavior, like a person's **social identity**, suggest that psychological as well as social inputs can influence a person's decision to pay taxes. As opposed to the standard rational-agent model, the growing work in behavioral economics suggests that the decision whether or not to pay taxes can stem from intrinsic motivations, like someone's belief in a civic duty. The literature also highlights payer's "**tax morale**." They perceive paying taxes as a reciprocal relationship with the State, and are more inclined to pay if they perceive the system to be fair and if they are satisfied with the quality of governance.

For instance, after a survey of the literature in taxation and experimental work, in 2012 the London-based Institute for Fiscal Studies concluded that people respond to comparisons with a close reference group (Leicester et al., 2012). In particular, they highlight accumulating evidence that when people learn about others' average tax-paying behavior, they tend to converge toward what they perceive is the social norm. They state that

...the belief that other people pay taxes honestly might increase the moral costs of evasion or the social stigma attached to being caught (a form of non- financial punishment). This cuts both ways: if evasion is widespread, this might reduce the perceived costs of non-compliance. (ibid.)

Following with this reading of tax behavior partly based on intrinsic and social motivations, Duch and Solaz (working paper, 2016) conduct an experiment to identify why people cheat in tax payments. They conclude that high ability individuals, or those who are particularly skilled, are more likely to avoid paying taxes than those with low skills. They also suggest that appealing to the morale of these high ability individuals does not necessarily induce them to pay more taxes. Policies directed to reducing cheating behavior among these "high types," who are often wealthier, could be designed instead with a focus on increasing the expecting costs of tax avoidance.

A related literature on demand for "**commitment devices**" could have powerful implications for the way taxes are collected. Bryan et al. (2010) conduct a survey on the theoretical foundations of demand for commitment devices as well as recent findings from both the lab and the field. A finding commonly cited in this literature is the existence of "hyperbolic discounting," or the inclination among people to weight more heavily the immediate benefits of their choices while understating the long-term effects. This type of systematic bias towards the present has been linked to both to people's failure to follow through with commitments to themselves, like dieting and saving more, but it also has been tied to a monetary premium on commitment devices.

For example, Ashraf et al. (2006) discuss an intervention in the Philippines, where a rural bank offered 700 people the option of opening a commitment-based savings bank account. The SEED program (Save, Earn, Enjoy Deposits) offered two different account options for costumers: a time-based maturity, which would only allow people to withdraw money at a specific date and an amount-based maturity, which required that savings reach a pre-specified amount before they were withdrawn. The fact that these accounts imposed a liquidity constraint on customers without any additional financial compensation is a strong indication of demand for commitment. Furthermore, the accounts proved to be relatively successful in allowing people to save more, with a take-up of roughly 28% and increased savings in 80% of those who enrolled in the accounts, compared to a control group.

Another oft-cited example of **commitment devices** is the website sitckK.com. Founded by Yale Economics Professor Dean Karlan based on his research, stikK is a platform for people to openly commit to achieving a pre-specified goal in a set amount of time. The website allows people to tie some money to the completion of the goal and allow an outside observer to monitor progress. If the goal is not completed, the observer or referee is allowed to donate the money to a charity that the participant dislikes. The success of this website highlights the fact that people are willing to pay a premium for an outside, relatively impartial observer to make them go through with decisions that increase their overall welfare.

While the literature on demand for **commitment devices** has not yet been extended to tax-paying behavior, it nevertheless suggests an important future direction. If tax-payers are already generally willing to pay their dues, commitment-type devices could ensure that people pay in advance, therefore minimizing leakage and potentially increasing tax revenues.

On the collection side, a recent policy brief by the global research network J-PAL based on the work by Khan et al. (2015) suggests that a performance-based payment scheme for tax officials can increase total tax revenue. Integrating administrative data into an experimental methodology in Punjab, Pakistan, the policy brief concludes that "over two years, incentives led to a 13 percentage point increase in the growth rate of tax revenue relative to comparison groups." They note that "performance pay schemes may be a financially and politically feasible way to help governments raise revenues" and that "introducing performance incentives, even for short periods of time, may help governments expand their tax base." While the potential implementation of performance-based schemes in India in general and in Tamil Nadu specifically requires careful consideration, the initial evidence suggests a relatively cost-effective and politically savvy way to increase tax revenues.

## *Breaking the Tax –Service Delivery Impasse*

The qualitative study highlights the problems associated both with paying and collecting taxes from both the parties involved. As attempts to incentives tax collection from the LG side has not proved very successful, in order to break the tax deadlock, we offered a series of potential incentive vignettes to citizens to assess their response to such initiatives. The response from both tax payers and collectors was positive.

Model of Tax – Service Delivery Impasse with proposed policy interventions

## Policy Recommendations to Break the Tax-Service Delivery Deadlock

1. ***Explicit linking of tax collection to service provisioning at ward/habitation level***– Since both tax payers and collectors explicitly link service provisioning with tax collection, we offer a way of breaking this gridlock by suggesting a mechanism whereby the tax collected by a particular ward would be used to tackle a service delivery problem present in that ward. *This suggestion found favor with the citizens who felt that if they knew the local activity for which the tax collected was being used then they would be more willing to pay.* Alternatively, we may think of linking tax efforts with GPDP( Gram Panchayat Development Planning) exercise mandated by the 14th UFC for receiving funds by the GPs. Process of prioritization of village needs and matching it to the resource envelope can be used to highlight the need for regular tax payment.

2. ***Social pressure to induce behavioral change***- While displaying taxpaying behavior of peers in order to increase compliance has been tried elsewhere (Ahmed et al., 2012; Hallsworth et al., 2014), these have so far either focused on the taxpaying behavior of firms or on behaviors in the urban setting of developed nations. In line with the literature on behavioral science and tax collection (Weber et al., 2014; Alm, 2013), we offer a variation that provides social pressure in a manner that is not pejorative. For instance, the house numbers of all the houses in a habitation/ward should be displayed on wall posters along with the status of their tax payment. Juxtaposed with this message will be the poster detailing the cost required for repairing/providing a particular service in that habitation. Based on behavioral principles related to social identity and salience, this is expected to generate discussion among citizens and subtly compel defaulters into paying their taxes on time to avail the benefit.

3. ***Using SHGs to create awareness and assist in tax collection*** – Suggestions to use SHGs for various aspects of local governance has been both hailed as well as criticized for increasing the burden on rural women. The rationale for offering this suggestion arises from the fact that while there is a shortage of staff at the GP level, devolving of more functionaries is seen as political interference in Tamil Nadu as it is seen as an attempt by the state to wrest the control of the GPs away from the elected representatives (incidentally this perspective is unique to Tamil Nadu). In Tamil Nadu Pudu Vazhvu Project initiated SHGs are already linked to GPs as they operate under the ambit of local governments and are already involved in local government activities. For them such a task would not be completely outside the purview of their role as community resource persons. As an added incentive, a percentage of taxes collected may be credited to their saving fund. Literature on gender and taxation although limited clearly shows that the in fiscal literacy among women is poor in general and is worse among rural women in particular. By using SHGs there will be incentives for SHGs to understand more about taxes both as citizens. Creating awareness among women through SHGs would be more effective as the filed research indicates that in general women had little information about taxes.

4. ***Incentivizing tax payers.*** –

***Best Practice*** - In Uruguay researchers are experimenting with positive incentives for consistently good tax paying behavior. A research team is evaluating whether or not raffling "tax holidays" among good tax payers have the potential to boost tax compliance (Dunning, 2015).

***Recommendation:*** At present there are no incentives for citizens to pay taxes on time. We propose that early bird discounts may be offered as an incentive. A "tax holiday"-type scheme can be implemented, where people who have a good tax payment for a pre-specified amount of time (maybe two years) subsequently have the ability to pay at a discounted rate. Also, payment of taxes in installments maybe considered as this was one of the demands that came up from more citizens in than one state. In light with behavioral principles, these installments might even give the option to tax-payers to pre-commit a specified amount for the payment of future taxes.

5. ***Increase Formalization of procedures*** – Since citizens across board wanted more formal procedures for tax payments (a view shared by the LGs), the SFC may mandate more formal procedures for tax collection by setting a finite timeline/ date and a strict procedure for the collection. Such formalization of procedures would work better if mandated by the SFC. In addition, to overcome the problem of proximity to the electorate hindering the process of tax collection/revision, SFC might mandate a regular quinquennial revision of house taxes by the GPs.

## Implication of 14th UFC Recommendations

All of the above recommendations on tax improvement measures are based on the current context. However, with the 14th UFC's recommendation for the devolution of untied grants to panchayats, this scenario is likely to change. The SFC will have to be cognizant of these development and their implications while making their own recommendations. Since the SFC does not have the luxury of time to consider the implications before making its recommendation we would urge the SFC err on the side of caution. The SFC might consider designating at least a part of the budget under a flexible head to be allocated after a mid-term review of the developments. ***Nevertheless, in the***

***interim, since UFC grants are conditional upon panchayats formulating development plans, SFCs may think in terms of helping panchayats by providing technical assistance to plan better, and create awareness on how to set priorities.***

## *Basis of Distribution of SFC Grants – Some Suggestions:*

Different state SFCs have recommended different criteria for determining the share in state resources from the divisible pool. While some SFCs have kept it simple limiting the criteria to just Population, others have used a combination of variables in addition to Population to determine the share of the divisible pool...these include in various combinations the variables listed below. There are also some abstract qualitative terms such as 'potential' and 'need'. TISS report 2015( pp: 104-6) lists various combinations adopted by different state SFCs. It also has separated out the distribution base as a) Total Revenue of State; b) Own revenue of state and c) Non-Loan Gross Revenue. States have used different criteria and combination of variables under different revenue heads. Table 3.14 from the TISS report gives more details. Since there are nearly 30 variables under the three heads mentioned above, for the purpose of our analysis, we have tried to club them together under four broad categories.

**Variables used for Basis of Distribution ( across three heads) among different states –**

1. **Demographic indicators –**
   a) Population
   b) SC and/or ST population
   c) Rural population

2. **Physical indicators -**
   a) Geographical area
   b) Number of holdings
   c) Density
   d) Resources
   e) Number of Villages, cities and towns
   f) Distance from Highest Per Capita Income District
   g) Distance from Rail Head

3. **Development Indicators -**
   a) Composite index of backwardness.
   b) Remoteness index
   c) Index of decentralisation
   d) Literacy gap.
   e) Number of Illiterates
   f) Socio-economic backwardness
   g) Resource gap
   h) IMR

4. **Fiscal Indicators -**
   1. Own income efforts
   2. Tax efforts

3. Revenue efforts
4. Net District Domestic product
5. Proportion of Agricultural Income in Total Income of the District
6. Inverse Primary Income
7. Per capita own revenue
8. Asset maintenance
9. Per capita income

In addition to the variables listed above, some possible variables that the Fifth SFC could consider for Tamil Nadu are –

a. % of female headed households - Demographic indicator
b. % of malnourished children - Development indicator
c. SECC deprivation index – Development indicator
d. Incremental increase in tax efforts – Fiscal indicator

The ideal basis for distribution should be an innovative combination of these four categories that ensures not only equitable distribution but also provides incentive to improve performance. Having been penalized for better performance in the 14th UFC allocations, the objective of the fifth SFC in Tamil Nadu should be to reward better performing local bodies so that laggards are motivated to perform better. Keeping this in mind, the basis for distribution can be bifurcated to two broad categories – Need and Performance.

Need category can be a combination of demographic and physical indicators such as population, SC/ST population + Area or density. The performance category could include a combination of development and fiscal indicators. The purpose here would be to establish a baseline for the local bodies and ensure that better performing local bodies get access to the performance incentive grant and not laggards. The choice of development indicators could be determined by the state objectives or SECC index.

For instance, the fifth SFC could also use this opportunity to encourage local bodies towards achieving Sustainable Development Goals 2030(SDGs). For instance the fifth SFC could provide incentive to help ensure Tamil Nadu achieve one of the the SDGs of 'Malnutrition free world' by 2030. Global Nutrition Report 2015 indicates that while most Indian states have shown significant progress in reducing malnutrition, problems of stunting and wasting continue to be a cause of concern. Tamil Nadu has shown a remarkable improvement in stunting with the percentage of stunting dropping from 31% in 2005-6 to 23% in 2013-14( Global Nutrition Report, 2015) through its ICDS programme. However in the assessment of wasting rates, Tamil Nadu still lags behind. The drop in wasting rate between 2005-6 and 2013-14 has been relatively small from 22 to 19 which is higher than the national average of 20 to 15%( ibid). In addition to the current ICDS efforts, the fifth SFC can offer further incentive funds to local bodies that show improvement in child malnutrition indicators such as stunting and wasting( already available with ICDS programme) thus setting a strategic path to fulfilling SDG goals.

The current basis of distribution in Tamil Nadu is Population ( 60%)+ SCs( 20%) + Area( 20%). We submit that this may be modified to include **density instead of Area and incremental increase in tax efforts** and **child malnutrition indicators.**

# Annexures

## 1. Section from TISS report

(This section is taken from the chapter titled 'Ranking of States in Devolution' from the TISS report titled 'How Effective is Devolution Across Indian States 2015').

2.4.1. Devolution of Functions -
The ranking of States on the devolution of functions will be based on two indicators. The first set of indicators tries to capture the detailed activities under each function transferred to the PRIs. The list of functions included in the analysis covers the 29 sectoral functions mandated by the Constitution of India as well as some general and administrative functions. The second set of indicators is the institutions transferred to PRIs.

The ranking as described above has been done based on the relations between the PRI and the institution, based on a checklist circulated to them. The checklist is provided in Table 2.1.

The following aspects of the interrelationships were considered:

- The actual provision of resources from the PRI budget for the functioning of the institution,
- The control of PRI over actual release of funds,
- The control of the PRI or Standing Committee over expenditure,
- The role of the PRI in deciding the programmes of the institution etc.

The aspect of control of functionaries was not included here since this is covered under functionaries separately. Institutions receiving more than 50% of their budgetary allocations from the PRIs on a regular basis and whose fund releases and / or expenditure are controlled by the PRI are treated as under SFC. Institutions receiving at least part of their budgetary allocations from the PRIs on a regular basis are treated as under LFC. Other institutions which regularly report details of their functioning to the PRIs and may receive recommendations (which may or may not be considered) are treated as RRR.

2.4.2. Devolution of Functionaries -
Devolution of functionaries shall be based on two indicators viz., the number of functionaries at the disposal of PRIs and the composition of the functionaries. The first indicator measures the actual number of functionaries including both own functionaries and transferred, available at the panchayat.

2.4.3. Devolution of Finances-
The third component deals with the devolution of finances to PRIs. It measures the quantum of funds that the panchayat spent autonomously. It also measures the composition of receipts and utilization of funds from the field data. As explained in Chapter 1, there had been serious problems in the reporting of receipts and expenditure of panchayats. Because of these inconsistencies only two indicators were available from the State level data for ranking States on the devolution of finances viz., per capita share of NFC award in PRI receipts and per capita share of SFC award in PRI receipts. For calculating the per capita figures rural population (as per the 2011 census) was arrived at by subtracting the population of Urban Local Bodies5 from the total census population. Aspects of accountability of PRIs were also covered here.

2.4.4. Infrastructure, Governance and transparency –

In this component the infrastructure available with the PRIs, and mechanisms for governance and transparency in their functioning are assessed. The indicator on transparency has been developed using data on the number of reports on PRIs available online.

**Table 2-1: Indicators in the index of devolution in policy***

| **Components/Dimensions** | **Indicators Devolution of functions** |
|---|---|
| Devolution of functions | • % of detailed functions transferred<br>• % of institutions transferred coming under SFC and LFC |
| Transfer of functionaries | • Number of functionaries (own + transferred) per 1000 population<br>• % of techno-professional functionaries in the functionaries own and transferred<br>• % of positions filled to sanctioned strength |
| Devolution of finances | • Per capita SFC fund available<br>• Per capita CFC fund available<br>• % of Panchayats audited |
| **Infrastructure, Governance and transparency** | |
| Infrastructure | • % of panchayats with rooms, computers, and internet |
| Transparency | • % of panchayats that publish accounts ,budget documents, accounts statement, audited accounts and annual performance online |

* An exhaustive and detailed list of functions was provided. (See questionnaire and codes used in Appendix). States were allowed to make new additions to the list. The percentage calculated is the total number of functions/activities reported by the State government as a percentage of maximum number of functions/activities reported.

**Table 2-2: Indicators in the index of devolution in practice**

| **Components** | **Dimensions Indicators from field data** |
|---|---|
| Devolution of functions* | • % of institutions (under Substantive Functional Control and Limited Functional Control) actually transferred;<br>• % of activities undertaken by the transferred; Institutions actually managed by PRI in 2013-14;<br>• % of activities (other than those concerning trans |
| Transfer of functionaries | • Functionaries per 1000 population;<br>• % of dimensions of control** ;<br>• % of filled positions to sanctioned positions. |
| Devolution of finances | • Per capita development expenditure; |

| | |
|---|---|
| | • Share of SFC and CFC fund in total fund available; • Own source revenue as % of total revenue;<br>• Total expenditure as % of total revenue;<br>• Accountability including upkeep of accounts computerised accounting, approval of accounts, auxiliary audit, concurrent audit and performance audit. |
| **Infrastructure, Governance and transparency** | |
| Infrastructure | • % of amenities (out of 9) available at panchayat office. |
| Governance and Transparency | • Covers measures of Governance including registers managed, minutes books maintained, electronic records systems established, mechanisms for certification of project records etc.<br>• Systems for transparency include existence of websites, beneficiary records mandatory disclosure on accounts statements, social audit and other systems of mandatory disclosure |

*A comprehensive list of institutions and activities was provided to the States. This list was constructed using the constitutional mandate as the reference point. The state governments had to select from the list the institutions and activities that was transferred to PRIs in the respective States. The percentage used in construction of the index is the number of institutions, activities reported as transferred by the State as percentage of maximum number of institutions and activities in the code list.

**A list of codes on the dimensions of control was provided to the States. The dimensions of control were classified as leave, transfer, functional control and disciplinary control. The percentage arrived here is the weighted average of the number of functionaries and the levels of control as percentage of the maximum value possible for the set of functionaries. ie.,

$$\frac{100\,\Sigma(f_i c_i)}{4\,\Sigma f_i}$$

**2. Comparison of Devolved Functions Across States Using Panchayati Raj Acts**

The Eleventh Schedule of the Constitution lists a set of 29 functions that should be assigned to Panchayati Raj Institutions. Each state has devolved these functions to the Panchayats differently. Data has been obtained from different sources such as State Panchayati Raj Acts and reports on devolution by various organizations.

| S.no | Function Devolved | Andhra Pradesh | Karnataka | Kerala | Rajasthan | Tamil Nadu |
|---|---|---|---|---|---|---|
| 1. | Drinking water | X | X | X | X | X |
| 2. | Roads, culverts, bridges, ferries, | | X | X | X | X |

| | | | | | | |
|---|---|---|---|---|---|---|
| | waterways, and other means of communication | | | | | |
| 3. | Rural electrification, including distribution of electricity | | X | X | X | X |
| 4. | Health and sanitation, including hospitals, primary health centers, and dispensaries | X | X | X | X | X |
| 5. | Maintenance of community assets | | X | X | X | X |
| 6. | Rural Housing | | X | X | | X |
| 7. | Non-conventional energy sources | | X | X | X | X |
| 8. | Poverty alleviation program | | X | X | | X |
| 9. | Education, including primary and secondary schools | X | X | X | X | X |
| 10. | Technical training and vocational education | | X | X | X | X |
| 11. | Adult and informal education | | X | X | | X |
| 12. | Libraries | | X | X | X | X |
| 13. | Cultural activities | | X | X | X | |
| 14. | Family welfare | X | X | X | X | X |
| 15. | Women and child Development | X | X | X | X | X |
| 16. | Social welfare, including welfare of the handicapped and | X | X | X | X | X |

| | | | | | | |
|---|---|---|---|---|---|---|
| | mentally retarded | | | | | |
| 17. | Welfare of the weaker sections, and in particular, of the Scheduled Castes and Scheduled Tribes | X | X | X | X | X |
| 18. | Public Distribution System | X | X | X | X | X |
| 19. | Agriculture including agricultural extension | | X | X | X | X |
| 20. | Land improvement, implementation of land reforms, land consolidation, and soil conservation | | X | X | X | X |
| 21. | Minor irrigation, water management, and watershed development | X | X | X | X | X |
| 22. | Animal husbandry, dairying, and poultry | X | X | X | X | X |
| 23. | Fisheries | X | X | X | X | X |
| 24. | Social forestry and farm forestry | | X | X | X | X |
| 25. | Minor Forest Produce | | X | X | X | X |
| 26. | Fuel and fodder | X | X | X | X | X |
| 27. | Market and fairs | | X | X | X | X |
| 28. | Small-scale industries, including food processing industries | | X | X | X | X |
| 29. | Khadi, village, and cottage industries | | X | X | | X |

## 2. a. Detailed split of functions for Tamil Nadu

| S.no | Function devolved | Powers of planning, promotion and supervision | Concrete powers relating to implementation |
|---|---|---|---|
| 1. | Drinking water | X | |
| 2. | Roads, culverts, bridges, ferries, waterways, and other means of communication | X | |
| 3. | Rural electrification, including distribution of electricity | X | |
| 4. | Health and sanitation, including hospitals, primary health centers, and dispensaries | X | |
| 5. | Maintenance of community assets | X | |
| 6. | Rural Housing | X | |
| 7. | Non-conventional energy sources | | X |
| 8. | Poverty alleviation program | | X |
| 9. | Education, including primary and secondary schools | | X |
| 10. | Technical training and vocational education | | X |
| 11. | Adult and informal education | X | |
| 12. | Libraries | X | |
| 13. | Cultural activities | X | |
| 14. | Family welfare | | X |
| 15. | Women and child Development | | X |
| 16. | Social welfare, including welfare of the handicapped and mentally retarded | | X |
| 17. | Welfare of the weaker sections, and in particular, of the Scheduled Castes and Scheduled Tribes | | X |
| 18. | Public Distribution System | | X |
| 19. | Agriculture including agricultural extension | | X |
| 20. | Land improvement, implementation of land reforms, land consolidation, and soil conservation | X | |
| 21. | Minor irrigation, water management, and watershed development | X | |
| 22. | Animal husbandry, dairying, and poultry | | X |
| 23. | Fisheries | | X |

| | | | |
|---|---|---|---|
| 24. | Social forestry and farm forestry | X | |
| 25. | Minor Forest Produce | | X |
| 26. | Fuel and fodder | | X |
| 27. | Market and fairs | X | |
| 28. | Small-scale industries, including food processing industries | | X |
| 29. | Khadi, village, and cottage industries | | X |

**3. Different Taxes Gram Panchayats are Empowered to Collect in Different States:**

| Tax or Fee levied | Andhra Pradesh | Karnataka | Kerala | Rajasthan | Tamil Nadu |
|---|---|---|---|---|---|
| House/Property Tax | X | X | X | X | X |
| Surcharge on house/property tax | | X | X | | |
| Tax on agricultural land for specific purpose | X | X | | | X |
| Cess on land revenue or surcharge | X | | X | | |
| Surcharge on additional stamp duty | X | | | | X |
| Tax on professions, trade, calling and so forth | | | X | | X |
| Entertainment tax | | X | X | | X |
| Pilgrim tax | | X | | X | X |
| Tax on advertisement | X | X | X | | X |
| Education cess | | X | | | |
| Tolls | X | X | | | X |
| Tax on sale of firewood and slaughter house | | X | | | |

| | | | | | |
|---|---|---|---|---|---|
| Tax on goods sold in a market, haat, fair and so forth | | X | X | | |
| Tax on shops and services | | X | X | | |
| Vehicle tax | X | X | | X | |
| Animal tax | | X | | | |
| Conservancy rate | X | X | | | |
| Lighting rate | X | X | | | |
| Water rate | X | X | | X | X |
| Drainage rate | X | X | | | |
| Special tax for community civic services or works. | | X | X | X | |
| Surcharge on any tax imposed by village panchayat | | X | X | X | |
| Shop lease | | X | X | X | |
| Pond/Tank lease | | X | X | X | |
| Sand collection charge | | X | X | X | |
| Minor mineral collection | | X | X | X | |
| Village Land lease | | X | X | X | |

4. **Details of Villages Surveyed:**

Tamil Nadu, Karnataka and Telangana were the three states selected for the field survey to map functions, funds and functionaries at the GP level. From each state, one district with a medium level of development was selected.

**Tamilnadu -**

In Tamil Nadu, Theni district was selected for the study. Two GPs – Jankalipatti and Ethakovil GP were selected to study the intersection of funds and functions and functionaries.

**Theni[3] - District level and GP level basic characteristics are given below.**

1. **Population- 1,245,899**
2. **SC/ST Population –SC-20.7%, ST-0.15%**

[3] Source: http://www.censusindia.gov.in/2011census/dchb/3323_PART_B_DCHB_THENI.pdf and https://data.gov.in/catalog/villagetown-wise-primary-census-abstract-2011-tamil-nadu

3. **Literacy Rate –77%**
4. **Child Sex ratio -934**

| Village | Population | SC/ST Population | Total Literates |
|---|---|---|---|
| Jangalpatti (Theni block) | 6534 | SC-1055<br>ST- 0 | 4375 |
| Ethakovil [4] (Andipatti block) | 3543 | SC-306<br>ST-6 | NA |

**Karnataka -**

In the state of Karnataka, **Dharwad** district was chosen for the study. In Karnataka GPs are formed for a group of villages. Hence Mukkal and Ramanakuppa Gram Panchayats were chosen for the mapping process and house tax data analysis. Mukkal GP consists of 3 villages namely - Mukkal, Bidaragatti and Hunasikatti and Ramankoppa GP consists of four villages – Ramanakoppa, Hosakatti, Jigalur, and Bellligatti. For the purpose of field study and FGDs Hunasikati and Hosakatti were chosen from thee two GPs.

**Dharwad[5]- District level and GP level basic characteristics are given below.**

1. **Population- 1,847,023**
2. **SC/ST Population –SC-9.63%, ST-4.74%**
3. **Literacy Rate –80%**
4. **Child Sex ratio -944**

| Village/Gram Panchayat | Population | SC/ST Population | Total Literates |
|---|---|---|---|
| Hunasikatti(Mukkal GP,Kalagatagi block ) | 1045 | SC- 72<br>ST- 41 | 576 |
| Hoskatti (Ramanakoppa GP, Kundagol Block) | 1229 | SC- 0<br>ST- 47 | 855 |

[4] Details for Ethakovil not available in PCA. Taken from http://www.tnrd.gov.in/databases.htm .total literate figures not available.

[5] Source: https://data.gov.in/resources/villagetown-wise-primary-census-abstract-2011-dharwad-district-karnataka & http://www.censusindia.gov.in/2011census/dchb/2908_PART_A_DCHB_DHARWAD.pdf

**Telangana -**

In Telangana, Mahbubnagar is the selected district. Mudumal and Kuchanerla are the selected villages.

**Mahbubnagar[6] - District level and GP level basic characteristics are given below**

1. **Population- 4,053,028**
2. **SC/ST Population –SC-17%, ST-9%**
3. **Literacy Rate –55%**
4. **Child Sex ratio -92**

5.

| Village/Gram Panchayat | Population | SC/ST Population | Total literates |
|---|---|---|---|
| Mudumal ( Gadwal Block) | 2890 | SC – 31<br>ST – 2 | 783 |
| Kunchanerla (Makthal Block) | 7245 | SC- 769<br>ST- 839 | 1927 |

[6] Source: http://www.censusindia.gov.in/2011census/dchb/2807_PART_B_DCHB_MAHBUBNAGAR.pdf & https://data.gov.in/resources/villagetown-wise-primary-census-abstract-2011-mahbubnagar-district-andhra-pradesh

## Addendum to the MIDS report for the 5$^{TH}$ SFC

This report was based on the analysis of the 2012-13 and 2014-15 reports on devolution index ranking of states by IPA and TISS as at the time of finalizing our report, the latest index ranking was not available. Since Devolution ranking for 2015-16 has just become available, we are adding a short comparative table across our selected five states to assess if Tamilnadu has improved its performance compared to 2014-15.

Then latest Devolution Report from TISS titled "Devolution Report 2015-16: Where Local Democracy and Devolution in India is heading towards?" differs from its previous report in - a) the composition of the composite index of devolution and b) the weightage given to various componenets.

Learning from the previous year's experience, the 2015-16 report sees a comprehnsive overhauling of the construction of composite index.

**The Cumulative Devolution Index** in the latest report, consists of two main parts -

1. **Improved Index**
2. **Normal Index**

1. **Improved Index** – mainly draws from two broad sets of components that have a series of variables within it. Broadly it has been classified into –

    a) ***Operational Core of Decentralisation*** which has four sub-parts namely -

    - Transfer of functions
    - Transfer of Functionaries
    - Transfer of Finances
    - Autonomy

    b) ***Support Systems for Devolution*** has three main components, each of which has several sub-components within them. The three components are -

    - Capacity Building
    - Operationalising Constitutional mechanisms
    - Systems for accountability and transparency

2. **Normal Index**- Normal cumulative devolution Index remains the same as what TISS had developed in 2014-15. It has four components –
    - Devolution of Functions
    - Devolution of Functionaries
    - Devolution of Finances
    - Infrastructure, Governance and Transparency

Under each of these two indices, TISS has attempted to measure separately devolution in policy and devolution in practice to arrive at an aggregate Index of Policy adjusted against Practice. In addition, the TISS report 2015-16 also tries to assess states by their tier-wise performance. Further, the report also attempts to add another dimension by bringing in an **'incremental index'** to capture the short-term initiatives taken up in the last 3 years by some of the short-listed states. Incorporation of a sub-sample of qualitative GP level data and a separate analysis of performance of PESA regions as well as North-eastern states are the new (additional) features of this report. The report also includes a separate spreadsheet listing state-wise data gaps and the problem of obtaining aggregate data by the states.

***Status of Devolution in Tamil Nadu - A Closer Look***

A comparison between 2012-13, 2014-15 and 2015-16 TISS report for Tamilnadu shows a significant improvement in the composite devolution index ranking by the state. From Aggregate Index of Policy adjusted against Practice of **8** in 2014-15, Tamilnadu has shown much improvement. The Improved index (DPi) ranking for Tamilnadu 2015-16 is **2** (higher than Karnataka) and Normal Index (DPa) is at **4 (Table 1).** While this is commendable, it also points to the inherent challenges in measuring devolution. Since at the state policy level there have not been any drastic changes or measures to improve devolution, two reasons may be attributed to explain this shift. They are - 1. the increased weightage given to devolution of Finances which pushes Tamilnadu rank higher and 2. the provision of data by the state officials. In 2014-15 report Tamilnadu scored lower ranks due to non- provision of data (see tables 3-1 to 3-4 in 2014-15 TISS report for Progress in devolution of functions to primary, secondary and tertiary sectors show 0 values for Tamilnadu as no data was provided by the state).

**Table 1. Comparison of Overall Devolution Ranking of States across three reports 2012-13, 2014-15 and 2015-16**

| State | 2012-2013[7] | 2014-2015[8] | | | 2015-2016 | |
|---|---|---|---|---|---|---|
| | *Devolution Across States* | *Devolution in Policy* | *Devolution in Practice,* | *Ranking of States in the Aggregate Index of Policy adjusted against Practice* | *Cumulative Devolution Index (Improved Index + normal Index )* | |
| | | | | | *Improved Index ( Dpi)* | *Normal Index ( DPa)* |
| **Tamil Nadu** | **5** | **6** | **15** | **8** | **2** | **4** |
| Kerala | 3 | 1 | 1 | 1 | 1 | 1 |
| Karnataka | 2 | 2 | 3 | 3 | 3 | 5 |
| Rajastan | 4 | 7 | 14 | 7 | 9 | 9 |
| Andhra Pradesh | Not covered in this report | 14 | 20 | 18 | 8 | 11 |
| Telangana | | 13 | 17 | 15 | 7 | 5 |

Table 2 below gives the ranking on various components utilized in the construction of the Cumulative Devolution Index. These include Improved Index and Normal Index. Under Improved Index, Tamilnadu scores **2** under Operational Core of Decentralisation and **4** for Support systems for Decentralisation, thus giving it an aggregate improved index (DPi) of **4.** For Normal index (the same measures used for previous years also) once again Tamilnadu performs better. While during 2014-15, Tamilnadu scored **6** under Devolution in Policy (DPo) and **15** for Devolution in Practice (DPr) thus giving it an aggregate index Rank (DPa) of **8** for Policy adjusted against practice, in 2015-16 the scores are **4** (DPo) and **9** (DPr) respectively giving it a DPa of **4.** This shows that Tamilnadu still lags behind in Devolution in practice aspect of the composite index. Tamilnadu also scores higher in devolution of functionaries to GPs compared to last year. This might be due to the transfer of higher level officials such as Panchayat Extension Officers to oversee the activities of 4-5 panchayats. At the GP level, the number of functionaries employed by the GP is still very small and this needs to be addressed by the Fifth SFC. A better MIS and capturing the aggregate level data for future ranking exercises should be a priority in the state as the TISS report indicates data gaps in several domains by the state.

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[7] Alok, V. N. (2013). *Strengthening of Panchayats in India:Comparing Devolution Across States.* New Delhi: Indian Institute of Public Administration

[8] Tata Institute of Social Sciences. (2015). How Effective is Devolution Across Indian States, 2015, *Ranking of States in Devolution.* Mumbai

**Table 2. Various components of the Cumulative index constructed in 2015-16 by TISS**

| *State* | 2015-2016[9] Cumulative Index ( Improved Index + Normal Index ) | | | | | |
|---|---|---|---|---|---|---|
| | Improved index ( Dpi) | | | Normal Index( DPa) | | |
| | *Operational Core of Decentralisation* | *Support System for Decentralisation* | *Aggregate Improved Index – **(Dpi)*** | *Devolution in Policy ( DPo)* | *Devolution in Practice (DPr)* | *Aggregate Index of Policy adjusted against Practice **(DPa)*** |
| **Tamil Nadu** | **2** | **4** | **2** | **4** | **9** | **4** |
| Kerala | 1 | 1 | 1 | 1 | 1 | 1 |
| Karnataka | 4 | 3 | 3 | 2 | 5 | 2 |
| Rajastan | 11 | 3 | 9 | 11 | 9 | 9 |
| Andhra Pradesh | 8 | 7 | 8 | 13 | 11 | 11 |
| Telangana | 7 | 5 | 7 | 5 | 6 | 5 |

While the latest TISS report attempts to capture various facets of devolution by making a comprehensive composite index, it still fails to address issues of intra-regional variation, women's political participation, Gram Sabha participation( going beyond numbers to capture the quality of discourse) and participation and performance of reserved categories both as policy making elected representatives and claim making citizens.

[9] Tata Institute of Social Sciences. (2016). Devolution Report 2015-16: Where Local Democracy and Devolution in India is heading towards?( pages 5 & chapter 2)

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